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

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

*This question is also dealt with above. For 2010, you would give the same headings and then state what the limited company would get, and then what the sole trader has.*
“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 marks)

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 loose 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.
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.
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)

Opportunity: Access to Capital
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.

Opportunity: Access to More Skills/Expertise
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.

Challenge: Unlimited Liability
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.

Challenge: Conflict in Decision Making
Shared decision making could lead to differences of opinion, disagreements, arguments between the partners.

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
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.

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)
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 to stay competitive e.g. Aer Lingus; Business should become more efficient/competitive as they are now profit driven e.g. Aer Lingus fares lower for Irish people.

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