CHAPTER 1

BUSINESS ORGANISATIONS

At the end of this Module the student shall be able to:

- Understand the various types of business organisations that can be established.
- Appreciate the advantages and disadvantages of each type of business

Introduction

A business activity is any legal activity that may be owned by one person as a sole proprietor or can be owned jointly by two or more people thereby creating a partnership. The main aim of many business operations is to make a profit either in the short or long term. A business activity is not only trading activities like the popular Kantemba business that have spread along many high ways in cities and towns. A business may be in the form of manufacturing something for sale, buying and selling for profit, providing services etc. Some examples of businesses include banking, insurance, retail trade, producing beer, providing educational services, Shoprite Chain Stores, Game stores, Internet services, tourist lodge or hotel, transport services etc.

Element 1.1 Types of Business Enterprises

A business may be owned by one person as a sole proprietor or can be owned jointly with another person or partner as a partnership. Another way in which a business could be owned is through the establishment of a limited liability company. A limited liability company can be privately or publicly owned. Another form of business organization could be through a cooperative society. The government may on behalf of the entire citizenry own businesses.

i) Sole Trader

a) Definition

This is a business owned by only one person who provides all the capital needed to set up and manage the organization and takes profit as his/her reward. The owner uses his/her labour assisted sometimes by one or two workers and/ or family members. This is normally a small business in size though it is not always small.

This type of business may involve retail trade, builders, hairdressing, radio and TV repairs, farming, fishing, consultancies, bar, restaurant, hotels, travel agencies, law firm, home finders, estate agencies, etc. All such business activities are owned and managed by the sole proprietor.

The sources of finance for the sole proprietor may be through selling of Personal assets such as land, buildings, cattle or shares held in a company. Other sources could be through borrowing from a friend, family member or the bank.

Features of the Sole Proprietor

The main features of Sole Proprietorship are as follows:

i. It is a business owned by only one person who provides all the capital needed to set up and manage it and takes all the profit as his reward.
ii. It is the simplest and most common type of business enterprise.
iii. The owner uses his/her labour, assisted perhaps by one or two workers or family members.
iv. The business tends to be small in size although it is not always so.
v. This type of business enterprise is not confined to the retail trade.

b) Advantages of a Sole Trade

When you own and manage the business as a sole proprietor there are several advantages, and these include the following:

i) The business is easy to set up, control and manage.
ii) It requires a small amount of capital to set up; as a result many people are able to run this type of business.
iii) The owner makes independent and quick decisions on how the business is to be run.
iv) The owner has personal contact with his/her workers as well as customers and is likely to be familiar with all the aspects of the business.
v) The owner tries to provide his/her customers with personalised service. This is one of the main reasons for the continued survival of the sole proprietors.
vi) The owner takes all the profits made by the business and this gives him/her encouragement to work hard.
vii) Business affairs are kept private except when completing tax returns. The law provides that the sole proprietor shall pay tax.
viii) The owner will be familiar with all aspects of the business with timely solutions to problems if any.
ix) The sole proprietor is elf-employed and gets a sense of satisfaction for working for him/herself.

c) Disadvantages of a Sole Trader

There are a number of disadvantages of running a sole proprietorship and the common ones include the following:

i) The personal assets are at risk because the business has unlimited liability. In an event that the sole trader borrows money from any institution or individual, he/she must pay back the whole of it otherwise her/his personal assets would be attached and auctioned to raise the money to repay the debt.

ii) The business cannot do without the owner. The business may close +down when the owner dies, as the owner is everything to the business. There is no sharing of workload.

iii) It is more difficult for the sole trader to borrow money than in other forms of business, making expansion difficult. The sole trader may not borrow money, as the sole trader does not provide financial collateral as security.

iv) The size of the business is rather too small. Thus, it is unable to benefit from the economies of scale making it more expensive to run than larger organizations. There may not be any division of labour.

v) The sole proprietor is self-employed. This means he/she does not have such benefits as state social security or retirement benefits, which are enjoyed by those employed by other companies or government departments.

vi) Shortage of capital prevents the sole proprietor from providing modern equipment, for example the use of computerized stock control. He/she cannot afford to provide services such as credit, delivery, and other amenities to his/her customers thereby making such businesses unattractive to customers.

vii) The risks of failure are as high as there is severe competition from especially large-scale businesses.

viii) Division of labour may be difficult to organize because of the small size the business, thus there is little sharing of workload and therefore always overloaded. This affects his/her efficiency and productivity.

ii) Partnerships

a) Definition

> *Partnerships may be established for purposes of pooling of skills, experiences, knowledge, contacts, finances, assets or a combination of any two or more factors. At individual levels, people may realize that they did not have adequate skills, knowledge or finance to run a business on their own, but as a team, they could achieve more.*

Between two and twenty people can come together and form a partnership by drawing up a legal document called partnership deed. This document gives details of the way the firm will be organized and managed.

