

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 business 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 fails or debts

Unlimited liability the owner of a business are legally responsible for the full amount 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 from home, modern technology is decreasing 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 money each partner invested, what is their role, etc.)

Ordinary partnership unlimited liability

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)

Joint 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 for 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 management 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 called flotation

going public 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 enterprise

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 (farming co-operatives)

they pool money to buy equipment and share equally in decision making and any business profits

Co-operatives (cont)

Co-operative provides advice and financial assistance to help

Development employees to buy the firm the work for - most WC are

Agency - CDA 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 ways how to split the profit - workers get shares regardless of how much money they put in 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 dividends 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 an 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 knowledge, 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 according 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 corporation 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 industries 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 own 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 not protect public services

most shares in privatized organizations have been bought by large financial organizations such as banks, insurance companies which are interested only in making big profits or storing money

