Type of Business Ownership, sectors, types of bysiness and size of business

A business is the buying and selling of goods and services. The term "business" is often applied to a large number of very different activities and organisations. It can be used to refer to organisations from elementary one-person firms to multinational corporations employing hundreds of people. Examples of business organisations include a supermarket or a university. There are three types of businesses, public, private, and voluntary.

2.1b The voluntary sector

The voluntary sector is made up of non-profit organisations such as charities and youth centres. . The majority of the staff are unpaid and they volunteer for their position. Other mutual organisations such as cooperative societies and friendly societies are also non-profit making, but employ a significant number of paid staff.

Charities are publicly or privately funded to increase awareness of a particular cause. They raise funds from donations. They may run a shop or sell badges. These activities aim to make a profit, but this is only to fund the charities main activities. An example of a charity is Oxfam.

To be recognised as a charity the organisation must apply for charitable status with the Charities Commission, the government operates this. As a charity the organisation does not have to pay tax on its profits, so that its cause may receive maximum benefit.

2.1c Public sector:

A number of key services are provided in the public sector, this includes the postal service, education, housing, fire, police etc. Before the privatisation, which started in 1979, many of these services were controlled far more directly by the hand of the government. Many of the services were later contracted out to private companies.

The management of the business aspects of a service is know known to be of great importance and they have specialist managers working within, there are two reasons for this; to ensure the business lies directly in the hands of those directly responsible for running and managing the service. The notion and decision making should be increasingly being moved away from central bureaucrats to local managers who are responsive to the needs of the local community.

The central government funds most local services through a grant system. They also get funded through local taxes and charging people to use a local service.

The needs of local communities are best met running services at local level by people who are most sympathetic and responsive to the needs of the local community. Running public services at a local level also enables smooth and direct communications.

Public sector services are of a great benefit to a business, they provide security for the business by the police, safe road provision by the council or highway department, and refuse disposal and pollution control by the environment and conservation department. By being able to use these services, businesses are able to keep their costs down and their efficiency up. They do have to pay for these services in their taxes to the central and local government.

The government are able to keep tighter boundaries of the wages in the public sector rather than the private sector, as they pay the wages.

2.1d Private sector:

The private sector encompasses businesses and organisations that are owned by individuals or groups of individuals. They include sole traders, partnerships, Private limited companies, public limited companies and franchises.

2.1e Size

The size of the business depends on the turnover, balance sheets totals and number of employees.

A small business:

A small business has a turnover under 2.8million. This means that the business makes under 2.8million profit. The balance sheet total for a small business would have to be under 1.4million. Fewer than 50 employees also determines whether the business is small or not.

A medium sized business:

A turnover of 2.8-11million, means that a business is a medium sized one. A medium sized business would have a balance sheet total of 1.4- 5.6 million and a total of 50-250 employees.

A large business:

A large business has a turnover of over 11.2 million. The balance sheet total for a large business would have to be 5.6 million or over. Over 250 employees would make a business a large one. The company that I have chosen to investigate, Mars (Master food), is classed as a large business. This is because their balance sheet total as researched in their annual report is £8118571 million, with a turnover of £10034285. They have over 38000 employees in England alone. This means with factories and outlets all over Europe the number of employees would be higher.

2.1f Sole Trader

A sole trader is a business owned and run by the same person, although others may be employed to assist in the day to day running of the business. The sole trader provides personal capital to set up the business, in addition to extra funds that may be borrowed from the bank or other sources.

All profits generated by the business belong to the sole trader, but at the same time any losses are also their responsibility. A sole trader has unlimited liability, should be business fail and be unable to pay its debts, the personal assets of the sole trader are then at risk. The benefits of being a sole trader include being able to run the business how you please. You have no boss therefore you can choose your own hours, independence will also increase motivation. Decisions can be made quickly, so no arguments are created and business affairs can be kept private.

The position of the sole trader has its disadvantages. You have a limited source of finance, making it difficult to expand. There is nobody to share the workload, which may create stress for the sole trader. There is also no one to share ideas or managerial skills with. The sole trader has a lack of continuity; therefore if he decides to leave then the business must shut down.

This is the oldest and still the most common form of business unit. It is the simplest type of business unit to start up and requires no legal formality. Many types of business find the sole trader a useful form of business organisation, e.g. retailers and services, such as accountants, solicitors, etc. Many sole traders have grown into large limited companies, e.g.: Marks and Spencer; The Body Shop, the Virgin Group.
Note: a sole proprietor can employ others and can have several outlets in his organisation.

