TYPES OF BUSINESS ORGANISATIONS

Unincorporated business = sole traders and partnerships Incorporated business = limited companies

Other types of business organisations = franchises,

multinationals, public corporations, charities (not-for- profit organisations), co-operatives

Sole traders (sole proprietors)

A sole trader describes any business that is owned and controlled by one person - although they may employ workers. Individuals who provide a specialist service like plumbers, hairdressers or photographers are often sole traders.

Sole traders do not have a separate legal existence from the business. In the eyes of the law, the business and the owner are the same. As a result, the owner is personally liable for the firm's debts and may have to pay for losses made by the business out of their own pocket. This is called unlimited liability.

Advantages

- It is easy to set up as no formal legal paperwork is required.
- Generally, only a small amount of capital needs to be invested, which reduces the initial start-up cost.

- As the only owner, the entrepreneur can make decisions without consulting anyone else.

Disadvantages

- The sole trader has no one to share the responsibility of running the business with. A good hairdresser, for example, may not be very good at handling the accounts.
- Sole traders often work long hours. They may find it difficult to take holidays or time off if they are ill.
- They face unlimited liability if the business fails.

Partnerships – Between 2 and 20 partners

Dental surgeries are often partnerships

Doctors, dentists and solicitors are typical examples of professionals who may go into partnership together and can benefit from shared expertise. One advantage of partnership is that there is someone to consult on business decisions.

The main disadvantage of a partnership comes from shared responsibility. Disputes can arise over decisions that have to be made, or about the effort one partner is putting into the firm compared with another. Like a sole trader, partners have unlimited liability.

FRANCHISES

An entrepreneur can opt to set up a new independent business and try to win customers. An alternative is to buy into an existing business and acquire the right to use an existing business idea. This is called franchising.

A franchise is a joint venture between:

In case disagreements between partners occur is is a good idea for a DEED OF PARTNERSHIP to be drawn up. This is a legal document stating the responsibilities of partners, for example, how profits and losses are to be shared; how the business is to operate.

- A franchisee, who buys the right from a franchisor to copy a business format.
- And a franchisor, who sells the right to use a business idea in a particular location.

Many well-known high street opticians and burger bars are franchises.

Opening a franchise is usually less risky than setting up as an independent retailer. The franchisee is adopting a proven business model and selling a well-known product in a new local branch. However, the independent retailer will have less control and will have to pay part of it's profit to the franchisor as a ROYALTY PAYMENT.

CO-OPERATIVES

A cooperative may also be defined as a business owned and controlled equally by the people who use its services or by the people who work there.

Everyone has an equal say in the business no matter how many shares they own. It is therefore very democratic.

For worker co-ops the profit is split between the workers and this can be very motivating as the profit goes only t workers and not to any other shareholders.

PUBLIC CORPORATIONS

An organisation owned by the government, eg Post Office, BBC. The main objective would be to provide a good service for customers and NOT to make a profit.

MULTINATIONALS

Companies that operate in several countries are called multinational corporations (MNCs) The US fast-food chain McDonald's is a large MNC - it has nearly 30,000 restaurants in 119 countries.

Advantages enjoyed by multinationals;

Limited companies NB – limited companies are in the PRIVATE SECTOR

A limited company has special status in the eyes of the law. These types of company are incorporated, which means they have their own legal identity and can sue or own assets in their own right. The ownership of a limited company is divided up into equal parts called shares. Whoever owns one or more of these is called a shareholder.

Shareholders receive dividends which are part of the profit

Because limited companies have their own legal identity, their owners are not personally liable for the firm's debts. The shareholders have limited liability, which is

the major advantage of this type of business. If the business went bankrupt then the shareholder would only lose the money they paid for the shares and not any of their personal possessions.

A major disadvantage however, is that financial information can be obtained by anyone. Also to form a limited company can be time consuming. Limited companies pay corporation tax on their profits.

