|  |
| --- |
| ***Business structure – private sector legal structure*** |

**Introduction:**

* Identify different **forms** of legal **organisation**
* Identify different forms of **liability** and **incorporation**
* **Continuity** – what happens if something happens to the owners

***Sole traders and Partnerships***

Sole traders (sole proprietor/owner) business exists when there **is only \_\_\_\_ owner.**

*Sole trader businesses are often found where* ***personal services*** *are provided, little start-up capital, and large scale production is not needed.*

What kind of business is typical of a **SOLE TRADER**?

|  |
| --- |
| Why are these typical for a **sole trader**? |

A sole trader can employ as many people as he/she wants but only has \_\_\_\_\_**owner**.

***Drawbacks and benefits of being a Sole Trader***

|  |  |  |
| --- | --- | --- |
| **DRAWBACKS (-)** |  | **BENEFITS (+)** |
| Businesses are often small, and any losses are borne (accepted) by the sole trader**(unlimited liability)** | ***PROFITS*** | Do not have to be **shared** with others |
| Capital is **not easy** to obtain and cannot be obtained from a **share issue (selling shares)** | ***SETTNG UP*** | Little **capital** is needed, and there are few formalities (legal requirements) |
| The burden/work is not shared with others; typically **long hours** and little chance of holidays | ***CONTROL*** | Easy to keep overall **control** and be your own boss |
| Might have to be made **without** assistance | ***DECISIONS*** | Can be made **quickly** |
|  | ***(write your own)*** |  |

**Sole traders** and **Partnerships** have **UNLIMITED LIABILITY** – if the business debts cannot be **met** (paid for) from the firm’s **own resources**, the owner(s) can be **forced** to sell personal assets to cover these business debts.

|  |
| --- |
| What could these **personal assets** be? |

***Features of Partnerships***

Partnerships are also **unincorporated** businesses with **unlimited liability**. They traditionally associated with professions such as accountants and lawyers where capital outlay is small.

The **MINIMUM** number of partners is **\_\_\_\_\_ and MAXIMUM is \_\_\_\_\_**. The partners often draw up a written partnerships **AGREEMENT** expressing the rights and duties of individual partners with reference to:

* **Profit** sharing

|  |
| --- |
|  |

* The amount of **capital** to be contributed

|  |
| --- |
|  |

* The different business **resp\_\_\_\_\_\_\_\_\_\_\_\_\_s** of each partner
* Regulations concerning with **withdrawal** of profits by individual partners, on introducing **new** partners, and the dissolution **(ending)** of the partnerships

***(They may create a Deed of Partnership to detail this)***

A ***partnership***, like a sole trader business, is **simple to establish**.

Other similarities are that the partnership can keep its financial affairs ***private***, and the owners face the drawback of ***unlimited liability*.**

Partners are better able to **spe­\_\_\_\_\_\_\_\_\_\_** and therefore overcome the likely **limitations** of knowledge and *skill levels* associated with a one-person sole trader operation.

|  |
| --- |
| What kind of **skills** that people have would make a good partnership? |

A **SLEEPING PARTNER** may join, who will invest in the business but take **no part** in its management.

|  |
| --- |
| Why? |

**Partnerships**

|  |  |
| --- | --- |
| ***Benefits*** | ***Drawbacks*** |
| **Specialisation** can take place (each partner can specialise in a different business function) | **Decisions making take longer** (the new partner must be consulted) |
| **Additional skills** may also be introduced by the new partner | If/when the new partner dies or leaves, a **new partnership** must be created |
| **More capital** is available (an extra owner is an extra investor) | The **profit must be shared** between the partners |
| **Expansion** is therefore easier | **Control** of the business must also be shared |
|  |  |

*A new form of business* ***ownership*** *was formed in 2000 called the LLP (Limited Liability Partnership). This is similar to a limited company in that an LLP:*

* *Is registered at* ***Companies House***
* *Becomes a legal person* ***separate*** *from its members*
* *Offers* ***limited liability*** *to the partners*
* *Must use the* ***abbreviation*** *(LLP) at the end of its name*

*Differences between LLPs and limited companies include* ***TAX liability*** *– an* ***LLP’s members*** *pay* ***income tax*** *and LLP* ***does not*** *pay corporation tax.*

|  |
| --- |
| ***Limited liability:*** |

|  |
| --- |
| ***Incorporation*** *means that a company has a* ***separate legal existence*** *(legal personality )from its* ***owners*** *(shareholders)*  Sole traders and partnerships **do not possess** a legal existence separate from that of their owners – they are **UNINCORPORATED** businesses. |

|  |
| --- |
| ***Legal personality:*** |

|  |
| --- |
| ***Continuity:*** |

***LIMITED COMPANIES***

**Incorporation** gives a company a **separate legal existence** from its owners (shareholder). These vary from family-owned businesses (Ltd) to large public limited companies (Plcs).

A **limited company** is classed as **Private** ‘**Ltd’** unless its *memorandum of association* states that it is a **Public** ‘**Plc’ or ‘inc’**.

