

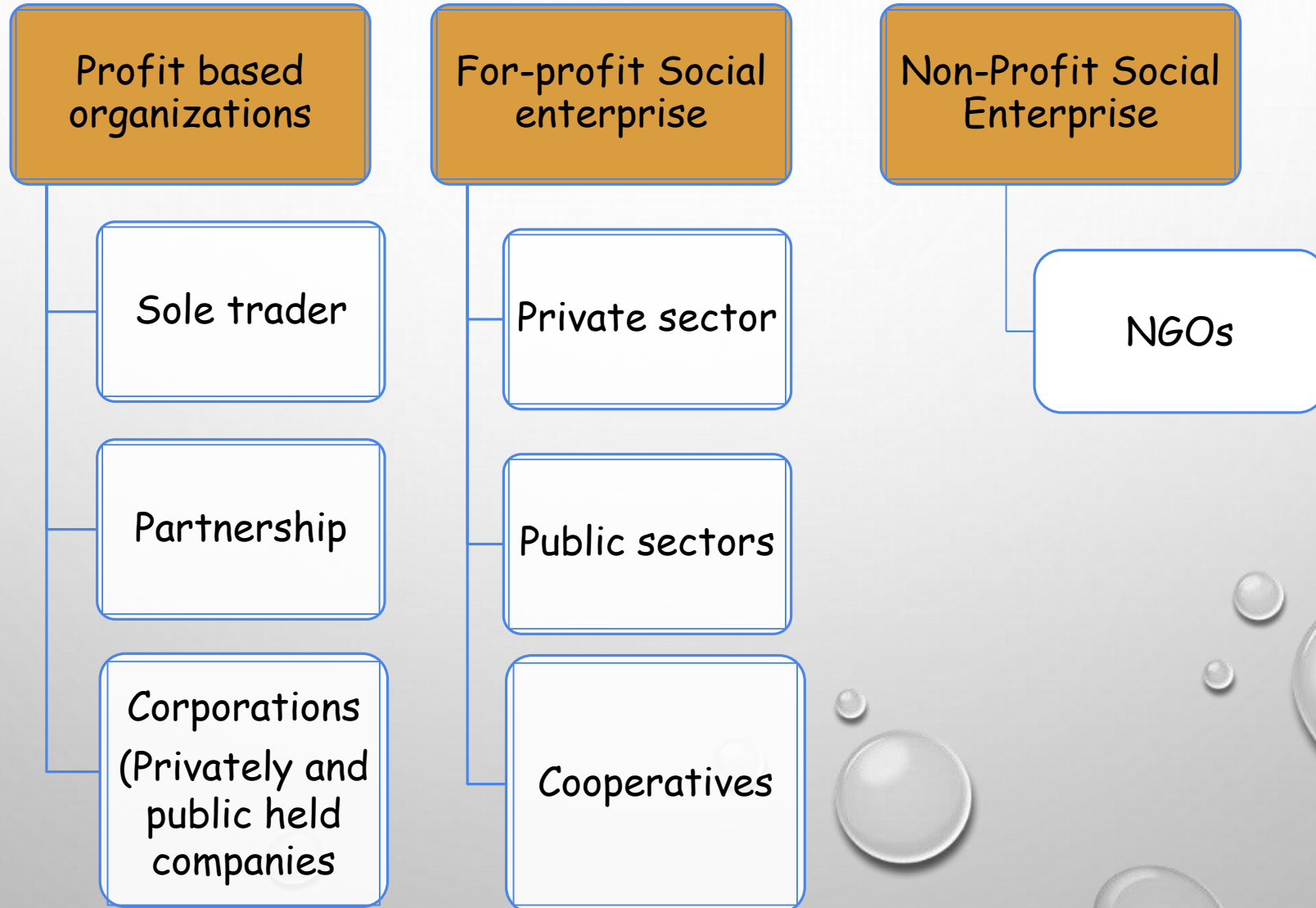


Chapter 2-Types of business entities

**INTRODUCTION TO BUSINESS
MANAGEMENT (SL/HL)**



MIND MAP-TYPES OF ORGANIZATIONS



SOLE TRADER



owned by
single- person

responsible for
success and
failure

needs little
capital-usually
obtained from
personal
savings and
borrowings

Unincorporated-
owner and
business entity
is same

If business
collapses, the
owner is
responsible to
pay debts

It is often
called as small
family-run
business

Partnership **



owned by two or more individuals or partners-maximum 20 members

Shares profit or loss equally or based on partnership deed

If business collapses, one partner or all partners are responsible to pay debts

Unincorporated with unlimited liability.