The details in the partnership deed include the following:

i. The objectives of a partnership,
ii. The financial contribution of each partner,
iii. The sharing of profits and losses,
iv. The rights and obligations of each partner,
v. The amount of money to be paid as salary to each partner,
vi. The name of the partnership and
vii. The treatment of capital invested.

b) Features of a Partnership

i. Can be formed by between two and twenty people but professional partnerships like that of lawyers, doctors, engineers etc can be formed by more than twenty people.
ii. The capital of the partnership is raised by contribution of each partner and does not need to be equal. Partners can lend capital to a partnership with interest payment depending on the provisions in the partnership deed.
iii. In a partnership, ownership and control are not separated, thus partners own and control the partnership.
iv. A partnership has no separate legal entity. Thus the liability of partners is just like in a sole proprietorship.
v. Each and every partner is entitled to be involved in the running of a business. A decision of any one partner binds the partnership.
vi. Partnerships are common among professions such as estate agents, insurance brokers, lawyers, doctors, accountants.

c) Advantages of Partnerships

Forming partnerships has several advantages that include the following:

i. A Partnership is easy to set up, as it does not involve long costly procedures.
ii. Division of labour is possible, as there are many people involved with various skills and experiences.
iii. More people are involved in the business so more capital can be raised.
iv. Expenses and management of the business are shared.
v. The individuality of each partner is not totally lost, as partners maintain many of the personal advantages of the sole proprietorship.
vi. There is greater continuity in a partnership than in sole proprietorship. In case of death or resignation, the remaining partners can form a new partnership.
vii. Decision-making is consultative leading to improved quality of decisions.
viii. A partnership is not required to publish its accounts annually so there is secrecy.

d) Disadvantages of Partnerships

Partnerships have several disadvantages as given below.

i. Decisions may be delayed by disagreements among partners.

ii. Partners have unlimited liability and are therefore personally liable for the debts of the partnership. Personal assets are at risk.
iii. Lack of capital may limit expansion as it depends on partners for raising capital.
iv. When one partner dies or leaves, a new partnership is required, which may be awkward to the remaining members.
v. Membership in a partnership is limited to twenty except for professional partnerships. This restricts the ability of the partnership to raise capital.
vi. One partner's decision can be binding on all the other partners even if it is a wrong decision. This makes the partnership a risky affair.
vii. A partnership is a delicate business and can break at any time. This is particularly the case in many auditing and legal firms/partnerships.

iii) Private Limited Company

According to the Company's Act of Zambia, the two documents namely the Memorandum of Understanding and Articles of Association have been combined to create the Articles of Association. The promoters of the company should submit the articles of association to the Registrar of Companies. The Registrar of Companies shall issue a certificate of incorporation once the application complies with the Company's Act.

a. The Articles of Association

The articles of association shall include the following information:

i. Name of the company with the last word being limited.
ii. Objectives of the Company.
iii. The statement of limited liability for its shareholders.
iv. The authorized capital thus the amount of capital to be raised by the shareholders.
v. The number of shares issued to each Director.
vi. The rights, obligations and powers of the directors.
vii. The procedure for calling annual general meetings.
viii. The rights and power of each type of shareholder.
ix. The procedure for electing directors.
x. The issue, transfer and forfeiture of shares.
xi. Procedure for dealing with any alterations in the amount of capital.
xii. Procedure for distributing profits and carrying out auditing.

A limited liability company is controlled and governed by a board of directors, which is elected by the shareholders at annual general meetings.

b. Characteristics of a Private Limited Liability Company

The main features of a private limited liability company include the following:

i. A private limited company is a separate legal entity meaning the company has its own legal existence separate from that of its shareholders.
ii. A private limited company is not allowed to sell its shares to the general public unless by approaching people individually.
iii. Shares of a private limited company are not transferable without the agreement of the other shareholders.
iv. Shareholders in a private limited company have control over the company.
v. A private limited company is not required by law to publicise its accounts annually.
vi. The liability of shareholders is limited to capital invested.
vii. At least two people and not more than fifty can form a private limited company.
viii. A private limited company is usually a small family business, though it is not always so.
ix. The capital and ownership of a private limited company is divided into shares.
x. Profits earned are usually shared in proportion to the number and value of shares held.

