Chapter 18 - Ownership Structures

1 (2017)

2.

(i) *A Sole Trader business* ***is affected by the death of the owner.***

(ii) *The shares of PLC* ***can be quoted on the stock exchange.***

(iii) *In a Franchise agreement, a fee is paid to the* ***franchisor.***

(iv) *In a Co-operative, the voting rights of members are* ***equal****.*

(v) A *Partnership is* ***not a separate legal entity.***

10

2 (2015)

8

1	**2**	**3**	**4**	**5**
E	D	F	A	C

10

3 (2013)

1. Outline two characteristics of a private limited company:

- The shareholders have **limited liability**, which means that they are only responsible for the debts of the company, up to their original investment in it, if it goes bankrupt
- A private limited company is incorporated which means it has a **separate legal existence** from its owners and can sue and be sued in its own right.
- Following the enactment of the Investment Funds and Miscellaneous Provisions Acts 2006, private companies are now entitled to have **from 1 to 99 shareholders**.
- Private limited companies have **continuity of existence** which means that the company does not end in the event of changes such as the death of a shareholder/ director.
- **Shareholders** have **one vote per share** at the AGM.

4 (2013)

4.	(3+3+2+1+1)	10

4. Write *True* or *False* after each of these statements.

	Sentence	True or False
1.	Batch Production is used when making a single, one off, unique product.	**False**
2.	In a Hire Purchase agreement legal ownership of the good transfers to the buyer when the first instalment is made.	**False**
3.	A Cash Flow deficit can be addressed by negotiating a shorter period of credit with debtors.	**True**
4.	A sole trader is an ownership structure that benefits from limited liability**.**	**False**
5.	When a company's equity capital is greater than its debt capital it has low gearing.	**True**

5 (2011)

Question 8

1.	2.	3.	4.	5.
True	**False**	**True**	**True**	**False**

6 (2007)

1.

1.	2.	3.	4.	5.
D	**E**	**F**	**C**	**B**

7 (2006)

5. Privatisation (explain and illustrate)

(a) Privatisation refers to the sale of shares in state-owned enterprises to the public, e.g. Telecom Éireann and Irish Life, etc.

(b) Impact on the development of the economy required

8 (2005)

| 6 | 5 + 5 marks |

6. Limited Liability

The shareholders or members of a limited company enjoy the legal status of having

limited liability. The extent of financial loss that can be suffered, in the event of the company being wound up, is limited to the amount of the investment made at the start, i.e. the amount of the share capital held by that shareholder. The shareholders cannot be requested to pay more than the value of the shares registered in their names. There can be no further liability due which means that the private assets of the shareholders cannot be used to discharge the debts of the company.

9 (2002)

9. Deregulation

The reduction of the regulation and interference by government on business activities. The encouragement of a free enterprise culture and the opening up of economies to outside influences. The transformation of centrally controlled economies into market led economies.

Removing protection - allowing competition in the market – Taxi sector, Air travel etc

(B)	**Analyse the benefits and drawbacks of franchising as a business start-up option for a potential franchisee.** *Benefits:* Tried and tested formula – reduced risk. Buying an established business/name/brand with a proven track record/lower risk of failure in the marketplace/Business idea is already successful. Have an existing customer base which results in guaranteed sales. Have access to the experience and systems of the franchisor/can learn from other franchisees/benefit from uniform approach. Low cost/centralised/group purchasing power/ bulk discounts/ economies of scale/can share costs such as marketing between all franchisees. Managerial training and support provided by the franchiser. Brand recognition/ can use the name or logo which is already well established. Product innovation is shared. Part of a bigger organisation e.g. benefitting from a national/international presence.	**20 marks**
	Drawbacks: High start-up costs (initial franchise fee)/Royalties are paid from profits. No option for individual flair/restrictions imposed/lack of freedom to make changes or respond to new competition/ Must adhere to strict regulations/standards set by franchiser. Other franchisees might create negative image for the brand in the future due to poor performance or inability/maintaining the brand's integrity may be difficult.	

