- Land, labour & capital on their own do not produce G & S
- Resources need to be organised & decisions need to be taken to manage & control the resources from day to day i.e. an entrepreneur is needed

Entrepreneur:

- The person who makes decisions, organises resources & owns the business
- Choose which type of business to open
- Each type allows him to organise, manage, control the business & raise money in a different way
- Example: small firm controlled & financed differently than a large firm

The Aims of Business Organisations:

1. Provide an efficient G or S available to everyone
   Public sector businesses provide G & S, eg) health & education
   i. Everyone
   ii. Best quality
   iii. Lowest prices or free

2. Maximise profits
   Increase profits, reduce expenses

3. Survive
   Large competition – try to keep operating to keep their profits

4. Expand & increase sales
   If a firm increases sales
   i. Growing larger
   ii. More profits
   iii. Becoming more competitive

- In a mixed economy:
  i. Private sector
  Private individuals or groups of private individuals own businesses – profit – no government intervention
  ii. Public sector
  Government owns businesses – no aim for profit – G or S essential for everyday life

Business Organisations

Private Sector	Public Sector
Sole Trader Partnerships Private Limited Companies Public Limited Companies Franchise Co-operatives	Public Corporations Local Authority Enterprise Government Departments

Question 1: Will I have enough money?

- Very costly
- Capital: money put into the business
  - Capital Goods, eg) machinery & buildings
  - Fixed Capital – money spent on capital goods
  - Working Capital – money used to run the business from day to day, eg) pay wages, electricity, telephone

- Some businesses need more capital than others
  - If the entrepreneur has enough money – sole trader
  - Not enough money – more than one owner - partnership
  - Still not enough money – thousands of owners - Private or Public Limited Company

Question 2: Can I manage the business alone?

- Entrepreneur decide if he can manage alone before choosing the sort of business
- More entrepreneurs: different skills, new ideas etc.

Question 3: Will I risk everything I own?

- Owner's Liability: responsibility - find money to pay the firm's debts
- Entrepreneur decide if he is willing to risk all his savings & possessions on his business – influence the type of business chosen
- Unlimited Liability – if the business goes bankrupt, owner/s have to pay all the debts i.e. they can lose all their personal possessions

- Limited Liability – if the business goes bankrupt, owners lose only the amount of money they have put into the business – personal possessions not at risk

- Can have more than one employee but controlled & owned by one person
- Example: butchers & grocers

- Oldest & most popular type of business internationally
- Many more sole traders than any type of business
- Many large & successful businesses started as sole traders

Advantages of Sole Trader:

1. The sole trader is a business which is very personal
   Personal contact with customers & staff – find out what people want & change what the business sells accordingly
2. The sole trader is his own boss
   No one's permission or opinion before taking a decision i.e. quick decisions
3. The sole trader receives all the profit
   No need to share the profits
4. It is easy to set up a sole trader business
   Very little capital needed to start with & few legal formalities

   Number 2 & 3 – important advantages – reason why sole traders are so popular

Disadvantages of Sole Trader:

1. The sole trader has unlimited liability
   He can lose everything he has to pay for any debts
2. The sole trader has full responsibility of the business
   Take all the decisions himself – sometimes not good at everything i.e. needs to work long hours
3. Lack of continuity
   Business cannot open if the owner is ill or wants to take a holiday
4. Lack of capital
   Problem of money if the owner wants to expand – banks are reluctant to give loans to sole traders since they often do not repay the loan – end up to remain a small business

- If sole trader 1. needs more money 2. needs someone to help him run the business, partnerships can be formed with little formality
- Common amongst lawyers, doctors, accountants etc.
- Two to twenty partners

Advantages of Partnerships:

1. Partners can bring more ideas to a business
2. More partners means more money for the business

If people want to share in the ownership, they must pay money: used to expand the business

3. Partners can help in decision making
   Decisions are shared

Disadvantages of Partnerships:

1. Partners can disagree
   More partners, more disagreement – business will suffer
2. Partners have unlimited liability
   - Ordinary partnership:
     i. Partners can lose everything they have if the business goes bankrupt
     ii. Each partner held responsible for the actions of other partners
   - Limited partnership:
     i. Some partners have limited liability – limited/sleeping partners – they do not take part in the day-to-day running of the business
     ii. At least one partner have unlimited liability
3. Partnership lack capital
   More capital than sole trader; still there's a limit of money because of limit of 20 partners

No partnership in the world is a very large business because of capital. Other type of business is necessary to expand more.

