**STRUCTURES USED BY BUSINESSES**

When an entrepreneur sets up a business they must choose from the five main types of legal structures

* 1. Sole trader 4. Co-operative
  2. Partnership 5. State owned enterprise (Government)
  3. Private Limited Company

These legal structure can be compared using the following headings

1. Formation and Dissolution 3. Management and Finance
2. Ownership and control 4. Profits and Risks

**1. WHAT IS A SOLE TRADER**

**Sole Trader** **Def** These are business that are own and manage their own business. They are the most common type of business structure. They are found in business such as shopkeepers, farmers, tradespeople. They have unlimited Liability

Formation is very easy. If using your own name you can start trading straight away. But if you want to use a different name from your own then you must register it with the Co. Registration Office (CRO). Pubs must get a license from the Court. They also have to register with the Revenue commissioners for Tax purposes

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| **Advantages** | **Disadvantages** |
| **Formation & Dissolution –** Very easy to form | **Formation & Dissolution –** If the sole traders dies so too does the business |
| **Ownerships & Control –** The Business is owned and control by 1 person | **Management & finance –** Long working hours, hard to raise finance, loans are expensive |
| **Management & finance –** Speedy decision, Privacy (Accounts not published) | **Profits & Risk –** Unlimited liability |
| **Profits & Risk –** Keeps all profits after tax |  |

**2. What is a Partnership**

**Partnership** **Def** Is two or more people (but no more than 20) who are in a business together in order to make a profit. They are commonly formed among business such as accountants, solicitors and architects . They have unlimited liability

Formation of partnership are easy. They can start straight away but have to register for tax with the revenue commissioners. If the business name is different it also has to be registered with the CRO. Partnership are verbal contracts. But a written contract known as a Deed of Partnership should be drawn up to protect each partner from future disagreements

**Deed of Partnership Def**  This is a written agreement containing rules and conditions for

running a business as a partnership. It is used to avoid future disagreements

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| **Advantages** | **Disadvantages** |
| **Formation & Dissolution –** Easy to form (Deed of Partnership is optional) | **Formation & Dissolution –** If a partner dies the partnership ends |
| **Management & finance –** Work and responsibilities are shared, Partners bring different skills and expertise | **Management & finance –** Partners may have disagreements. Can be difficult to raise money |
| **Profits & Risk –** People working together can achieve more than alone | **Profits & Risk –** Profits are shared. Unlimited liability |

**3. What is a private limited company**

**Private Limited Company Def** These are business that are registered with the CRO and are owned

by a maximum of 50 investors called Shareholders. Shareholders are protected by limited liability

Money raise from the sale of shares are used to finance the business. Any profits made are divided among the shareholders. Shareholders are protected by limited liability

**Limited Liability Def** This means that owners only lose the value of their investment in the business if the business goes bankrupt. They are not personally liable for debts

**Formation**

Rules for setting up a LTD are set out in the Companies Acts 1963-1999. These include rules such as

* 1. No. of shareholders and directors that are required
  2. How to run an AGM
  3. The company’s name must have LTD after its name

*To form a LTD requires*

1. At least one shareholder and two directors (a director may also be a shareholder)
2. A Memorandum of Association must be prepared and made available for the public at the CRO.
3. Articles of Association must be prepared.
4. Register with the CRO using a form A1 and paying the registration fee. The CRO will issue a certification of incorporation (Birth Cert)
5. The First AGM is held to issue the share cert to Shareholders and appoint the board of directors – these are elected to oversee the running of the company on their behalf
6. The enterprise can now commence trading as a LTD – it can enter into contracts and can sue and be sued

**Memorandum of Association Def** This is a document for the public setting out details such as the name, its purpose and the no. of share held by each founder

**Articles of Association Def** This is a document for shareholders setting out – the rules for the company (How meetings are to be conducted and how directors are to be elected and replaced)

**Form A1 Def** This is a document that set out what the company will do. It contains the details of the company’s name, secretary name and the name of the directors and details of the number of share they hold. It has a statutory of consent from the shareholders and that the companies act has been followed

**HOW ARE COMPANIES RUN**

1. **Shareholders**  These are the legal owners of the company. By law every Co. with 2 or more

shareholders have to hold an AGM organised by the Board of Directors

1. **AGM**  These are meeting of a company’s shareholders who hear about the

performance of the company from the outgoing board. They also elect a new board. They must be held once a year. It stand for Annual General Meeting.

