

EBU5402 Enterprise Management

Lecture 3 - The Structure of Firms and Internal Environment

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Agenda

- ▶ Structure of Firms
 - ▶ Sole Trader
 - ▶ Partnership
 - ▶ Limited Company
- ▶ Internal Environment
 - ▶ Management/Organisational Structures
 - ▶ Internal functions
 - ▶ Marketing
 - ▶ Operations Management
 - ▶ Finance & Accounting
 - ▶ Human Resource Management (HRM)
 - ▶ Research and Development (R&D)

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Warming-up...

- ▶ Pick an organisation and make a note of it
- ▶ As we go through the lecture, think about how it relates to your chosen organisation



Structure of firms

- ▶ Organisations exist to add **value** to **inputs** and **create outputs** that consumers will purchase
- ▶ There are many different types of products, services and consumers
- ▶ Therefore, **different types** of organisations exist to fulfil customers requirements, deal with differences in supply etc



Classifications

There are four main ways of classification for organisations:

- ▶ Size
- ▶ Ownership
- ▶ Legal form
- ▶ Industry sector

Focus of this lecture



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What type?

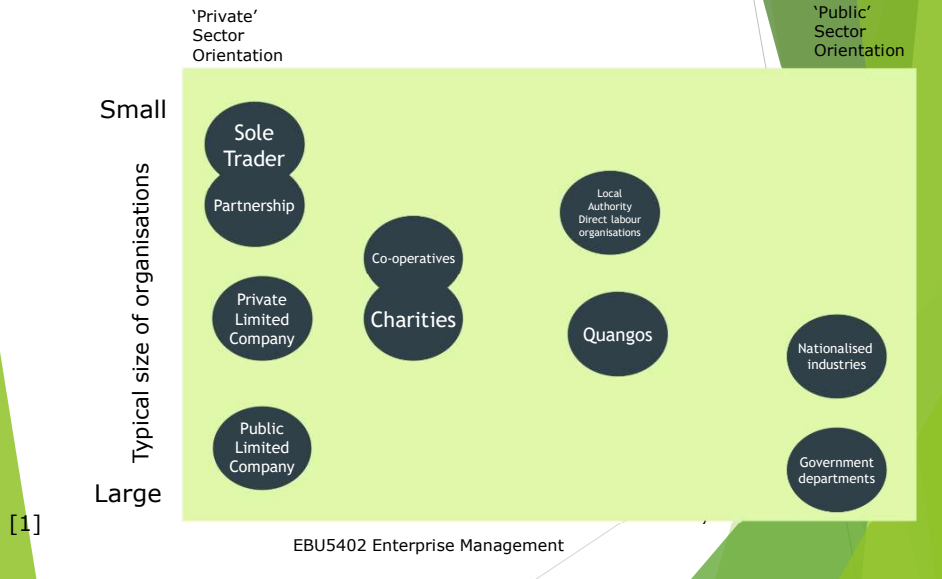
No right structures, only appropriate ones...



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Structure of firms - legal forms



Structure of firms - Sole Trader

- ▶ Most **basic form** of organisation
- ▶ **Not a legal form** of organisation - the individual and the organisation are indistinguishable
- ▶ Individual is responsible **financially** and **legally** for any debts, outstanding unfulfilled contracts etc.
- ▶ Liability for the above is **unlimited**
 - ▶ If the business owes money and there is insufficient money in the business itself, then the private individual is liable
- ▶ Very easy to **establish**
- ▶ Difficult to know how many organisations exist; in the UK, VAT (**Value-Added Tax**) returns are used to measure the number



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Structure of firms - Sole Trader