This means owner is same legal entity as the business itself

Privately held companies Pvt.**



Shares are sold to family and friends and cannot raise share capital from general public via stock exchange

Shareholders are individuals or businesses that have invested money to provide share capital to companies

Incorporated with limited liability (there is a legal difference between owner and business entity)

Shareholders are not responsible to pay debts if company becomes bankrupt

Aldi Supermarket (Germany)
Ikea furniture(Sweden)
Lego toys(Denmark)
Mars. Inc confectionary (USA)
Rolex wristwatches (Swiss)

Privately held companies can begin trading-

Memorandum of Association(details of the company)

- trading name
- main purpose
- business address
- share capital invested

Article of Association(roles and responsibilities of BOD and of shareholders)

- Internal regulations and procedures
- Roles and powers of BOD and shareholders
- procedure of AGM
- process of appointment of BOD
- distribution of profits

CERTIFICATE OF INCORPORATION

Public held companies(PLC)-Joint stock companies**



Shares are sold to general public via stock exchange

Floatation or IPO when publicly held company sells all or a part of its business to external investors

Incorporated and limited liability

Loss of Control: As the general public can buy and sell share freely

Conflict between managers, directors and shareholders

Apple technology, USA
Coca-Cola beverages, USA
Nike Inc. sportswear, USA
Samsung Electronics, South Korea
Volkswagen automobiles, Germany
Vodafone , UK

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CERTIFICATE OF INCORPORATION

Some differences between social enterprise, traditional commercial (for-profit business entities), and charitable organizations are outlined below.

Charities	Social enterprise	Traditional businesses
<ul style="list-style-type: none"> ✓ Mission driven (charitable mission) ✓ Funded by donations ✓ Surplus reinvested ✓ Purely charitable ✓ Focus on societal gains 	<ul style="list-style-type: none"> ✓ Purpose driven (social purpose) ✓ Funded by internal and external sources ✓ Profits reinvested ✓ Focus on social benefits ✓ Focus on social impact and financial gains <p>(profit follows as a consequence of its social and environmental goals, rather than as a result of its commercial activities.</p>	<ul style="list-style-type: none"> ✓ Vision driven (commercial vision) ✓ Funded by owners, investors, and internal and external sources ✓ Profits distributed to owners and/or redistributed ✓ Corporate social responsibilities* ✓ Focus on financial returns

Whilst traditional businesses may allocate some funds to corporate social responsibilities (CSR), it is not their main or most important focus. Instead, the main drivers for such businesses is profit, growth, and protecting shareholder value. A growing number of traditional businesses are reporting on the triple bottom line to as part of their CSR and sustainability goals.



**TRIPPLE
BOTTOM
LINE**

Economic objective (profit) - to earn a profit to fund its activities and growth in a sustainable way

Social or cultural objective (people) - to provide social gains for members of local communities, such as providing job opportunities and support for less-privileged members of society

Environmental objective (planet) - to manage and operate the business in such a way as to protect the ecological (natural) environment, i.e., behaving in an environmentally sustainable and responsible manner.