c) Advantages of a private limited company

Forming a private limited company is probably the most secure way of owning a business. The benefits of this kind of business include the following:

i It is a legally separate entity or personality from the owners.
ii. The liability of shareholders is limited, so their personal assets are not at risk.
iii. It can easily raise more capital by selling shares though not publicly.
iv. The company has sure continuity, as it does not depend on one person.
v. Shareholders have direct control over the company's affairs. They present their views at the annual general meeting.
vi. The founders can retain control over the company by holding the majority of its shares.

d) Disadvantages of private limited company

Some of the disadvantages of a private limited company are as given below.

i. There are too many legal formalities to comply with.
ii. Lack of capital can restrict the growth of a private limited company.

iii. The shares are not freely transferable, as the existing shareholders should approve such
iv. Accounts should be audited annually, hence the need to engage services of an Auditors.
v. The company is less flexible when compared to a sole proprietorship.
vi. It is a costly exercise to form a limited liability than that of a sole Proprietorship
vii. Not easy for such a company to borrow money from the banks, etc.

v) Public Limited Companies

Definition

A public limited company is a corporate association of at least two persons, which is registered with the Registrar of companies and owned by the shareholders who have limited liabilities. Public Limited companies are generally quoted at the Lusaka Stock Exchange where members of the public can freely trade in shares for such companies.

Public limited companies use the prospectus as an invitation to members of the public to buy shares in the company. The prospectus gives information on the number of shares being sold and at what price.

a) Characteristics of a Public Limited Companies

A public limited company may be characterised by the following attributes:

i. It is a company formed by at least two persons without a maximum number.
ii. It is a separate legal entity and is registered with the Registrar of Companies.
iii. The Board of Directors are elected by the shareholders controlling it.
iv. Shares of the public company are freely bought and sold on the stock exchange. There are no restrictions on the transfer of shares to third parties.
v. The liability of shareholders is limited to the capital they have invested or agreed to invest in the company.
vi. The day to day running of the business is in the hands of the Managing Director. The Board of Directors deal with the Managing Director on policy issues.

b) Advantages of Public Limited Companies

The advantages of the Public Limited Company include the following:

i. The company is a separate legal entity and as such the liability of shareholders is limited to the amount of shares they hold in the company.
ii. Its shares are freely transferable on the Lusaka Stock Exchange.
iii. It has assured continuity.
iv. It can raise more capital by the sale of shares and debentures to the

public through the Lusaka Stock Exchange.

v. It can easily borrow money from banks and other financial institutions.

vi. It can employ specialists in such fields as marketing, accounting and human resource management, which is more efficient.

vii. Its sheer size makes it possible for the company to buy modern equipment and technology

viii. It buys in bulk and therefore enjoys economies of scale and possible discounts.

c) Disadvantages of Public Limited Company

When you form a public limited company, there are some disadvantages you may find as follows:

i. It is difficult and expensive to form.

ii. It has to comply with many regulations set to protect employer, employee and other stakeholders.

iii. Raising capital tends to be very expensive

iv. It may grow and become too large and difficult to manage.

v. Original owners usually lose control over it as it has become too big.

vi. There is little secrecy, as its accounts must be published annually. This is a legal requirement.

vii. Decisions tend to be delayed because of the amount of administration or bureaucracy involved such as those that require board approval.

viii. The risk of takeover bids by other companies because shares of a public limited company can easily be bought on the stock exchange.

V) Cooperative Societies

Definition

Cooperative societies are businesses established and managed by a group of customers on a cooperative principle of ownership, operation and distribution. The cooperative societies are owned and financed by their members who buy from the stores.

Membership is open to anyone who buys a share in the society. Cooperative societies are democratically controlled with each member having one vote. Generally, cooperative societies pursue social objectives in addition to profit. In Zambia, the most common cooperative societies have tended to be agricultural cooperative societies at both district and provincial levels. Because of difficulties faced by provincial agricultural cooperative societies, the focus has shifted to primary cooperative societies at the village level.

a) Characteristics of cooperative societies

The following are features of cooperative societies particularly those for trading activities:

i. The members or owners are people who have bought shares in the society and are also the main customers.

ii. A maximum amount of shares is set as an individual's shareholding. Thus, the number of shares that one can buy in a society is restricted to prevent rich people from taking over the control of the society.

iii. Members have one vote irrespective of the number of shares one holds at any particular time.

iv. Profits or surpluses are divided as dividends to members in relation to the amount of goods traded from the business.

v. In the case of retail business, a committee elected by members manage the business.

vi. The societies may offer special benefits such as scholarships, funeral benefits and other social amenities to the society members.

