

**Chapter 19****Business Organisations**

(Sole Trader, Partnership, Private Limited Company (Ltd), Public Limited Company (PLC), Co-operative, State-Owned Enterprise, Franchise, Alliance, Transnational Companies, Indigenous Firms; Changing organizational structures/trends)

## 2015 Short – Q8

Column 1 – Business Org	Column 2 – Explanations
1. Public Limited Company (PLC)	A. Has unlimited liability.
2. Franchise	B. Is owned by between two and twenty people generally, and is common in professions such as the accountancy and the legal professions.
3. Co-operative	C. Owned, financed and controlled by the Government.
4. Sole Trader	D. A licence granted by a business to another to sell its products or services in return for a fee.
5. State-owned enterprise	E. Shares are quoted/traded on the Stock Exchange.
	F. Democratically controlled and jointly owned by its members.

Answer: E; D; F; A; C

## 2010 Q1 – Short

- (a) Illustrate your understanding of the term '*Indigenous firm*'.
- (b) State **two** benefits of promoting the development of '*Indigenous firms*' for the Irish economy.

**MS:** (a) 4 marks (2+2) Example required (b) 6 marks (3 (1+2)+3(1+2))

An indigenous firm is an **Irish/native business** that has been established and is **owned/managed** by **Irish people/residents**. They produce goods and/or provide services in Ireland. **E.g. Supermacs**

(b) **Loyalty:** they are loyal and are more likely to remain in Ireland, even in times of recession.

**Profit Distribution:** They usually re-invest their profits in Ireland, and spend within the economy rather than spending abroad.

## 2017 – Short Q2

Circle the correct option in the case of each of the following statements.

- (i) A Sole Trader business *has continuity of existence / is affected by the death of the owner.*
- (ii) The shares of a PLC *can be quoted on the stock exchange/cannot be quoted on the stock exchange.*

## *The Business Guys*

- (iii) In a Franchise agreement, a fee is paid to the *franchisee* / **franchiser**.
- (iv) In a Co-operative, the voting rights of members *depend on their share ownership* / **are equal**.
- (v) A Partnership *is a separate legal entity/ is not a separate legal entity*.

**2015 Q2 (A)**

Outline the advantages of a private limited company as a form of business ownership for a start-up business. (20 marks)

**MS: 4 @ 5m (2+3)**

**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 149 shareholders. This has an advantage over sole trader or partnership.

**Limited liability**

The shareholders of a private limited company have limited liability. This means that the shareholders are not personally liable and can only lose the amount of their original investment, if the business fails. This has an advantage over sole trader or partnership as they face unlimited liability.

**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, whereas a sole trader can't.

**Credit Rating**

Limited companies would find accessing capital easier than a sole trader. Banks would be more willing to lend to them and they would be seen as more professional and established.

*Other: Bigger pool of talent/increased specialisation, etc.*

**2013 Q1 – Short** Outline **two** characteristics of a private limited company

**As above.**

2010 Q2 (B)

Outline the reasons why a business may change its organisational structure from a 'Sole Trader' to a 'Private Limited Company'. (20 marks)

MS: 4 @ 5 marks (2 + 3)

### **Access to more capital**

A sole trader has to rely on their savings or ability to borrow.

If they become a private limited company they would have the ability to raise capital by issuing/selling more shares to up to a maximum of 149 shareholders.

### **Limited liability**

A sole trader has unlimited liability.

If they change to a private limited company, they would now have limited liability. This means that the shareholders are not personally liable and can only lose the amount of their original investment, not personal assets, if the business fails.

### **Continuity of existence**

**A sole trader would cease to trade upon the death of its owner.**

A private limited company is legally independent of its owners and therefore it can stay in existence even after the death of a shareholder. (Would be helpful for passing on to future generations of family etc..)

### **Credit Rating**

Limited companies would find accessing capital easier than a sole trader. Banks would be more willing to lend to them and they would be seen as more professional and established.

