Types of Business Organization Cheat Sheet

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Different types of businesses

Why are there different types of businesses?	resources on their own cannot satisfy our N&W, they need to be organized
	decisions need to be made
Entrepreneur	a person who makes decisions on how to organized resources and owns a business

Types of firms

Public corporation or nationalized industries	owned by government and part of public sector
Co-operatives	either owned by shoppers or by workers
Private firms	owned by individuals and can vary in size

Co-operatives and private firms are part of the private sector.

Main types of private sector BOs in the UK

Private sector business organizations

Uncorporated business	don't have separate legal identity from their owners
	soletrader, partnership - unlimited liability
Incorporated business	limited company with its own legal identity, separate from the identity of shareholders/owners
	private limited company (Ltd), public limited company (PLC)
	the owners/shareholders have limited liability

Starting a business

****What should entrepreneur consider?**	how to finance and manage the new business, and how much risk he or she is willing to take

4 questions

Will I have enough money?	to start a business entrepreneur needs capital (financial assets)
	capital is fixed (capital goods - DM) or working (money used to pay running costs like wages, bills for electricity, telephones, purchasing material, etc.)
	soletraders have enough money on their own (savings, loan, etc.) but in partnership or limited company each person gives in a sum of money and the capital is sum of that money
Can I manage the bussines alone?	disadvantages - long working hours, not enough skills, etc.
	advantages - no sharing profit, easier decision-making, etc.

Do I want to share ownership of my business and any profits?

Am I prepared to risk everything I own?	different types of organizations involve different levels of risk, there is limited or unlimited liability

Starting a business (cont)

Owner's liability	financial responsibility of the owner for business failrs or debts
Unlimited liability	the owner of a business are legally responsible for the full mount of its debts
Limited liability	their legal responsibility to repay its debts is limited to the amount of capital they invest in the business

Sole trader

sole trader	a business organization owned and controlled by one person, he may employ other people to work in the business, but it will have only one owner
	most sole traders finance their business alone, they operate form home, modern technology is decreacing their costs and allows them to keep in touch with people
	banks are unwilling to lend money to them due to a high risk of failure, many close down during their first months or year of operation
	unlimited liability
	capital is owned by sole trader, small range of Gs&Ss produced, profit belongs to sole trader, makes decisions alone, personal attitude to customers
Advantages	Provides personal service for customers
	The sole trader is his own boss

Sole trader (cont)

	The sole trader receives all the profit
	It is easy to set up a sole trader business
Disadvantages	Unlimited liability
	The sole trader has full responsibility
	Sole trader lacks capital

Partnership

partnership	legal agreement between two or more people, usually no more than 20
	they run business jointly, share profits
the deed if partnership	a legal document where partnership is set up, it sets out the terms of the partnership (how much moeny each partner invested, what is their role, etc.)
Ordinary partnership	unlimited liabitly
Limited partnership	***some partners*** have limited liability while some are sleeping partners (a partner who invests money but is not involved in the day-to-day running of the firm)
Advantages	New skills and ideas to the business
	More partners mean more money for the business
	Partners can help in decision-making
Disadvantages	Partners may disagree
	Unlimited liability
	Lacks capital (is limited by 20 people)

Join stock company

Joint stock company	limited companies
	they sell shares to investors in order to raise capital
	they are incorporated (they have their own legal identity and can sue and own assets)
	partnership is divided into equal parts called shares
Board of directors	shareholders are allowed to choose BoD to run the company on a daily basis
	this is done by voting at shareholders' meeting (annual general meeting), the controlling interest is when over 50% of companies shares are bought by one person
Share	a piece of paper that states that the person who holds it has paid fot part of the company and now has a share in its ownership
	the value printed on the share (its face value) is the price at which the company first sold the share
	profit is paid to shareholders in form of dividends

Ltd - Private limited company

Ltd	only sell shares privately to investors known to the existing shareholders
	1 or more shareholders who own the business and receive profits
	shareholders cannot be sued
	limited liability
	shares are sold privately

Ltd - Private limited company (cont)

	publish annual accounts
Advantages	Limited liability
	No managment worries - dealt with by AGM
	Company has a separate legal identity - the name of the company can be sued but not owners
Disadvantages	Must disclose info about them to the general public
	Must hold an AGM
	Original owners may lose control (lose 51%)
	Profit is taxed twice by the government (profit is taxed and dividends are taxed as well)
	Can't sell shares on the Stock Exchange Market

