Types of Business Organisations

Tasks

1. Read through the following information and underline any words you do not understand
2. Use a dictionary to find out what the words means and write it down next to the word
3. Once you understand the different types of businesses there are, answer the multiple-choice questions.
4. Now you understand the business theory, using your Business Plan template either on paper on using word complete the section on business organisation for your chosen business. Eg Type of Business e.g sole trader, partnership or Limited Company.
5. Explain why you have chosen to be that organisation and the discuss the advantages and disadvantages that business organisation has
6. Remember you are either a sole trader where you own the business but have some employees who work for you , or you are in a 50 ,50 partnership with someone else and you both own half of the business and employ some other people

Reading Task

A **sole trader** is a business that is owned and run by one person. There is only one owner, but they may have employees who work for them. Sole traders are usually start-ups or small businesses. For example, photographers, electricians, hairdressers, graphic designers, social media influencers, bloggers, small online clothing brand owners and beauty therapists may set up as sole traders.

Sole traders have unlimited liability and the owner is personally responsible for the debts of the business. A sole trader pays income tax on their earnings.

Some advantages of sole trading

- it is quick and easy to set up as a sole trader.
- the business owner(s) have a lot of control over the business and its money.
- it gives individuals the opportunity to be their own boss and make all the business decisions.
- it has low set-up costs.

Some disadvantages of sole trading

- it has the risk of unlimited liability.

- it can involve long work hours and stressful conditions.
- there is a high level of responsibility for the owner.
- often the owner performs many different roles in the business.

Partnerships

A **partnership** is a type of business that has between 2 and 20 owners. They decide to set up and run a business between them.

Partnerships are often found in businesses that provide a professional service, such as lawyers, doctors and accountancy practices. They can sometimes be identified by the name of the business. For example, 'Kowalski & Davies Accountancy' would probably be an accountancy business with two partners with the surnames Kowalski and Davies.

In a partnership, the owners agree a set of rules. These are outlined in a document called a deed of partnership. As an example, this document may specify how profits are allocated, what percentage of the business each person owns, their roles and responsibilities, and the percentage of any business debts that each person would have to pay. The owners in a partnership pay income tax on their earnings.

Some advantages of a partnership

- it is usually quick and easy to set up
- there is shared decision-making by the owners
- there is shared responsibility for debt by the owners
- partners bring more skills and ideas
- there is more capital available to invest

Some disadvantages of a partnership

- it can involve long work hours
- profits have to be shared between the partners
- conflict amongst owners can occur
- there is the risk of unlimited liability
- one partner may let the others down by not upholding their responsibilities in the business

Private limited companies (ltd)

A **private limited company** can be a small or large business. A private limited company has limited liability and often these types of business have '**Ltd**' after the business name. An example of this would be ‘Green Construction Ltd’. Any type of business can set up as a private limited company – for example, a plumber, hairdresser, photographer, lawyer, dentist, accountant or driving instructor.

The owners of a private limited company are known as shareholders. Shareholders have to be invited by the business before they can purchase a share of the business. A share is a portion or percentage of a company.

Private limited companies pay **corporation tax**. Corporation tax is a tax on the **profits** of a business. One of the main downsides of founding a private limited company is that there is more paperwork to do, because the business has to register with Companies House and file annual financial reports.

Some advantages of a private limited company

- the owners have limited liability
- it gives individuals the opportunity to be their own boss
- any new shareholders need to be invited, which protects the business from outside influence
- shares in the business can be sold to raise money

Some disadvantages of a private limited company

- there is often more paperwork
- in some instances, other people are able to view the business’ financial information
- it can be very time consuming to set up
- the business may require outside professional help to manage its finances
- shareholders will expect to receive a percentage of the profits as dividends

Public limited companies (plc)

As a business grows, it may choose to become a public limited company (PLC). In a PLC, shares are sold to the public on the stock market. People who own shares are called ‘shareholders’. They become part owners of the business and have a voice in how it operates. A chief executive officer (CEO) and board of directors manage and oversee the business’ activities.

When a business sells shares on a stock market, this is known as ‘floating on the stock exchange’.

Advantages of being a PLC include:

- the business has the ability to raise additional finance through share capital
- the shareholders have limited liability

- increased negotiation opportunities with suppliers in terms of prices because larger businesses can achieve economies of scale

Disadvantages of being a PLC include:

- it is expensive to set up, requiring a minimum set up cost of £50,000
- there are more complex accounting and reporting requirements
- there is a greater risk of a hostile takeover by a rival company as the company cannot control who buys its shares
- shareholders will expect to receive a percentage of the profits as dividends
- shareholders may clash when making decisions about the business

Not-for-profit organisations

1. A **not-for-profit organisation** is a business that aims to do something other than to make profit for the owners, such as providing a public service or helping people. It needs to make enough money to cover its costs, but any surplus is reinvested into the business or used in other ways.
2. One example of a type of not-for-profit organisation is a **charity**. Charities are businesses whose aim is to raise money for good causes, or to help people, animals and the environment. Businesses with charitable status are funded mainly by donations, get some tax relief, and are eligible for certain types of grant.
3. Another type of not-for-profit organisation is a **social enterprise**, whose aim to help society. Social enterprises make money by selling products or services like a traditional for-profit business, but they use their profits to benefit society. Some examples of social enterprises include businesses such as The Eden Project, The National Trust, The Big Issue, and Divine Chocolate.

Test

Business ownership -

1

What type liability does a sole trader have?

Limited

Unlimited

Private

2

What is a private limited company often abbreviated as?

Ltd

ARR

Plc

3

Which two businesses have limited liability?

Public limited companies and private limited companies

Private limited companies and partnerships

Public limited companies and sole traders

4

How many owners can a partnership have?

1 to 30

2 to 20

2 to 50

5

Which of these businesses is a type of not-for-profit organisation?

Sole trader

Partnership

Social enterprise

6

Which business sells its shares on the stock market?

Private limited company

Public limited company

Franchise

7

Which of these is a benefit of being in a partnership?

There are more ideas in the business

The owners have to give away a share of the business profits

There is unlimited liability

8

Which of these is a disadvantage to being a sole trader?

Being your own boss

Being personally responsible for all business debts

Sharing profits

9

What are owners also known as in a private limited company?

Shareholders

Stakeholders

Owners

10

How is a charity mainly funded?

Donations

Bank loan

Overdraft

4.