CHAPTER 6: Types of Business Organisations

Key Revision Points

Organisations and their environment

Business organisations are extremely diverse in their form and functions, even within a single business sector. All organisational forms have advantages and disadvantages relative to the environment in which they operate and successful organisations capitalise on their advantages while recognising their disadvantages.

Businesses need to understand the diversity of organisational types for a number of reasons.

- Different types of organisations will be able to address their customers, suppliers and employees in different ways.
- As sellers of materials to companies involved in further manufacture, a company should understand how the buying behaviour of different kinds of organisations varies.
- We should be interested in the structure of business units at the macroeconomic level.

Classification of business organisations

There are many approaches to classifying organisations that would satisfy the interests identified above. Organisations are commonly classified according to their:

- Size (e.g. turnover, assets, employees, geographical coverage)
- Ownership (e.g. public, private, co-operative)
- Legal form (e.g. sole trader, limited company)
- Industry sector.

The Sole Trader

The most basic level of business organisation is provided by the sole trader. Becoming a sole trader requires the minimum of formality.

It has been estimated that about 80 per cent of all businesses in the United Kingdom are sole traders, although they account for only a small proportion of Gross Domestic Product.

It is sometimes difficult to describe just when a sole trader business unit comes into existence, with many sole traders operating on a part-time basis.

Many sole traders fail after only a short time, often because of the lack of management skills of an individual who may well be an expert in his or her own field of specialisation.

Sole trader or employee?

It can sometimes be difficult to decide whether a person is a self-employed sole trader or an employee of an organisation. The distinction is an important one, because a trend during the 1990s was for large organisations to outsource many of their operations, often buying in services from apparently self-employed individuals. There can be many advantages in classifying an individual as self-employed rather than an employee.

Partnerships

Two or more persons in partnership can combine their resources and expertise to form a partnership. Partnerships can range from two builders joining together to a very large accountancy or solicitors' practice with hundreds of partners.

Despite internal agreement between partners, partnerships in England and Wales have not had their own legal personality. As a consequence, the partners incur unlimited personal liability for the debts of the business. Furthermore, each partner is jointly liable for the debts incurred by all partners in the course of business.

Limited Companies

The present law governing the registration of companies is contained in the Companies Act 1985. Today, the vast majority of trading within the United Kingdom is undertaken by limited companies.

Company administration

A company acts through its directors who are persons chosen by shareholders to conduct and manage the company's affairs.

Every company must have a secretary on whom Companies Acts have placed a number of duties and responsibilities.

Shareholders

The shareholders own the company, and in theory exercise control over it. A number of factors limit the actual control that shareholders in fact exercise over their companies.

The vast majority of shareholders typically are either unable or insufficiently interested to attend company meetings, and are happy to leave company management to the directors, so long as the dividend paid to them is satisfactory.

Company reports and accounts

An important document that must be produced annually is the annual report. Every company having a share capital must make a return in the prescribed form to the Registrar of Companies, stating what has happened to its capital during the previous year.

As well as providing the annual report and accounts, the directors of a company are under a duty to keep proper books of account and details of assets and liabilities.

Liquidation and receivership

The process of breaking up a business is referred to as liquidation. Voluntary liquidation may be initiated by members. Alternatively, a limited company may be liquidated (or wound up) by a court under section 122 of the Insolvency Act 1986.

The Insolvency Act 1986 allows a period of ‘administration’ during which a company can seek to put its finances into order with its creditors, without immediate resort to receivership.

Public limited companies

The basic principles of separate legal personality are similar for both private and public limited companies, but the Companies Act 1985 confers a number of additional duties and benefits on public limited companies.

A PLC must have a minimum share capital of £50 000 compared to the £100 of the private limited company. It must have at least two directors instead of the minimum of one for the private company.

The public limited company offer its shares and debentures to the public, something that is illegal for a private company.