* The **owners** – **shareholders** – gain a share of the profits (**dividend**) from owning shares, and may also make a **capital gain** if the share price rises.

|  |
| --- |
| ***Share:*** |

*Let’s* ***compare*** *the two* ***incorporated*** *structures:*

|  |  |
| --- | --- |
| ***Private Limited Company (Ltd)***  Usually an SME (Small-Medium sized Enterprise)  *Limited liability*  Capital **cannot** be raised through selling shares publicly  Less **secrecy** as end-of-year accounts need to be sent to Companies House  Original owner can keep **control** | ***Public Limited Company (Plc)***  Usually a larger size enterprise such as Apple Inc. or Microsoft  *Limited liability*  Capital **can** be raised through selling shares publicly  Very public and open running of business  Can be **complex** to run – loss of control  Risk of **takeovers**  Short-term **objectives** of shareholders (increase share price and then sell or profit **maximisation)**  Share price fluctuation (up & down)  **Shareholders** own the company – appoint a ‘board of directors’ who control the management and decision making of the business |

A **private limited** company can have **one** or more **members** (shareholders), but **cannot advertise** its shares for sale to the public or through the Stock Exchange.

**PUBLIC LIMITED PLCs** must have a minimum £50,000 share capital, and **CAN** sell their shares to the public and be quoted on the Stock Exchange.

|  |
| --- |
| A **STOCK EXHANGE** acts as the market for second-hand stocks and shares (securities), encouraging **investment** in business by offering investors a degree of protection through its strict rules for admitting them. |

In **comparison** with sole traders and partnerships, **Ltds** and **Plcs** have:

* **Limited liability** is offered to investors, encouraging **greater inv\_\_\_\_\_\_\_\_**
* **Greater investment** = *greater size* = *greater economies of scale*
* Through its **separate legal existence** from the owners, a limited company **owns** assets, takes legal action in its own name, and does not face problems of **continuity** when an owner *dies*, *retires* or otherwise leaves.

|  |
| --- |
| ***Shareholder:*** |

**HOWEVER**:

* Greater **expense** and more **formalities** are incurred in setting up the company
* Its business affairs are **less private**
* Greater size may result is **DIS**economies of scale
* Owners of private companies may face difficulties in **selling shares**
* **Ownerships** of PLCs can be transferred (via the Stock Exchange) against the wishes of the directors, and shareholders may seek to operate short-term policies to make short-term profits, leading to greater instability

***Diseconomies of scale:*** are the forces that cause larger firms and governments to produce goods and services at increased per-unit costs. Some causes:

* **Communication** costs and **duplication** of effort
* **Office politics** – personal interests are easier to hide; incompetence
* **Cannibalization -** larger firms frequently find their own products are competing with each other
* **Isolation** of decision makers from **results** of their decisions
* **Slow response time** – the larger the company, the potentially slower response
* **Inertia** (unwillingness to change) – typical of larger, established companies

***Legal formalities in setting up a company in the UK:***

The Companies Acts (2006 and others) set out the legal requirements to create and run a limited company. All limited companies are registered at **Companies House.** They must submit **annual returns** summarising changes to their affairs, and **annual financial statements**.

**Registering a company**

The company’s **MEMORANDUM OF ASSOCIATION** governs its relationship with the outside world. Its clauses include the following information.

|  |  |
| --- | --- |
| *Name*  *Situation*  *Objectives*  *Liability*  *Capital*  *Association* | *The proposed company name*  *The address of the registered office*  *The purposes for which it was formed (stated in general terms)*  *A statement that its members have limited liability*  *The amount of capital registered and types of shares*  *Directors’ names and addresses* |

The **ARTICLES OF ASSOCIATION** govern the **internal** workings of the company, including the details of directors (number, rights and duties), the conduct and calling of meetings, and the division of profits.

|  |
| --- |
| **‘DIVORCE OF OWNERSHIP and CONTROL’**  The phrase *‘divorce of ownership and control’* is closely related with PLCs – shareholders **own the company** but do not control/manage it.  Few shareholders have a direct say in the daily running of a PLC, because – through the **ANNUAL GENERAL MEETING (AGM)** – they appoint specialist directors to exercise day-to-day control on their behalf.  Once **ownership** and **control** is separated in this way, the decisions made by the directors – the controllers – may **clash (disagree)** with the **wishes**of (some) the **shareholders** – the ***owners***.   * A common example is where the shareholders may wish to see a policy of **profit maximisation**, which may not be the wish of the directors, who see the long-term growth as a more important strategy to pursue. * Directors often look at **long-term** planning decisions and strategies whereas shareholders may pursue ‘short-termism’, seeking quick profits. |

*Some PLCs covert back to LTD to gain control: Virgin Group’s Richard Branson is an example of this.*

***Other private sector business types:***

**FRANCHISES (**it’s **NOT** a legal structure, it’s a contract**)**

Franchise businesses use the **name** and **logo** of an existing company

Franchising is a major growth area in the **UK** and **Chinese** economy

Types of franchise agreements include:

* **Manufacturer**- **retailer** (some petrol/gas stations and car dealers)
* **Wholesaler-retailer** (Spar and other voluntary groups)
* **Trademark-retailer** (‘fast food’ outlets)

The **FRANCHISEE** buys the franchise, entering into a contract with – and paying a fee to – the **FRANCHISOR** (the company)

|  |
| --- |
| Examples of **popular** franchise businesses: |

Typically, the **FRANCHISEE**:

* Agrees to follow set rules, e.g. layout of premises and product standards
* Buys only from the franchisor or other named supplier

The **FRANCHISOR**:

* Supplies the décor and assist with the layout
* Allows the franchisee to the use their product and logo

A **franchisee** gains a recognised product or service backed by successful marketing and business methods, and receives expert business support – success is therefore more **LIKELY** than for an ‘**independent’** entrepreneur.