There are two main types of limited company:

- A private limited company (ltd) is often a small business such as an independent retailer in a market town. Shares do not trade on the stock exchange. Shareholders are usually family and friends. Therefore there is no risk of a takeover as all shareholders have to agree if they want to sell their shares. However, because small number of shares are sold less finance can be raised.

- A public limited company (plc) is usually a large, well-known business. This could be a manufacturer or a chain of retailers with branches in most city centres. Shares trade

on the stock exchange so lots of CAPITAL can be raised to invest into the business and help it to grow. However, anyone can buy shares and if another company buys over 50% of the shares they can takeover the control of the company. This is because 1 share = 1 vote. For a ltd company to change to a plc at least £50,000 worth of shares must be sold.

- cheap raw materials
- cheap labour supply
- access to markets where the goods are sold

- friendly government policies

Unlike a sole trader or a partnership, the owners (shareholders) of a plc are not necessarily involved in running the business, unless they have been elected to the Board of Directors.

TIP – Do not confuse PUBLIC CORPORATIONS WITH PUBLIC LIMITED COMPANIES

Business Objectives

When a sole trader sets up they may have some unstated aims or objectives - for example to survive for the first year. Other businesses may wish to state exactly what they are aiming to do, such as Amazon, the Internet CD and bookseller, who wants to “make history and have fun”.

Objectives give the business a clearly defined target. Plans can then be made to achieve these targets. This can motivate the employees. It also enables the business to measure the progress towards to its stated aims.

The main objectives that a business might have are: Survival – a short term objective, probably for small business just starting

out, or when a new firm enters the market or at a time of crisis.

Profit maximisation – try to make the most profit possible – most like to be the aim of the owners and shareholders.

Profit satisficing – try to make enough profit to keep the owners comfortable – probably the aim of smaller businesses whose owners do not want to work longer hours.

Sales growth – where the business tries to make as many sales as possible. This may be because the managers believe that the survival of the business depends on being large. Large businesses can also benefit from economies of scale.

A business may find that some of their objectives conflict with one and other:

- Growth versus profit: for example, achieving higher sales in the short term (e.g. by cutting prices) will reduce short-term profit.
- Short-term versus long-term: for example, a business may decide to accept lower cash flows in the short-term whilst it invests heavily in new products or plant and equipment.
- Large investors in the Stock Exchange are often accused of looking too much at short-term objectives and company performance rather than investing in a business for the long-term

Alternative Aims and Objectives

Not all businesses seek profit or growth. Some organisations have alternative objectives.

Examples of other objectives:

Ethical and socially responsible objectives – organisations like the Co-op or the Body Shop have objectives which are based on their beliefs on how one should treat the environment and people who are less fortunate.

Public sector corporations are run to not only generate a profit but provide a service to the public. This service will need to meet the needs of the less well off in society or help improve the ability of the economy to function: e.g. cheap and accessible transport service.

Public sector organisations that monitor or control private sector activities have objectives that are to ensure that the business they are monitoring comply with the laws laid down.

Charities and voluntary organisations – their aims and objectives are led by the beliefs they stand for.

Changing Objectives

A business may change its objectives over time due to the following reasons:

A business may achieve an objective and will need to move onto another one (e.g. survival in the first year may lead to an objective of increasing profit in the second year).

The competitive environment might change, with the launch of new products from competitors.

Technology might change product designs, so sales and production targets might need to change.

