Unit 1: BUSINESS ORGANIZATION

1.1 FORMS OF BUSINESS ORGANIZATIONS

- A business organization is a firm that provides commodities that is goods and services to people.
- Entrepreneurs usually set up their own organizations in order to make profits.

The **different types of business organizations** are as follows:

- **Sole trader**: It is a business that is owned and controlled by only one person. He is the only boss, and he gets all the profits for himself.
- **Partnership**: It is a business where usually 2-20 partners come together to start a business. They share profits and losses as well as there is sharing of responsibilities.
- **Company**: A company is a business that is owned by shareholders. They invest their money with the view of making profits.
- **Cooperative:** This is a business where the owners are the members itself. They share all the benefits of the business.
- **Franchise:** A franchise business is when a franchisor allows a franchisee to use his brand name, logo, designs etc…to operate.

1.2 COMPANY

- A company is a business that is owned by **shareholders**.
- They raise money by selling shares. Companies are normally incorporated that is they have a separate legal identity. All those who buy shares in a company are known as shareholders.
- The shareholders receive dividends for the amount of money they have invested in the company.

There are 2 types of company namely:

1. Private limited company
2. Public limited company

- **A private limited company** is a business that sell shares only to family and friends. It cannot sell shares to other people or members of the public. It is usually a smaller business compared to public limited company as it raises capital from a small number of shareholders.

- **A public limited company** raises capital/money by selling its shares to members of the public. It is larger than a private limited company as it can sell its shares on the stock exchange market where anyone can buy the shares.

The steps to start a company are as follows:

1) The people who want to start a company have to apply at the Registrar of companies by filling the required forms.
2) They need to submit two important documents to complete their registrations and the documents are memorandum of association and article of association.
3) After submitting the above documents and providing all the required information, the Registrar of companies gives them a certificate of incorporation. It is only after getting the Certificate of incorporation that they can start their business.

An entrepreneur needs to understand the following terms before starting a company:

- **Companies Act:** It is a legal document that outlines the rules and regulations on how to set up a company.
- **Share:** A share represents ownership of a business.
  It means people invest in a company by buying shares and they are known as shareholders.
- **Share certificate:** It is an official document that shows the number of shares that a shareholder has in a company.
- **Dividend:** It is part of a company's profits that is given to shareholders.
- **Board of directors:** They are people who have been selected by shareholders to manage and run the company.
- **Limited liability:** If the business goes bankrupt that is it is not able to pay for its debts, only the assets of the business will be used to pay the debts. The personal assets of the owners will be safe.
- **Registrar of companies:** It is the authority that registers companies and issues a certificate of incorporation so that businesses can start trading.
- **Memorandum of association:** It is a legal document which provides details such as the name and address of the company.
- **Article of association:** It is a document that outlines the internal rules of a company.
- **Certificate of incorporation:** It is a legal document that shows the official date when a business can start its operation.
- **Annual General Meeting:** It is a meeting that is done once a year. All the shareholders meet and discuss the performance of the business and how it can be improved.

The 2 important documents that need to be submitted to the Registrar of Companies contain the following details:

MEMORANDUM OF ASSOCIATION	ARTICLE OF ASSOCIATION
Name of company	Rules and regulations of the company
Address of company	Names of the directors
Names of shareholders and the number of shares they have	Procedures to be followed at the meetings
Share capital	Rights, duties and responsibilities of the directors
Objectives of the company	

FEATURES OF A COMPANY

1. **REGISTRATION**
   The company must be registered at the Registrar of companies, and it should be an incorporated business. That is, it should have a separate legal identity from the owners.

2. **OWNERSHIP**
   All those who buy shares in a company are known as shareholders and they are also the owners of the company. Each share has one voting right.

3. **CONTROL**
   A company is managed by a board of directors. They are appointed by make decisions and control the business. During the AGM, they present the accounts to all the shareholders.

4. **RISK**
   Shareholders benefit from limited liability. The personal assets of the owners are not at risk.

5. **PROFITS**
   Profits made by a company are distributed to shareholders as dividends.

ADVANTAGES OF A COMPANY

1. **Limited liability**
   A company is an incorporated business that is they have separate legal identity. Therefore, the accounts are not same. In case of bankruptcy, the assets of the owners are not at risk. Only assets of the business will be used to pay the debts of the company.

