

1.2 Types of business entities

The big picture

You may be thinking about your options after you finish secondary school. One option might be to study at university. You will need to decide on your course and where you want to study. You might also need to decide whether to attend a public or a private university.

Most countries have both public and private universities. Public universities are often owned by governments and may provide courses with lower tuition fees than private universities. In some countries, such as Germany, Norway and Sweden, tuition fees at public universities are very low, even to international students who qualify for entry. In China, tens of millions of students receive free education, many of whom attend long-established public universities such as Tsinghua University and Nanjing University. In the United States, many public universities are owned by individual states. Examples of these are the University of California at Berkeley and the University of Virginia. These universities often have programs adapted to the needs of the state where they are located and charge lower fees to state residents.



Figure 1. Most countries have both public and private universities.

Credit: Hispanolistic, Getty Images

In the UK, public universities are independent. They are not owned by the government but they do receive some government funding. The rest of their income comes mainly from tuition fees. Examples of public universities include the London School of Economics and the University of St Andrews. The UK has a few private universities, which receive all of their income from tuition fees.

In recent times, the number of private universities has grown in most countries. This has been the case even in countries like China, where the state plays a large role in managing the economy. Most students in India, Malaysia, Japan, South Korea, Indonesia and the Philippines attend private universities. Many of these private universities are non-profit organisations, such as New York University which has campuses in New York, Shanghai and Abu Dhabi. In a non-profit organisation, any money left over after costs have been deducted needs to be reinvested into the institution. Non-profit organisations are also allowed to receive donations, which fund endowments worth billions of dollars. These funds are available to finance world-class facilities and exceptional professors.

Some private universities are for-profit organisations. Unlike non-profit organisations, these universities do not reinvest money back into the university. Instead, the leftover money is distributed among shareholders. While this makes it attractive for private investors to set up institutions (the growth of these types of businesses has been enormous in recent years), the profit objective may change the way the education institution operates and how it produces and distributes value in the organisation.

In this subtopic, you will explore the different types of business organisations and how their legal status is related to their objectives and operations. This is an exciting area of business management, because of the new ways in which markets, the state and society are working together to serve human needs.

Activity

Learner profile: Inquirers

Approaches to learning: Research skills (information literacy)

This subtopic looks at different types of businesses and their characteristics. To help you keep track of all the information, set up a mind map with 'Business entities' in the centre.

As you read, add information to your mind map, organising the different types of businesses on the map in a way that makes sense to you. It is especially easy to develop and edit a mind map with digital tools such as Miro (<https://miro.com/mind-map/>), MindMeister (<https://www.mindmeister.com/>) or Coggle (<https://coggle.it/?r=mms&dpm=39489>), or any other that you are familiar with.

International Mindedness

Regulations and cultures in different countries may affect the legal structure that businesses choose. In some countries, certain types of businesses are more commonly established as public organisations, whereas in other countries they might be established as private organisations, as we have seen with universities.

Concept

Creativity and ethics

Creativity in businesses plays an important role in developing new and innovative ideas, and in formulating these ideas into products that people want. Private sector businesses face competition and public sector organisations are accountable to society; both must offer value to succeed.

Business ethics should be an underlying feature for private and public sector businesses. Ethics is the moral conduct of businesses to do the right thing. Some ethical behaviour is coded in laws and regulations. But much ethical behaviour is grounded by the mutual responsibilities that develop between networks of stakeholders – like employees, customers, shareholders and suppliers – when organisations are established. An ethical organisation considers and cares for those in its sphere of influence. Aside from being the right thing to do, ethical business practices strengthen the resilience and integrity of a business, helping it endure in the long run.

Both private and public sectors must behave ethically. The role and importance of social value and working ethically within the public and private sectors are seen in equality in hiring, delivering on time and maintaining commitments. The public sector also focuses on the legal and political stance as it is directly responsible to people.