FORMS OF BUSINESS OWNERSHIP

Introduction

- A business is always owned by someone. This can just be one person, or thousands. So a business can have a number of different types of ownership depending on the aims and objectives of the owners.
- Most businesses aim to make profit for their owners. Profits may not be the major objective, but in order to survive a business will need make a profit in the long term.
- Some organisations however will be ‘not-for-profit’, such as charities or government-run corporations.

Key Learning Points

- What are the different types of business organisation?
- What are the advantages and disadvantages of each type?
- What are the implications of the choice of business organisation on key issues such as:
  - ✔ Ability to raise finance
  - ✔ Control of the business
  - ✔ Business aims and objectives

Main types of business organisation

- Sole trader
- Partnership
- Private Limited Company (“Ltd”)
- Public Limited Company (“plc”)

Sole Trader

- A sole trader is a business owned by *one person*
- The owner makes all the decisions about how the business is run
- The owner keeps all the profit, but also suffers all the losses of the business

Examples of sole traders

- Small shops
- Small hairdressers
- Accountants

Can you think of any others?

Advantages of a Sole Trader

- Cheap and easy to set up
- Keep all the profits
- Make all the decisions
- Personal contact with customers

Disadvantages of a Sole Trader

- Unlimited liability (this means that the owner is responsible for all of the debts of the business)
- Lack of capital can prevent expansion
- Suffer all losses yourself
- Business ends when the owner dies

Partnership

- Business where there are two or more owners of the enterprise
- Most partnerships have between two and twenty members though there are examples like the major accountancy firms where there are hundreds of partners

Advantages of a Partnership

- Spreads the risk across more people, so if the business gets into difficulty then the are more people to share the burden of debt
- Partner may bring money and resources to the business
- Partner may bring other skills and ideas to the business, complementing the work already done by the original partner

Disadvantages of a Partnership

- Have to share profits
- Less control of business for individual
- Disputes over workload
- Problems if partners disagree over of direction of business

Limited Company

- Business owned by shareholders
- Run by directors (who may also be shareholders)
- Liability is limited (important)

Private Limited Company (Ltd.)

- A private limited company is where between one and ninety nine people come together and form a business
- The owners are called shareholders and they invest money in the company
- The profit is divided up among the shareholders and distributed in the form of dividends
- “Ltd.” is written after the name of the company
- The annual accounts are sent to the Registrar of Companies - they are not published

Advantages of a Private Limited Company

- Shareholders have limited liability: If the business fails you can only lose the money that you invested in the company. Your own personal wealth cannot be touched.
- Easier to raise finance
- Business continues to exist even when an owner dies

Disadvantages of a Private Limited Company

- Costly to set up
- A lot of legal requirements when forming a company
- Shares cannot be transferred to the general public

Public Limited Company (Plc)

- Business owned by shareholders
- Run by directors (who may also be shareholders)
- Liability is limited

Advantages of a Public Limited Company

- The ability to raise larger capital
- Widening the shareholder base and spreading risk
- More growth and expansion opportunities
- Shares are more easily transferable
- Going public can enhance the options for the founders to exit the business at some point in the future, if they wish to do so

Disadvantages of a Public Limited Company

- Costly and complicated to set up as a plc
- Certain financial information must be made available for public (higher transparency)
- Shareholders expect a steady stream of income from dividends
- Increased threat of a takeover