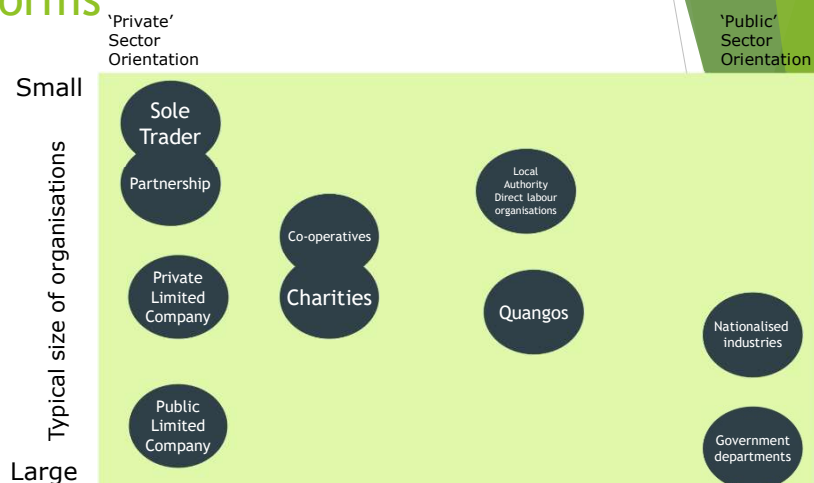
- ▶ No obligation to file **annual accounts**
- ▶ Sole trader can have **employees** (despite the name)
- ▶ Many **fail** after a short time due to their lack of management expertise and access to financial resources
- ▶ **Examples** - hairdressers, newsagents, window cleaners



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Structure of firms - legal forms



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Structure of firms

- Partnerships

- ▶ **Two or more people** combine resources and form a **partnership**
- ▶ In the UK, The Partnership Act 1890 **defines** a partnership as
 - ▶ “the relation which subsists between persons carrying on a business with a view to profit”
- ▶ **Contract** exists between the two parties, terms include:
 - ▶ The amount of **capital** subscribed by each partner
 - ▶ How **profits** will be determined and allocated between partners
 - ▶ Salary allocation for the partners
 - ▶ Procedure for **dissolving** the partnership



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Structure of firms

- Partnerships

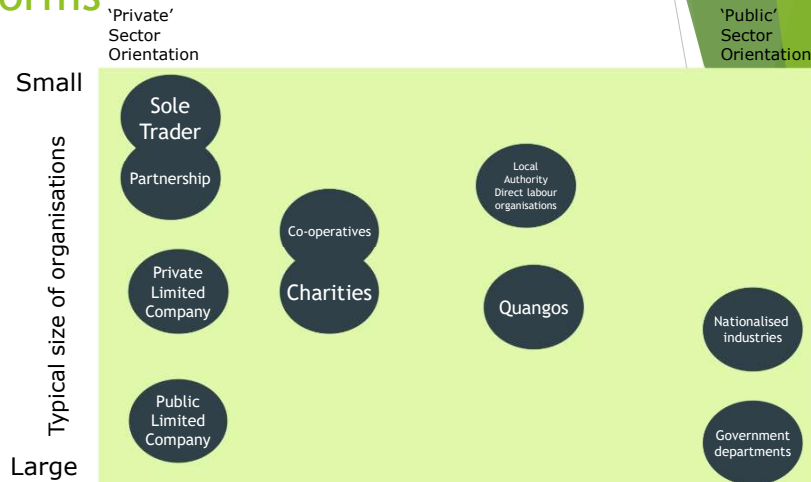
- ▶ **Prior to 2000**, partnerships did not have a legal entity and therefore each partner had **unlimited** liability (as with the sole trader)
- ▶ New act in 2000 - **Limited Liability Partnerships Act**
 - ▶ Allows **limited liability** to partnerships in specific circumstances
 - ▶ Examples - solicitors, accountants etc.



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Structure of firms - legal forms



Structure of firms - Limited companies

- ▶ **Limited** in this instance meaning that the owners **no longer** have **unlimited** liability for the debts of their companies
- ▶ This is covered in the UK by the **Companies Act 1985**
- ▶ In the **US**, these are known as **incorporated** companies



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Structure of firms

- Limited companies

- ▶ Creating the limited company in the UK

Two legal documents required:

- ▶ **Memorandum of Association**

- ▶ **Name** of the company - must end in Limited (for the UK)
- ▶ A statement regarding the **limited liability** of the owners, including whether they would be responsible for any outstanding debts if the company was wound up
- ▶ **Objects** clause - “this specifies the scope within which the company can exercise its separate legal personality” *Palmer*
- ▶ Regulates the company’s association with the outside world



