Chapter 4: Type of business organization

Key terms

1. Sole trader: is a business owned by one person.
2. Unlimited liability: means that the liability of shareholders in a company is only limited to the amount they invested.
3. Unlimited liability: means that the owners of a business can be held responsible for the debts of the business they own. Their liability is not limited to the investment they made in the business.
4. Partnership: is a form of business in which two or more people agree to jointly own a business.
5. Partner agreement: is the written and legal agreement between business partners. It is not essential for partners to have such an agreement but it is always recommended.
6. Unincorporated business: is one that does not have a separate legal identity. Sole traders and partnerships are unincorporated businesses.
7. Incorporated business: are companies that have separate legal status from their owners.
8. Shareholders: are the owners of a limited company. They buy shares which represent part ownership of a company.
9. Annual general meeting: is a legal requirement for all companies. Shareholders may attend and vote on who they want to be on the Board of Directors for the coming year.
10. Dividends: are payment made to shareholders from the profits(after tax) of a company. They are the return to shareholders for investing in the company.
11. Franchise: is a business based upon the use of the brand names promotional logos and trading methods of an existing successful business, The franchisee buys the licence to operate this business from the franchisor.

1. Business organisation in private sector:

1. Sole trader

: Business owned by only one person.

Advantages	Disadvantages
1. A sole trader has few regulations. 2. Owner makes decisions easier without discussion with others. 3. There will be less conflict and faster in making decisions. 4. The owner gains all profits. 5. There will be close contacts to customers and employees. 6. There is a quick response to demand and increased morale of employees.	1. There is no discussion with partners. 2. It is unlimited liabilities. If the business fails the owner may lose money more than initially invested in the business. 3. It is difficult to find a source of finance. 4. If the owner pass away or unable to work, the business cannot be transferred to others.

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2. Partnerships

: A group of 2-20 people agree to run a business , they contribute money and share profit together.

Advantages	Disadvantages
1. Partnerships have more capital than a sole trader. 2. The responsibility can be shared between partners. 3. Partners have different skills which can be applied to the business.	1. It is unlimited liabilities. If the business fails, owners need to spend personal money to repay debt. 2. It is an unincorporated business. 3. It may have disagreement among partners and slow decision making. 4. It has limited finance.

3. **Private limited company**

: A group of 2-50 people agree to run a business, formed as a company. The company has a separate legal identity from owners.

Advantages	Disadvantages
1. Private limited companies have more capital from shareholders up to 50 persons) 2. It is limited liabilities.	1. Private limited companies cannot advertise and sell shares publicly in the stock market. (limit finance) 2. It needs to prepare financial statements which is costly. 3. Shares cannot be transferred and sold to anyone without any agreement of other shareholders. (Less liquidity)

4. **Public limited company** (*** not public sector or public corporation)

: A company can sell shares publicly in the stock market which has unlimited shareholders. The companies also have a separate legal identity from owners.

Advantages	Disadvantages
1. It is limited liability and incorporated business. 2. The company can raise more funds, by selling shares in the stock market. 3. There is no restriction on buying/selling/transferring shares. 4. The company will be more reliable and has a higher status. It can be easier to deal with banks and suppliers.	1. More regulations require the company to prepare financial statements and objectives. 2. It is difficult to control and manage the large size of public companies. 3. The original owners may lose control over the business. 4. Selling shares to the public is expensive since they need to pay for commission and advertising.

5. Joint ventures

: Two or more businesses agree to start a new project together.

Advantages	Disadvantages
1. Joint ventures can share cost. 2. Joining with local firms can make the business better understand the local customers. 3. Risks are shared.	1. Profit needs to be shared. 2. It can cause disagreement in decision making. 3. There might be some conflicts from differences in cultures.

6. Franchising

: A franchise is a type of license.

: Franchisee buys license / trademark of the business from franchisor.

Advantages and disadvantages of franchisor

Advantages	Disadvantages
1. The franchisor can expand business by selling license to franchisee. 2. Selling franchising can increase in customer based and revenue. 3. The franchisor can make profit from selling raw materials to franchisee.	1. The poor management of the franchisee can create a bad reputation. 2. It is difficult to control standards. 3. The franchisee may keep profit from the outlet.

Advantages and disadvantages of franchisee

Advantages	Disadvantages
1. It has lower chance of business failure as the franchisee sells the well-known product. 2. It is easier for the franchisee to borrow money from banks due to relatively low risk. 3. The franchisor pays advertising. 4. Franchisor provides training staff. 5. There are existing customers so the franchisee does not need to spend lots of time to build the target customers.	1. It has less independence since the franchisee needs to follow franchisor's instructions. 2. The franchisee cannot make decisions according to local market conditions. 3. License fee and profit need to be paid and shared.

2. Business organisation in public sector:

Public Corporation: a business organisation owned by the government which is designed to act in the public interest such as water supply, railway, and electricity.

Advantages	Disadvantages
1. Government directly provides essential goods such as water and electricity. 2. It can prevent private monopoly to supply goods at high price and low quantity. 3. Government may nationalise an important industry. 4. Government aims to maximise social welfare then products provided by government are low price and high quality.	1. It might be slowing down decision. 2. Due to the lack of competition and profit motive, it might cause inefficiency and low quality products. 3. It may have government corruption.