Primary Sector, Secondary Sector and Tertiary Sector

Primary sector

Produces raw materials, involves some sort of extraction e.g. mining, farming, fishing, chopping down trees

Secondary Sector

This is the manufacturing sector where raw materials are turned into finished goods for sale. E.g. Car factory or paper mill

Tertiary Sector

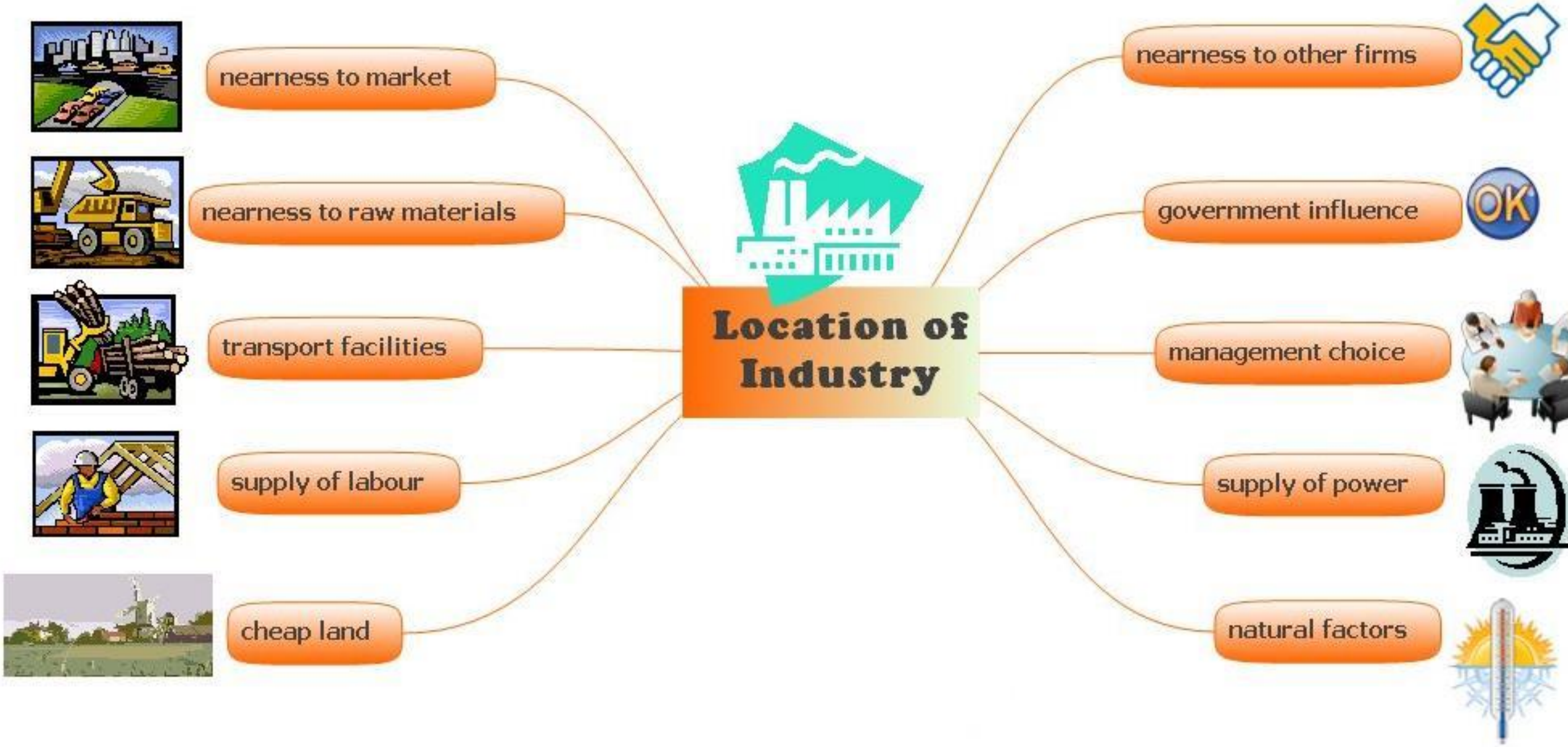
This is the retail and service businesses so all shops and people that offer services to others e.g. cleaners, gardeners, dog walkers etc. A service is something you cannot hold or touch e.g. insurance.