A major strength is the greater potential ability to fund major new product developments. Against this, the PLC is much more open to public examination, especially from the financial community.

Advantages and disadvantages of limited companies

Formation of a limited company is relatively formal and time consuming - for a sole trader there is the minimum of formality in establishing a business. On the other hand, limited company status affords much greater protection to the entrepreneur in the event of the business getting into financial difficulty. Raising additional funds would usually be easier for a limited company, although personal guarantees may still be required.

Commercial and Quasi-Commercial Organisations Operating In the Public Sector

Public sector organisations take a number of forms, embracing government departments and agencies, local government, nationalised industries and all other undertakings in which central or local government has a controlling interest. This chapter focuses on those public sector organisations that supply goods and services to consumers. Those government organisations that are primarily policy making in nature are considered in more detail in **Chapter 2.**

State owned enterprises

Most countries have a state-owned industry sector and the size of the sector generally reflects the political ideology of a nation.

UK state-owned industries accounted for less than one per cent of Gross Domestic Product in 1999, having fallen from 9 per cent in 1979.

Governments have chosen a number of methods to transfer state-owned industries to the private sector. The most common have been:

- Sale of shares to the public
- Trade sale
- Management/employee buy-out
- Franchising/subcontracting

While governments may be ideologically committed to reducing the role of state-owned industries, it has proved difficult to sell many of them for a variety of practical and ideological reasons.

Local authority enterprise

In addition to providing basic services such as roads, education, housing and social services, local authorities have a number of roles in providing marketable goods and services in competitive markets. For a long time, local authorities have operated bus services and leisure facilities, among others.

Increasingly, UK local authorities are being forced to turn their trading activities into business-like units.

Even where separate business units have not been created, local authority services must now be assessed to ensure that they offer the 'Best Value' to the local authority.

Private sector and public sector organisations compared

A few generalisations can be made about the ways in which public services differ from those practised by the private sector:

- The aim of most private sector organisations is to earn profits for the owners of the organisation. By contrast to these quantifiable objectives, public sector organisations operate with relatively diverse and unquantified objectives.
- The private sector is usually able to monitor the results of its marketing activity, as the benefits are usually internal to the organisation.
- The degree of discretion given to a private sector manager is usually greater.
- Many of the marketing mix elements that private sector organisations can tailor to meet the needs of specific groups of users are often not open to public sector organisations.

Non–Departmental Public Bodies

Non-departmental public bodies (NDPBs) are a title given for a type of organisation which has traditionally been referred to as a QUANGO.

The following are the most important characteristics of NDPBs:
- They provide services that are considered politically inappropriate for private companies.
- The assets of the organisation are vested in a body whose constitution is determined by government.
- Management of an NDPB is generally by political appointees rather than directly elected representatives.
- NDPBs operate at 'arms length' from government.
- NDPBs are generally relatively small organisations.
- Decisions can generally be made much more speedily.

Co-operative societies

Consumer co-operative societies date back to the mid-nineteenth century when their aims were to provide cheap, unadulterated food for their members and to share profits among members.

Each co-operative society is registered under the Industrial and Provident Societies Acts, and not the Companies Acts.

Producer co-operatives are formed where suppliers feel they can produce and sell their output more effectively by pooling their resources, for example by sharing manufacturing equipment and jointly selling output.

Charities and voluntary organisations

The aims of this group of organisations can be quite complex. Meeting a good cause, such as famine relief or cancer research, is clearly very important. However, these organisations often also set trading objectives, as where charities run shops to raise funds.

In the UK, charities that are registered with the Registrar of Charities are given numerous benefits by the government, such as tax concessions.

Building societies

Building societies are governed by the Building Societies Acts.

With the liberalisation of the home mortgage market, building societies now have wider powers of lending and borrowing and face much greater competition.

The Building Societies Act 1986 further allowed building societies the possibility of converting to Public Limited Company Status, eliminating the remaining controls imposed by the Building Society Acts.