1. **Board of Directors** Are the most senior mangers of the company and must. Set the policy and

direction for the firm

1. **Appoint a CEO (MD)** they are responsible for the Co. activities and achieving targets that re set by the Share holders and Board of Directors. Make important decision, Report to shareholders at AGM, Decide on the size of the dividend to give. Director can only be removed from their position by a vote of 51% of shareholders at an AGM/EGM. The Co. chairperson is a director elected by the board to chair the Co. meetings

The Co. Secretary ensures the company meets all the legal requirements as set out under the Companies act. They

1. Maintain an up-to-date register of shareholders
2. Organise AGMs and EGMs
3. Make annual returns to the CRO
4. Keeping minutes of the meetings
5. Co. auditor is an external accountant who certifies the company’s annual accounts

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| **Advantages** | **Disadvantages** |
| 1. **Formation & Dissolution –** Can exist if a shareholder dies | 1. **Formation & Dissolution –** It’s more complex (a lot of paper work) |
| 1. **Ownerships & Control –** Owned by shareholders, easy to transfer ownership | 1. **Management & finance –** Return annual accounts (available to the public) |
| 1. **Management & finance –** easy to raise finance, easy to motivate | 1. **Profits & Risk –** Profits are shared |
| 1. **Profits & Risk –** Limited liability |  |

**4. WHAT IS A CO-OPERATIVE**

**Cooperative Def** These are business that are democratically owned and controlled by their members who may be the firms workers, suppliers or customers. Each has a financial interest in its success. They also have a say on how it is managed

Co-ops mainly exist in the agricultural industry*.* There are different types of co-operatives

* 1. Workers Co-op c. Producer Co-op
  2. Credit Unions d. Consumer Co-op

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| **Advantages** | **Disadvantages** |
| 1. **Formation & Dissolution –** Must have a minimum of 7 members. They register with the REGISTRAR OF FRIENDLY SOCIETIES. | 1. **Formation & Dissolution –** Can be quite difficult to form, time consuming and expensive. |
| 1. **Ownerships & Control –** Equal voting system exists regardless of the shares held. They file an annual financial return (report) | 1. **Ownerships & Control –** Conflict may exist between members in the need for business expansion. |
| 1. **Management & finance –** democracy and mutual co-operation. | 1. **Management & finance -**In some situations finance can be difficult to raise. This can hinder growth. |
| 1. **Profits & Risk –** Limited liability | 1. **Profits & Risk –** Profits must be shared amongst members. There may be reluctance to share profits with new members. Risk is quite minimal. |

1. **WHAT IS A STATE COMPANY**

**State Company Def** These are owned financed and controlled by the state on behalf of the

Taxpayer. They are referred to as 'semi-state' or 'State-sponsored' bodies

Example Collite, RTE, ESB, An Post.

Formation and Dissolution

1. Set up by using specially written laws (Statutory Bodies)
2. They can also be set up by registering with CRO and the State being the Share holder

Ownership and control

1. Set up by using specially written laws (Statutory Bodies)
2. They can also be set up by registering with CRO and the State being the Share holder

Management and Finance

1. The Government Provide the start up finance and subsides any loss made by the company
2. They may also guarantee any loan that the company may take out

Profits and Risks

1. Profits may be reinvested or paid out in dividends
2. Any losses that are made means that the tax payer is suffering

*Structure that can be used to expand an existing business*

1. Business may choose additional structure to expand their business.. These include
2. Companies becoming a PLC
3. Entering Strategic Alliances
4. Expand by Franchising
5. Indigenous firms becoming Transnationals firms
6. **WHAT IS A PLC**

**Public Limited Company Def** They have at least 7 members but no maximum number of shareholders. It has the Letter PLC after its name Their shares can be sold and bought on the stock exchange Dublin Stock Exchange.

