**1.2.2 Profit Based Organizations**

* These organisations’ main objectives are **profit maximisation**.
* Legal Structure of Profit Organizations: Businesses are either *unincorporated* or *incorporated*.
* ***\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_:*** the owner is the business and is legally responsible for everything (e.g. being sued). They have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ liability. This means that the owner is responsible for all debts of the business.
* ***\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*:** the firm is a legal entity in itself. The firm can be taken to court. Incorporated firms are owned by shareholders and all shareholders have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_liability. If the business fails, the shareholders can only lose up to the value of their investment. Their liability for debts is therefore limited. Businesses that have limited liability sometimes include it in their name. E.g. ABC Limited or ABC Ltd.

Main Types of Businesses:

* + **Sole Trader/Sole Proprietor:**
    - Most new small businesses are set up as sole traders.
    - Examples: plumbers, decorators, electricians.
    - Are *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*.
    - Firm ceases to exist once the owner retires/dies

Advantages:

* + - Simple legal structure
    - Easy and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to set up
    - Any profit made after tax is kept by the owner
    - Owner is in complete control and free to make decisions
    - Owner has \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to choose hours of work
    - Because of small size, sole traders can offer a personal service to customers
    - May be entitled to government support

Disadvantages:

* + - *Unlimited liability* – lose everything if the firm goes bankrupt
    - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is limited and the sole trader will usually require some security (e.g. house) to get money
    - Illness can serious hamper business
    - Business is dependent on 1 person’s ability and drive.
  + **Partnership:**
    - A business that has 2 or more owners who share all profit and liabilities.
    - Legally, partnerships usually cannot exceed 20 members.
    - Creating a *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_* is a good idea as it includes the amount of finance contributed by each partner, the roles and responsibilities of each partner, procedures for ending the partnership, etc.

Advantages:

* More financial strength because of more investors.
* Divisional of labour and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* Not required to publish financial records.

Disadvantages:

* + *Unlimited liability.*
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_decision making due to discussion.
  + Cannot sell shares in their firms to other people = restricts potential capital
  + Lack \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – they don’t continue to exist after the owners change/die.
* **Corporations:**
  + When a business incorporates it becomes its own separate legal entity under the law.
  + This legal status gives the company limited liability which protects its shareholders.
  + There are 2 main types of corporations – \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_
  + Must have Memorandum of Association and Articles of Association.

* **Private Limited Company (LTD):**
  + - A corporation that has *limited liability* and whose \_\_\_\_\_\_\_\_\_\_\_\_\_\_ are not available to the general public.
    - Examples: Virgin, Ikea, Chanel
  + **Public Limited Company (PLC):**
    - A corporation that has *limited liability* and whose \_\_\_\_\_\_\_\_\_\_\_\_\_\_ are available to the general public.

Advantages of Limited Companies:

* Raise large amounts of capital by selling shares which isn’t repayable.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for investors due to limited liability.
* Continuity – the business is a separate legal entity that continues to exist after the owners change/die.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (depending of the size of the company).

Disadvantages of Limited Companies:

* Required to publish financial statements – \_\_\_\_\_\_\_\_\_\_\_\_ and time-consuming.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and legal requirements – costly and time-consuming.
* Dividends paid at discretion of the board of directors.
* Communication problems in large organizations.
  + **Franchise:**
    - An agreement between \_\_\_\_\_ parties (Franchisor and Franchisee) where by the Franchisee is given the right to open and operate a pre-existing business.
    - Advantages to Franchisee:
      * Well-known brand name
      * Training support
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      * Global marketing campaign
    - Disadvantages to Franchisee:
      * Franchise is very expensive
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Advantages to Franchisor:
      * \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ without high capital investment
      * Franchisees are likely to be more motivated than managers.
    - Disadvantages to Franchisor:
      * Franchisee keeps majority of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      * Franchisee may tarnish brand name/corporate image

**Assign:**

* Read text pages 26 to 34
* Complete 1.2.2, 1.2.3, & 1.2.4