Chapter 19 – TYPES of Business

Sole Traders

- A business owned and controlled by a single person, very common e.g. publicans
- They require finances to purchase premises and equipment
- If the name of the business is different to owner – must register under the Business names act 1965.
- Sole Trader must abide by regulations e.g. when supplying food, safety, Labour laws (min wage), must register for VAT if turnover exceeds certain levels etc.**See example p 318**

Benefits of Sole Traders

- Business is **easy to set up and operate** with few legal requirements.
- **Owners keep all profits** apart from those reinvested.
- **No consultation needed** in making business decisions.
- Does **not require large amounts of capital** for setting up and running.

Drawbacks of Sole Traders

- **Banks** are more **reluctant to lend** to sole traders than to private companies.
- A sole trader relies on the skill, enterprise and experience of just 1 person. As the business grows, that **persons ability to cope may suffer**.
- The **long hours** necessary to ensure that the business may result in **stress and burnout**.
- If the **owner gets ill**, it may be impossible to operate the business.

Partnerships

- A partnership is the relationship between persons carrying on business in common with a view to making a profit.
- 2-20 partners usually(law and accounting have no upper limit)
- Must have 1 general partner liable for debts(general partners are jointly liable).
- Legal deeds are drawn up setting out financial arrangements and manner for sharing profits and losses.
- Important to go into partnership with suitable people – fallouts.

Benefits

- **More capital available** than in the case of a sole trader.
- Combination of partners may result in **better decisions being made**.
- Relatively **easy to set up and run**.
- Businesses may benefit from the fact that each of the **partners may have different skills and enterprise.**

Drawbacks

- **Profits have to be distributed** among parties and not retained by 1 person as in sole trader enterprise.
- **Partners are liable for all the debts** of the business if it becomes insolvent and has to close.
- The **partners may argue/fight** which may make it difficult for business to continue.
- The **death or bankruptcy** of a partner **dissolves** the partnership.

Private Limited Company

A Private Limited company is a business with 1-50 shareholders who have limited liability.

Regulations for establishment

- Minimum of 4 and maximum of 50 members.
- Must have the Word Limited/Teoranta after its name, means shareholders enjoy **Limited liability** i.e. they only loose the value of their investment if the company fails.
- Shares cannot be sold on stock exchange.
- Restricted versions of T P & Loss and balance sheet required.
- Company is managed by board of directors appointed by shareholders. A **Managing Director (MD)** is appointed by board of directors. Together they set down the major objectives of the company and appoint managers to run the company. MD is also likely to become the chairperson of the company – that chairs board meetings and the AGM.
- Company also requires a **registered office** where all correspondence can be sent and a **company secretary** who will be responsible for sending all relevant documents to the companies' office and for looking after all important documents such as the register of shareholders. He or she will also call all company meetings and keep the minutes of the meetings.
- At the end of the year the company must have it accounts **audited** by an auditor who looks at the accounts and checks them to ensure they give a true and fair view of the finances of the company. The auditor presents them at the AGM. These accounts must be sent to the tax authorities and the company's office. Examples of auditors would be **Deloitte**.

Establishing a Private Ltd Company

- Steps laid down in companies act 1963-90.
- Suitable name must be decided – words ltd after it.
- Purpose of company must be established.
- The following documents must also be presented by each new company to the registrar of companies.

(A) Memorandum of Association

- Gives the **external relationship** between the company and the public.
- **Informs the public** about the company- name, address objectives, founding shareholders etc.
- Also informs of share capital – authorised and Issued
- **Authorised:** Maximum amount the company can raise by selling shares.
- **Issued:** The amount already sold to shareholders.
- Memorandum must be signed by founding shareholders & witnessed.

(**B)Articles of Association**

- This sets out the **internal rules** under which the company will operate - & its relation with its shareholders. E.g. procedures at meetings, voting rights etc
- Not compulsory but usually drawn up anyway.

