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Types of Business Organisations

There are two Business Sectors:

Public Sector

These are businesses owned and run by the government. Some examples of Services provided in the public sector are the postal service, schools, colleges, housing environment, some bus and train services, fire, police, ambulance and local justice and social services. Their method of raising capital is different as Private Sector businesses have to raise their own capital e.g. their own money, a bank loan etc. The Public Sector business can get the money required from the Treasury or from local rates. There is no individual owner in the Public Sector.

Advantages:

- Their main aim is to provide a service, not to make a profit
- They will still run even if there is few people using the service
- Government is in a good position to plan the overall provision for the country

Disadvantages:

- It is difficult to motivate employees in an impersonal business such as this
- The tax payer has to meet higher tax payments if the business makes a loss
- The running of the business can be politically influenced.

Private Sector

These are businesses owned and run by private people. To start a business in the Private Sector, they have to raise their own capital in order to pay for rent, stock, machinery etc. Some of these businesses can be small and owned and run by one person, other businesses can be larger and run by a group of people. Forms of Private Sector ownership are: Sole Trader, Partnership, Private Limited Company, Public Limited Company, Franchisee, and Co-operatives.

Sole Trader

These are businesses are the most common form of business ownership mainly because they are easy to set up and are their own bosses. They are owned and run by one person; usually they may have an assistant to help them run the business. Examples include corner shops, dressmaking and services such as hairdressing, plumbing, painting and electrical work.

Advantages:

- The set up of the business requires no legal procedures
- The owner gets to keep all profit made
- Because the business is usually small, the sole trader has close links with customers and suppliers

- The sole trader can make all the decisions without having to call together a committee meeting.

Disadvantages:

- The sole trader has unlimited liability, which means that if the sole trader doesn't have enough money to pay their debts, they have to use their personal money in order to able to cover the payments. In extreme cases, sole traders' cars houses and other private possessions might have to be sold
- Sole traders have to raise their own capital
- If the sole trader is ill or on holiday, there is no one to cover for him/her
- Banks are less likely to lend money to a sole trader because their businesses are small
- It is difficult for sole traders to compete with larger businesses as they cannot take advantage of economies of scales

Partnership

Partnerships are mainly found in professional businesses such as doctors, surgeons, dentists, veterinary surgeons, accountants and solicitors. They too are commonly found in trades such as hairdressers and electricians. A partnership must consist of a minimum of two people and a maximum of twenty. Sometimes an additional partner may be brought who may contribute capital to the business, but doesn't take part in the physical day-to-day running of the business; this person is known as a 'sleeping partner'.

Partnership Act 1890

Any partnership is governed by the Partnership Act 1890 which states:

- Any profits or losses made within that business will be equally shared between them
- No partner will be paid a salary

However the Partnership Act does not take into consideration the individual situation, for example, one partner may have contributed more capital than the others, so it would only be fair, that s/he gets more of the profit. Or one partner may work full-time and the others work part-time and have a career elsewhere, in this case it would be unfair that the partner working full-time cannot be paid a salary.

Deed of Partnership

It is recommended that a deed of partnership is drawn up between the partners, which is a legal document setting out the terms and conditions under which a particular business would operate. If a deed of partnership is to be drawn up, it

takes place of the rules in the Partnership Act for that business and states the following:

- How profits and losses are to be shared
- How much capital each partner contributed
- If salaries are to be paid and the amount to be paid
- How new partners might be introduced to the business
- How the duties and responsibilities are to be shared
- How the partnership may end, and how the assets would be shared
- Whether or not if interest on capital is payable

Advantages:

- More capital is available which allows the business to expand
- Financial affairs do not have to be published but must be available to Inland Revenue for tax and custom excise for VAT
- If one partner is ill or on holiday the other partner/s can carry on with the business
- The owners can share the responsibility for making decisions and together discuss problems within the business
- More expertise and skills can be introduced to the business, then the partners can specialise

Disadvantages:

- All partners are held liable, if one partner is dishonest or inefficient, so therefore it is important that a partnerships are only formed between people who know and trust each other totally
- There may be conflict or disagreements between partners
- They cannot take advantage of economics of scale and banks are less willing to lend them money as the business is small
- A death or bankruptcy of one partner may cause the break-up of the business
- Like the sole trader, the partnership also has unlimited liability