Decline of primary jobs

- We are running out of natural resources, our coal and fish stocks are almost gone, so less miners and fishermen
- We also cannot compete against cheap foreign imports so less farmers
- We have more leisure time so need more entertainment e.g. cinema jobs Decline of Secondary jobs
- We cannot compete against foreign imported made goods

- We are facing a process of de-industrialisation as we become a less industrial nation and move toward knowledge work such as web design and money management
- We are automating manufacture of goods such as robots to make cars, means less jobs for workers. Decline of primary jobs
- We are running out of natural resources, our coal and fish stocks are almost gone, so less miners and fishermen
- We also cannot compete against cheap foreign imports so less farmers

Location



A business's location can make an important difference to its success. Choosing the right location means taking into account a number of factors.

The importance of location

Being close to main roads can be an advantage for a business

Location is the place where a firm decides to site its operations. Location decisions can have a big impact on costs and revenues.

A business needs to decide on the best location taking into account factors such as:

- Customers - is the location convenient for customers?

- Staff - are there sufficient numbers of local staff with the right skills willing to work at the righ wage?
- Support services - are there services offering specialist advice, training and support?
- Cost - how much will the premises cost? Those situated in prime locations (such as city centres) are far more expensive to rent than

edge-of-town premises.

- The importance of infrastructure
- Infrastructure refers to the facilities that support everyday economic activity, eg roads, phone lines and gas pipes.
- An efficient transport network enables staff to get to work easily. It also allows supplies to be brought in from far afield and permits finished products to be moved to market cheaply and quickly.

- The impact of location depends on the type of business. For example, it is important for shops and restaurants to be conveniently located for customers. A delivery-only takeaway may prefer to locate in inexpensive premises on the edge of town close to good transport links.

Government and location

The government offers grants and assistance to businesses that locate in areas with high unemployment.

Incentives include:

- Grants to help with the cost of setting up a business. Grant money does not need to be repaid.

- Loans, which are repayable over many years at low rates of interest.
- Tax breaks, for example firms may be made exempt from paying business rates.

Overseas location decisions

Moving a business can have both advantages and disadvantages Setting up a business overseas involves a number of challenges including:

- Cultural and language barriers where managers are unfamiliar with local customs.
- Legal issues where local laws are different.
- Exchange rate issues. Unexpected changes in the value of sterling can have an impact on prices, costs and profits.

