Sole Trader/Sole Proprietor

A sole trader is an individual who runs an unincorporated business on his/her own, without partners. The advantage of this type of company is the unity of control, as the owner and management are the same. The drawbacks of it include limited sources of finance being available and long hours of work being involved. E.g. your local hairdresser.

Partnership

A partnership is two or more people form a business and does not have a legal personality of its own, which means that partners are liable for the debts of the firm. Partnership is not incorporated and the partners do not have to be equal. Also, partners may be either active participants in the business, or “sleeping partners”, who provide capital, reputation, or guarantees while other partners do most of the work. Partnerships are usually governed by a partnership agreement. According to this agreement, partners share equally in the profits/losses; are not entitled to received salaries; are not entitled to interest on their own capital; may receive interest at 5% per annum on any advances over and above their agreed capital; a new partner may not be introduced unless all the existing partners consent; and on dissolution of the partnership the assets of the firm must be used to repay outside creditors, partners’ advances and partners’ capital.

The advantages of a partnership are additional skills of the leaders that might contribute to efficiency in decision-making and wisdom, more capital to the business as well as the possibilities for expansion – because there are more leaders to carry out this task and set up guidelines. The disadvantages are that profit is shared; control may be lost because of multiple ownership and unlimited liability, where every partner is responsible for each other’s mistakes. E.g. Law firms, Johnson & Wales University.

Private (Limited) Company

A private company is a limited liability company that has a restriction of the number of shareholders (i.e. it can only have a certain maximum amount of shareholders) and cannot be transferred or sold without an agreement with all of the directors; neither can it be listed

on the stock market or offered to the general public. It is free from the rules that apply to public limited companies. The advantages of a private company are control over the business, easily pursued objectives and limited liability.
The disadvantages are that the business is relatively small for it to be considered as “serious” or “secure” as other businesses, and that the share capital may not exceed over a certain value. E.g. Coca Cola

Public Limited Company

A public limited company is a company that can offer shares and securities to the public with limited liability. Such companies’ name always ends with a “PLC” and it must have an authorized share capital of a minimum amount. The regulation of these companies are stricter than that of private companies and most of these companies are converted from private companies, under the re-regulation procedure in the Companies Act. Advantages are that there are lower risks, and that these companies are listed which might portray them as more attractive. Disadvantages are that they cost more – higher costs and greater administrative costs, limited control and greater emphasis is put on short-term profit rather than long-term profit. E.g. Astra Zeneca.

Franchise

A franchise is a licence given to a manufacturer, distributor, trader or such to enable them to manufacture or sell a named product or service in a particular area for a stated period. This is the system by which independent firms are authorized to use a common business system, possibly including brand name, designs, patents, operating system and provision of equipment, training, capital or credit by the franchiser. The holders of franchisers are subject to supervision of their operations in order to maintain reputation of the franchised product. The advantages are low risks and brand name/trademark opportunities. Disadvantages on the other hand include that a certain percentage of profit has to be paid to the operating, main company. E.g. Burger King..

Two common organizational structures are Organic organizations and Matrix organizations.
Organic organizations are characterized by roles that are not well defined, tasks being

redefined as individuals interact; there is little reliance on authority, with control and decision-making decentralized, and communication is both lateral and vertical. This type of organization is appropriate if the external environment is uncertain. Matrix organizations have some employees who report to two (or more) managers in different departments. It is often used if two separate areas of the external environment demand management attention. The key issue evolves around consulting. In effect, this would involve the employees concerned in a multiple-authority structure rather than a simple chain of command. The similarities between these two organizational structures are that they are consultive, co-operative and open. They emphasize on people, are decentralized and encourage staff loyalty. Appropriate leadership styles may include:

Bureaucratic – to a certain extent, because there are cases in which some consultation is involved and where these leaders emphasize on their staff being happy with their jobs.

Democratic – decentralization, emphasizing on consultation and people as communication works in a two-way principle where leaders engage in discussion with workers before making final decisions.

Laissez-Faire – same as democratic, additionally a lot of team work and even more encouragement of staff loyalty.

As mentioned earlier, these organizational structures include a lot of consultation, in order to make employees feel a part of the company and make them feel that their contribution matters (i.e. increase of motivation). However, it is useful to note that even though these structures are consultive-based, one cannot underestimate the importance of obedience taking place. Even though leaders are not strictly authoritative, there are still cases of obedience – because what would make a person, a “leader”, if there was no obedience? What would be the difference among staff – subordinates and leaders? To understand why people tend to obey leaders, it is important to mention that the obedience that leaders put out (i.e. the exercised power) is a social process that helps to explain how different people can influence the behaviour/actions of others. There are five main sources; namely rewards power, coercive power, legitimate power, referent power and expert power.

● Reward power is based on the subordinate’s perception that the leader has the ability and resources to obtain rewards for those who comply with directives; for example, pay, promotion, praise, recognition, increased responsibilities, allocation and arrangement of work, granting of privileges.

● Coercive power is based on fear and the subordinate’s perception that the leader has the ability to punish or to bring about undesirable outcomes for those who do not comply with directives; for example, withholding pay rises, promotion or privileges; allocation of undesirable duties or responsibilities, withdrawal of friendship or support, formal reprimand or possibly dismissal.
This is in effect the opposite of reward power.

● Legitimate power is based on the subordinate’s perception that the leader has a right to

exercise influence because of the leader's role or position in the organization. Legitimate power is based on authority, for example that of managers and supervisors within the hierarchical structure of an organization. Legitimate power is therefore "position" power because it is based on the role of the leader in the organization, and not on the nature of the personal relationship with others.

● Referent power is based on the subordinate's identification with the leader. The leader exercises influence because of perceived attractiveness, personal characteristics, reputation or what is called "charisma". For example, a particular manager may not be in a position to reward or punish certain subordinates, but may still exercise power over the subordinates because the manager commands their respect or esteem.

● Expert power is based on the subordinate's perception of the leader as someone who is competent and who has some special knowledge or expertise in a given area. Expert power is based on credibility and clear evidence of knowledge of expertise; for example, the expert knowledge of "functional" specialists such as the personnel manager, management accountant or system analyst. The expert power is usually limited to narrow, well-defined areas or specialisms.

Theories of Leadership

Qualities or Traits Approach

The Qualities or Traits Approach assumes that leaders are born and not made, that is to say, that leadership consists of certain inherited characteristics (personality traits) which distinguish leaders from their followers. This theory emphasizes attention on the actual leader in the job and not on the job itself, and suggests that leadership cannot be created or promoted; neither can it be taught of learnt. Limitations to this approach include the subjectiveness of judging who is a "good" or "successful" leader. Also, the important question of whether leaders are born and not made makes a greater significance here. Even though there may be certain inborn qualities for a good leader, these natural talents need encouragement and development.

The Functional/Group Approach

This theory of leadership focuses attention not only on the personality of the leader or the

leader in the job, but in the functions of leadership. Leadership is always present in any group engaged in a task. This approach concentrates on the nature of the group, the followers or subordinates – it focuses on the content of leadership. This theory believes that the skills of leadership can be learnt, developed and perfected.

Path-Goal (Contingency) Theory

This model of leadership is based on the belief that individual's motivation is dependent upon expectations that increased effort to achieve an improved level of performance will be successful, and expectations that improved performance will be influential in obtaining positive rewards and avoiding negative outcomes. This is the "expectancy" theory of motivation. This theory suggests that the performance of subordinates is affected by the extent to which the manager satisfies their expectations.