b) Advantages of cooperative societies include the following:

i. The customers especially members enjoy lower prices since they are given dividend stamps each time they purchase goods from the store.

ii. Such cooperative society businesses are convenient as they are near to the customers.

iii. Anybody can do business with the cooperative society and is not restricted to members only.

iv. They are democratically controlled in the interest of customers and each member has a right to be heard.

v. Another major problem is that capital raised through the sale of shares is limited given the restriction of the number of shares an individual can buy, making it difficult to expand.

c) Disadvantages of the cooperative societies include the following:

i. The stores are inefficient as the issuing of divided stamps is a slow process.

ii. It involves a lot of paperwork.

iii. Over time, cooperative societies tend to amalgamate in order to withstand stiff competition.

iv. Many members do not attend meetings as a result; a few members dominate societies.

v. Lack of qualified management team retards the progress of the societies. Poor management, poor planning and poor financial control plagued many cooperative societies. This has forced many cooperative societies to close down.

vi. Another major problem is that of capital, as capital raised through the sale of shares is limited given the restriction given on the number of shares an individual can buy· making it difficult to expand.

ELEMENT 1.2 THE ORGANISATION AND ITS STAKEHOLDERS

Organisations operate in an environment that impinges on the interest of various business associates called organisational stakeholders. Stakeholders are those individuals, institutions etc who have a stake in the future development of the organisation. The success or failure of an organisation affects stakeholders in its environment.

Definition

> *Organisational stakeholders may be defined as individuals or groups of people who have an interest in and/or are affected by the goals, operations or activities of the organisation or the behaviour of its members.*

Stakeholders for any organisation shall comprise its employees, customers, suppliers, government, financiers, community publics and other organisations or groups. Each stakeholder shall now be discussed below.

i. **Employees**

Employees are probably the most important assets of the organisation and the employees and organisations need each other. The responsibilities of the organisation go beyond the terms and conditions of service in the employment contract but recognise the workers' well being. Organisations have social contracts with employees where employees expect the employer to treat them fairly, put in a transparent and good corporate governance system for the organisation that promotes gender equity and equal employment opportunities.

ii. **Customers**

Customers are the reasons for the existence of an organisation. They bring money to the business, provide new product ideas and they are marketing agents for the organisation. The success of the organisation depends on customer patronage. The customers or consumers or clients have certain expectations of the organisation, such as good value for money, safety and durability of goods and services, after sale service, respect and recognition, long-term satisfaction such as convenience, serviceability consistence of supply and full and unambiguous information.

iii. **Suppliers**

Suppliers of production inputs to the organisation are major sources of competitive advantage. The suppliers want money from the organisation for various supplies they make. The quality of the goods and services are affected by the quality of inputs from the suppliers. The organisation should develop suitable social responsibility programmes to maintain a productive working relationship. Suppliers may provide quantity or cash discounts to the organization.

iv. **Government**

Government is a major buyer of various goods and services. In addition, the government enacts laws and makes regulations that should be respected and obeyed even if it is not in the interest of the company. The export regulations and measures to control inflation such as ceilings on wage claims, control on the sale of tobacco and display of health warnings are among the regulations government may set. Compliance with tax laws and other legislations that affect the organisation is important for a good corporate citizen.

The government expects the organisation to continue in operation so that it can continue to collect tax revenues for the implementation of its various programmes.

v. Financiers

In any business, there are shareholders, providers of investment capital such as insurance companies, Pension funds, Building Societies, Commercial and Investment banks who may invest their funds into an organisation and expect a reasonable return on their invested funds. In some cases people buy shares at a stock exchange like the Lusaka Stock Exchange and expect a dividend at the end of a period. These financiers have an interest in the company and expect it to be responsibly managed in the most transparent and most accountable manner to ensure that their investment is safeguarded and earns some return for the risk and use of their capital.

These financiers expect management to provide them with full and complete information and shareholders question top management on policy decisions.

vi. Community Publics

The customers of the organisation are part of the community and contribute to the growth of the organisation. A good corporate citizen is more pronounced in the company's support for local community projects and its concern for the environment. In Zambia, the support of the Premier Soccer League by Konkola Copper Mines; sponsorship of Coca cola Cup for secondary schools, BP Top Eight, donation of building materials for a classroom block, adoption of a ward at the University Teaching Hospital etc are some of the examples of how organisations show appreciation of community support to the business. An organisation may have negative corporate image if it did not undertake such activities.

The communities have expectations of good corporate citizens to be good to the community publics in areas they operate in. The environmentally friendly policies of organizations are other expectations of the community such as promoting the Keep Lusaka Clean Campaign, avoidance of using excessive packaging and more use of biodegradable materials. The continued existence of the organization is of public interest in nature as it provides employment to society.