2. **Continuity**
   A company has many shareholders. Therefore, if one shareholder leaves the business or passes away, the business will continue to operate.

3. **Capital**
   More capital can be raised through the issue of shares as many people can buy shares in a company.

4. **Management**
   A company is managed by a Board of Directors who are selected by shareholders. They are usually experts and experienced people in their fields. They are appointed to manage and control the business so that the business grows and make profits.

DISADVANTAGES OF A COMPANY

1. **Registration**
   The legal formalities to start a company are very complicated and takes a lot of time.

2. **Disclosure of accounts**
   Companies have to provide details of their accounts to the Registrar of Companies. That is everyone will know about their profits as well as losses. There is no secrecy.

COOPERATIVES

- Cooperatives are businesses that are owned and run by their members. They can be customers, employees or group of businesses. They share all the profits and benefits among themselves. They invest money in the cooperative by buying shares. Each member is allowed to only one vote when taking business decisions.

- The steps to set up a cooperative are as follows:

1. Application to the Cooperatives Division
2. Registration
3. Certificate of Registration

FEATURES OF A COOPERATIVE

1) **Registration** :The cooperative must be registered at the Cooperatives Division.

2) **Ownership** : Owners of a cooperative are known as members.
They invest money in the business by buying shares.

3) **Control** : Each member has one voting right when taking business decisions.

4) **Risk** : Members of a cooperative enjoy limited liability as their personal belongings are safe.

5) **Profit** : The profits that they make are known as surplus and the members share it among themselves as dividends.

ADVANTAGES OF A COOPERATIVE

1. **Employment**
Members of a cooperative create jobs for themselves, and they also create jobs for other people in the society.

2. **Ownership and control**
Members in a cooperative help each other to run the business and come forward with ideas to make the business successful.

3. **Profits**
The profits that they make are known as surplus and the members share it among themselves as dividends.

4. **Government Support**
The Government provide help and support to cooperatives by giving them facilities such as grants, loans and financial assistance.

DISADVANTAGES OF A COOPERATIVE

1. **Consultation**
Decision making process is slow because members must consult each other before talking any decision in the business.

2. **Low profits**
Members of cooperatives usually charge low prices for the products that they sell, thus they will make low profits.

FRANCHISE

- A franchise is a business in which a franchisor allows a franchisee to use its name, products and logo.

- The franchisor sells a license to the franchisee to sells its products and services.
- The franchise business is very popular and well-known throughout the world.

Examples of famous franchise businesses in Mauritius are KFC and McDonald.

- A **franchisor** is the one who sells the license. He is also the owner of the franchise business.
- A **franchisee** is the one who buys the franchise license from the owner (franchisor) to sell its products and services.

FEATURES OF A FRANCHISE BUSINESS

1. **Ownership**
   The franchisee buys a license from the franchisor so that he can start the franchise business.

2. **Control**
   The franchisee runs and controls the business.

ADVANTAGES OF A FRANCHISE BUSINESS

1. **Strong reputation**
   The product as well as the brand name of a franchise business are very popular, so the chances of the new business fail is less as many people already know the product.

2. **Support and training**
   When the franchisee buys the license from the franchisor, he/she gets advice, management support and training from the franchisor. They do not have to invest money in training.

3. **Existing product**
   Most supplies (raw materials and equipment) are bought directly from the franchisor.

DISADVANTAGES OF A FRANCHISE BUSINESS

1. **Huge investment**
   The franchise license fee is very expensive. The franchisee has to spend a lot of money in order to buy the license.

2. **Control by franchisor**
   The franchisor sets certain restrictions in the business. It is the franchisor who decides about the pricing policies and the layout of the outlets. The franchisee does not have the right to make such decisions.

3. **Profits to franchisor**
   Part of profits that the franchisee makes have to be given to the franchisor each year. The franchisee does not enjoy all the profits.

SELECTING THE RIGHT BUSINESS ORGANIZATION FOR MY ENTERPRISE

- An entrepreneur has to select the right business organization before starting a business.

The factors that the entrepreneur should consider before making any decisions are:

- **Ownership and control**

The entrepreneur has to decide who will own and control the business. If he wants to be the only owner, he will select a sole-trading business but if he decides to have a friend in the business, he can start a partnership business.