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Structure of firms

- Limited companies

- ▶ **Articles of Association**

- ▶ Regulates the **internal** administration of the company
- ▶ This includes elements such as
 - ▶ Issue and transfer of **shares**
 - ▶ Rights of **shareholders**
 - ▶ **Meetings** of members
 - ▶ Appointment of **directors**
 - ▶ Procedures for producing and auditing **accounts**



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Structure of firms - Limited companies

► Other aspects of limited companies

► Company administration

- All companies have **directors** who are selected by the shareholders to run the company
- All companies must have a **secretary** who is responsible for specific tasks including filing reports and accounts with the Register of Companies

► Shareholders

- Own the company, therefore can exercise control over it



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Structure of firms - Limited companies

► Company reports and accounts

- The **annual report** has to be produced
- All companies that have a share capital must make a **return** to the Register of Companies
- This includes an audited **Balance Sheet** and **Profit and Loss account** that gives a true representation of the transactions for that year



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Structure of firms - Limited companies

► Liquidation and receivership

- **Liquidation** - "termination of a business operation by using its assets to discharge its liabilities" [2]
- **Receivership** - "a court action that places property under the control of a receiver during litigation so that it can be preserved for the benefit of all"

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- the state of property that is in the hands of a receiver; "the business is in receivership" [3]



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Structure of firms - Public Limited Companies (PLC)

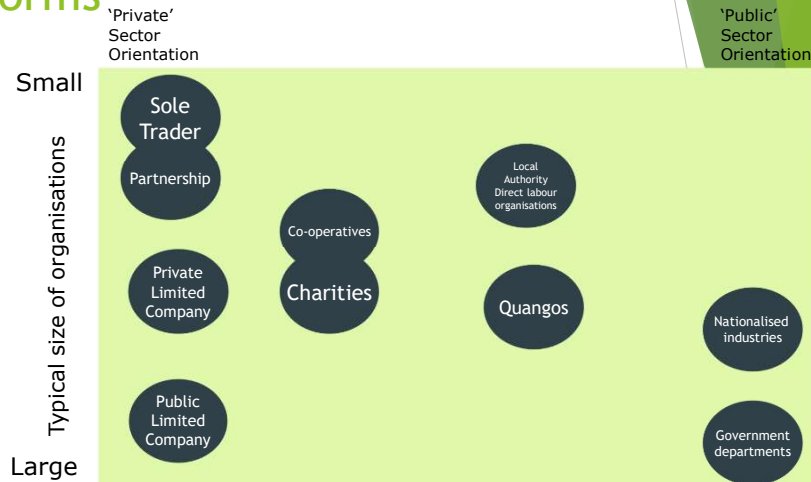
- Must have a **minimum share capital** of £50,000, compared to £100 of a private limited company
- Must have a minimum of **two directors**
- A PLC can offer its shares and debentures to the public



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Structure of firms - legal forms



Commercial and quasi-commercial organisations operating in the public sector

- ▶ State owned enterprises:
 - ▶ Often referred to as **nationalised** industries
 - ▶ Most countries have a state-owned industry sector
 - ▶ In the UK, the majority have been **privatised**
 - ▶ e.g. telecommunications, public utility providers such as power, water, train services etc.



Structure of firms - other types of organisation

► Co-operative societies

- Date back to the 19th century in the UK
- Aim was to provide cheap food to their members and to share any profits
- Can be **producer** based or **retail** based
- Largest in the UK - The Co-operative Group
- History can be found at - <http://www.co-operative.coop/corporate/>
- Areas include food (largest sector), insurance and banking - **The Co-operative Bank** (which will be covered in Topic 11- Corporate Responsibility)

The **co-operative**

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Structure of firms - other types of organisation

