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Value, Culture and Innovation

Chapter 1
Types of Business Organisation

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Lessons

- What is a Business?
- Types and characteristics of Business Organisation:
  - Sole Trader
  - Partnerships
  - Private Sector Organisation
  - Public Sector Organisation
- Stakeholders and the connection between stakeholders and a business.

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What is a business?

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A business is defined as an organisation or enterprising entity engaged in commercial, industrial, or professional activities. Business also refers to the organised efforts and activities of individuals to produce and sell goods and services for profit. Businesses can be for-profit entities, or they can be non-profit organisations that operate to fulfill a charitable mission or further a social cause.

Examples

- Square Group
- Bangladesh Export Import Company (BEXIMCO) Limited
- Bashundhara Group
- Pran-RFL Group
- City Group
- Partex Group

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Types of Business Organisations

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- Sole Trader
- Partnerships
- Private Sector Organisations
- Public Sector Organisations

Sole Trader

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Definition: A sole trader business is an **individual trading alone** under his or her own name, or under a trading name. A sole trader is fully responsible for the running of the business. He or she is the **only** financial beneficiary of the success of the business and, he or she is also **only** responsible for the failure of the business.

A sole trader has **unlimited liability**, i.e., in the eyes of the law, the owner and the business is same.

There are not set of rules and regulations to set up a sole trader business and nor is a sole trader business mandatory to publish its final accounts.

Advantages

- Easy to set up.
- Sole trader keeps all profits.
- Sole trader has complete control.
- Easier to make decisions.
- Accounts do not have to be published.

Disadvantages

- Might have lack of capital and equity and hard to raise funds.
- Sole trader is personally liable for all debts.
- Sole trader may lack appropriate skills.
- Can be stressful to make all decisions.
- Death of owner results in the closure of the business.

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Partnerships

Definition: A partnership is a formal arrangement by **two or more parties** manage and operate a business and share its profits.

In some partnership business, partners share profit and liabilities equally and have unlimited liabilities whereas in some partnership businesses, partners have limited liabilities. In case of unlimited liability must the number of partners must be from **2 to 20**.

Usually, a contract is drawn to show the sharing details among partners and other agreement agendas which is called **deed of partnership**. Partners must also be registered with the Registrar of Companies.

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Advantages

- More capital or equity can be raised through additional partners.
- Losses can be shared among partners.
- More skills and expertise through additional partners.
- Responsibilities can be shared among partners.
- Ideal for professional practices such as medicine, law and accounting.
- Profits from partnerships are taxed as personal income.
- Financial information is not published.

Disadvantages

- Partners have unlimited liabilities as they have to cover the debts of other partners. Such as misconduct of one partner will make other partners liable to the debt.
- A partnership is dissolved on the death of a partner.
- Difficult to liquidate or transfer partnerships.
- Due to increase in unlimited liability, it may be hard to raise funds.
- Profits to be shared among partners.
- Conflict among partners may arise.

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Comparison

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Sole Trader

- Single Owner.
- No formal rules or guidelines.
- Control and responsibilities on sole trader.
- Owner will have unlimited liabilities.

Partnerships

- Partners as owners (from 2 to 20)
- Deed of partnership to be drawn to show agreement agendas.
- Partners should be registered under Registrar of Companies.
- Partners can have both limited and unlimited liabilities.

Learn

Vocabularies:

- Bankruptcy (pg.5) , unlimited liability (pg.5), deed of partnership (pg.5), limited partnership (pg.6)

Notes:

- Deed of Partnership (pg.6)

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Private Sector Organisations and Public Sector Organisations

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Private Sector Organisations

Definition: All businesses that are not owned by the government are **private sector organisations**. Sole Traders and Partnerships are part of the Private Sector Organisations. Private Sector Organisations can go through the process of **incorporation** to have a separate legal identity.

Through the process of incorporation, owners will have limited liability. To have limited liability means the owners risk to lose only the capital/equity invested and not to bear the debts' of the company.

Separate legal identity also allows **divorce of ownership**. This states, owners do not have to be involved in day-to-day business activities, they are divorced from day-to-day business activities.

The accounts of limited liability companies are to be checked and approved by an independent accountant known as **auditor**. On behalf of the owners, an auditors check if the accounts are accurate and show a true and fair view of the business position. This is called audit.

There are **two** types of Limited Liability Companies: Private Limited Companies and Public Limited Companies.

Public Sector Organisations

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Definition: All businesses that are owned and operated by the government are **public sector organisations**. They usually provide services rather than aiming to maximise profit. Public Sector Organisations are financed by taxes paid by companies and individuals. The services provided by public sector organisations are usually very less or are free.

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Differences between Private Sector Organisations And Public Sector Organisations

	Private Sector Organisations	Public Sector Organisations
Ownership and Control	Private Individuals.	Government.
Finance	Capital/Equity invested by owners.	Taxes collected from business and individuals.