Stakeholders

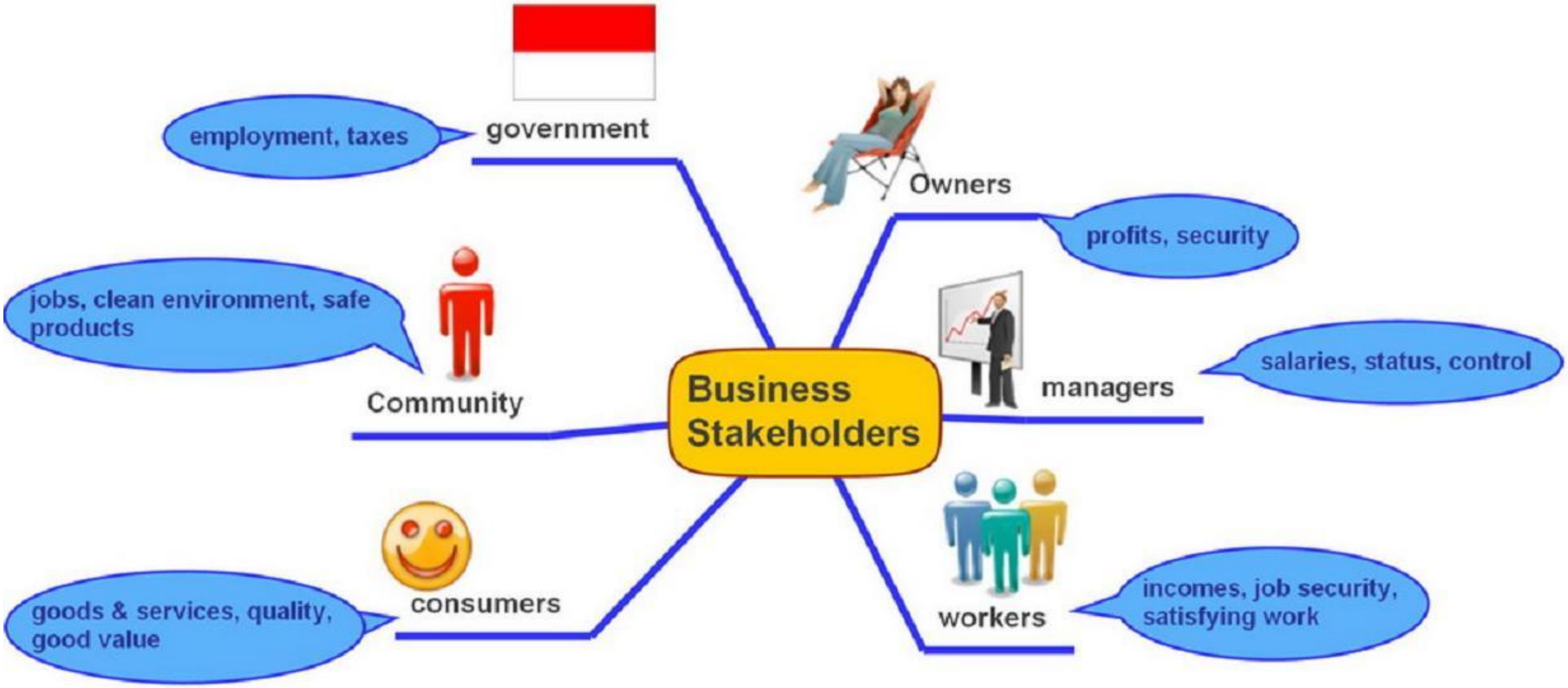
What are stakeholders?

A stakeholder is anyone with an interest in a business. Stakeholders are individuals, groups or organisations that are affected by the activity of

the business. They include:

- Owners who are interested in how much profit the business makes.
- Managers who are concerned about their salary.
- Workers who want to earn high wages and keep their jobs.
- Customers who want the business to produce quality products at reasonable prices.
- Suppliers who want the business to continue to buy their products.
- Lenders who want to be repaid on time and in full.
- The community which has a stake in the business as employers of local people. Business activity also affects the local environment. For example, noisy night-time deliveries or a smelly factory would be unpopular with local residents.

Internal stakeholders are groups within a business - eg owners and workers. External stakeholders are groups outside a business - e.g. the community.



Conflict of Stakeholders

Conflict between managers and workers can lead to industrial action. Some workers are members of trade unions, which negotiate with employers over pay and conditions, and may organise strikes. Industrial action is bad for Vandyke Pizzeria because it can stop production, let down customers and lose the business money.

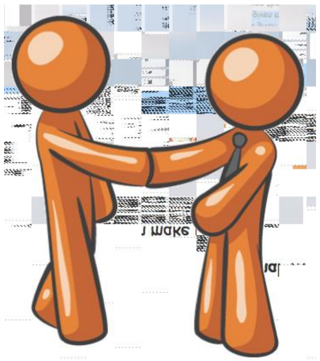
Poor communication between internal stakeholders can lead to reduced morale and a loss in productivity or competitiveness.

Growth

Economies of Scale

This is the reduction in unit/ average cost due to an increase in the scale of production of the business.

