Sole Trader

Sole trader is where a single person brings his own capitals, put in his own labour and enjoys the entire profit.

It is an organisation where the owner is only one, but may have many helpers.

Characteristics of the sole trader

Characteristics

1 Provide the capital to run the business (though they may borrow from banks and

relative)

2. Work in the business by them. Though they may have other paid assistance (helpers).

3 .Make their own decision-though it would be wise to seek advice from numerous

organisations set up to help small business.

4. Bears an unlimited liability.

5. Sole trader are particularly successful in those undertakings for which neither a large

. capital nor great technical knowledge is required

Example : painters, mechanics, sundry shop owners and etc.

Advantages and disadvantages of sole trader

ADVANTAGES

1. This simple form of organisation structure avoids the time consuming red tape that bedevils the larger organisations.

2. Direct supervision leads to efficient use of resources.

3. Good employer-employee relationship can be maintained.

4. They are able to provide a personalised service since the organisation is small enough to adapt to the individuals needs of the customers.

5. There are flexible i.e. able to change trading policies to suit the changing environ

6. There is less wastage of materials and manpower.

DISADVANTAGES

1. The limited amount of capital they can raise is an impediment to the growth of the business.

2. They have unlimited liability. They are responsible for the debts of the firm to the extent of their personal property.

3. The continuity of the business in uncertain.

4. They may not have an adequate knowledge of all aspects of the business and this may prove to be a handicap as the organisation grows more complex.

5. They have long hours of work and if they are not present to make decisions, the business slows down

6. Since the capital is provided by the proprietor himself, the size of the business is limited and expansion is not easy.

Partnership

A partnership is an association of two or more persons who are co-owners of the business. It is also a business that consist minimum of two to 20 partners.

This business is based on two or individuals agree to do business and share the profit.

Each partner is an agent of the other partner and the partnership.

There are few types of partners.

Active partners	They are the partners who contribute capital and also take any active part in the running of the business.
Sleeping partners	These partners invest their money in business but do not take an active part in the management.
Nominal partners	They are the people who allow their names to be used but take no active part in the management nor do they share in the profit.

When a partnership is formed, it is wise to draw up a Partnership Agreement which sets out the terms and conditions.

Partnership Agreement

The actual contents of the agreement may vary but basically they should cover such as:-

Partnership name and business address.

1. Names and address of the partners.
2. Duration of Partnership.
3. Nature of business.
4. Capital contributions of partners.
5. Duties of partners
6. Provisions for salaries or drawings.
7. Distribution of profits or losses.
8. Methods of resolving a conflict.
9. Procedures for dissolution of partnership.

Characteristics

No. of members	2 to 20
Liability	Unlimited for all members
Powers	Each partner takes an active part in the business.
Profits	Shared among the partners according to the Partnership Agreement or Partnership Act.
Legal requirement	- Display the licence in the premise. - Renew the licence every year. - Partnership Agreement must be drawn. Publishing of Annual Account Not compulsory

Advantages and disadvantages of Partnership

ADVANTAGES

1. Partners can share the worry of the business as well as the work load. The excessive hours and over work of a sole trader are no longer necessary.

2. Availability of more capital by pooling together resources from more than one person.

3. Good employer-employee relationship can be maintained.

4. A number of partnerships are more likely to produce new ideas on how to run the business and how to react to trading conditions than a sole trader.

5. A wider clientele will be available as each partner will have different contacts.

DISADVANTAGES

1. The limited amount of capital they can raise is an impediment to the growth of the business.

2. They have unlimited liability (they are responsible for the debts of the firm to the extent of their personal property).

3. The continuity of the business is uncertain. This can be due to disagreement among partners.

4. They may not have adequate knowledge of all aspects of the business and this may prove to be handicap as the organisation grows more complex

5. Slow decision-making. There is excessive discussion whereby decision may be reached only after a long discussion.

Private Limited Company

It is also called as a Joint Stock Limited.

A joint stock company is an artificial entity created by law, having a common seal and perpetual succession.

There are two types of joint stock companies:

a) Private Joint-Stock Companies (Private Limited Companies).

b) Public Joint-Stock Companies (Public Limited Companies).

These companies must be registered with the Registrar of Companies (ROC). After this, the Registrar will issue a 'Certificate of Incorporation'.