11 (2015)

2	A		**Outline the advantages of a private limited company as a form of business ownership for a start-up business.** Access to capital: One of the main advantages of the private limited company structure is the ability to raise capital by selling shares up to a maximum of 99 shareholders. Start-up costs such as R&D, technology, marketing and staffing requirements are very high. Limited liability: The shareholders of a private limited company have limited liability. This means that the shareholders are not personally liable and can only loose the amount of their original investment, if the business fails.	20
			One share one vote: A private limited company is controlled by the shareholders based on the rule "one share one vote". The original shareholders can maintain control of the company as long as they continue to hold 51% or more of the ordinary share capital. With a private limited company the members keep control as shares are not sold on the stock exchange. Separate legal entity: The start-up business is incorporated and is a separate legal identity in the eyes of the law, meaning that it can sue or be sued in its own name and enter business contracts. This could be important in a patent case protecting the start-up from copy-cat rivals. Continuity of existence: The company is legally independent of its owners and therefore it can stay in existence even after the death of a shareholder. <u>Other advantages:</u> Bigger pool of talent/ Better credit rating from banks than partnerships and sole traders/increased specialisation, etc.	

12 (2013)

(A)	Discuss the opportunities **and** challenges of Partnership as a form of business ownership.	4 @ 5 marks 2 opportunities @ 5 marks (2+3) 2 challenges @ 5 marks (2+3)	20
(B)	The role of the Irish Government in encouraging **and** in regulating business in Ireland. (At least 1 of each required)	4 @ 5 marks (2+3)	20
(C)	Current trends affecting businesses operating in the <u>services</u> sector of the Irish economy.	4 @5 marks (2+3)	20
	Available Marks		**60**

(A) Discuss the opportunities and challenges of *Partnership* as a form of business ownership.

Opportunities

- Partnerships have access to greater amounts of **capital** as up to twenty partners can bring financial resources to the business.
- Partnerships have access to **different skill sets** as new partners may bring new skill sets and expertise to the business e.g. IT or marketing skills.
- Partnership can lead to **more effective decision making** as the decision making process is shared eliciting different points of view and opinions from a range of talented people.
- Ability to achieve **economies of scale**.
- Financial information can remain **confidential.**

Challenges

- Partners in the main have **unlimited liability**. This means that they are responsible for the debts of the business if it goes bankrupt and may have to forfeit their personal assets in order to pay business debts
- The partners are **jointly and severally liable** for the debts of the business which means that they have a collective responsibility for each other's debts and their personal assets can be used to clear the debts of their partners.
- Shared decision making could lead to differences of opinion, disagreements, arguments between the partners, and lost opportunities. This could at best lead to **delayed decision making** or at worse lead to the dissolution of the partnership.
- The profits of the business have to be **shared** according to the ratio set out in the deed of partnership.
- Not a separate legal entity therefore **partners and not the business can be sued in law.**
- If one partner dies or resigns the partnership must be **dissolved**.

(B) Outline the role of the Irish Government in encouraging and in regulating business in Ireland.

Irish Government role in **encouraging business:**

- Through **decreases in taxation** business activity is encouraged. A reduction in PAYE rates would increase spending power and stimulate demand for goods and services. A reduction in Corporation Tax may improve company profits, and the ability to fund future growth of the business. A reduction in VAT reduces cost of goods and services, stimulates demand and makes the Irish economy more competitive.

- Through **increases in State expenditure** business activity is encouraged. The government could increase capital expenditure on infrastructure, schools, hospitals etc. This will create jobs and consumer demand.