- Large firms can borrow more cheaply
- Large firms can produce a range of products and have a larger market share. This is called DIVERSIFICATION.
- Large firms can buy materials in bulk and get a discount(money off)
- Large firms can use better and more efficient machinery



Some firms prefer to stay small

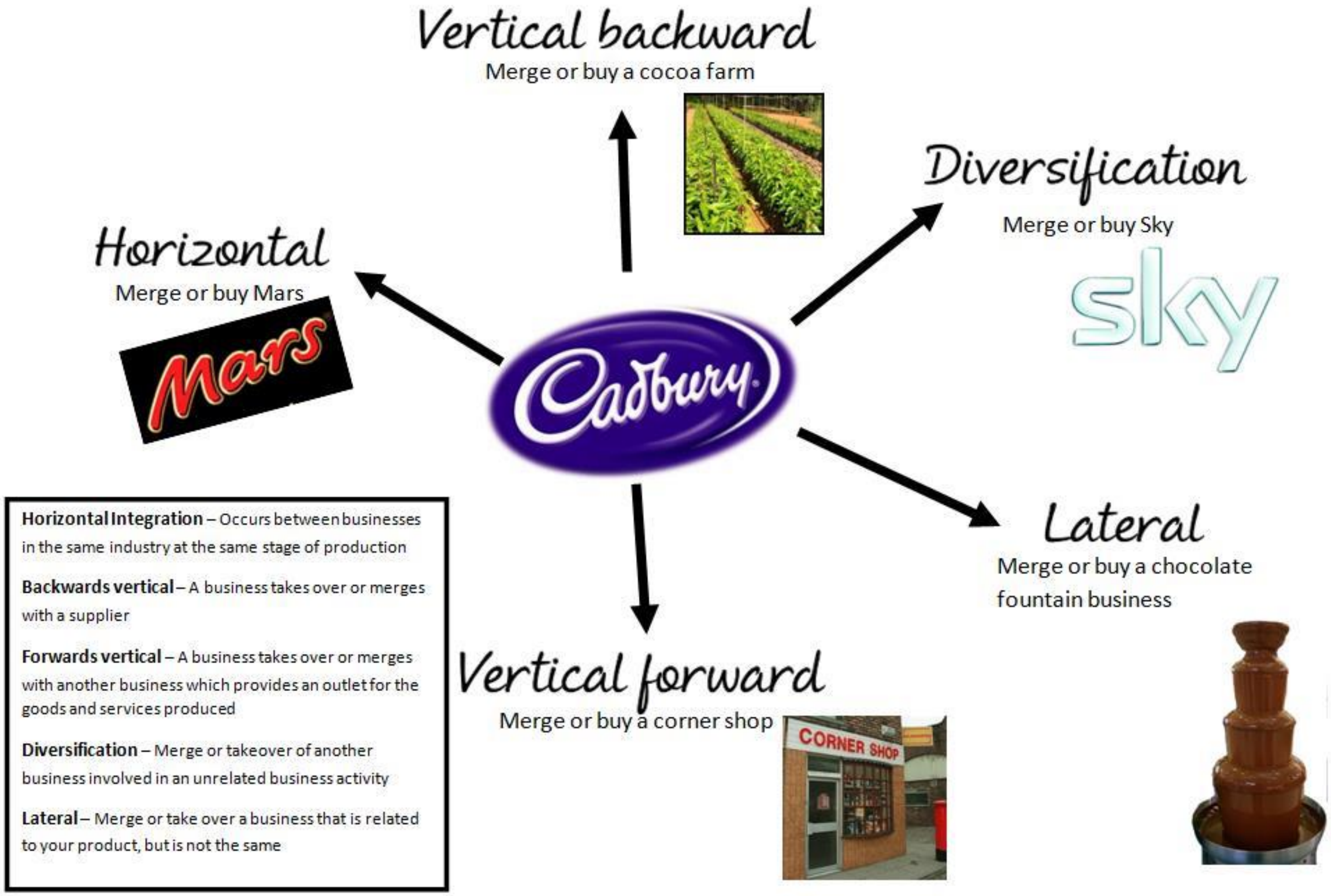
Because they:-

- like to give personal service to their customers
- they are unable to gain the money needed for expansion
- are sole traders who prefer to keep total control
- find it difficult to keep control over large enterprises

How do firms grow?