Characteristics of the Private Limited Companies

Number of members	2 to 50
Liability	Limited for all members
Power and control	Controlled by the BOD (Board of Directors) who are elected by shareholders.
Share transfer	Transfer of shares is restricted.
Profit	Divided among shareholders according to the type of shares held.
Legal requirements	Articles and Memorandum of Association must be registered with the ROC and a Certificate of Incorporation obtained before trading can begin.
Publication of Annual accounts	Not compulsory but must submit the annual account which has been certified and approved by the auditors to ROC.
Capital	Contributed by shareholders.

Advantages and Disadvantages of Private Limited Companies

Advantages

1. The **liabilities of the members are limited**.
2. Since it has legal status and therefore **has perpetual succession** i.e. they can continue despite the death, retirement or bankruptcy of the owners.
3. It experiences **larger economies of scale**.
4. **Management is divorced from ownership**. Therefore, persons with organising ability but without financial resources can occupy positions of control.
5. The **uncertainties and hazards** of the business **are spread** over a large number of people.
6. Since there is restriction as to the transferability of shares, control of the company is restricted to the few shareholders and **secure from take-over bids by other companies**

Disadvantages

1. The **administration costs** of a company **are higher** that those of sole traders or partnership.
2. The **formation expenses** of a company are considerable.
3. The **decision-making process is slow** because of different levels of management and large size organisations.
4. It is **difficult** for companies **to maintain close contacts** with their customers and employees
5. Companies are subjected to **many statutory rules and regulations**.
6. There is **no direct control for investors** who are the shareholders. They have no direct control over the affairs of the company. The directors act as their trustees.

Public Limited Company

- It is also called as Public Joint Stock.
- The Registrar will issue a 'Certificate of Incorporation'.
- Before individual can start operating a Public Limited Company, they need to comply with other requirements and obtain a 'Trading Certificate'.
- Also, their company shares must be issued to the public and a sufficient volume must have been subscribed, to give the company an adequate capital.

2.1.5 (a) Characteristics

Number of members	Minimum of 2, no upper limit.
Liability	Limited for all members
Power and control	Controlled by the BOD (Board of Directors) who are elected by shareholders.
Share transfer	Shares are freely transferable.
Profit	Divided among shareholders according to the type of shares held.

Legal requirements	Articles and Memorandum of Association must be registered with the ROC and a Certificate of Incorporation and Trading Certificate obtained before trading can begin.
Publication of Annual accounts	Compulsory
Capital	May appeal to the public. Minimum authorised share capital is 50, 000.

Advantages and Disadvantages of Public Limited Company

Advantages

1. The liabilities of the members are limited.

2 .Since it has legal status and therefore has perpetual succession i.e. they can continue despite the death, retirement or bankruptcy of the owners..

3. It experiences larger economies of scale.

4. Management is divorced from ownership. Therefore, persons with organising ability but without financial resources can occupy positions of control.

5. The uncertainties and hazards of the business are spread over a large number of people. .

6. The shares of public companies are easily marketable and attract a large number of investors.

7. Public companies can help the country economy to grow.

Disadvantages

1. The administration costs of a company are higher than those of sole traders or partnerships.

2. The formation expenses of a company are considerable

3. The decision-making process is slow because of different levels of management and large size organisations.

4. It is difficult for companies to maintain close contacts with their customers and employees.

5. Companies are subjected to many statutory rules and regulations

6. There is no direct control for investors who are the shareholders. They have no direct control over the affairs of the company. The directors act as their trustees.

7. Since there is no restriction as to the transferability of shares, control of the company is not secure of the take-over bids by other companies.

Franchise

It is an arrangement where one party (the franchiser) sells the right to another party (the franchisee) to market its product or service.

Kentucky Fried Chicken and Dunkin' Donuts were among the first chains to start selling franchises. But it was Ray Kroc, founder of McDonald's Corp., who saw in franchising the opportunity to build a national brand and in the 1950s traveled the United States selling franchise licenses for US$950.

Characteristics

1.	Allow someone else to operate the business idea as their own business.
2.	Obtain the necessary capital yourself.
3.	Training and other assistance will be given by the franchisor.
4.	Advertisement and promotion and other marketing activities are centralised.