- **Risks**
  The entrepreneur has to consider the different types of risks that he will face in the different types of businesses. Some entrepreneurs are willing to take risks while some are not. Those who are willing to take more risks will start business such as company.

- **Expansion**
  Entrepreneurs will have to select businesses that they can expand in the future in order to make more profits. If they do not want to expand, they will select small businesses such as sole trading.

- **Registration and procedures**
  Some businesses require many formalities, and it takes a lot of time, and this discourages the entrepreneurs. They will prefer businesses that are quick to set up for example sole trading and partnership businesses.

- **Continuity**
  If an entrepreneur wants his business to continue even after he passes away, he will have to select businesses such as company. That is, even if he is not here, other shareholders will continue to run and manage the business.

QUESTION 1: Circle the correct answer.

1. Angel works for herself for 2 years. Which of the following describes the business she operates in?

   A Company **B** Franchise
   C Sole trader **D** Joint venture

2. Which one of the following documents specifies the name and address of a company?

   A Article of association **B** Registrar of companies
   C Certificate of incorporation **D** Memorandum of association

3. Which one of the following businesses raises capital from a small number of shareholders such as friends and relatives?

   A Private Ltd Company **B** Franchise
   C Cooperative **D** Public Limited Company

4. A ………………..is a voucher that represents a unit of capital.

   A Dividend **B** Capital
   C Business plan **D** Share

5. A certificate of …………………..is a legal document showing the official date a company can start operating.

A Incorporation

B Companies

C Memorandum

D Association

QUESTION 2:

Reyansh is a franchisee. He bought a license from a world-renowned restaurant to sell its products. He learned that a franchise business has a lot of benefits.

(i) Identify 2 examples of franchise businesses that exist in Mauritius.

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(ii) Identify and explain one disadvantage that Reyansh can face in his business. (2 marks)

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QUESTION 3:

Paul and Mia have completed their studies in Entrepreneurship Education. They are not able to get any job and thus, they decide to start a company on their own. They are somehow confused between private limited company and public limited company.

(i) Identify 2 other forms of business organisations other than company.

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(ii) Differentiate between private limited company and public limited company?

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(iii) Identify and explain one advantage that Paul and Mia will benefit from if they start a company.

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(iv) List 2 important documents that Paul and Mia need to submit to start a company.

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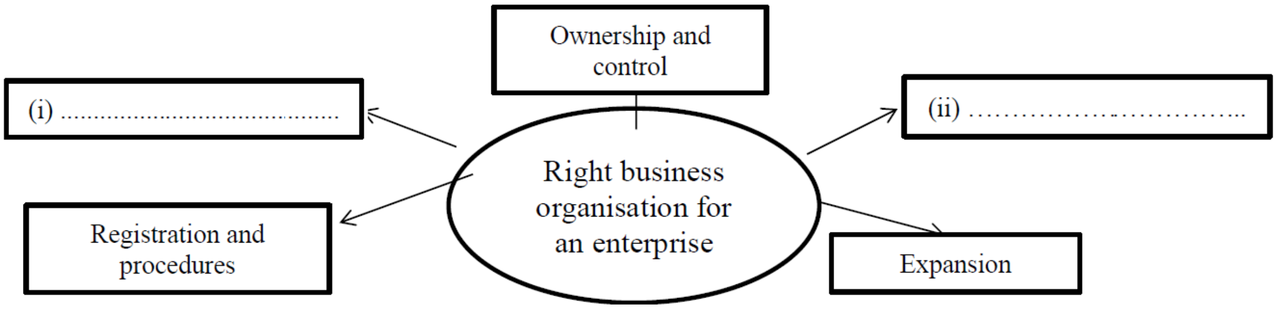
QUESTION 4:

Amanda and Geraldine want to be entrepreneurs.

Choosing the right business organisation is an important decision.

(i) Complete the diagram below to enable them to know the factors that can influence their decisions.



(ii) Jacky, a friend of both Amanda and Geraldine, proposes them to join him in his business which is a cooperative. Tick (✓) the correct boxes to indicate whether each of the following statements about a cooperative is an advantage or disadvantage to Amanda and Geraldine.

STATEMENTS	***ADVANTAGE***	***DISADVANTAGE***
1. Members join together to share ideas and help each other to manage the business.		
2. Profits are usually low because prices charged are usually low.		
3. In a cooperative, there is slow decision making as members have to be consulted.		