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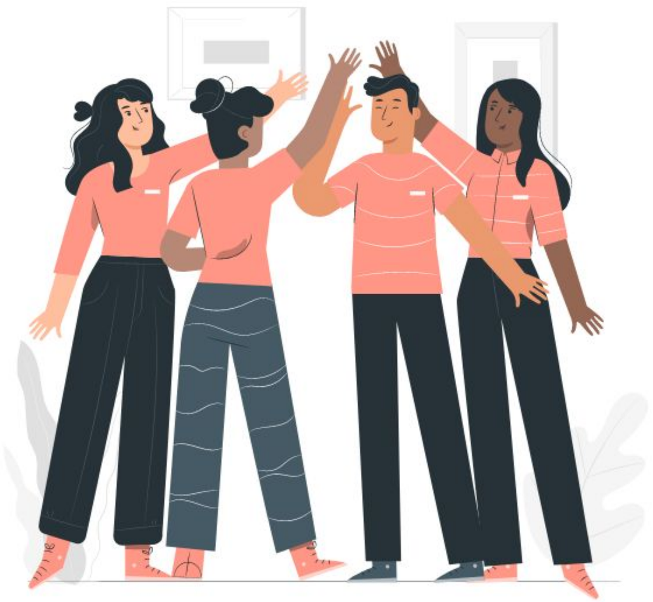
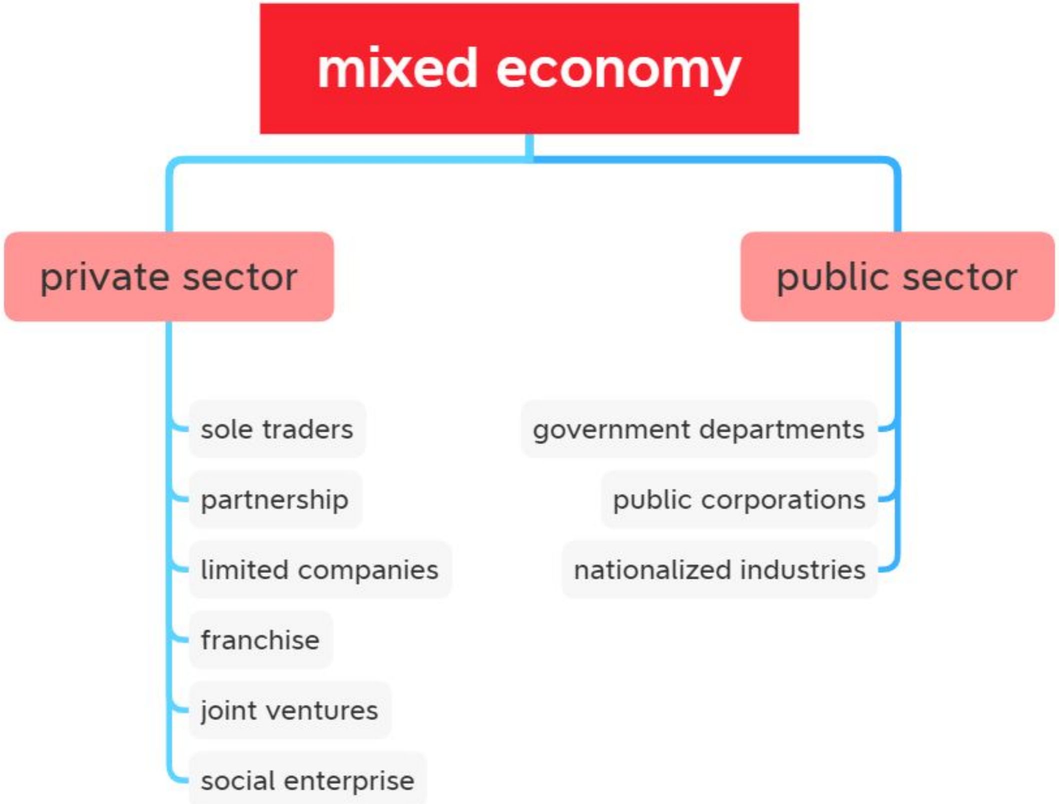


Chapter 4
Types of business organizatons

Classification of business (by ownership)



- Private sector - the part of the economy that is owned and controlled by individuals and companies for profit.
- Public sector - the part of the economy that is controlled by the state or government.
- Mixed economy - an economy where the resource are owned and controlled by both the private and the public sectors.

LIMITED AND UNLIMITED LIABILITY

LIMITED LIABILITY

Limited liability means the business owners' **liability** for debts is restricted to the amount they put into the business.

Private limited company

- Usually small businesses
- Small number of shareholders
- Can only be sold privately
- Often difficult to raise finance (low value collateral - барьцаа)

Public limited company

- Usually large businesses
- Large number of shareholders
- Can be sold publicly
- Can raise large amount of finance

- Legal documents
- Shareholders
- Business continues even if one or more shareholders die.

UNLIMITED LIABILITY (UNINCORPORATED BUSINESS)

With **unlimited liability**, the business owner is personally responsible for any loss the business makes.

Sole trader and partnership

SOLE TRADER

A business that is owned and controlled by just one person who takes all the risks and receives all of the profits.

- ★ Easy to set-up
- ★ Makes all the decisions
- ★ Has complete control
- ★ Keeps the profit
- Unlimited liability
- May not be able to raise funds
- May have to work for long hours
- Difficult to compete with larger rivals firms
- May not have business skills to run a business

PARTNERSHIP

A business formed by two or more people who will usually share responsibility for the day to day running of the business

- ★ Easy to set-up
- ★ Greater access of funds
- ★ Shared decision making
- ★ Shared management and workload
- Share the profits
- Unlimited liability
- Business ceases to exist if one partner leaves
- Decision binding on all partners
- Difficult to raise additional finance.

FRANCHISE AND JOINT VENTURES

FRANCHISE

A business system where entrepreneurs buy the rights to use the name, logo and products of an existing business

★ Less risk of failure
★ Franchisor often gives advice and training
★ Franchisor finances the promotion

- Initial cost can be expensive
- Franchisor will take a percentage of revenue or profit made by franchisee each year
- There are very strict controls

JOINT VENTURES

Two or more businesses agree to work together on a project and set up a separate business for this purpose.

★ It reduces risk for each business and cuts cost
★ Each business brings different expertise to the joint venture
★ Market and product knowledge can be shared to the benefit of the businesses in the joint venture

- Any mistake can damage the reputation of all firms i the joint venture
- The business may have different business cultures or styles of leadership, decision making difficult