- Through a **network of state agencies** that give business advice, training and guidance, mentoring services and grant aid to facilitate growth and expansion.
  Examples include:
  Fáilte Ireland (developing and promoting tourism)
  Enterprise Ireland (grant aid to indigenous industry, e.g. R&D and marketing)
  FÁS to be replaced by SOLAS (provides industrial training for workers)
  IDA Ireland (provides grant aid to attract FDI)
  County Enterprise Boards to encourage entrepreneurship.

- Through **government planning.** Forward planning reduces uncertainty for business. National wage agreements involving the social partners allow businesses to predict their future wage costs, as well as decreasing significantly the risk of industrial relations problems during the length of the agreement.

Government role in **regulating business:**

- The government regulates business in order to protect the **environment**. It established the EPA (Environmental Protection Agency) whose role it is to protects the environment through its licensing, enforcement and monitoring of business activities.
- The government regulates business in order to protect the **consumer**. The Sale of Goods and Supply of Services act 1980 gave rights to the consumer in relation to goods or services bought or hired. The Consumer Protection Act 2007 established the NCA which investigates and prosecutes unfair trading practices.
- The government regulates business in order to protect the **employees** in the workplace with legislation on unfair dismissal, equality and industrial relations. It established the Health and Safety Authority which works to create a national culture where all stakeholders commit to a safe and healthy workplace.
- The government regulates business in order to protect the **general public** against misuse of information in manual or electronic format through the Data Protection Act of 2003. Data protection is the means by which the privacy rights of individuals are safeguarded in relation to the processing of their personal data.

(C) Discuss current trends affecting businesses operating in the services sector of the Irish economy. Provide examples to support your answer.

- Taxes such as the household charge, property tax and cuts in government expenditure on social welfare have led to a fall in the disposable income of consumers. As consumers' spending power is reduced the demand for the goods and services that businesses sell in the retail services sector has fallen.

- Closures/examinerships/insolvencies of retailers.

- Recession hitting the small and medium enterprises e.g. suppliers to construction industry.

- Big multiples versus small retail outlets and the difficulty in competing.

- Growth in discount retailers e.g. Aldi, Lidl, TKMaxx.

- Deregulation in some industries e.g. taxi industry.

- The Gathering 2013 and its impact on services (Hotels, travel etc).

- Businesses in the services sector are facing a decrease in footfall because of the challenges facing town centres due to competition from large suburban shopping centres and the restrictive parking regimes in operation. Expensive parking tickets, fines and the threat of clamping are driving people out of town centres where many service sector businesses operate.

- VAT increases lead to more expensive goods and services for the consumer which in turn causes demand to fall, thereby affecting business. For example the volume of sales in department stores fell by 18.4%, and electrical goods fell by 12.0% as a consequence of the negative impact of the VAT rise to 23%.

- Increases in excises duties on tobacco products have led to an increase in tobacco smuggling. Excise duties on cigarettes continue to rise, increasing the incentive for customers to choose cut price illegal products sold on the black market. In 2010, Ireland's retailers lost €896 million in turnover to the Black market.

- The growth of the ICT sector has led to employment opportunities. At a recent Intel Forum on Education, the CEO of Fujitsu Ireland said that 75% of ICT employers in Ireland have job vacancies. There has been growing concern at the rising skills shortage in the ICT sector, a situation made worse by the low number of students opting for technology courses at third level.

- The growth of e-business, a method of buying and selling goods and services over the internet, is changing the dynamic of the services sector. Retailers moving to on-line operations include Tesco and Next.

(A) Discuss *Co-operatives* and *Private Limited Companies* as forms of business ownership, using the following headings:

Formation; Liability; Finance; Control

Formation

A private limited company is a business owned by investors called shareholders who contribute funds to finance the business.
Following the enactment of the Investment Funds and Miscellaneous Provisions Acts 2006, private companies are now entitled to have up to 99 shareholders. The limit, which was previously set at 50 members, was increased to reflect EU law.
The formation of a private limited company is a complex process and necessitates the completion of the following documents:

- Form A1
- Memorandum of Association
- Articles of Association

These documents are sent to the Companies Registration Office (CRO) and once the Registrar is satisfied that everything is in order, he issues a certificate of incorporation which allows the business to begin trading as a private limited company.