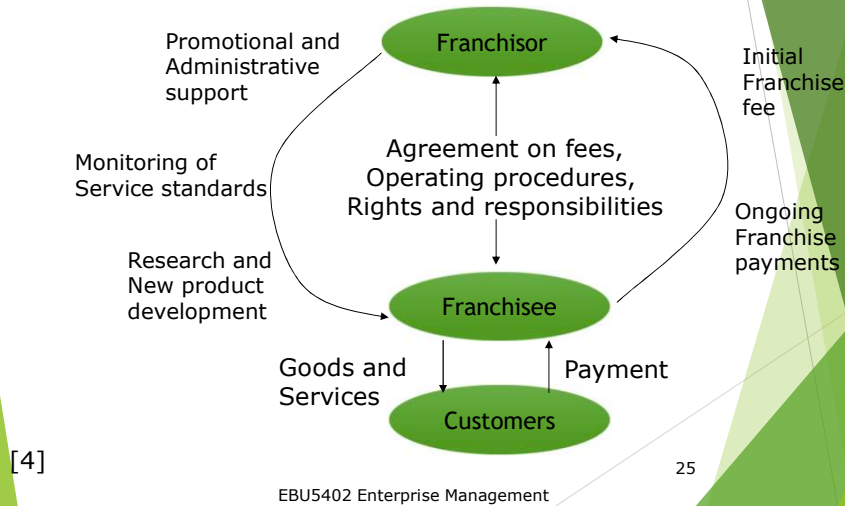
- Charities and voluntary organisations
 - In the UK, charities are registered with the Registrar of Charities
 - Main purpose is to
 - provide charitable **support** for various groups in society (e.g. Red Cross, Oxfam) or to
 - invest in **research** e.g. Cancer Research or British Heart Foundation
 - However, the **organisation** of these charities can be complex due to their **dual roles** of both raising money and distributing aid/funding
 - Employees often work as **volunteers** and do not receive any financial reward

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Structure of firms - franchise organisations



Structure of firms - franchise organisations

- **Franchisor** - owns the franchise brand name, usually a public or private limited company
- **Franchisee** - buys the right to use the franchise from the franchiser (more likely to be a sole trader)
- **Examples** include - Domino's Pizza, Bodyshop



Discussion question

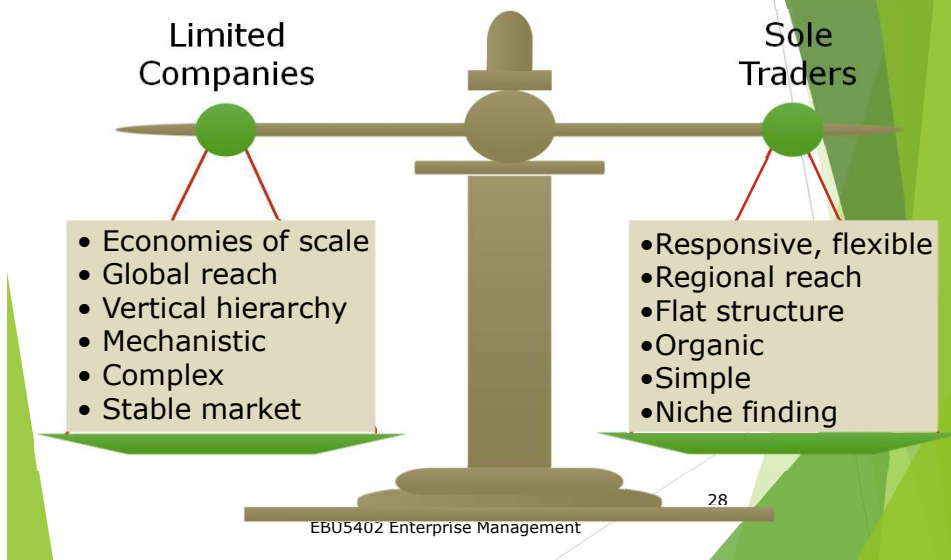
- ▶ “What type of organisation has won out in the battle to exploit the capabilities of the Internet?”
 - ▶ Sole trader?
 - ▶ Limited companies?



