Unit 5: Chapter 20

BUSINESS ORGANISATIONS

FOLENS

DOWN TO BUSINESS
Leaving Certificate Business

Learning Outcomes from this chapter

On completion, you should be able to:

- Identify different types of business organisations
- Compare and contrast the different types of business organisations
- Outline the steps needed to form a limited company
- Discuss the advantages and disadvantages of different types of business organisations
- Evaluate the advantages and disadvantages of semi-state enterprises and of privatising them
- Analyse the benefits and drawbacks of franchising as a business start-up
- Illustrate your understanding of indigenous firms and their benefits for the Irish economy
- Explain why businesses change their organisational structure over time
- Discuss the changing trends in business organisations in Ireland recently

Types of business organisations

- Sole trader
- Partnership
- Private limited company (Ltd/CLS)
- Co-operative
- Public limited company (PLC)
- Semi-state bodies
- Franchise
- Indigenous business

Sole trader

Formation	Start straight away in own name or register name with CRO
Liability	Unlimited liability
Finance	Limited to their savings or their ability to access loans, which can be difficult if they are a new business with no history
Control	Owner maintains total control and makes all decisions

Advantages: Easy/quick to set up, total decision-making, keeps all profits, maintains privacy on accounts
Disadvantages: Takes on all risks (personal and financial), unlimited liability, may lack adequate capital, high workload/stress of being the sole owner/decision-maker

Partnership

Formation	Form LP1 must be completed for CRO – a deed of partnership is signed
Liability	Unlimited liability
Finance	Between two and 20 partners can invest their savings, plus loans
Control	Decisions are shared by partners

Advantages: Risk and decisions shared, benefits from a range of experience/skills, access to more capital than sole trader, maintains privacy on accounts

Disadvantages: Unlimited liability, slower decision-making (disagreements/conflicts), partnership dissolved on death of a partner, profits shared between partners

Private limited company (Ltd/CLS)

Formation	Must create a constitution, then CRO issues a certificate of incorporation
Liability	Shareholders of a private limited company have limited liability – on bankruptcy, only lose the value of their investment
Finance	Shares can be sold up to a maximum of 149 shareholders
Control	One share, one vote: shareholders elect a board of directors, board of directors appoints a CEO who answers to the board

Advantages: Access to capital, limited liability, ‘one share, one vote’, establishes a separate legal entity, continues to existence on death of a shareholder
Disadvantages: Slower and more expensive to set up, accounts need to be filed

Private limited company: Ltd/CLS vs DAC

Private company limited by shares (CLS)	Designated activity company (DAC)
• Title 'Ltd' after its name • Requires only one director • Single-document constitution • No limit to what activities the business can do • Can have up to 149 shareholders • Shareholders can decide not to hold an AGM by passing a written resolution • No authorised share capital needed: no limit on the number of shares issued	• Title 'DAC' applies to each company • Requires a minimum of two directors • Uses an Articles of Association and Memorandum of Association as its constitution • Established for a very specific purpose – restricted to operating only that activity • Legal obligation to hold an AGM each year • Must have an authorised share capital • All financial companies must register as DACs (e.g. Ulster Bank DAC)

Co-operative

Formation	At least seven members apply to the Registrar of Friendly Societies
Liability	Members of co-ops have the protection of limited liability
Finance	Members receive a share of the profits in proportion to turnover
Control	Democratic structure, ‘one member, one vote’

Advantages: Limited liability, members have a say in the running of the business, often based on a common bond, may not be purely profit-driven

Public limited company (PLC)

- Must have minimum of seven shareholders, no upper limit
- Shares sold on a stock exchange
- Stock exchange listing can boost exposure for the brand and can help attract top staff
- Businesses that have grown may seek to float on the stock exchange; this is a very expensive process that requires huge preparation and a forensic look at the company's finances
- Easier targets for takeover bids from rivals – share price impacts the value of the company, which can be out of the control of the owners (e.g. stock prices fell drastically during the COVID-19 pandemic)

Semi-state bodies

Semi-state bodies are state-owned enterprises that are technically commercially run, which benefits the Irish government (e.g. Dublin Bus, An Post, RTÉ, Bord Gáis)

Advantages of state-owned enterprises	Disadvantages of state-owned enterprises
Increased government revenue (sale)	Loss of state assets
Improved efficiency/standard	Loss of control over services
More finance to expand/develop	Increased unemployment
Increased competition (deregulation)	Consumers may face higher prices

Semi-state bodies: privatisation/nationalisation

Privatisation

Privatisation is the selling of a state-owned company to private investors. The sale raises money for the government, but they then lose control over the service.

Advantages

- More efficient
- More access to finance
- May lead to increased competition

Disadvantages

- Loss of control over the service
- May lead to job losses
- Business may reduce services (now profit-driven)

Nationalisation

Nationalisation is when a privately run business is taken over and run by the state. This happens when a business/industry cannot support itself, and the government deems it an essential service for citizens. The government buys to save the business/industry so that services can be maintained.

Franchises

Franchisor grants a licence for a franchisee to sell its products or use its business idea in return for a fee and a percentage of turnover/profits

Advantages of being a franchisee	**Disadvantages of being a franchisee**
Use a proven/successful business idea	More expensive: one-off payment of fee, then percentage of sales/profits
Existing customer base, loyalty, data on market	Restricted innovation, limited range of offerings
Benefit from economies of scale (advertising, raw materials)	Restricted sales territories
Support/training/mentoring offered by franchisor	Risk of damage to brand's reputation by other franchisees

Indigenous business

Irish-owned, locally based business that are established, owned and managed by Irish residents

Importance of indigenous firms for Ireland
Firms have a high loyalty to Ireland
Provide local benefits (e.g. purchase raw materials locally)
Create entrepreneurial role models for young Irish residents
Reduce our reliance on FDI (Foreign Direct Investment)
Increase Ireland’s export levels, if the companies sell abroad (improve our balance of payments)

Reasons to change organisational structure over time

Liability	Move from unlimited to limited liability (e.g. sole trader to Ltd/CLS)
Continuity	Company ceases to exist on death of owner in sole trader or partnership, but not in Ltd/CLS
Expansion	Access to capital (e.g. partnership can have 2–20 investors, but Ltd/CLS can have up to 149 investors)
Tax benefits	Ltd/CLS pays 12.5% tax on profits, whereas sole traders pay the same rates as a PAYE employee (20–40%)
Expertise	More owners bring more skills/experience/expertise; changing the structure allows this