Advantages of a Sole Trader:

- Ownership and control are vested in the proprietor.
- Own boss which may be very satisfying.
- All financial rewards go to the sole proprietor.
- Can make quick decision without consultation.
- Can offer customers a personal service.

Disadvantages of a Sole Trader:

Unlimited liability: this means that there is no separation between you as a private individual and your business. Hence should your business go bankrupt your personal possessions may be sold to cover business debts. e.g. You may lose your home.

The sole trader has to bear all the risks himself and is unable to have the benefit of sharing the running to the business with others.

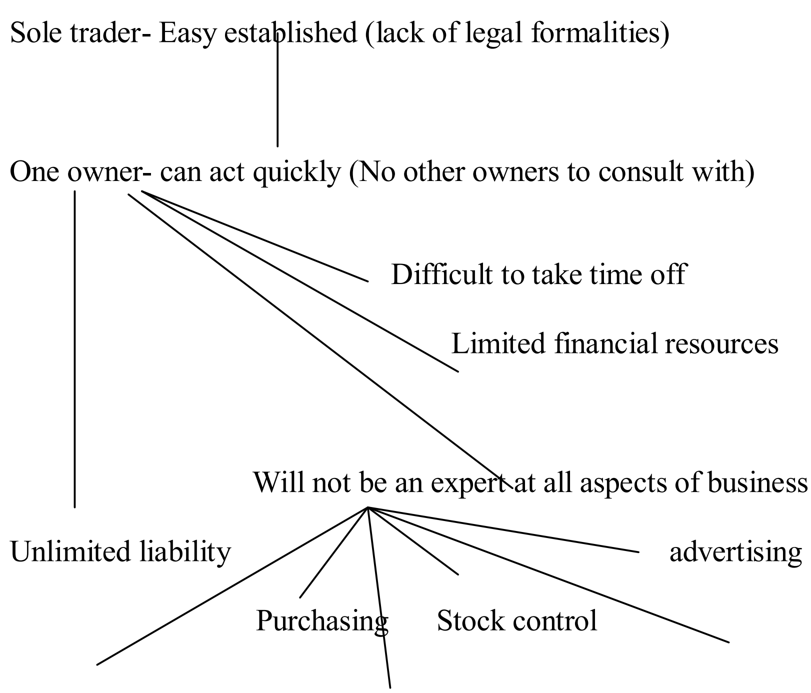
Expansion may be limited due to inability to raise capital; the bank may consider your business too risky.

You have to have a wide business expertise e.g. buying, selling, marketing, personnel, accounts, wages etc... Unlikely that you can be an expert in all areas and if small you may be unable to afford to employ an expert in any of these areas.

Meaning that anythink that is owned by the individual will be sold to repay depts Eg car, house ECT.
The sole trader

- This is the oldest but most common type of business unit.
- Simplest to start up.
- Businesses find the sole trader a useful form of business organisation.
- Many sole traders have tuned in to big limited companies such as Marks and Spencer, The body shop and Virgin Group.
- A sole proprietor can employ others and have several outlets in his organisation.

<u>Types of business ownership diagram</u>



Selling

Accounts

Vat and income tax

2.1g Partnership

A partnership describes a business where two or more people have joined together with a view to make a profit. A partnership cannot include more than twenty people; this excludes partnerships such as accountants. The Partnership Act of 1890 regulates their activities. A partnership-trading name is likely to be the names of the partners, for example "Smith and Jones".

In a partnership you are able to share ideas and there are more sources of finance than a sole trader. Partners can specialise e.g. one partner may specialise in company law and another in criminal law. You are also able to go on holiday as the other partners can cover your shifts. Difficult decision-making can be shared, though this could also be a disadvantage.

A partnership has unlimited liability and profits must be shared between partners. There may be disagreements in decision making, causing the process to take longer and decisions of one partner can be binding on the other. A partnership has a lack of continuity, if one partner leaves the business must shut down. Advantages:

- Decision making and responsibilities are shared
- Discussion can take place
- More capital and it may b easier to raise capital.
- Partners can specialise in what they are best at; this will mean the business runs more efficiently.

Disadvantages

Disagreements which may hinder decision making.

Profits are shared

If a partner leaves or dies, the partnership must be dissolved, thus there is no continuity, for a new Partnership Deed has to be drawn up.

