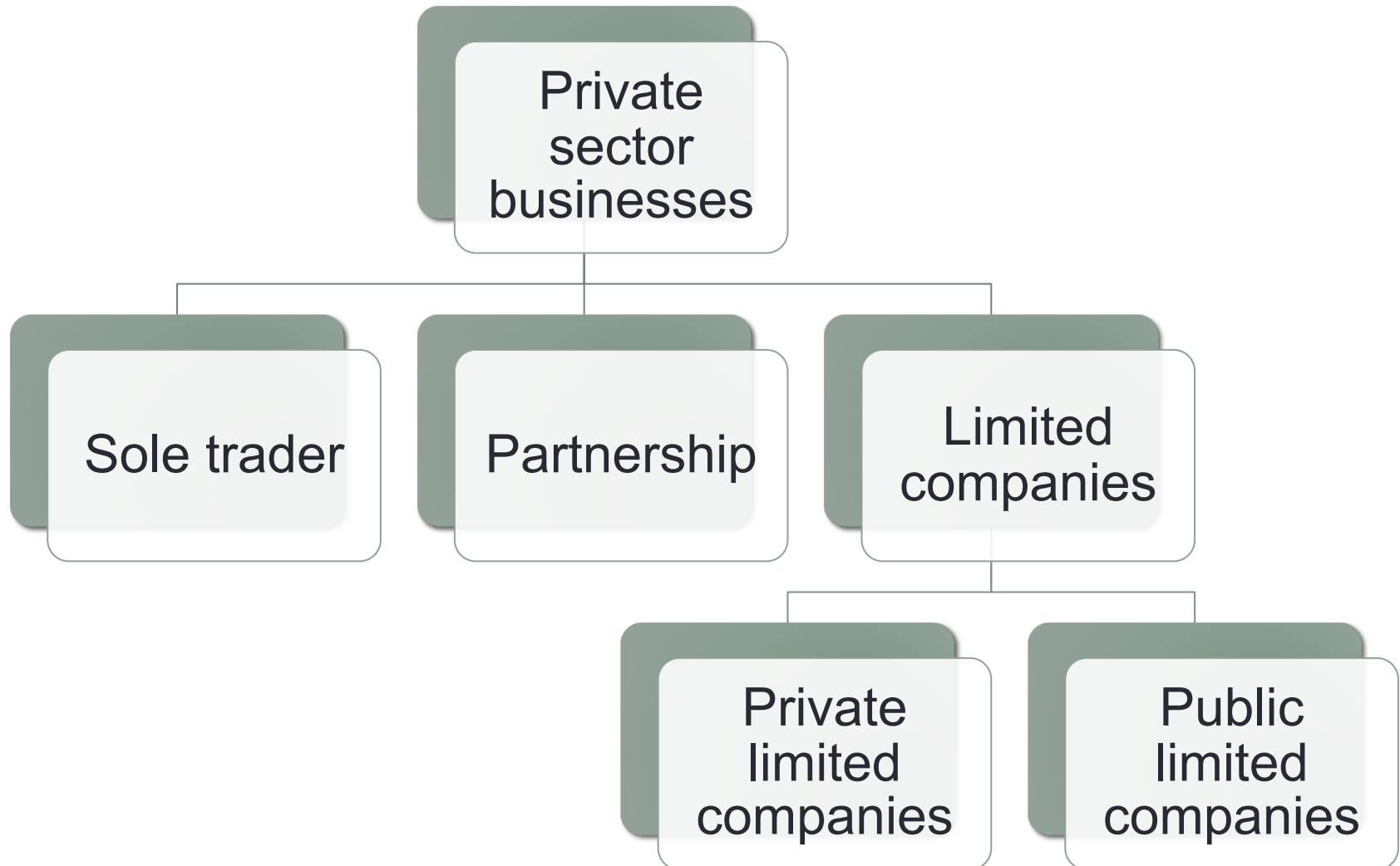


# Types of organisation

---

# Types of business organisation



# Unincorporated VS incorporated

Unincorporated businesses	Incorporated businesses
Does not have separate legal entity	Have separate legal entity
<b>Unlimited liability:</b> the owners might have to use their personal wealth to finance any business debts if it fails	<b>Limited liability:</b> The shareholders in a limited liability company which fails only risk losing the amount they have invested in the company and not any of their personal wealth

# Sole trader

- A sole trader is a business owned and managed by one person.
- Unincorporated business



# Sole trader

Draw up a table with the headings '**Advantages**' and '**Disadvantages**' of a sole trader. Place the following statements under the correct headings.