A Co-operative (Co-op) is a business enterprise that is democratically-controlled and jointly-owned by its members. Members have a common bond and operate the business for their mutual benefit. A co-operative requires at least seven members and an application must be made to the Registrar of Friendly Societies. Once all rules are adhered to and the appropriate fee paid the Registrar gives permission to the co-op to begin trading. The co-op is incorporated under the Industrial and Provident Societies Acts 1893-1978. The Irish Co-operative Organisation Society Limited (ICOS) acts as a co-ordinating organisation for most co-operatives in Ireland.

Liability

The shareholders of a private limited company have limited liability. This means that the shareholders are not personally liable and can only loose the amount of their original investment, if the business fails.
Just like private limited companies the members of co-ops have the protection of limited liability. This means their liability is limited to the amount invested in the co-op.

Finance

One of the main attractions of the private limited company structure is the ability to raise capital by selling shares up to a maximum of 99 shareholders. The maximum share capital that can be raised is stated in the Memorandum of Association. Profits are distributed to shareholders in the form of dividends.
Co-operatives in Ireland may find it difficult to access funding. This is because there is only a limited amount of finance that can be raised from its members. The amount the member subscribes depends on the type of co-operative. Members receive a share of the profits in proportion to their turnover with the co-operative (producer co-operative) or as a percentage of the savings (credit union).

Control

A private limited company is controlled by the shareholders based on the rule "one share one vote". The shareholders elect a board of directors who are responsible for the running of the company. The board of directors elect a Managing Director (MD) or a Chief Executive Officer (CEO) who is responsible for managing the company on a day-to-day basis. The original shareholders can maintain control of the company as long as they continue to hold 51% of the ordinary share capital.

Co-operatives have a democratic structure, where each member has one vote, "one member one vote", with majority decision making and an elected management committee accountable to its members. This management committee run the business and make the important decisions. Members have an equal say in the running of the co-op regardless of the number of shares held.

(25 marks)

14 (2011)

(B) Describe the steps involved in the formation of a '*Private Limited Company*'.

The rules, regulations and procedures for establishing a private limited company are set out in the Companies Acts 1963-1999.

Certain legal documents must be prepared in conjunction with a solicitor. These include:

-**The Memorandum of Association**. This document sets out **the relationship between the company and the general public.**
It includes the name of the company with 'Ltd' after it, indicating limited liability and the objectives of the company.
It includes the signatures of the people who formed the company and the authorised share capital clause.

-**The Articles of Association**. This document sets out the **internal rules and regulations** of the company. It describes the voting procedures for meetings. It sets down the quorum necessary for a valid meeting. It sets down the mechanisms for electing and replacing directors and auditors and their duties and powers.

- Form A1. This would include for example company name, registered address, details of secretary and directors, **statutory declaration that the company will comply with Irish company law.** It states the company's authorised and issued share capital.

-The documents are then sent to the Registrar of Companies who scrutinises them. If he is satisfied that all is in order he will issue the company with a '**certificate of incorporation'** which in effect is the business birth certificate or licence to begin trading as a private limited company. The business is now incorporated and a separate legal identity in the eyes of the law, meaning that it can sue or be sued in its own name.

(20 marks)

Outline the reasons why a business might change its organisational structure from a Sole Trader to a Private Limited Company.

Changing circumstances

A sole trader might change its ownership structure to a private limited company over time to adapt to changing circumstances and market demands. Choosing a private limited company as its ownership structure can facilitate the plans that the owner may have for the organisation far into the future and the vision of where the organisation wants to be.

Size/Expansion/Economies of Scale

The business enterprise might wish to grow. With size comes the burden of extra specialisation where one individual cannot do all things and more people and expertise are needed, e.g. specialists in finance, marketing, production.