(C) Form A1

- Must be sent to the register of companies when setting up a company

- When the register is satisfied that all is in order, a **certificate of incorporation** is issued which is the birth certificate of the private limited company – it makes the company a corporate body i.e. it can act as a person in the eyes of the law to agree a contract and can sue and be sued. The company can now begin trading.

Financing a Company

1. Share Capital

-Raising money through the sale of shares.

-Authorised V's Issued.

- Generally not repaid unless company being wound up.
- 2 types – **Ordinary** and **Preference**- Ordinary are the most common and receive voting rights. Preference shareholders do not receive a vote but receive a dividend before Ordinary shareholders.

2. Borrowing
- Through Banks and financial institutions.
- Debenture is a long term fixed interest loan.
- Banks will have certain control over a company's affairs and may call a receiver in to run the company or close it down if there is a danger that debts will not be repaid.

3. Reserves (Ploughing Back Profits)
- Only available when firm has begun to make profits.
- Main advantage is that no negotiations are needed to get it, no interest or repayments either.

Benefits of a Private Company
- A company **is distinct** from those who set it up and can be sued or sue.
- Has **access to greater amounts of capital** than a sole trader i.e. can sell more shares and banks more willing to lend to them.
- A company **stays in existence** even when its founders and shareholders die.
- **Greater expertise** available to a company to ensure sound business decisions are made.

Drawbacks of Private Companies
- **More complex to set up** – more regulations.
- Companies (sole traders if they change over)**loose independence** – become answerable to shareholders and registrar of companies instead of only themselves.
- **Less confidentiality** – audited accounts must be drawn up and bank loans may be subject to personal guarantees (the benefit of limited does not apply here)

Franchising
A franchise is a contract entered into for a specified period with the franchisee paying an initial fee and loyalties to the franchiser. The franchisee sells a product/ provides a service under licence in return for a fee.

The franchisee, invests capital, pays royalties based on turnover conforms to standards, designs premises as laid out by franchiser, buys all supplies from franchiser and sells only the franchisers products.
- Irish examples – Super Macs, O Briens Sandwich Bar, Abrakebabra.
- Foreign Franchise examples – McDonalds, Who wants to be a millionaire.

Drawbacks of Franchising.
- **Little room for individual flair** or freedom.
- Can be **expensive to set up** – royalties.
- Each outlet must achieve the same **standards** as others or else will be under pressure.

Benefits of Franchising.
- The **franchiser** can **expand the business** without any great investment or risk**.**
- The **franchiser** goes into business with a formula that has been tried and tested elsewhere**.**
- The **franchisee benefits from national advertising** and promotions which would not be possible if it were a one person operation.
- The **franchisee** will benefit from **instant brand recognition** by customers.

Cooperative Society

- A Cooperative is a business with a minimum of 7 members who have a common interest.
- Mainly occurs in the Agricultural industry where large organisations usually merge.

1. Producer Co-ops.
- Set up to make/sell products for its members.
- **Particularly successful in the agricultural sector because:**
    - Farmers supply them with top produce.
    - They are excellent in undertaking R&D to generate new products from raw materials.
    - They attract good managers to work for them which help them exploit market advantage and become successful at markets at home and abroad.
    - Co-ops have grown and now enjoy the benefits of economies of scale – able to keep price competitive.

2. **Credit Unions.**
- Peoples bank set up by those who have the common bond of working together, living in the same area or belonging to the same trade union.
- Promotes the use of member's savings for the mutual benefit of all members of the society.
- Members obtain dividends on their deposits and once they have saved a certain amount can borrow at a fixed rate of interest.
- The surplus funds of the society after building up reserves goes to its members.
- Are monitored by an umbrella body – **The ILCU – Irish League of Credit Unions.**

Benefits of Cooperative Societies

- Members have **only 1 vote** irrespective of number of shares held.
- Members enjoy **limited liability** and have a **say in how the society is run**.
- Provide a **low cost alternative banking service.**
- **Producer Co-ops** have made an **enormous contribution to the Irish economy** – goods for domestic a foreign markets.