### **Other:**

- *Facilitates growth/finance to expand/economies of scale.*
- *Taxation – some Ltd's may pay corporation tax (lower than Self Assessment Tax)*

2012 Q2 (A)

*"Choosing an appropriate business structure is a key element of a business plan."*

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

*Formation; Liability; Finance; Control* (25 m)

**MS: 7 + 6 + 6 + 6 marks (2 + 2 + 2)**

### **Formation**

The formation of a private limited company requires a **Form A1; Memorandum of Association; Articles of Association**. These documents are sent to the Companies Registration Office (CRO) who approves them.

A co-operative requires at least **seven members** and an application must be made to the **Registrar of Friendly Societies**.

### **Liability**

The shareholders of a private limited company have **limited liability**. This means that the shareholders are not personally liable and can only lose the amount of their original investment, if the business fails.

Co-ops also have the protection of **limited liability**.

### **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**.

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.

### **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.

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.

2018 Q2 (A)

Read the information supplied and answer the question which follows.

*At your **credit union**, you are not just a customer, you are a member of a successful financial co-operative.*

*<https://www.creditunion.ie/whatweoffer/savings>*

Discuss the advantages for a credit union of operating as a co-operative.

**MS: 2@7(4+3) 1@6(3+3)**

**Limited Liability.** Members' personal assets cannot be sold to pay business debts in the event of insolvency.

**Members usually have a common bond (e.g. residents in a local area).** Members feel they are doing business with people they know.

**Members have a say in how the business is run.** Members are invited to the AGM and can vote on issues such as the dividend/ Decisions are made on the basis of "One Member One Vote".

**Members' savings are used for the mutual benefit of all members** of the credit union. Once members have saved with the credit union they can borrow at fixed rates of interest.

Credit Unions can provide a wide range of **low cost banking services** as they are not concerned with profit levels as much as commercial banks. There are no transaction charges on loans or saving accounts. They provide a safe place to save, and to borrow at reasonable rates.

Every credit union is a 'not-for-profit' financial co-operative. **Surplus income generated is returned to the members as a dividend** to savers and interest-rebate to borrowers or it may be directed to improved or additional services for members.

The credit union also works in co-operation with the local community.

Credit Unions promote thrift and the use of members' savings for the mutual benefit of all members.

2011 Q2 (B)

Describe the steps involved in the formation of a 'Private Limited Company'.  
(20 marks)

**MS: 4 steps @ 5 marks (2+3)**

### The Memorandum of Association

This document is completed which sets out the **relationship** between the **company** and the **general public**. It includes the **name of the company** with 'Ltd' after it

### The Articles of Association

This document is completed which sets out **the internal rules and regulations of the company**. It describes the **voting procedures** for meetings.

### Form A1

This form is completed which would include the **company name, registered address, details of secretary and directors**, statutory declaration that the company will comply with **Irish company law**.

### Certificate of Incorporation

Sent to the **Registrar of Companies** and if they are satisfied that all is in order they will issue the company with the certificate.

2013 Q2 (A)

*Choosing the most appropriate type of business structure is very important when setting up a business.*

Discuss the opportunities **and** challenges of *Partnership* as a form of business ownership. (20 marks)

**MS: 2 opportunities @ 5 marks (2+3) 2 challenges @ 5 marks (2+3)**

### Opportunities:

1. Partnerships have access to greater amounts of capital as **up to twenty partners** can bring financial resources to the business, whereas sole traders can only access **one person's capital**.

2. 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**. In a **sole trader**, the owner would be **limited** to his/her own skills/expertise/experience.

**Others: Better decision making (synergy); Ability to achieve economies of scale.**

### Challenges

3. 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.

If the business was a Private Limited Company instead, it would have limited liability.

4. Shared decision making could lead to differences of **opinion, disagreements, arguments** between the partners and **conflict** within the business.

The result would be **delayed decision making** or at worse lead to the **dissolution of the partnership** if parties didn't share the same vision.