Limited Liability

The desire for the protection of limited liability is another reason for changing structure. A business person wishes to protect family members from business risks and ensure a secure future for them. Personal assets must be protected to do this. Reduced risk of personal loss. Private limited companies can now be set up with only one shareholder.

Capital

If more capital is needed for the development of the business, then a move from being a sole trader to a private limited company might be necessary. It is possible to raise the necessary capital through the issue of shares to other shareholders up to the amount of authorised capital stated in the Memorandum of Association.

Finance/Borrowing
May be easier to raise finance from financial institutions. Companies may be given higher credit ratings by suppliers of finance.

Growth
The expansion of the business may be better served by forming a private limited company. Mergers and acquisitions/take-overs are possible for companies.

Continuity of existence
It is easier to pass a company on from one generation to another or from one set of owners/shareholders to another.

Taxation
Low corporation tax for certain categories of companies.

Separate Legal Entity
A company can sue and be sued in law rather than the individuals that make up the organisation unlike the sole trader.

(A) Sole Trader
A person who runs a business enterprise under his/her own name, e.g. Marian Kelly, or under a business name, eg MK Electronics is regarded as a sole trader. Examples of sole traders are retail outlets of many kinds such as local shops, garages, restaurants, electrical retailers, etc. and also tradespeople such as plumbers, electricians, carpenters and hairdressers.

Advantages
There is a greater self-interest on the part of the owner. The proprietor or owner will either make a profit or a loss and is therefore encouraged to make greater efforts to succeed in the enterprise.
The owner has more in-depth knowledge of the business.
The business owner can make quick decisions. There is no need for regular meetings with other people.
When business is small, the sole trader maintains very close contact with employees and customers. Better relationships with these important groups result.
Because a sole trader is very easy to establish formation of the enterprise is both quicker and cheaper than other forms.

Disadvantages
The control and management of the business enterprise may fall on the shoulders of one person.
There is less capital available for expansion in the future.
The owner must bear all the risk of possible business losses and is personally liable for all debts of the enterprise in the event of it having to close down.
Long illnesses and the taking of holidays cause problems for sole traders.
The retirement or death of the sole trader may mean that there is nobody to take over the enterprise - continuity of existence of the business.
There is a taxation disadvantage for the sole trader - income tax at the personal rate (42% at the moment) as compared to the Corporation tax rate (30 to 40% currently).

Partnerships
A partnership can be said to exist where two or more people (up to 20) run a business enterprise in common with a view to making a profit. A partnership can be viewed as an extension of the sole trader model but with more people involved. It is advisable that the partners have their agreement in writing in case conflicts arise.

Advantages
The easier availability of extra or more adequate capital.

The people in the partnership may have varied and specialised expertise which they make readily available for the efficient running of the enterprise.
Group decision-making. This should result in better decisions.
Partnerships can be expanded without difficulty by simply adding new partners up to the maximum of 20 set by law.

Disadvantages
If the financial resources of the partners are small then the problem of the lack of access to capital remains.
With any group of people will come differences of opinion and possible disharmony.
Responding to change quickly and adjusting to new situations and demands made on the business requires co-operation and consultation on the part of the partners.
Partners have unlimited liability for debts, just as in the case of a sole trader.

(C) Limited Company as a type of business organisation for a new business venture.

The benefits of being a private limited company include:

Shareholders are extended the status of limited liability. This is particularly important to the small investor who may stand to lose all if things go wrong, e.g. if the enterprise was a sole trader.

The company is the legal entity and can sue and be sued.

It is often easier to raise finance from financial institutions. Companies in general are given a higher credit rating by suppliers of finance, e.g. they may have a triple A rating with a bank (AAA rating).

It is also possible to raise the necessary capital through the issue of shares up to the amount of authorised capital stated in the memorandum of association.