Advantages and disadvantages of Franchise

Nos.	Advantages	Disadvantages
1.	Require less business experience.	Must be prepared to work hard to ensure profit.
2.	Training and other support are given.	A big amount of investment to start this business is required.
3.	Able to emphasise on business rather than other activities.	One mistake can cause the good name to be spoiled.
4.	Customers are more comfortable.	
5.	Higher Statistical Success Rate of franchises over sole proprietorships	

Co-operative Societies

The object of the first co-operative was to provide cheap, unadulterated food for its members and to return any profit it made to them.

It must be registered with the Registrar of Society.

They do not fall into the conventional division of public or private sectors.

They are not a nationalised (government sector) and they do not operate primarily for profit.

I was realised that large firms has advantages of buying in bulk which were denied to the individual purchaser, but that these advantages were largely lost to the customer because they provided the profits for the owners.

As such, cooperative is aimed to accrue the advantages of sales but to pass these to their members rather than to the owners of the firm.

A cooperative society is **a form of organisation wherein persons voluntarily join together for the promotion of their own economic interests**.

A person becomes a member of a co-operative by buying a share. This provides part of the society's capital and entitles the holder to one vote at the society's annual meeting.

Cooperatives function both in the buying and retailing of goods (consumer cooperatives) and in the production and sales of goods (producer cooperatives).

The principles laid down by the Pioneers still form the basis of the co-operative movement today. They include:

a. Open membership

b. Democratic control through a system of one member, one vote, regardless of how many shares are held

c. Distribution of any surpluses in proportion to purchases – the "dividend"

d. Promotion of education

e. Religious and political neutrality

Open membership, true democratic management by the "one-man-one-vote principle, patronage dividends and cash trading o encourage thrift are some of the important features and advantages of a cooperative society over the joint-stock company.

Inadequate capital, inefficiency management, lack of unity among members and lopsided development are its main defects.

Public Sector

Public sector is the part of economy which is owned by the state or government.

There are various types of public ownership.

Types of organisation	Characteristics
Nationalised Industries	These industries are established by the parliament and controlled by the Parliament in the following ways – submission of annual accounts for security by the Public Accounts Committee or Select Committees, an annual Parliamentary debates which all relevant matters are discussed, and the appointment of a Minister to control the overall policy. Some of these industries were actually private limited companies taken over by the state. Any losses are made good from taxes and hence, the taxpayers are actually the risk-takers.
Public Corporation	Slightly different between corporation and the nationalised industries. A Public Corporation has a 'charter' from Parliament, which gives it a certain freedom of action for a prescribed period. However, it is still State-owned and the taxpayer remains the risk-taker.

Local Government	It is inappropriate for central government to provide such services as the local authorities or municipalities have been better knowledge of local conditions and opinions. They are responsible for providing or managing the provision of various social services such as medical and educational services, social security and etc.
Central Government	Most major departments have a government Minister in charge of policy and in control of operations.

There are various reasons for placing business organisation under the public ownership.

Nos.	Reasons	Explanation
1.	Natural rights	There are certain items that ought to belong collectively to the entire nation. For example land, river and lakes.
2.	Security	National security may have to protected because private enterprise is inappropriate to provide the services performed by the police, armed forces, fire brigades and post office.
3.	Fundamental importance	Some industries are of basic importance to the whole economy especially electricity and water.
4.	Social necessity	Many goods and services are part of the social needs of an advanced society. Example, education, public health controls, drainage and sewerage system.
5.	Natural monopolies	This is to take a monopoly of private ownership because it is impractical to allow competition in production and supply of certain goods and services. Example, electricity, water, and railway transport.

6.	Heavy capital cost	This is to save an ailing industry and project jobs. Example KLIA, PLUS and so on.
7.	Bad labour relations	Disputes over wages and working conditions can destroy the production certain goods and services that are of fundamental importance to the people.

Like the private ownership, public ownership also has its advantages and disadvantages.

	Advantage	Disadvantage
1.	Government has the resources to fund a vast industry, even if it is uneconomic.	Can over-cautious due to the fact that they are answerable to the public.
2.	Will ensure provision of essential services.	Bosses are politicians who may not have the necessary business expertise.
3.	Reduces possible duplication of equipment.	State monopoly can lead to inefficiency profit motive.
4.	Enables large sections of the economy to be planned towards a single strategy.	Losses have to be met by taxpayers.