- Joint Stock Companies
- Two types:
  i. Private Limited Companies (Ltd) – Malta - more common than plc's
     Examples: Fino & Sons Ltd, Agius & Agius Ltd
  ii. Public Limited Companies (plc) – larger than Ltd's
     Examples: Farsons plc, Bank of Valletta plc

The Capital of Companies:

- Capital divided into **shares** – bought by people to:
  i. Invest in the company
  ii. Become an owner of the business
- Person who buys a share in the business - **shareholder** – one of the various owners of the company
- **Dividend** – shareholders receive profits for each share they hold in the company

How are profits divided between shareholders:

- Profits divided between all the shareholders according number of shares they each hold
- Example: Mozen plc: shares at €1 each
  Ivan has 400 shares i.e. value of capital invested: €400

- Shares - sold privately to family, friends & workers in the company
- Given a certificate - states how many shares they hold & their value
- All shareholders – limited liability

- Large number of shareholders i.e. cannot work all in the business & manage it from day-to-day:
  - Disagreement
  - No experience needed to run the company
- Shareholders choose a board of directors from amongst the shareholders themselves to run the company on a daily basis
- Election done at the Annual General Meeting (AGM) - once a year
- Each shareholder has one vote for each share that he holds - the more shares he holds, the more votes he has
- Example: Jason has 2500 shares i.e. he has 2500 votes

- Original owners who formed the company wish to keep more shares than anyone else i.e. most votes. Advantages: greatest power to -
  - i. Vote for themselves as directors

    or
  - ii. Vote the directors they want

- End of the financial year publish annual accounts – sent to all the shareholders
- Accounts are private – no one can see them apart the shareholders

Advantages of a Private Limited Company:

1. Shareholders have limited liability
   - i. Shareholder only responsible of any debts up to the amount of money they originally put into the company
   - ii. Without limited liability, people unwilling to buy shares - not risk their personal possessions
2. Shareholders have no management worries

   Shareholders – no responsibilities & worries - pass this responsibility & elect directors to manage the business – done at the AGM
3. The company has a separate legal identity

   Company & its owners – separate persons i.e. if the company owes money, the name of the company can be sued & not the owners; company forced to pay its debts, but not the owners

Disadvantages of a Private Limited Company:

1. The printing of the annual accounts can be very expensive

   Writing, printing & postage of the annual accounts to all shareholders - expensive
2. Private Limited Companies must hold an AGM of shareholders each year
   - i. AGM's are expensive to set up

   ii. Original owners of the company lose control
3. The original owners of the company may lose control
4. Company profits are taxed twice by the government
   i. Company makes profit – some given as tax
   ii. After-tax profits to pay dividends
   iii. Shareholders receive money – pay some of it as tax
5. Private Limited Companies cannot sell shares on the Stock Exchange Market
   Private Limited Companies sell their shares privately
   Sell many more shares & raise far more money on the Stock Exchange i.e. restricted to be small to medium sized companies

- Largest & some of the most successful firms in Malta & in the world
- Examples: HSBC plc, Middle Sea Insurance plc, Gasan & Mamo plc etc.
- Minimum two shareholders
- Main Advantage: offer their shares for sale on the Stock Exchange, Valletta – can be sold to any member of the general public incl. worldwide market i.e. attract money from investors all over the world

Advantages of Public Limited Companies:

Plc's have the advantages of Private Limited Companies, but two important additional advantages:

1. Public Limited Companies can sell shares on the Stock Exchange
   Able to sell its shares in the Stock Exchange i.e. raise far more finance than Private Limited Companies
2. Public Limited Companies can advertise their shares
   Plc's attract shareholders by placing advertisements - raise more money

Disadvantages of Public Limited Companies:

Plc's share some of the disadvantages of Ltd's & additional disadvantages

1. It is expensive to form a Public Limited Company
   Legal documents, advertisements & a document giving information for prospective buyers of shares
2. The original owners of the company may lose control
   Very possible in a plc because so many shares are sold to other people
3. There may be a lot of shareholders who do not vote
   A lot of shareholders having a small number of shares i.e. they feel it is not worth attending AGM's – few who have large number of shares control the company
4. Public Limited Companies are difficult to manage
   Large company i.e. difficult to manage; more people to consult in decision-making – very slow decision-making, disagreements

- Franchising: individual (franchisee)/group - permission by a company to:
    - Use its own name
    - Produce same products or services
- Examples:
    - KFC
    - McDonald's
    - The Body Shop
    - Pizza Hut
- Franchisee gives to the franchisor:
    - Amount of money – right to use same:
        - Name
        - Product/service
    - Some of the profits
- Franchisor gives to the franchisee:
    - Marketing back-up
        - Advertisements
        - Free gifts etc.

Advantages of being a franchisee:

1. Great chance of success – product well-known in the market
2. Brand name advertised throughout the nation & the world

Disadvantages of being a franchisee:

1. Not independent – franchisor follows him
2. Give some of the profits to the franchisor

- Controlled by workers or by consumers
- Aim: provide benefits for its owners
- Example: employment for workers, lower prices for consumers
- Each of the owners/members – equal share in the control of the firm i.e. one person, one vote regardless how much money they put into the business

Worker Co-operatives

- Organisations owned by workers eg) mini-buses co-operative in Malta
- Raise money to buy equipment – share equally in decision-making & any profits
- Example in the 1970s: many firms were closing down & making their workers unemployed – worker co-operatives took over small manufacturing businesses that were closing
- Few worker co-operatives in Malta compared to countries like France, Spain etc.