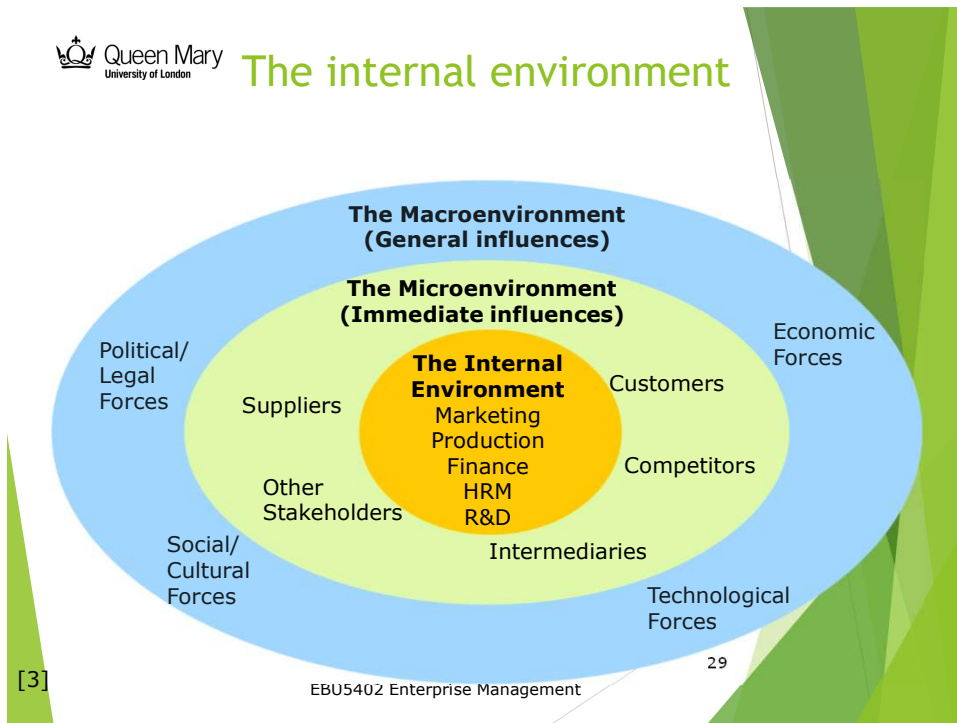
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The Facts



The internal environment



Internal environment

- The relationship between the **external** environment (covered in topic 1) and the **internal** environment is key to the way an organisation functions
- Management within organisations needs to be aware of the **implications of changes** in their **external** environment and how these can be **utilised internally**, based on the resources they have available to them



Organisation structures

- ▶ Worthington [5] states that, whichever organisational structure is chosen, the following should be achieved:
 - ▶ Achieve **efficiency** in the utilisation of resources
 - ▶ Provide opportunities for **monitoring** organisational performance
 - ▶ Ensure the **accountability** of individuals
 - ▶ Guarantee **co-ordination** between the different parts of the enterprise



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Organisation structures (2)

- ▶ Provide an efficient and effective means of organisational **communication**
- ▶ Create **job satisfaction**, including opportunities for progression
- ▶ **Adapt** to changing circumstances brought about by internal or external developments



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Organisation charts and organisational structures

- ▶ An organisation chart
 - ▶ “defines the **formal pattern** of role relationships and the **interactions** between roles and individuals occupying those roles” [6]

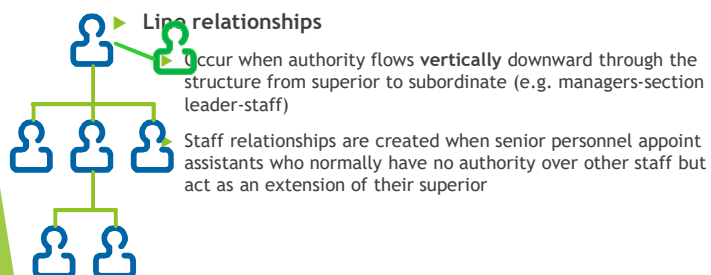


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Organisation charts and organisational structures

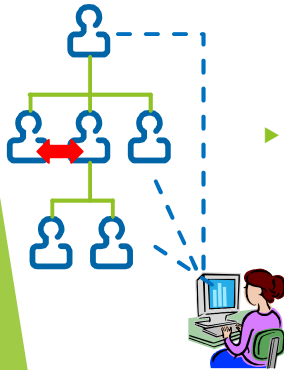
- ▶ Worthington [7] classifies individual authority relationships into the following categories:



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Organisation charts and organisational structures



