# Types of Ownership

**Sole Trader**
A single person owns this type of business although he/she may employ other people to work in the business. A sole trader is someone who decides to own and run his/her own business. He/she usually uses personal capital or something along the lines of a bank loan to get the business started. This means the sole trader is taking all the risks that are involved in running a business. If the business is successful the owner's reward is the profit. The owner can keep all the profit after expenses have been paid, this is called NET profit.
The sole trader has what is called unlimited liability which means if the business is unsuccessful the owner stands to loose his/her personal possessions. There is also the risk of the owner becoming bankrupt.
The sole trader can make all decisions in the business and is responsible for keeping accounts to show how much profit/loss is made each year.
**Benefits for the owner:**
- Easy to set up – There are no formal procedures to follow, particularly is the sole trader is using his/her own name.
- Can offer a personal service to the customers
- All decisions can be made and put into effect efficiently as there is no one else to consult.
- Being the sole trade means that he/she takes orders from no other.
- The sole trader can decide what days/hours to open.
- There is a minimum of paper work.

**Drawbacks for the owner:**
- Long working hours
- If the owner is ill the shop has to be closed and makes no money.
- The success of the business relies on the skills and ability of one person.
- It can be difficult to raise capital to start or expand the business.
- The owner has unlimited liability for any debts. This means that if the business is unsuccessful the owner may have to sell personal possessions to pay the debt.
- The owner may be poor at accounting, marketing, administration activities etc… that come with running any business

**Partnerships**
A partnership is set up by at least 2 people and up to 20. The partners jointly own the business this means that responsibilities and risks are all shared by the partners. People with different skills usually form partnerships, so a greater range of skills can be offered. In some partnerships there may be what are called sleeping partners that have invested money into the business but do not work in the business on a day-to-day basis. They usually receive a smaller profit than the active partners do.
A deed of partnership is usually signed when starting a partnership. This lays out the details of the partnership agreement, such as salary, the profit each partner receives and the procedure to follow if there is a dispute.
All partnerships are governed by the 1890-partnership act, which assumes that all partners are liable for all debts unless the deed of partnership states otherwise.
**Benefits for the owner:**
- Problems can be shared and discussed.
- New skills and ideas can be introduced.

- It is usually easier to raise capital as all partners contribute.
- All the partners knowledge and expertise are combined to create obvious benefits.
- Each partner can specialise in his or her own area of expertise.

**Drawbacks for the owners:**

- The partners may not always contribute equally.
- The profits must be shared.
- All partners must be consulted before a major decision is made.
- The partners have unlimited liability for any debts which means they are personally liable.
- The actions of one partner are binding on the other partners.
- The death of a partner means the withdrawal of this share of capital as the money must be paid into his/her estate.

**Private Limited Companies:**

Many private limited companies start out as sole traders or partnerships. They are usually small-scale operations with only a few family members running the business. They usually form a limited company to:

***A)*** Improve their financial security. The shareholders (formally the owners) are no longer personally liable for their debts (limited liability).

They only stand to loose the amount they initially invested into the business. The abbreviation LTD (limited) must be part of the name of the business. If the business fails the owners do not go bankrupt instead the company goes into liquidation. This means the business assets are sold to turn them into money. Money is the most 'liquid' form of an asset hence the term Liquidation.

***B)*** Provide a better 'image' to their customer, who are likely to assume the business, is more secure (whether is or is not!).

Private limited companies issue shares to the owners, each share equals one vote. An owner with more than half of the shares could always outvote another shareholder. For this reason, the proportions held are often carefully thought out.

**Benefits for the owners:**

- Members (shareholders) have limited liability for the company's debts.
- Capital can be raised more easily as there are usually many shareholders.
- Expansion is made easier, because of the availability of finance.
- The company continues even if the shareholders and directors change (continuity).

**Drawbacks for the owners:**

- The expense of setting up a private limited company is vast (solicitors' and accountants' fees).
- Paperwork – the need to send an annual final report to companies house
- The accounts by law have to be examined by a qualified accountant.

**Public limited company**

These are the largest types of privately owned enterprise in the UK. Many started as Private limited companies and were floated on the stock exchange. Floated is the term used when a public limited company is launched. Any person can buy shares in a public limited company.

Public limited companies have directors who manage the company they are usually salary paid. These directors are usually free to choose whether they own shares or not.

A Company must have more than £50,000 before it can 'go public' and must have a satisfactory financial track record.

**Benefits for the owners:**

- The major benefit is the vastly increased capital as many of thousands of people or organisations buy shares in the company. This means expansion is much easier.
- Some public companies can be quite small, there only needs to be a minimum of two directors and two shareholders.
- Very large public companies can often operate more cheaply than small public companies as they can buy goods in bulk and save money.
- If the company is successful, the shares will increase in value, which will increase the overall value of the company.

**Drawbacks for the owner:**

- A public company must be registered as such with the registrar of companies and has many external regulations to comply with.
- An Annual General Meeting (AGM) must be held each year and all shareholders must be invited. Any shareholders that do not agree with the way the company is managed may raise objections or vote against a proposal made by the directors.

**Worker Co-operatives**

A worker co-operative is different from any other type of business. It is owned and run by the whole work force. Its members believe in co-operation – working together for a common purpose. It tries to ensure that everyone has a say in how the business is run. In a worker co-operative:

- Membership is open to all workers.
- Each member has one vote
- Any profit is distributed to members in a fair way
- Members are in control, not outside shareholders, though some worker co-operatives employ a general manager.

**Benefits for the owners:**

- The co-operative would aim to reduce argument as the worker and the owner is the same person
- Members would work harder to make the business succeed as they are also the owners
- Increased motivation among among the workforce would provide a better goods and services
- A local people are involved in the business, the co-operative would have closer community links.

**Drawbacks for the owners:**

- Poor management, planning or financial controls could close the co-operative.
- It can difficult to raise finance or attract business, as some people have no faith in this type of business
- Co-operatives are often formed by the workers of a big company that closes down an unprofitable plant.

**Franchise**

The franchise system was first established in the USA and is now a rapidly growing business sector in the UK. A franchise is an operation, which involves two separate parties.

• The *franchisor,* a person who has developed a certain type of business (clothes retailing, Hamburgers etc…) and has made a well-known trading name.
• The *franchisee,* a person who buys the right to trade under the well-known trading name and in return receives training and equipment. An example of this is the fast food chain 'McDonalds'.

**Benefits for the owner:**

• You are entering into a business that has been tried and tested on the market.
• The business may have a household name such as McDonalds.
• You are more likely to get a loan from a bank for a franchise.
• You may receive training and in some cases tried and tested equipment.

**Drawbacks for the owner:**

• The initial cost of going into a franchise can be large
• Proportions of the profits go to the francisor.
• You have less independence in the way that you cannot change the name or the method of running the business.
• You may receive less profit than you would in an independent enterprise.