Private Limited Company

This company is called ‘Private’ because members of the public cannot buy its shares. Instead in a Private Limited Company are only bought by family members or close family friends. This is because they are able to keep control of the business. Every year the shareholders are entitled to a share of the profit. Shareholders retain control of the business and enjoy benefits of limited liability; it is most attractive to shareholders. The owner of the company will be voted by shareholders in a Board of Directors. The Board of Directors runs the company on behalf of the shareholders. In a Private Limited Company the shareholders are mainly Directors. The official name of the company includes either ‘Limited’ or ‘Ltd’ in it to show that the liability of the owners is limited.

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Advantages:

- The raised capital is greater to those of a sole trader
- The bank is more likely to lend them the money because the business is on a larger scale
- There are many chances for specialisation and division of labour
- The business can still continue even if a shareholder dies, and has no affect on the business
- It benefits from limited liability
- Responsibility and workload are shared between managers and directors

Disadvantages:

- Financial information must be available for inspection by members of the general public. This may give competitors valuable insights to the business
- Shares are not available for wider sale, so expanding is difficult
- In the set up of the business, there are more legal procedures involved.

Whether a company is private or public, they will have to draw up two documents known as a memorandum of associations and articles of association. The memorandum or articles will contain the following information following a brief description of both:

- Company name
- Registered address
- Objectives
- Capital

Memorandum of Association

The memorandum of association has six parts which state the official name of the company, the country in which the company is situated, the work the business will be doing, and the amount of capital the business has to start. The memorandum of association states that members' liability is limited and association section which is a declaration by at least two people if they wish to form a company.

Articles of Association

This shows the voting rights of the shareholders, the method of election of directors, how profits are to be divid ed, how meetings are to be conducted and the duties of the directors.

Public Limited Company

The Public Limited Company is the largest type of private sector organisation and the minimum amount of capital required needed is £50,000. The shares in a Public Limited Company may be sold to members of the public - which is where

they get their name. Values of shares depend on how successful the company is doing at that particular time and may also rise or fall depending on the general economic conditions in the country. Shares are sold and bought on the stock exchange all the time, although the ownership of shares may change, the amount of capital in the business doesn't change.

The company may have thousands of owners but the shares owned by each individual are very small. The liabilities of the shareholders are limited to the amount in which they have invested and they will have confidence that they will only lose that. A dividend is declared each year and shareholders are paid a share of it according to how many shares they own. The official name of the company includes 'plc' to show that the liabilities of the owners are limited.

Advantages:

- They have a great influence in the market, because they are very powerful organisation
- Share holders have limited liability
- The business can all benefit of easier borrowing and economics of scales, because the capital they have available is very large
- They have all the resources required for growth and expansion
- Shareholders may sell and buy their shares without affecting the business

Disadvantages:

- The owners of the company have no real say in the running of the business because shareholders are the owners.
- Setting up the business requires long legal procedures
- Decision-making is slow because of numerous meetings held and many people have to be consulted
- Financial information must be available for inspection by members of the general public.

Franchise

A franchise is a brilliant way for somebody to set up in a business, it allows the person the opportunity to sell a well known and established product, but without the risks that would come with setting up sole trader, partnership or limited company. Franchising first started in America and has become more popular all over the world. It is a system, which successful and well-known business ideas can be hired out to other businesses. The franchise gives permission to the franchisee (the person who is buying the franchise) to set up the business, using a business, which has an established name and idea. The business can also use the already established trademark and image. The franchisee's liability will depend on whether the business is set up as a sole trader, partnership or limited liability. Some examples of franchised business are: McDonalds, Subway, Tie Rack, The Body Shop, Wimpy, Holiday Inn, Benetton and Pronta Print.