Oraganic Gorwth – from within:

New stores

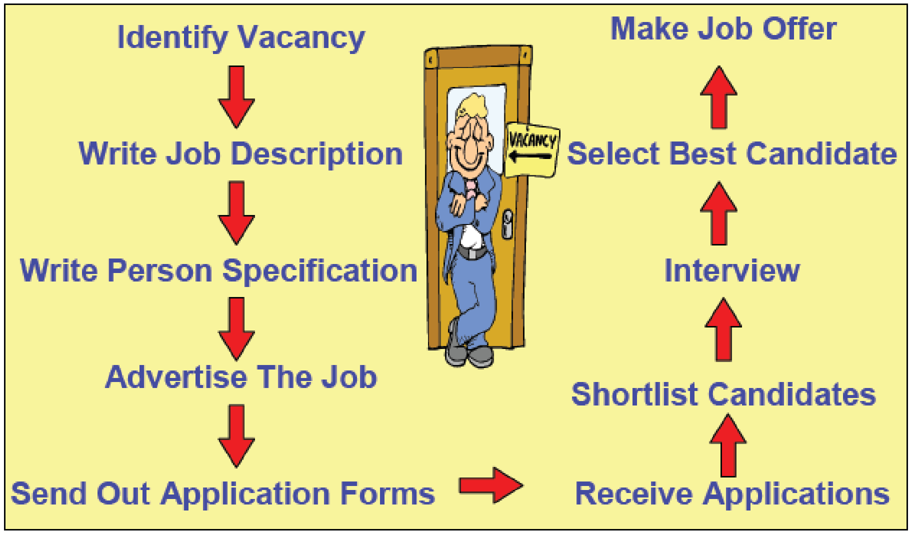


RECRUITMENT AND SELECTION

Firms recruit, select and train staff in different ways with varying degrees of success.

Recruiting staff

Without the right staff with the right skills, a business cannot make enough products to satisfy customer requirements. This is why organisations draw up workforce plans to identify their future staffing requirements. For example, they may develop plans to recruit a new IT Manager when the current one plans to retire in eight months time.



Recruitment is the process by which a business seeks to hire the right person for a vacancy. The firm writes a job description and person specification for the post and then advertises the vacancy in an appropriate place.

- Job descriptions explain the work to be done and typically set out the job title, location of work and main tasks of the employee.
- Person specifications list individual qualities of the person required, eg qualifications, experience and skills.

Firms can recruit from inside or outside the organisation.

- Internal recruitment involves appointing existing staff. A known person is recruited.
- External recruitment involves hiring staff from outside the organisation.

The table below shows the advantages of internal and external recruitment

Internal

External

Cheaper and quicker to recruit

Outside people bring in new ideas and a wider range of experience

Limits the number of potential applicants

Longer process

People already familiar with the business and how it operates

Larger pool of workers from which to find the best candidate

Provides opportunities for promotion with in the business – can be motivating

More expensive process due to advertisements and interviews required

Business already knows the strengths and weaknesses of candidates

It does not create and internal vacancy which also has to be filled

METHODS OF SELECTION

Application forms, CVs, references, interviews, presentations, role-play and tests can be used to show if an individual is suitable for the specific job on offer.

You need to be aware of the advantages and disadvantages of each;

Method of selection	advantage	disadvantage
Application forms – a standard form is sent to applicants to complete	*Easy to compare as all applicants will answer the same questions. *The business can chose the questions	*The candidate may have specific skills that they can not showcase on the form *Hs the candidate completed the form themselves?
CV	*Will show the candidates ICT skills	*Difficult to compare. *Questions cannot be directed by the business.
	*The candidate has more freedom to show off certain qualities.	
Interviews	*The business can meet the candidate and see their appearance, communication skills, etc...	*Some very suitable candidates may be overcome by nerves and my underperform The best candidate may therefore not be chosen

Media used to advertise jobs;

LOCAL NEWSPAPERS – Relatively cheap, useful for attracting local people who could easily commute to the business.