Drawbacks of Cooperative societies

- As the Co-op grows members feel that their **influence wanes**.
- Co-op only **obtains limited finance** form their shareholders so may have to **resort to borrowing.**
- Members may find it **difficult to place a value on their shares** because of low volume in trading of such shares.
- **May issue more shares but the number of buyers may be small**. Farming and fishing communities are limited in size.

Stage 2 – Expansion

-Businesses can grow by expansion organically (e.g ploughing back in profits) or inorganically (e.g. forming an alliance with another business or if it is a co-operative, private company or semi state body, turning itself into a plc.

Public Limited Company (PLC)

A Public Ltd Company is a business which has more than 7 shareholders and whose shares are in public ownership.

Forming a PLC

- Similar to private co's e.g. memorandum, articles of association etc but they differ in that they sell shares to the public and are quoted on the stock exchange normally where shares are bought and sold.

- Plc's have to satisfy the stock exchange, that their accounts and procedures for issuing shares are in order.

When **a company decides that it wants to become a PLC it must:**

1. **Decide on the amount of money it wishes to raise from the public**. Can have as many shareholders as it wants (>7).
2. **Produce a prospectus:** Book that details the history of the company and invites members of the public to buy shares.

- Once the shares are sold the company must give them permission to trade on the stock exchange i.e. give the company a price quotation for its stock.
- Price will fall or rise depending on factors such as profits, takeovers, mgt changes, dividends and share buying and selling.

Benefits of PLC's

Similar to private companies e.g. limited liability and greater acceptability by the financial community.

Other Benefits:

- **Access to greater amounts of capital** because it can sell shares (issue) to a number of investors. This money can be used to expand the company e.g. buy new plant and machinery.
- Quotations on the stock exchange and daily newspaper coverage of share price **is free publicity.**
- **High Calibre Mgt** attracted by the prestige of working for a PLC.
- **Continuity of existence –** PLC continues in business even if the Managing Director, Chairperson or Board of Directors die.

Drawbacks of PLC's

- **Expensive to set up:** Advice needed from accountants, banks, lawyers etc.
- **The accounts of plc's have to be published**. Thus customers, workers, Trade Unions and investors can monitor the performance of the business during the accounting period.
- **Disadvantage to Directors and Management**: Shareholders have the right to speak and vote at the AGM where they can voice their displeasure if they are not satisfied the way the company is run.
- **Profits must be distributed to the shareholders in the form of dividends.** If this is not done the share price will fall and a stormy AGM would result. If the money is kept as reserves the shareholders will want to see that it is being used to generate increased profits and in turn greater dividends.

Alliances

An Alliance is a joint venture or partnership between 2 firms .They combine the skills and resources of 2 or more firms in a particular line of activity but continue to function separately in all other respects It is a friendly relationship for their combined benefit.

- Usually used extensively by existing forms as a method of entering new markets or acquiring new technology or products.
- Share skills, costs and benefits of products.
- Sometimes joint ventures are called strategic alliances – makes business sense for them to get together.
- Popular in the car industry e.g. Ford and Amazda

Benefits of Alliances

- **Shared skills and Expertise:** Each company has a specialised knowledge of its own market and business which is shared.
- **Easy to Establish:** Few legal formalities.
- **Improved image for the firm** if it forms an alliance with certain well known companies.
- By linking together firms can obtain new products and technologies without taking on the expense and long process involved in developing them.

Disadvantages of Alliances

- **Control is shared** by the partner firms.
- **Disagreements** can lead to the alliance ceasing.
- **The common interest that brought the firm together may disappear** which may cause a problem.

Transnationals

A Transnational is a company with its controlling headquarters in one country and branches in many others.