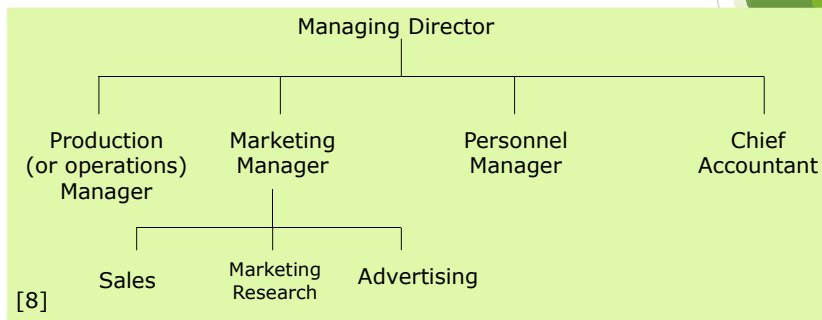
- **Functional relationships** are those between specialists (or advisors) and line managers and their subordinates (e.g. when a specialist provides a common service throughout the organisation but has no authority over the users of the service). E.g.. Personnel or IT
- **Lateral relationships** exist across the organisations, particularly between individuals occupying equivalent positions within different departments or sections (e.g. committees, heads of departments, section leaders)

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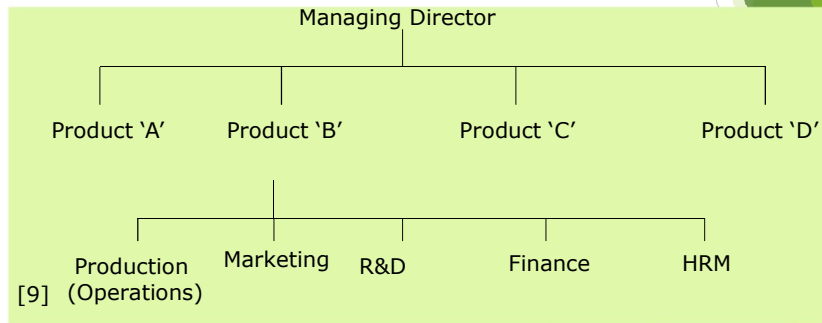
Organisation charts and organisational structures

- Grouping by organisational activities
 - **Functional** organisation - focused around the **functional** activities



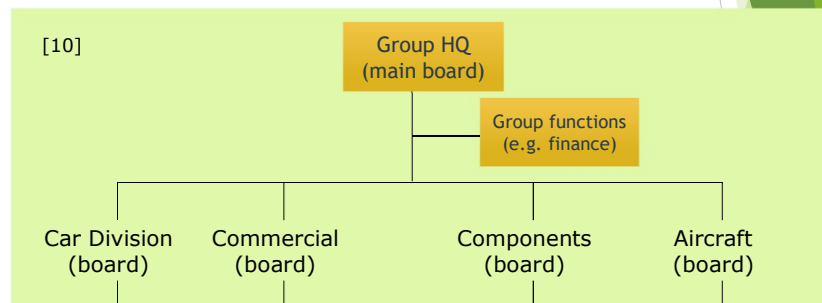
Organisation charts and organisational structures

- By **product or service** - certain groups and individuals are responsible for certain product lines



Organisation charts and organisational structures

- ▶ **Divisional** structure - an organisation is split into **individual divisions** that are self-contained
- ▶ Possibly each division containing its own functional areas



Internal environment - functions

- ▶ “The **functional areas** of finance, operations management, HRM etc. and the **individuals** who are allocated to them, are central to the process of **transforming** organisational **inputs** into **output**.”

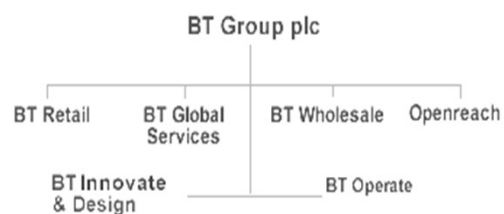
The **management** of these functions and of the **relationships** between them will be a key factor in the **success** of the enterprise and in its ability to **respond** to external demands for change” [11]



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Company structure of BT



Source: <http://www.btplc.com/Thegroup/Ourcompany/Companyprofile/index.htm>

What can you see from this structure?