NATIONAL NEWSPAPERS – More expensive, usually to attract specialist workers from a wider area. This is allows for a better selection of candidates.

JOB CENTRES – Run by the government. Are in the public sector. Free for businesses to advertise. Often used for semi-skilled and unskilled jobs.

INTERNET – Cheap so reduces the firms costs. Useful for attracting people with ICT skills.

Training

Training is a very important part of the Human Resource Department's work. In some large firms there is very often a separate training department. Ideally, training should involve the worker before they actually start the job, during the first few weeks of employment and throughout their careers.

The purpose of training

- Train new workers for particular jobs
- Help to improve the efficiency of existing workers
- Avoid accidents at work
- Retrain workers so they can cope with new technology
- Help workers gain promotion to better jobs within the firm INDUCTION: This should be available to all new employees. Basic induction will involve health & safety procedures, location of work-space, staff canteen (if available), procedures for breaks and lunch, meeting with co-workers etc. The purpose of induction is to 'settle' a new employee in and make them feel welcome, as well as giving them information.

ON-THE-JOB: This takes place in the work-place, while actually carrying out the job itself. It may involve being coached by an existing member of staff - particularly for promoted positions; or it may involve 'buddying-up' will a similar worker so that they can teach you how to do certain tasks.

The great thing about on-the-job is that it is not only CHEAPER for a business, but it also means that any difficulties can be identified and sorted out quickly.

OFF-THE-JOB: This takes place either away from the work-place altogether, or within the work-place but away from the job itself. It is quite often provided by 'outside' experts, for example training on a new piece of computer software for the accounts department. It may last only a few days or it may involve a longer commitment from both the employer and the employee - for example, college day release to attend a college course.

The great thing about off-the-job is that there are no distractions from work while it is taking place. Because it may be provided by specialists, it is often of high quality. A business may send only ONE of its employees on the course and then they can come back into the business and CASCADE the training to other members of the organisation - i.e teach or show others, making it very cost effective for the business!

Unfortunately off-the-job can also be quite expensive if it is necessary to take lots of employees away from their work. Also if a business sends out only one employee and then expects them to come back to train the rest, they could end up with the whole workforce copying the mistakes of the original employee!

Motivation

Companies can motivate employees to do a better job than they otherwise would. Incentives that can be offered to staff include increased pay or improved working conditions. Motivational theories suggest ways to encourage employees to work harder.

What is motivation? Motivation is about the ways a business can encourage staff to give their best.

Benefits of motivation; *Increased output caused by extra effort from workers.

*Improved quality as staff take a greater pride in their work. *A higher level of staff retention. Workers are keen to stay with the firm and also reluctant to take unnecessary days off work.

Managers can influence employee motivation in a variety of ways:

Monetary factors: some staff work harder if offered higher pay. Non-monetary factors: other staff respond to incentives that have nothing to do with pay, e.g. improved working conditions or the chance to win promotion.

Payment methods Managers can motivate staff by paying a fair wage. Payment methods include:

- Time rate: staff are paid for the number of hours worked.
- Overtime: staff are paid extra for working beyond normal hours.
- Piece rate: staff are paid for the number of items produced.
- Commission: staff are paid for the number of items they sell.
- Performance related pay: staff get a bonus for meeting a target set by their manager.
- Profit sharing: staff receive a part of any profits made by the business.

- Salary: staff are paid monthly no matter how many hours they work.
- Fringe benefits: are payments in kind, eg a company car or staff discounts.

Non-pay methods of motivation

Managers can motivate staff using factors other than pay through:

- Job rotation: staff are switched between different tasks to reduce monotony.
- Job enlargement: staff are given more tasks to do of similar difficulty.
- Job enrichment: staff are given more interesting and challenging tasks.
- Empowerment: staff are given the authority to make decisions about how they do their job.
- Putting groups of workers in a team who are responsible together for completing a certain task.