Advantages of worker co-operatives:

1. Likely to work harder – can take part in making decisions
   Popular with workers because:
   a. Workers are in charge
   b. Equal say
2. Workers receive the profits – paid out as dividends – each worker equal share or according to how much they put into the enterprise

Disadvantages of worker co-operatives:

1. Difficult to raise money – rely on borrowing from banks, workers & local councils i.e. cannot expand easily
2. Badly run – workers have little business experience & entrepreneurial ability

Consumer Co-operatives

- Retailing businesses - run for the benefit of their consumers
- First retail co-operative society - formed in 1844 – group of workers: low pay & high food prices – joined together to buy food direct from wholesalers
- Buy food in bulk i.e. suppliers often give them discounts

Today:

- Any profits made given back to consumers as i) dividends ii) low prices
- Principles of modern co-operatives:
    - Owned by their members
    - Any person can become a member by buying a share
    - Members elect a board of directors
    - Each member – one vote regardless the number of shares
    - Profits shared between members
- Smaller co-operative shops closed – competition large supermarkets
- Compete: opened large superstores selling variety of G & S

Note:

Limited liability: consumer & worker co-operatives

- Operated by the govt on behalf of the public
- Chairman: manages the business; chosen by the govt
- Employees – employed with the govt
- Offer essential G & S, examples:
  - Water
  - Electricity
  - Public transport etc.
- Private companies rarely offer them – a lot of initial capital; no profits
- Operated to give a G or S – essential; no view of making a profit
- Examples:
  - Enemalta Corporation
  - Water Services Corporation

Advantages of Public Corporations:

1. Provision of G & S is ensured
2. Whole nation benefits from profits

Disadvantages of Public Corporations:

1. Managers – politicians – no business expertise
2. No profit i.e. workers may not work as hard as they could

- Uses factors of production - provide S eg) parks, roads, schools etc.
- No profit
- Main aim: give a service
- Controlled by a council – elected councillors – ordinary men & women interested in serving the community
- Most belong to political parties – help them to campaign to be elected to the council
- Get income by charging the community for particular services & mostly from central govt

- Aim: give a service - paid indirectly through taxes
- Owned by the govt
- Examples: Education Department, Health Department
- Govt appoints a minister – responsible: main decisions of the department
- Director general – responsible: day-to-day running of the department – number of directors to help him

- Firm that operates in more than one country, although headquarters may be in one country
- Some of the largest firms in the world – often selling billions of euros worth of G & S & employing thousand's of workers
- Most Japanese or United-States owned

- Multinationals in Malta: Microsoft (computers) Baxter (healthcare) HSBC (banking) Vodafone (mobile phone service provider)
- Govts try to get multinationals to locate a plant in their country because:
  - Jobs
  - Bring business knowledge, skills & technology
  - Pay taxes – increase govt funds
  - Bring money into the country by selling goods abroad

Advantages of being a multinational:

1. Multinational companies are able to sell far more than any other type of company

   Factories produce goods in many different countries i.e. increase the number of consumers of the company's products

2. Multinational companies can avoid transport costs by:

   i. Sell goods in countries where they have their factories
   ii. Locate its factories near to the raw materials it needs

3. Multinationals can take advantage of different wage levels in different countries

   Locating in a less developed country - take advantage of cheap labour; some countries women & children very low wages

4. Multinationals can achieve great economies of scale

   Massive production lines producing millions of goods i.e. lower the average cost of producing each good below the average costs of companies making fewer goods

5. Multinationals have less chance of going bankrupt than smaller companies

   Produce a wide variety of goods; if demand for one product falls they have other products they can fall back on. Selling to a large number of countries reduces the risk of one country reducing its demand for the products of the company: risk-bearing economies of scale

6. Multinationals can carry out a lot of research & developments

   Spend large amounts of money on research & development to develop new products & be ahead of competing firms

Disadvantages of being a multinational:

1. Multinationals move their factories to wherever it is profitable to produce

Example: higher taxes on profit in Malta than in Korea i.e. close the Maltese factory & open in Korea i.e. workers - little control over their jobs.

Govts want multinationals in their country when experiencing high unemployment – lower taxes on profits etc. - encourage multinationals to stay.

Govts compete with each other – allows such companies to force competing countries to give them more favourable treatment

2. Multinationals may switch their profits between countries

   Transfer profits - countries with high taxes to those with low taxes
   Avoid paying any taxes to their host nation – happens in less developed countries – lack the ability to collect taxes – poor tax service & legal framework

3. They may force competing firms out of business

   Unemployment rises: size & wealth allow them to force smaller firms to go bankrupt & shut down

4. Some multinationals may exploit workers

   Locate in countries where labour is cheap – pay workers far less than a worker in a developed country i.e. wage costs low

5. Some multinationals may interfere in the government of the country

   Use subversive & illegal activities – influence the govt to promote & protect their own interests