Questions

1. Briefly discuss the various types of businesses clearly pointing out the characteristics, pros and cons of each.

2. Identify the various stakeholders of an organisation and briefly discuss the expectations of each one of them.

3. A friend of yours wishes to set up a Kantemba business to sell fitumbuwa to industrial workers. Advise your friend the advantages of and disadvantages of being a sole trader.

4. You have been asked to give a talk on the features of, advantages and disadvantages of partnership type of business. What would include in your paper.

5. A group of men in your neighbourhood have come together to form a private limited company and they have come to you for advice. Explain to them the features of the private limited company by outlining advantages and disadvantages of this type of business.

6. Distinguish between a partnership and a public limited company. What are the advantages and disadvantages of each type of business type?

7. Many communities in Zambia formed cooperative societies as a way of creating investment. Discuss the characteristics of cooperatives and state why many communities opted for them. What are the advantages of such types of business?

CHAPTER 2.0

THE FUNCTIONS OF MANAGERS

The learning Objectives

- To explain the meaning of management and main activities or functions of management;
- To analyse the essential nature of managerial work;
- To evaluate the importance of management to effective performance of work organisations; and
- To explain the managerial skills and the manager's role in an organisation.

MANAGEMENT FUNCTIONS AND THE MANAGER'S JOB

Management can only achieve their goals and objectives by the coordinated effort of their members and it is the task of management to get work done through other people. Management is fundamental and central to the effective operation of work organisations. Management cannot be a separate department like Finance or Marketing as it is common to all other functions.

Definition

Management is about changing behaviour of people and making things happen. It is about developing people, working with them, reaching objectives and achieving results. The success or failure of management is attributable to the manager. Management may be defined as a process of achieving organisational objectives, within a changing environment, by balancing efficiency, effectiveness and equity, obtaining the most from limited resources and working with and through people.

Common activities of management may be classified into six categories:

i. Technical (production, manufacturing and adaptation)
ii. Commercial (buying, selling, exchange and market information)
iii. Financial (obtaining capital and making optimum use of available funds)
iv. Security (safeguarding property and persons)
v. Accounting (information on the economic position, stocktaking, balance sheet, costs, statistics, etc) and
vi. Managerial.

The managerial activity is divided into five elements of management i.e. planning, organising, coordinating, leading and controlling. These managerial activities are discussed below.

i. Planning

In their managerial functions, planning tends to be the starting point at all times. Planning may be defined as to foresee, examining the future, deciding what needs to be achieved and developing a plan of action.

Planning involves the setting of objectives (what to do), formulation of a strategy (how to do) and implementation of strategy (when, whom) to achieve the set objectives.

The planning process is best done through the participation of all key players in the organisation to ensure ownership of the plan.

ii. Organising

Organising involves the analysis of activities, identifying decisions and relationships required in the organisation, classifying and dividing work, creating the organisation structure and selecting staff to implement management strategies. Organising may also be seen as a provision of material and human resources and building of the structure to carry out the activities of the organisation.

Organising is an essential ingredient of management as it is very important that whatever you want to do, it is properly organised or arranged. Once things are properly organised or arranged, it becomes easier to implement and ensure that organisational objectives are achieved.

iii. Coordinating

Coordination involves the unifying and harmonisation of all activities and effort of the organisation to facilitate its work and success. It involves balancing and maintaining the team by ensuring a suitable division of work and seeing that the tasks are performed in harmony and not in conflict. Through this function, the manager creates reporting relationships vertically and facilitates communication relationships horizontally.

iv. Leading

Leading is the creation of an organisational climate, in which, people work willingly and effectively thus inspiring morale among employees. An essential part of management is coordinating the activities of people and guiding their efforts towards the goals and objectives of the organisation. This involves the process of leadership and choice of an appropriate form of action and behaviour.

Leadership is a central feature of organisational performance. A manager will not be able to single-handedly carry out all programmes of the organisation and requires the support of other people in the organisation. The ability to lead people, or inspire and influence others to the desired direction for the achievement of objectives is one of the greatest challenges of leadership. Through effective motivation and communication, a manager creates a team out of people responsible for various jobs.

v. Controlling

After planning, organising and coordinating the various work processes, it is important that an evaluation is undertaken to compare actual performance against the set standards. This comparison will ensure satisfactory performance and progress and this record can be used as guide for future operations. Once deviations from set standards have been detected, they are reported to those people in the organisation with the mandate to institute corrective action. Where