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Internal environment - marketing

- ▶ Definition:
 - ▶ “Social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others” [12]
- ▶ Covered in the Marketing topic



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Internal environment - operations management

- ▶ Definition
 - ▶ “Operations is concerned with the transformation of a variety of **inputs** such as information, people, materials, finance and methods into a variety of **outputs** such as goods, services, profit, customer and employee satisfaction” [13]
- ▶ Covered in the Operations Management topic



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Internal environment - finance & accounting

- ▶ Raising, controlling management and reporting of all financial aspects of an organisation
- ▶ Split into 3 key areas
 - ▶ Financial management
 - ▶ Management accounting
 - ▶ Financial reporting
 - ▶ (note implication - is mainly for larger companies, Private and public limited companies)
- ▶ Covered in the Financial Management topic



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Internal environment - human resource management (HRM)

- ▶ Definition
 - ▶ “Human Resource Management involves all management decisions and actions that affect the nature of the relationship between the organisation and its employees - its human resources” Beer et al. 1984 [14]
- ▶ More in the Human Resource Management (HRM) topic



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Internal environment - research and development (R&D)

► Definition:

- “is the name given to the organisational function that is usually the focus for **innovation** within a firm. R&D can refer to an **activity** or the name of a specific **department**. Expenditure on R&D and the size of an R&D department have been used as measures of levels of innovative activity” [15]

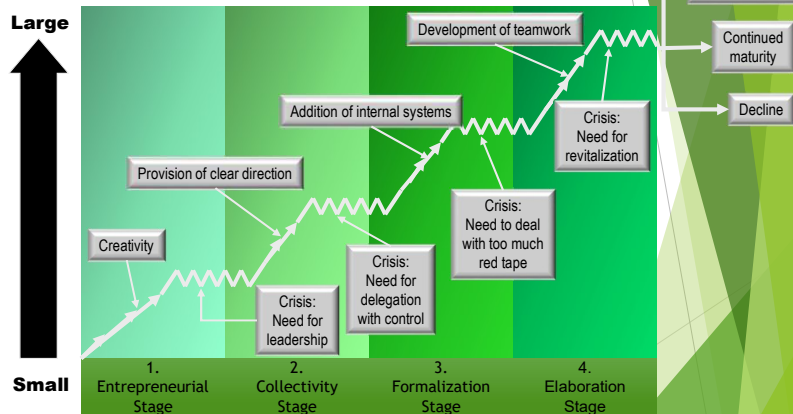
- Covered in more detail in next semester’s module - EBU6606



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Organisational Life Cycle



Sources: Adapted from Robert E. Quinn and Kim Cameron, "Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence," *Management Science* 29 (1983): 33-51; and Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50 (July-August 1972): 37-46.

In-class Exercises



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Question 1: International companies

- ▶ Look at how companies are formed and regulated in other countries or regions. For example, find out the legal forms for BT's subsidiaries in the following countries (p271, *BT Annual Report 2018*):

- ▶ Germany
- ▶ U.S.
- ▶ Singapore
- ▶ European Union



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Question 2

Consider your chosen organisation for group coursework:

- ▶ What sort of company is it (Private Limited Company, PLC etc.)?
- ▶ How did the company start - sole trader, partnership etc.?
- ▶ What are the key functional areas of this organisation?
- ▶ What organisational structure (product, divisional etc.) does this company use?
- ▶ What do you think are the advantages of having this structure given the type of organisation, its products, external environment etc.?

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Summary

- ▶ Structure of Firms
- ▶ Internal environment
 - ▶ Management Approaches
 - ▶ Internal structures
 - ▶ Functional areas

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Key terms

- ▶ **Sole trader** - “a business, the identity of which is indistinguishable from that of its owner” *Palmer*
- ▶ **Limited Company** - “an organisation that has a separate legal personality from that of its owners” *Palmer*
- ▶ **Public Limited Company (PLC)** - “a company owned by its shareholding members, which has to satisfy additional criteria regarding capital, membership and reporting, compared with an ordinary limited company” *Palmer*

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References

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12. Kotler, P, Armstrong, G, Saunders, J, Wong, V, Principles of Marketing, Prentice Hall, Third European Edition, 2002, pg. 5
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16. Sources: Adapted from Robert E. Quinn and Kim Cameron, “Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence,” *Management Science* 29 (1983): 33-51; and Larry E. Greiner, “Evolution and Revolution as Organizations Grow,” *Harvard Business Review* 50 (July-August 1972): 37-46.

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