1. Easy to set up.
2. Keep all the profits.
3. Unlimited liability.
4. Own boss.
5. Keep all business/ financial details private.
6. Limited source of finance.
7. A lack of continuity.
8. Only have your skills to use.

Write a sentence for each statement explaining why you think it is an advantage or disadvantage for a sole trader.

# Sole trader

Advantages	Disadvantages
<b>Easy to set up</b> – there is no complicated paperwork to complete.	<b>Unlimited liability</b> – the owners might have to use their personal wealth to finance any business debts if it fails
<b>Keep all the profits</b> – as you are the sole owner, if the business is successful you could earn more.	<b>Limited source of finance</b> – you only have your own resources to draw upon.
<b>Own boss</b> – you make all the decisions and are not answerable to anyone.	<b>A lack of continuity</b> – the running of a business can be jeopardized if the owner is not present
<b>Keep all business/financial details private</b> – rivals cannot gain any information about your business.	<b>Only have own skills</b> – your skills could be limited and this could affect decisions for the business.

# Partnerships

- A partnership is a business owned and managed by two or more people.
- Ordinary partnership: 2-20 people
- At least one has unlimited liability
- Deed of partnership (partnership deed): a legal contract



# Partnerships

Draw up a table with the headings '**Advantages**' and '**Disadvantages**' of a partnership. Place the following statements under the correct headings.

1. Unlimited liability.
2. Partners have to share decision-making.
3. Keep all business/ financial details private.
4. Can be difficult to raise finance.
5. More owners allow more finance to be put into the business.
6. Partners can specialise in certain areas of the business.
7. Partners share the profit.

Write a sentence for each statement explaining why you think it is an advantage or disadvantage for a partnership.



# Partnerships

Advantages	Disadvantages
<b>Keep all business/financial details private</b> – rivals cannot gain any information about the business.	<b>Partners have to share decision-making</b> – conflicts are possible, which could delay/affect the decisions made.
More owners so <b>more finance</b> can be put into business – more money is available to grow/ support the business.	<b>Difficult to raise finance</b> – partners only have their own resources to draw upon.
Partners can specialise in certain areas of the business – <b>specialisation</b> leads to better decision-making.	<b>Unlimited liability</b> – the owners might have to use their personal wealth to finance any business debts if it fails
	<b>Partners share profit</b> – a small amount might be given to each partner.

# Sole trader & partnerships

Using your answers to the previous two activities, try to identify the main similarities and differences between sole traders and partnerships.

- What features do they both share?
- What are the main areas where they are different?

# Limited companies

## Features

1. Owned by shareholders
2. Profit is distributed to shareholders through dividends
3. Capital is raised by selling shares
4. Incorporated/limited liability business
5. Board of directors (BOD) → accountable to shareholders
6. Annual General Meeting (AGM) is a must.

# Public limited company VS private limited company

	Private limited company	Public limited company
Owners	Relative small number of shareholders, often member of the same family or friends	Usually a very large number of shareholders
Sale of shares by the company	Can only be sold privately, often to family members, friends or employees	Can be offered for sale to the general public
Sale of shares by shareholders	Often difficult to sell as must be sold privately and with the agreement of other shareholders	Quick and easy to sell as they can be offered for sale to the public
Control	Ownership is not separated from control.	Ownership and control are separated.

# Private limited company VS Public limited company

Advantages	Disadvantages
Maintain overall <b>control</b> – invulnerable to unwanted takeover	Limits the <b>finance</b> as shares cannot be sold to the general public
<b>Cost of flotation</b> (advertisement, prospectuses, auditors and accountants)	Shares can only be transferred privately and all shareholders must agree on the sale/transfer

# Activity

**For each of the following situations, select a suitable type of business organization. Give reasons for the choices that you make.**

- 1** Gino wants to set up a delivery business. He wants to be in charge of all decisions.
- 2** Fatima works in an office. She has always wanted to open a bookshop. She is happy to work with others, but she would like some independence about how the business works.
- 3** Tim owns a small but successful plumbing and heating business. He has been trading for six years. He is keen to expand, but needs new sources of finance if he is to grow. He doesn't want unlimited liability.
- 4** A well-established private limited business needs funds to build a new high-tech factory.

# Group work

Pick the best-fit type of organization for your business.