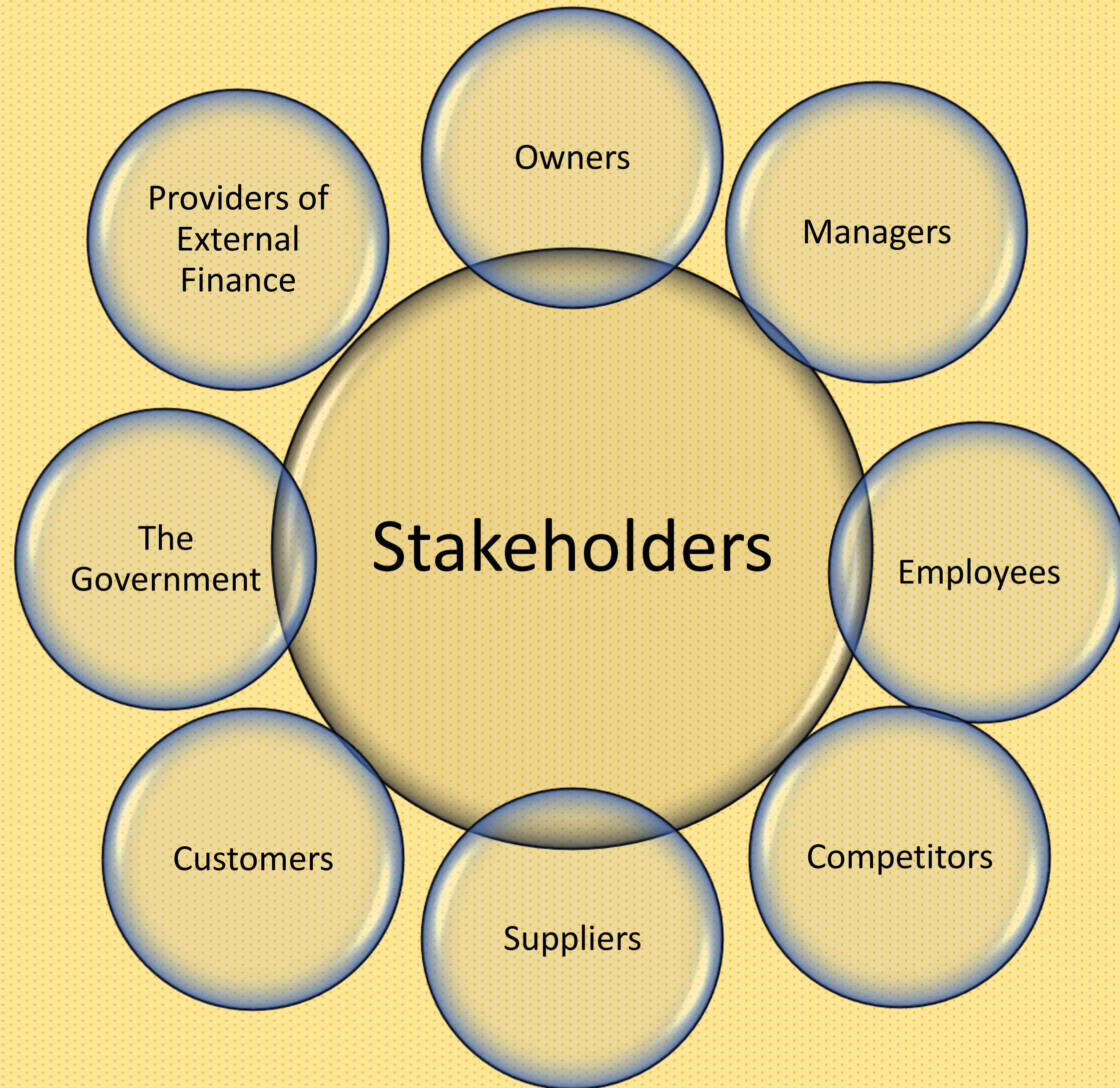
Learn

Vocabularies:

- Incorporation (pg.7), limited liability (pg.7), divorce of ownership (pg.7), auditor

Stakeholders

Definition: Any person or business who is affected by the actions of that business is called stakeholders. The following is a demonstration of stakeholders of a business.



- **The owners** look at the overall profitability of the business. They monitor how the business traded over the previous financial year. They compare the business performance with the previous year to judge how safe their capital or equity is and whether they would get a return on their investment. The owners look at the Income Statement to assess if they will receive any share of profit.
- **Managers** run the business on behalf of the owners. They monitor the accounts to see how the business is performing. They make decisions based on the financial data available.
- **Employees** may want to look at the accounts to see how well the business is performing and whether they have job security. The employees would look at the Income Statement to assess the overall profitability of the business. They could also use the accounts to try to secure a pay rise.
- **Customers** may want to see how financially stable the company is. They can then assess whether the supply of goods and services is secure, and whether they should trade with the company.
- **Suppliers** look at the company accounts to see how stable the business is. The supplier can then assess what credit terms to give and how much interest to charge.
- **Providers of external finance** assess the company's ability to pay back any money that they lend the business, such as loans. They would look at the Statement of Financial Position to assess the liquidity of the business.
- **The government** looks at the profits of the business to monitor whether the business is paying enough tax