Unlimited liability means should the business go bankrupt, even if you consider it the fault of another partner; all partners are liable to cover a share of the losses. This is because if one partner enters into a business agreement with a third party, i.e. someone outside the partnership, then he is acting on behalf of the Partnership and not for himself. Hence the importance of clearly stating the duties and responsibilities of each partner. You can have a limited partnership, but importantly, one or more of the partners must have unlimited liability; the problem is: which partner will take on unlimited liability.

You cannot transfer your share of the partnership to another without the consent of the other partner.

Partnership

This is when 2 or more people join together to form a business unit.

Partnership easy to establish

By agreement

20 owners in most cases

ought to be a written
deed of partnership

unlimited liability

work load pressure shared

work loads can be allocated may go some way to eliminating problems experienced by sole trader.

Can obtain greater finance than the sole trader or partnership.

Decision making may be slow (must consult partners)

The business tends to run more smoothly as there are shared responsibility and there fore the whole pressure of the business is not put on one person, also the decision making is made by more than one person and therefore there is more than one person's opinion shared.

A sleeping partner invests in the partnership but does not take part in the day to day running. This person has limited liability, but at least one partner must have unlimited liability.

A Deed of Partnership is a legal document that forms a contract between the partners. It covers issues such as the division of profits, the closure of the partnership, the rights each partner has and the rules for taking on new partners. The Partnership Act rules that in the absence of a partnership agreement profits will be shared equally and no interest is received on capital.

Partnerships are associations of two or more people to carry on a business with a view to making a profit; they can consist of 2-20 owners in most cases, but normally no more than 20.

The advantages of partnerships, they are a fairly simple business structure and are also easy to establish, but are governed by partnership laws in the country or county in which the businesses operate.

The partners will make a partnership agreement, which ought to be a written agreement, usually known as the written DEED of PARTNERSHIP. The partnership agreement will specify how profits are shared, but if there is no agreement then the profits will be shared equally. Usually the profits are shared on the basis of capital inputs. Partnerships can be dissolved voluntarily or by court order.

Each partner is personally liable for the debts of the business, they can obtain greater finance than the sole trader, through having more owners, unlimited liability; however the decision making may be slow as you will have to consult the partners every time there is an idea.

(There is an example of a deed of partnership in appendix one)

2.1h Companies

A company has a separate legal identity from its owner and it owns assets, it can sue and be sued. A company is owned by shareholders, in the case of an Ltd to family and friends and the shareholders have limited liability, therefore they can lose money they have invested in the business but not lose their personal assets.

Private limited company

A private limited company may be started with only £1 capital, although this is unlikely to be enough for any business. This is the main difference between a private and Public Limited Company (Plc). Mars is a Private Limited Company; therefore they do not have to reveal as much information as a plc. An Ltd has the choice whether to distribute an annual report to members of the public and it can also be less detailed than a Plc's annual report.

In 1932, a man names Forrest E. Mars left his father's company in the USA to set up in business for himself. He arrived in England with £5,000 and the recipe for a new kind of filled chocolate bar. Renting a factory on the Slough Trading Estate, he began making the Mars bar by hand. It quickly became popular and today is still Britain's biggest selling chocolate bar.

Mars is now a Private Limited Company and is still a family business. All information is kept privately yet the business is open to any suggestions and queries from staff. As a Private Limited Company, Mars will be aiming to meet certain objectives. They are a well-established business so they will be aiming to please the customer, like any organisation but also to make a high profit in order to expand and give dividends to share holders. Mars want to provide highly competitive prices and keep ahead of competition, they do this by sharing ideas between the staff in order to produce new and appealing products and stay ahead of other chocolate companies.

The objectives of Mars has a Europe-wide responsibility for establishing a strategy and framework for their brands and their advertising. The strategies are designed to ensure that they identify what consumers want, keep up to date with changing tastes, and have the ability to tailor their marketing programmes accordingly.

Mars is an Ltd company (privately owned); therefore keeping the management of the company within family and friends will stop any takeovers or disagreements in the firm. Mars may also want to expand and as the management of the company are all friends they can decide how much they want to invest in the business to help it grow. Like with deciding how much to invest into the business Mars' management can agree on deciding what prices the products are sold at, this helps profit maximisation. Mars' management are able to discuss new strategies to improve the business together as they all know each other and all of these factors help Mars to meet their objectives.