The **franchisor** can expand without making a large capital investment, since the franchisee provides the **CAPITAL**.

The company knows that its franchisees, who are not on a salary, will be highly motivated by the direct financial incentive to make their franchise a financial success.

A **franchise agreement** typically covers:

* The **length** of the franchise and how it can be ended
* The **territory** covered by the franchise and whether the franchisee has exclusive selling rights
* The nature and support given by the franchisor
* **Fees** – the initial fee, the management fee and/or percentage of sales revenue payable to the franchisor
* **Restrictions** set by the franchisor (e.g. on display, products, sold)

|  |
| --- |
|  |

***Cooperatives***

Most co-operative societies exist to provide a service to their member-owners and for the public. Control is shared **democratically**, with each member having a *single* vote, and trading surpluses **(‘profits’)** are often distributed equally to the members in proportion to their trade with the society.

**Co-operatives:**

Ownership, finance and control in hands of ‘members’

* Exists for the benefit of ‘members’
  + **Consumer co-ops** – members buy goods in bulk, sell to members, divide profits between members
  + **Worker co-operatives** – workers buy the business and run it – decisions and profits shared by members
  + **Producer co-operatives** – producers organise distribution and sale of products themselves

|  |  |
| --- | --- |
| Advantages | Drawbacks |
|  |  |

***MUTUALITY***

*Some building societies and life assurance firms and non-profit making organisations, exist for the benefit of their members (customers).*

**Holding companies (NOT A LEGAL FORM):**

|  |
| --- |
|  |

An important form of business is the **JOINT VENTURE**:

|  |
| --- |
| Joint Venture: |

|  |  |
| --- | --- |
| Advantages | Drawbacks |
|  |  |

***An example of a JV is:***

***Public-sector enterprises: PUBLIC CORPORATIONS***

**Caution!** The use of the term of public in two ways often causes confusion. We already talked about Public Limited Companies in the Private Sector (Apple, Microsoft etc.). Now we want to discuss **PUBLIC CORPORATIONS**: these are enterprises that are owned by the STATE (the government). They are in the public sector and are referred to as **public corporations**. In China, they are called **SOE** (State Owned Enterprises).

|  |
| --- |
| Public Corporation |

|  |  |
| --- | --- |
| **PLC (Public Limited Company)** | **Public Corporation** |
| **Apple**  **Microsoft**  **Walmart** | **Xi’an TV station**  **China National Petroleum Corporation**  **Sinosteel Corporation** |

Public sector organisations **do not** often have **profit** as a major objective. Common organisations are:

* TV and Media (BBC in the UK)
* Airlines – safety as a priority
* Utilities

|  |  |
| --- | --- |
| Advantages | Disadvantages |
|  |  |

***Let’s take a quiz on the PPT:***

|  |  |
| --- | --- |
| **Public sector** | **Private sector** |
|  |  |

|  |
| --- |
| **Notes:** |

***Worksheet summary quiz and activity:***

1. Why is **limited liability** important for enterprise?

|  |
| --- |
|  |
|  |
|  |
|  |
|  |

1. Explain the term **‘continuity’**

|  |
| --- |
|  |
|  |
|  |

1. Private Limited Companies and Public Limited companies are **not the same**. What are the differences?

|  |
| --- |
|  |
|  |
|  |
|  |
|  |

1. There can be conflict between **Control** and **Ownership**. What does this mean?

|  |
| --- |
|  |
|  |
|  |
|  |
|  |

True or False (Mark an **X**)

|  |  |  |
| --- | --- | --- |
|  | **True** | **False** |
| 1. **Limited liability** means that you have limited control of the business |  |  |
| 1. **Unincorporated** business owners are liable for the company’s debts. |  |  |
| 1. In a **franchise** business, the franchisee can decide what he/she wants to sell, the price, logo, supplier etc. |  |  |
| 1. When a business gets bigger, it could result in **diseconomies** of scale as it is difficult to control. |  |  |
| 1. Having a partner can help run a business by complementing one another’s skills and knowledge. |  |  |
| 1. Cooperative are all about profits and one person having complete control. |  |  |

**Summary of the worksheet in your own words (in English and Chinese):**

|  |  |
| --- | --- |
|  |  |

*Vocabulary check:*

Please choose your own vocabulary to study. We will talk about it in class

|  |  |
| --- | --- |
| **English** | **Chinese** |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

|  |
| --- |
|  |