For-Profit Social Enterprise**

Revenue generating business with Social objectives rather than primarily aiming to earn profit for their owners

They operate for two main goals-

- ✓ To achieve social objectives
- ✓ To earn revenues in excess of their cost

It is essentially an organization that focuses on meeting social objectives (such as improving social and environmental well-being)

Private sector companies, Public sector companies and Cooperatives are the three main types of social enterprise

For-Profit Social Enterprise**

Private
Sector
Companies

Public
Sector
Companies

Cooperatives

Privately &
Publicly held
companies

Partnership

Sole trader

Private Sector Companies

Businesses owned and run by private individuals and organizations, but they reinvest or donate any surplus to create positive social change


Example

TOMS Shoes, known for giving away one pair of shoes (to those in need) for every pair the private sector social enterprise sells.


They earn their revenues and profit in socially responsible ways and uses the surplus to directly benefit the society or environment



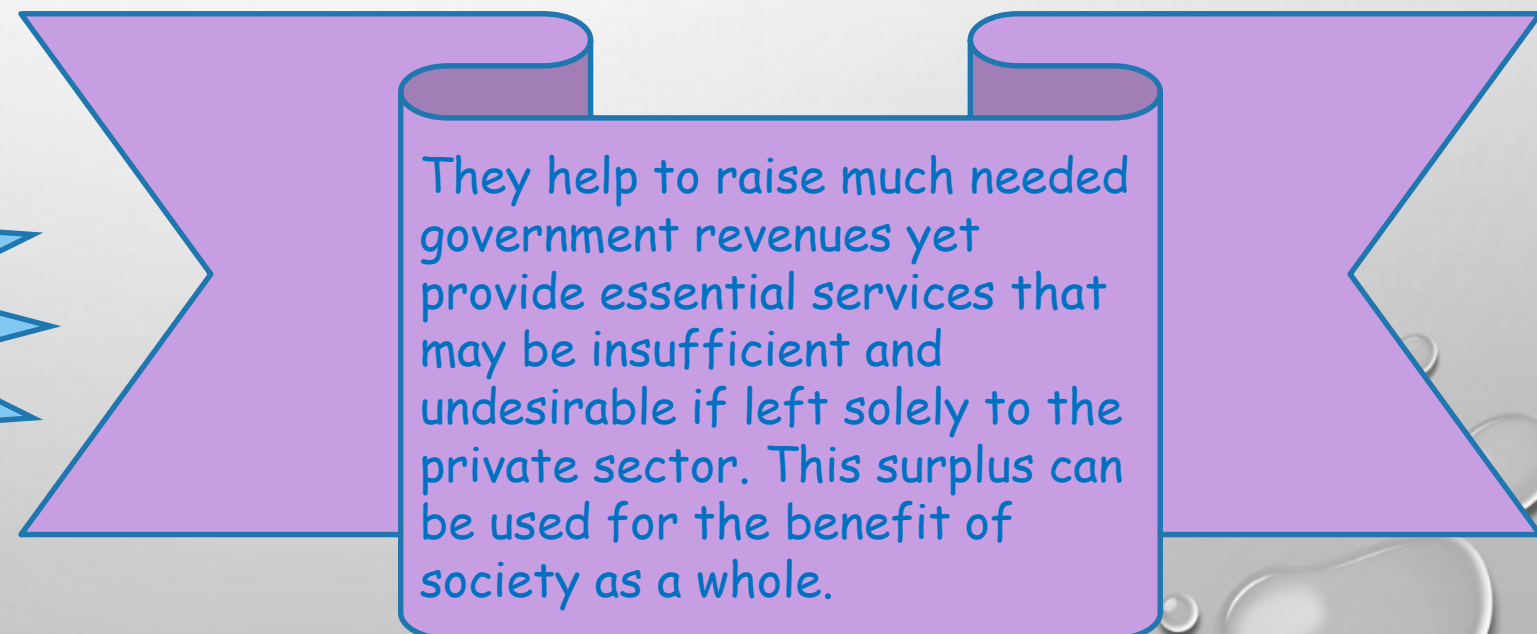
**Public Sector
Companies**



Example
Postal services
National Airlines



Public sector for profit social enterprises operate in a commercial-like way (selling goods and/or services in order to generate a financial surplus) but are owned and/or controlled by government authorities



They help to raise much needed government revenues yet provide essential services that may be insufficient and undesirable if left solely to the private sector. This surplus can be used for the benefit of society as a whole.