Public limited company

Public Limited Companies are very vulnerable to take-over as there is no control over the amount of shares sold. Despite the name, a Plc is not in the public sector. Like an Ltd, this type of business is financed by individuals for profit. Many people will buy shares but not all of them will have equal interest in the organisation, as is the case in the public sector. Therefore Plc's fall within the private sector. It is called a "Public" limited company because unlike an Ltd, a Plc can invite members of the public to buy shares. A Plc must have a minimum start-up capital of at least £50,000 made available by the organisation before it can become a Public Limited Company. A Plc must also produce an annual report for each shareholder but the benefit is that their shares may be advertised to external investors, including quoting their share price on the stock exchange.

The main advantages of being a Limited company are that you have limited liability, so if in the unfortunate event the firm were to go bankrupt then the owners are only liable for debts up to the amount they invested in the business. Shares can also be sold to raise money. For a Plc, shares are sold on the stock exchange and for an Ltd, to friends and family. An important advantage is that this type of business has continuity, so the business can carry on if a shareholder wants to leave.

The disadvantages of a Limited company are that a Plc can cost up to a million pounds to set up and for an Ltd a few hundred pounds. A disadvantage that could affect limited companies is that all decisions must have the wishes of the shareholders taken into account. A disadvantage mainly for a Plc is that control could easily be lost as strangers could own shares and there may not be a lot of trust. A founder does not exist in the Limited companies, as all shareholders are part owners. Mainly in a Plc a lot of information must be published, such as balance sheets and profit and loss accounts, therefore there is no privacy within the business.

<u>Private limited company and public limited company</u>:

Company — more finance available than sole traders or partnerships

Minimum of 2 people require — limited liability for members

To form a company. — Separate legal identity

private | Public

must be incorporated

articles and memorandums of associations sent to register of the company's.

certificate of incorporation received

private company begins trading

public company must raise authorisation minimum capital and then obtain a trading certificate.

2.1i Co-operatives

A Co-operative owes its origins to the Rochdale Pioneers in Lancashire who set themselves up as a business unit in 1844 with the objective of selling foodstuffs at a fair price to members of the co-operative. Each member had to subscribe at least £1, which purchased one share. Importantly, regardless of the number of shares owned, each member of the co-operative had only one vote at meetings; hence money could not buy power in the business.

From such beginnings we have the modern co-operative. We can have 2 types:

A producer co-operative and a consumer co-operative.

A producer co-operative is owned by all the workers who produce the good or service. Decision making is collective. It is based upon one vote per person. Each member of the co-operative is required to put up capital. Profits are shared amongst the members of the co-operative. Producer co-operatives are common in European farming communities, where worker band together in order to produce and sell their output, e.g. wine co-operatives in France and Italy; also the famous Spanish producer co-operative at Môn dragon.

Retail co-operative is what is more common in the UK and is the outcome of the original concept set up by the Rochdale Pioneers in 1844. Retail co-operative is owned by the customers who put up the capital to start and run the business. Profits go back to the customers in the form of dividends. Each member has one vote at meetings.

Retail co-operatives are a dying force in UK retailing because they have been unable to compete with other retail outlets such as the large supermarkets.

Co-operatives are where groups of people come together for shared benefits. Its members believe in co-operation, working together for a common purpose.

Worker Co-operatives are businesses owned and run by the whole workforce. They share ownership, control and the profits amongst themselves. They are often set up due to business failure. A Consumer co-operative could be a high street store owned by customers and aim to maximise benefits for its customers e.g. Co-op.

The main advantages of a co-operative organisation are that there are less likely to be disagreements as workers are also the owners and each member has a vote. Also all workers should be paid the same.

Though there are advantages, there are more disadvantages to this type of business: it is difficult to persuade workers to maintain co-operative because it is easier to set up a partnership. New workers may also find it hard to settle into the business as a unit has already been formed between the workers. It is also difficult for a co-operative organisation to grow.

2.1j Charitable and non-profit organisations:

Charities have a high profile in the UK. Organisations such as Oxfam and Mencap are familiar to most people. Charities have a number of clear objectives: to raise the public's awareness of the cause that they support and to raise funds to support their projects.

Charities trade with the intention of earning as much revenue as possible to spend on their particular causes. Pressure groups operate in a similar way to charities; they are a collection of people who support a common cause. Their objectives includes bring publicity to the causes they promote, they aim to increase the number of people who support their activities. Members provide money through subscriptions and donations, and some may be prepared to support the cause through direct action. Another important objective is being seen to care for the environment.