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| **Advantages** | **Disadvantages** |
| 1. **Formation & Dissolution –** Must start as a LT before applying to the Stock Exchange for a listing (Quotation) | 1. **Formation & Dissolution –** Registering is time consuming and complex |
| 1. **Ownerships & Control –** Easy to transfer share form one person to the next | 1. **Ownership & Control –** Easy target for a takeover |
| 1. **Management & finance –** Access to large sources of finance, talented Staff, Creditworthiness | 1. **Management & Finance –** regulation, Lack of confidentiality |
| 1. **Profits & Risk –** Limited liability, Prestige and status | 1. **Profits & Risks –** Shareholder usually look for short term gain and expect a dividend (Pressure) |

1. **WHAT IS A STRATEGIC ALLIANCE**

**Strategic Alliance Def** Also Known as Joint Ventures. It is a mutual agreement between business to co-operate in the establishment of a project or business together. They share ownership of the business and pool there skills and resources together

E.G Kilco Chemical (N.I) and Laporte (American)

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| **Advantages** | **Disadvantages** |
| 1. **Formation & Dissolution –** Formed by a contract | 1. **Formation & Dissolution –** Mainly used to the service industry |
| 1. **Ownerships & Control –** Shared | 1. **Ownership & Control –** conflicts can lead to the alliance splitting up |
| 1. **Management & finance –** Expansion can be faster, both firms can invest funds and share the risk | 1. **Management & Finance –** Speed of expansion can be slow |
| 1. **Profits & Risk –** Costs and risks are shared | 1. **Profits & Risks –** profits are shared |

1. **WHAT IS FRANCHISING**

**Franchising Def** This means renting of an established business including business name,

logo and product/services to someone else. The franchisee owns and runs the business according to strict rules set down by the franchiser. If the franchisee breaks the terms the franchiser can withdraw permission to use the business name logo and product

This is becoming a more common in the service industry (Freshiee, Chopped)

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| **Advantages** | **Disadvantages** |
| 1. **Formation & Dissolution –** Easy to set up (Ready established business) | 1. **Formation & Dissolution –** Negotiation the contract can be slow Withdrawal require consent from the other party |
| 1. **Ownerships & Control –** the Franchiser owns the business | 1. **Ownership & Control –** Franchisee unlimited ownership or control |
| 1. **Management & finance –** Support is given to the franchisee (Training, advice) | 1. **Management & Finance –** An unsuitable franchisee can damage the reputation of whole business |
| 1. **Profits & Risk –** It is low risk for the franchiser | 1. **Profits & Risks – F**ranchiser receives an annual royalty fee based on sales |

**WHY DO BUSINESS CHANGE THEIR OWNERSHIP STRUCTURE**

Most business start as a sole trader or Partnership. As they grow their financial requirements and risk change. This means that business change their structure to meet these changing needs

*The main reason for changes include*

1. **To raise new finance** – Most common reason
2. **To acquire new skills** – Sole trader usually change into other structure to benefits form new skills and expertise. PLC can motivate, attract and reward employees
3. **To lower the risk for the owners** – Limited Liability
4. **To increase sales and profits** – strategic alliance can results in more products being sold. Changing structure can also enhance the image and reputation of a company
5. **Regain control** – Owners may buy back shares to gain control (PLC to LTD) Richard Branson

**MAIN TRENDS IN BUSINESS OWNERSHIP STRUCTURES**

1. **Privatisation and nationalisation**

**Privatisation** **Def** This is when the Government sells a state-owned company to the private sector (Eircom)

Nationislation **Def** This is when the government takes control of a company (Banks)

The number of Commercial stated owned companies are on the decline as the Government has a policy of privatisation

1. **Increase in Strategic Alliances**
2. Many Irish firms are entering joint venture with other firms
3. This allow for greater economics of scale, share risks, compete more

Tayto are produces in Libya 50:50

1. **Growth of Franchising**
2. This is becoming very popular for business in the service sector (Supermacs)
3. It allows firms to expand rapidly in a competitive market
4. **Emergence of TNC** -