Cooperatives

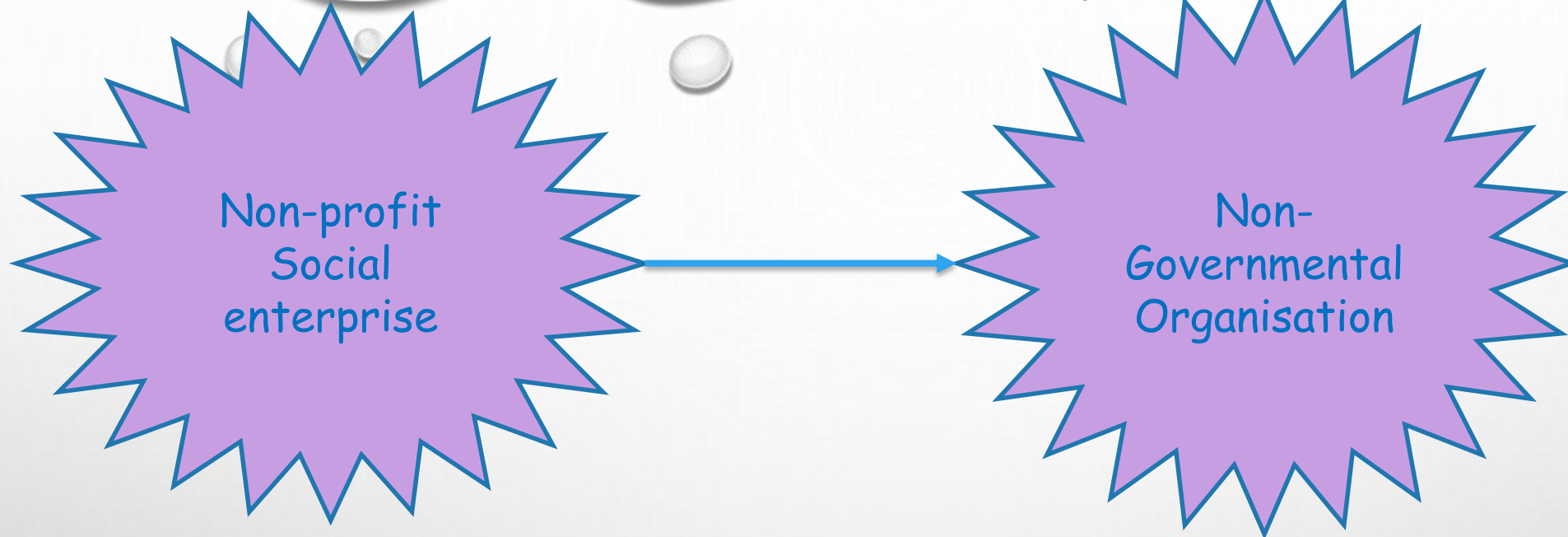
Example

Farm owners can form a cooperative to negotiate lower prices on inputs such as fertiliser and seeds by buying in bulk, or by buying expensive equipment together to share.

Cooperatives are for-profit social enterprises that are owned and managed by their members

All members participate in decision-making either directly by voting on important decisions or through representation, where members elect representatives to make decisions for them.

Non-Profit Social Enterprise**



- ✓ a non-profit social enterprise works to improve social or environmental outcomes.
- ✓ They may receive funding through grants and donations by proving their social and environmental purpose to the government.
- ✓ They may be involved in additional revenue-generating activities such as selling goods or services.
- ✓ Any surplus generated is required by law to be reinvested into the business to increase its impact but they do not distribute any profits to their owners or shareholders.

- ✓ NGOs are not controlled by governments however they can receive government funding.
- ✓ A voluntary group to promote a social cause, such as the protection of human and animal rights, protection of the environment, and development aid
- ✓ Funded by-
Government grants or donations, International organizations
Charitable organizations, Commercial businesses, as part of their corporate social responsibilities (CSR), and
Private donors