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Advantages:

The Franchisee gains
- Reduced risks and capital investment
- The sole right to sell a well known product and brand in that particular area
- Increased sales because people will know the product and its quality
- Training is provided by the franchiser
- It gives the right to be his/her own boss
- More chance of a bank lending them money because the business is usually profitable

The Franchiser gains
- More opportunities for expansion
- Benefits from the economies of scale
- A certain percent of the profit made in that particular shop
- The Retail outlet is run and managed for them
- They receive a large lump sum from the franchisor when purchasing the franchise

Disadvantages:

The Franchisee loses
- Any individuality. All shops are decorated and organised in the same way in order to be instantly recognisable
- Independence, as they have to be organised according to rules given by the franchiser
- The right to sell the business without approval by the franchiser
- The right to buy stock from another supplier even though it may be cheaper.
- Royalties must be paid annually to the franchiser

The franchiser loses
- The management of the day-to-day running of the shop. If one of the local services is poor, the reputation of the franchise is being damaged.

This type of trading is very common in the fast-food industry such as McDonald's. Within a business similar to McDonalds their products such as hamburgers, fries etc. are very important to the business therefore the franchisee must purchase a agreed percentage of supplies from the franchisor; therefore this will enable the franchisor to make a profit on these. The franchisor will also take a percentage of the profits made by the business without having to risk money or become involved in the day-to-day management.

<u>Multinational Companies</u>

A multinational company is a business that operates, sometimes through subsidiary companies, in more than one country with its Head Office in one country. They exist to find new markets, make products to suit local markets, to make use of the most favourable conditions for production, and to increase profits

by using cheap labour. Developed by setting up a branch in another country or by taking over a existing business in another country.

Advantages:

- The risk is spread, so that the company is able to protect itself from a downturn of sales in its own home market
- Reduce costs. E.g. by setting up operating units close to foreign customers to reduce transport costs
- They can benefit from the growing world market for goods and services (the rapid growth of similar goods or services produce in the same location)
- It allows them to take advantage of technological expertise by making goods directly rather than allowing others to do so under license

Disadvantages:

- Language barrier – businesses will have to have some members of staff who are capable of speaking, writing and translating the language of the country. Advertising will have to be changed into the language, which will cost the business money
- Competition – there are loads of multinational companies in the world which will have to have better marketing and products to succeed
- Documentation – Companies abroad will have to be familiar with documentation sent abroad, documentation have to be simplified
- Cultural Differences – have to be conscious of the values and traditions of the country to which they are selling. It is essential that those values and traditions of the country are respected

Sizes of Businesses

The total number of all associated establishments determines the employment size of a firm. The numbers of firms in each category have constantly increased from 1988 to 1999.

Small Businesses

Businesses are typically defined in the terms of the overall size of the entire company or firm, not individual establishments. Although, there are large chains of small establishments are generally considered large businesses. In general a small business is one that: independently owned and operated, consists of less than 50 employees and is not dominant in its field of operation.

Medium Businesses

A medium sized business is any business or office that is small enough to fit into one building. The medium enterprises are socially and economically important, as they represent 99% of all enterprises in the EU, along with small and micro businesses as well. It provides around 65 million jobs and contributes to

entrepreneurship. A medium sized business consists of between 50 and 250 employees.

Large Businesses

Organisations grow larger and technology becomes more intricate, it also becomes more difficult to manage the people involved in an enterprise. Beyond a certain size it is unattainable for one person to know what people are doing or even remember their names. A particular business would consist of more than 250 employees and operate out of a business around 25,000 to 100,000 sq. ft.

Limited and Unlimited Liability

Any co-operatives or shareholders within a company have the legal protection of limited liability. Sole traders and partners (not sleeping partners) do not have limited liability. Limited liability means that if the business goes bankrupt then the most that they will lose is that capital they have invested into the business. When the risk of running their particular business is high then they feel that it is important to change the status of the business to one which gives them limited liability. This is why many small businesses that have only a small number of partners will change their business ownership and become a private limited company.

Background Information

When Mac and Dick McDonald first ran their restaurant in San Bernardino successfully for 21 Years it was a form of partnership, in which they made high profits which they were happy with. Most successful businesses like this would expand but Mac and Dick McDonald didn't. It only expanded when Ray Kroc had brought McDonalds from Mac and Dick McDonald. In other words if Mac and Dick McDonald had their own way McDonalds would never have been a global multi-billion dollar business. We can clearly see that because the size of McDonalds had increased this has caused the type of ownership to change from partnership to public limited company.