Because companies allow for growth to take place more easily, e.g. through mergers and take-overs, it becomes possible to operate on a larger scale by bulk buying supplies and economies of larger scale in general.

The tasks of managing and controlling the operations of the company can be divided among a team of personnel.

From the point of view of not only family-run enterprises but all business, it is easier to pass a company on from one generation to the other or from one set of owners/ shareholders to another, i.e. continuity of existence.

A private limited company also has negative implications:

There are formation and running costs involved and they can prove to be expensive especially on the small enterprise, e.g. accounting, legal and taxation services.

Because of larger size there may be problems with slow and less flexible decision-making procedures.

Bureaucracy or 'red tape' may also slow things down.

The enterprise may simply become too big and end up being less efficient. The employees, management and shareholders may become more distant from one another and less trusting of each other.

The business affairs of the organisation are public in that the annual accounts and returns are made to the Company Registrar and the books are audited and presented to the AGM.

The law is very strict on the operations and control of limited companies with heavy penalties for breaches of the law.

In the area of taxation, any business losses suffered by the company cannot be set against personal income giving benefit to the shareholders and directors and the enterprise may be liable to capital gains tax if some of the assets are sold by the company.

All accounts and an annual report must be published and audited each year and specific returns made to the registrar for filing with easy access by the public.

18 (2004)

(B) Impact of Transnational companies in Ireland.

Transnational (multinational) companies as associations which possess and control means of production or services outside the country in which they were established. One which is structured on a global basis. A holding company with majority shareholdings in many overseas subsidiary companies. The companies that make up a transnational are tied together by share ownership and by managerial control. A transnational may originate in a particular country but they are international in their allegiances. Examples include household names like: Nestle, Siemens, IBM, Volkswagen, Intel, Coca-Cola, Unilever, Shell, Jefferson Smurfit etc.

Ireland tries to attract these large organisations to locate factories here for the following reasons:

When a large new manufacturing firm is developed in the country it brings an inflow of foreign investment into the economy. This creates jobs for the local construction industry, for the employees in the plant and in all the services provided to the manufacturing facility.

The level of imports of manufactured products is reduced. This benefits the economy as a whole because goods which were not up to now made in the country are readily available in the local economy, helping the balance of payments.

The level of exports will be increased greatly. The transnationals almost certainly sell all their products into overseas markets. In fact they may be selling a lot of their products to other firms owned by them in other countries, this creates an inflow of foreign currencies into the host economy.

Because of the presence of huge businesses in the local economy, competition between firms and economic activity within the country is stimulated and encouraged. These competitive forces have positive effects on prices, efficiency and innovation.

Production by transnationals increases the country's Gross National Product and thus increases the standard of living for all people living in the country. TheGovernment will be able to collect more taxes to pay for social services and further economic development.

The modern production and management techniques employed by the companies provides good quality training and education skills for the workforce. These skills are transferable.

The risks attaching to transnational companies locating in a country are:

They may close down the business without much notice. Cheaper labour costs and market influences may attract the manufacturing operations to migrate abroad.

The size and importance of the transnational to the country might make it powerful and lead to threats of withdrawal if it does not get its own way, e.g. industrial relations, taxation policy, etc.

The host country authorities may have little control over important sectors of the economy. Company decisions are made solely with a view to maximising profits.

Profits are transferred out of the host country (repatriated profits) and not used to build up the business at the present location. This is not good for the host country's balance of payments.

Grant aid and incentives are offered to attract the transnational locate in a country. These are often lost if the business pulls out.