**Other: Not a separate legal entity; if one partner dies or resigns the partnership must be dissolved / Shared profits vs sole trader**

2009 Q2 (A)

Evaluate 'franchising' as a form of business ownership for a new enterprise. (20 marks) (*Similar Q asked in 2016 Q2 (B)*)

**MS: 3@ 5 Marks (2+3) 5 Marks (2+3) 'New Enterprise'**

Franchising is a form of business ownership which allows a successful business idea to be **replicated**. The person starting the business (**franchisee**) pays the person that **owns** the business idea (the **franchiser**) a **fee** and/or a **percentage** of their **profits** in order to use its **products, trademarks and existing business idea**. E.g. McDonalds, Starbucks, Tolteca

### Success Rate

A franchise is a **proven business model**, so the chance of **failure** for a new enterprise is **greatly reduced** using this model.

The franchisee will be selling a product with **strong loyalty** and **good consumer recognition** instead of trying to introduce their own product to the market.

### Reduced Costs

Because a franchise will be a much **larger overall operation** than if you set up as a sole trader for your new enterprise, you would benefit from lower costs due to **economies of scale**.

Costs will be **spread** out over franchises on things like **marketing** and **product development costs**. A new enterprise will avail of **widespread advertising straight away**, even though they are a small business.

**Evaluation:** In my opinion, it is a good choice for a new start-up as the franchiser will provide you with lots of **support** and **advice** as it is in **their interests for you to succeed**. This **reduces** the **risk of failure** and of making big **mistakes** in the business as it is already a proven success of a business model.

**Others:** Shared marketing costs; Mentoring/advice increases chance of success; Lots of market research on locations/segments has already been completed.

Also: **2014 Q2 (B)** 'There are currently over 315 active franchise systems in Ireland, employing more than 42,000 people.' (The Irish Franchise Association, 2013)

Outline the reasons why a person who wishes to open a business might choose the franchise model of business. (20 marks) **MS: 7 (4 + 3) + 7 (4 + 3) + 6 (4+2)**

2014 Q2 (A)

Outline the opportunities **and** challenges for the Irish economy of the privatisation of state owned enterprises. (20 marks)

**MS: 4 @ 5 (2+3); at least one of each, relate to Irish Economy**

#### **Opportunity: Government Revenue**

The revenue generated for the government from selling on a semi state body can be used to **build infrastructure** in addition to **repaying the national debt**, which is beneficial for economic activity.

Bord Telecom Éireann plc - listed on the ISE as **Eircom plc** (now Eircom Group plc), was privatised in 1999, **boosting government revenue**.

#### **Opportunity: Sell Loss Making Enterprises**

Government **financial commitments** are **reduced** when an **unprofitable** state enterprise is privatised. E.g. They could sell Dublin Bus if it regularly recorded losses, removing the **pressure** on their **budget** to cover the losses.

**Other: Remove industrial relations issues; allows semi state bodies get needed investment & become more efficient e.g. Aer Lingus**

#### **Challenge: Loss Of Services for Irish Citizens**

Privatised companies operate and survive because of their **profit motive**.

They do not have a **social agenda** like the government and will therefore not provide **services in loss making areas**.

E.g. there is an argument that if Bus Éireann was privatised routes in rural and remote areas would be cut affecting locals.

#### **Challenge: Redundancies/ Increase in Unemployed**

Many privatised companies may **cut their employee numbers** in order to **streamline their costs** and become more **competitive**.

This has been the case with Aer Lingus and Eircom. Unemployment means **higher social welfare payments** for the Irish Economy.

**Other: Loss of state control on an asset e.g. Water/Energy**

**Also: 2017 Q2 (C) Asked for (i) a definition & (ii) benefits/challenges (above)**

# The Business Guys

2018 Q8 - Short

Outline your understanding of the government policies of **privatisation** and **deregulation**

**MS: (3+3) + (2+2)**

Privatisation occurs when a **state-owned** business is sold to **private investors**.

Deregulation is the **removal of legislative/legal barriers** to allow firms to enter an **industry or a market**/to trade in a market.