1.2 Types of business entities

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Distinction between the private and the public sector

Private and public sector

Private sector (the customer have to pay the money for product)
- Organization owned and controlled by private individual and business (own by private individual)
- Main aim - to make profit

Public sector(the customer do not have to pay the money for product)
- Organizations owned and controlled by the government
- Main aim - to provide essential goods and services.

Type of organization

Private sector: sole trader/partnership/company

Profit - based organizations
- Revenue generating business with the objectives that making profits
  - Make profit / reward owners with profit from business / return profit to business for growth.

Sole trader
- Single owner - full control/Profit does one
- Easily set up

- **Unlimited liability - all personal assets pay for business debt**
- Non - inheritable - lack of continuity
- Workloads
- Lack of financial / skills access
- Limited economic scale
- Less fixed time

Unlimited liability = the owner is personally liable/responsible for the debt of the business ie if the business goes bankrupt, the owner may have to sell their personal assets(car, houses etc) to pay the debt owned.

Sole trader and partnership is same legal entity

Economic scales: as a business grow larger, its average/unit costs decrease

Partnership
- 2 or more owner(different country have different limited people)
- share resource
- Fixed time (workload)

- Unlimited liability (at least one person have to be unlimited liability)
- Prolong decision making
- Conflicts
- lack of continuity - Non inheritable

Limited liability companies Company
- Public (PLC)
  - Sell share to IPO
- private (LTD)
  - Share cannot be traded publicly on the stock exchange, sell share with all the shareholder agree to sell
- Both
  - Share are sold
  - Limited liability
  - Good organized

More shareholder, less control of company

- Advantage of limited company
  - Big finance access
  - Limited liability
  - Continuity
  - Economies of scale
  - Productivity
  - Tax benefit ?
- Disadvantage of limited company
  - Communication problem
  - Complexities - mistakes
  - Compliance costs (high tax)
  - Disclosure of information (information shared)
  - Bureaucracy (官僚制度) business hierarchy
  - Loss of control

Limited liability: only lose your investment (no more)
- The owners/shareholders can only lose what they invest in the company i.e.. Their personal assets cannot be sold to pay company debt.
- This is because the shareholders have less control. So it's not fair

Company is separate legal entity

Want to control the company - keep 50%+ shares as taking advantage when decision making

Eg: hybe收购sm by buying share from shareholders

CEO - chief executive office
COO - chiefs operations office
CFO - chief financial office

The main features of the following types of for-profit social enterprise

For - profit social enterprise
- revenue generating enterprises but with social motive (social benefits)

Aim - make profit, use profit benefit society

Private sector for - profit social enterprises

Similar way to traditional profit business
- aim to make surplus(profit) instead of donation
- Produce goods and service (can compete with other business)
- Use triple bottom line (profit, people, planet) as an accounting framework for ethical business practices.

Sole trader (Private)
Partnership (private)
Company (private)
For profit social enterprise (private, and public)
Non - for profit social enterprise (NGO)(private, but provide service/good to society)

Public sector for - profit social enterprises
- Operate in a commercial way
- Help to raise government revenue to provide essential service to society

Cooperative - similar to club
- Owned by members
- Aim to create value for member by operating in a socially responsible way
- All employees have a vote to contributing to decision
- Any profits earned are shared between their members.

Eg: costco: need to be member to purchase

Advantages:
- incentive to work
- Decision - making power
- Social benefit
- Public support

Disadvantage
- Disincentive effects
- Limited source of finance

PPP - private public partnership

- Public support

Disadvantage
- Disincentive effects
- Limited source of finance
- Slower decision making
- Limited promotional opportunities

The main features of the following types of non-profit social enterprises:

NGO eg: UNICEF provide needs …to children

NGOs
- private sector
- provide goods and / or services normally expected from the public sector (these goods / services may be underprovided by government)

PPP - private public partnership
- Government collaborate with private business in order to have money to process the project