19 (2003)

A. Business alliances and franchising 2 at 15 marks (5 + 5 + 5). Must illustrate. (Total 30 marks)

(A) Business Alliances
A business alliance is a relationship (an agreement) formed between two business enterprises to promote the business interests of both. The enterprises become allies and, although usually independent of each other, they will help each other in particular commercial matters. Access to wider markets either at home or abroad can, for example, be achieved without a major investment of capital.
Marketing alliances with businesses on the home and foreign markets are quite common, e.g. one enterprise may agree to sell or distribute another enterprise's products or services.
Promotional alliances occur where one business promotes another firm's products.
Pricing alliances are used to share the other enterprise's customers using discounts.
Distribution alliances involve one business offering its storage and delivery facilities to another's products.
Joint venture alliances could occur where a foreign investor that has a product to sell on the Irish market takes a stake in an Irish business. The investor gets into the market and the Irish business adds to its product portfolio. Examples: Aer Lingus/ One World

Franchising
Franchising involves the granting of a licence (a permission) by a franchiser (franchise creator) to the franchisee (the investor) entitling the franchisee to sell the product or service. The franchiser, i.e. the enterprise that owns the particular product or service, usually has already established a very large and successful business. The franchiser would have a well-established name in the marketplace and an established reputation. The franchiser licences other enterprises to sell its products or services but only under its name. Entrepreneurs can viably set up their own businesses and be their own boss enjoying reduced risk because of the pre-designed format of the enterprise
Examples: McDonalds (catering), The Body Shop (cosmetics) and Pizza Hut (catering).

Question 2 Transnational and State Owned companies. Business Ethics and Business and the Economy –60 marks

(a) Transnational company
One which is structured on a global basis. It possesses (owns through shares) and controls (through management) the means of production or services outside the country in which they were established eg. a company with shareholdings in many overseas subsidiary companies. Examples: Intel, Coca-Cola, Nestle, Siemens, IBM, Volkswagen, Unilever, Shell, Jefferson Smurfit etc.

Ireland tries to attract these large organisations to locate factories here for the following reasons:

- When a large new manufacturing firm is developed in the country it brings an inflow of foreign investment into the economy. This creates jobs for the construction industry, for the employees in the plant and in all the services provided to the manufacturing facility.
- The level of imports of manufactured products is reduced. This benefits the economy as a whole because goods which were not up to now made in the country are readily available in the local economy.
- The level of exports will be increased greatly. The Transnationals almost certainly sell all their products into overseas markets. In fact, they may be selling the majority of their products to other firms owned by them in other countries.
- Because of the presence of huge businesses in the local economy, competition between firms and economic activity within the country is stimulated and encouraged. These competitive forces have good effects on prices, efficiency and innovation.
- Production by transnationals increases the country's Gross National Product and thus increases the standard of living for all people living in the country. The Government will be able to collect more taxes to pay for social services and further economic development.

State Enterprises

The Irish government and its agencies own a large number of important business enterprises in the country. These enterprises are called 'public corporations' or more often 'semi-state bodies' because the State has a direct interest in their operation, e.g. the Department of Transport, Energy and Communications owns and controls Aer Lingus, the national airline.
Ireland has these large State-Owned Enterprises for the following reasons:

- To avoid the possibility of wasteful duplication of services e.g. if the country had three electricity companies, all in competition with one another, for a market that only one could easily supply.
- Some of the services that the State businesses provide may not be profitable for the commercial company and therefore would not be provided. The State sets them up and runs them in the common good, e.g. the national postal service run by An Post. The supply of electricity, gas and water to all remote areas of the country is viewed as having a social dimension and is expensive. The provision of the services is capital intensive and not profitable in the commercial sense.
- To protect employment and to create employment. The State-owned enterprises sector in Ireland employs many thousands of people.
- To protect and strengthen industries that are deemed to be important to the country. It is vital that the infrastructure of the state be well maintained since it is the backbone of a successful economic system. The economic infrastructure includes the national transport network, energy supplies for industry and domestic purposes, water supply, telecommunications networks, etc.

- To benefit from very large-scale production facilities that can be financed by the State. With a State-owned enterprise being the only supplier, prices are likely to be low because of state subsidy.

21 (2001)

(a) Private Limited Co. and Public Limited Co. PLC. 4 at 5 marks.(1+2 + 2)