- **Not an option for a new business!**
- Can occur by virtue of natural growth (organic) or conquer the world philosophy (inorganic)**.**
- **Why? –** Sometimes it is cheaper to supply a foreign market from a local manufacturing plant rather than by distributing goods from the home country. Also often, cheap raw materials and labour are available in other markets.
- **Huge competition** from different government agencies to attract Transnationals – incentives.
- **Main Objective** – to expand its activities into many diverse profitable areas so that the overall group achieves the highest level of profit!

Disadvantages Of Transnationals

- **Some have negative image –** Their wealth is larger than that of many countries.
- Some **refuse to employ Union Labour**.
- Profits are sent back to the home country.
- If they close down – can cause huge economic problems - unemployment and Business.
- Belief that Transnationals pay **3rd World countries low prices** for products.

Benefits of Transnationals

- **Employ large no's. of people** who in turn spend their income and benefit their local community.
- Their employees (Inc Tax, Vat Purchases and PRSI) and employers (Corp. Tax) contribute to **Government tax revenue.**
- Presence of some of the worlds leading transnationals adds to **Ireland's reputation** as a good place to locate and do business.

Enterprise Ireland and the Industrial Development Authority (IDA)

ForFas is the advisory board which empowers and supports Irelands Industrial development agencies – Enterprise Ireland and the IDA.

Enterprise Ireland: Promotes Indigenous Firms and **IDA** promotes Inward Investment.

IDA

- Particularly successful as Ireland wins 14% of all new manufacturing start-ups in Europe.
- Thanks to IDA's efforts in promoting Ireland as a location for investment that so many transnationals have set up here.
- Promotes Ireland by highlighting its major attractions to foreign firms e.g. state of art telecommunications and infrastructure systems, low operating costs, low rate of Corporation Tax, skilled workforce, local firms capable of supplying world class services and components etc.
- Also generous grants for start-ups. R & D, worker training, building premises etc.

Stage 3 – State Owned Companies

-A State Owned Enterprise is a business set up and financed by the Government.
- Day to day they are free of Govt. control but Govt has ultimate control as it is generally the only shareholder.
- Tax payer can be considered the Entrepreneur for such enterprises.

Reasons for Establishment

- Some state agencies such as the ESB and Aer Lingus provide and infrastructure for business and help provide a **better standard of living** for the citizens of the country.
- Huge Source of **employment**.
- Many were set up to **develop vital sectors of the economy** such as Tourism (Bord Failte) and the bogs (Bord Na Mona).
- **Essential service providers** e.g. airports buildings and runways and health Insurance etc.

Benefits of State Owned Companies

- Provide employment.
- Provide essential services.
- Help encourage industrial development – IDA and Enterprise Ireland.
- Help develop the countrys infrastructure and Airports.

Drawbacks of State Owned Companies

- Many are **unprofitable** e.g. bus routes which means more cost to the taxpayer.
- The absence of a profit making motive may lead to **inefficiency.**
- Many state bodies are **poorly capitalised** as the state is the only shareholder – huge borrowings.
- The board of directors are mainly political appointments and may **lack the expertise** in the industry to which they have been appointed.

Examples of state owned companies include:

- **Transport** – CIE , Aer Lingus, **Production** – ESB , Bord Na Mona, **Development** – IDA and Enterprise Ireland, **Services**- An Post, VHI, Bord Gais.

Privatisation

- State selling of its enterprises to the private sector.
- Many feel private businesses can run state bodies more efficiently than the Govt.

Benefits of Privatisation

- Privatised Firms obtain **equity capital** which can be used to finance expansion.
- Firms become more **efficient** to generate sufficient profits to return to shareholders.
- Many **jobs will be more secure** in an efficient Public Ltd Company.
- A privatised firm will enjoy all the **normal benefits of a PLC.**

Drawbacks of Privatisation

- As the firms strive for more efficiency, some workers may be made **redundant.**
- The firms can **no longer rely on Government funding** if the run into financial difficulty.
- The shares in these firms may end up in **the hands of foreign investors.**
- **Privatised firms will drop** unprofitable services which may not be in the public interest.