Plc - Public limited company

Plc	minimum of 2 shareholders, who own the company and receive profits
	shares can be sold on Stock Exchange Market, public listing and issue of new shares for sale in a company is callef flotation
	going poublic means company obtains a full listing allowing it to be listed on the SEM as a business that is able to sell shares on the market
	shareholders cannot be sued
	limited liability
	publish annual accounts
	hold AGMs, directors run the company
Advantages	Can sell shares on the Stock Exchange Market
	Can advertise their shares

Plc - Public limited company (cont)

Disadvantages	Expensive to form - many legal documents, advertisement, etc.
	Original owners may lose control (lose 51%)
	May be a divorce of ownership form control (own the shares but do not control or vote)
	May face management problems - may be too large to manage

Co-operatives

Co-operatives	autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled interpirse
	cooperatives have ***members*** not shareholders
	main aim is to provide benefits for its owners (members) and each member has an equal share regardless of how much money they put in
Worker co-operatives	organizations owned by their workers (famring co-operatives)
	they pool money to buy equipment and share equally in decision making and any business profits

Co-operatives (cont)

Co-operative Development Agency - CDA	provides advice and financial assistance to help employees to buy the firm the woekd for - most WC are formed by taking over small manufacturing business that were facing closure
Advantages	popular - workers themselves are in charge and everyone has an equal say
	workers receive the profit they make - paid out as dividends; there are two was how to split the profit - workers get shares regardless of how much money they put it or they get according to how much they put in
Disadvantages	difficult to raise money
	have a tendency to be badly run due to lack of skills

Consumer co-operatives

Consumer co-operatives	retailing businesses run for the benefit of their consumers
	any profit made in retail co-operatives is given back to their consumers as dividens or by keeping low costs
Principles	modern co-operatives we owned by their members

Consumer co-operatives (cont)

anyone can become a member for as much as 1€
members elect a board of directors to run the co-operative
each member is allowed one vote regardless of the number of shares they hold
profits are shared among members
are managed by organization

Franchising

Franchising	arrangement in which the owner of a business system grants to and individual or a group of individuals the right to run a business selling a product or providing a service using the franchisor's business system
the franchisor	person who owns a business
the franchisee	individual or a group of people given the approval to run certain business from the franchisor using his methods
	they sell the same products (+-), use trademarks, expensive equipment, goods and services
	in return franchisee pays one-time fee or commission to franchisor and some share of revenue

Multinationals

Multinationals	firm is in more than one country, its HQs are in one country

Multinationals (cont)

	usually some of the largest firms (Coca-Cola, Nike, etc.)
Advantages for countries	they provide jobs
	bring business knowleadge, skills and technology
	may pay taxes that boost government funds
	bring money to the country by selling Gs&Ss
Disadvantages for a country	they move factories accornig to how profitable it is for them
	may force local competitors out of business
	move profit between countries to avoid paying taxes
	some may exploit their workers
	they may exploit natural resources and damage environment
	they may use their power to get generous subsidies and tax advantages from host countries
	some may interfere in the government of a country
Advantages of being a multinational	reach more consumers globally
	avoid trade barriers by strategic locations

Multinationals (cont)

minimize transport costs
minimize wage costs
raise significant amount of new capital
great economies of scale
lower chance of going bankrupt

Public corporation

Public corpo ration	controlled by government minister
	most are responsible for producing day-to-day running of industries owned and controlled by central government which sells Gs&Ss directly to the consumers
	each has a BoD responsible for day-to-day running
	separate legal identity apart from state
	financed by revenues from the sale of its services to consumers and by government grants
	Must disclose info about them to the general public
	do not have to make an overall profit
	may be allowed by central government to retain all or some profit to improve their services

Nationalization

Nationalization	transfer of an ownership of industry from private to public sector
Why were industries nationalized?	to control natural monopolies

Nationalization (cont)

for safety reasons (nuclear energy, etc.)
to protect employment
to maintain a public service

Privatization

Privatization	the sale of shares in government owned nationalized industried to the general public and private sector firms
Supporters	higher competition
	wider range of Gs&Ss
	sale of shares raises revenue for the government
	private individuals can ows shares and vote on how they should be run
Objectors	privatized industries still dominate the market and raise prices and cut services
	private sector will no protect public services
	most shares in privatized oganizations have been bought by large financial organizations such as bankc, insurance companies which are interested only in making big profits or storing money