U3 AOS 1 – BUSINESS FOUNDATIONS

TYPES OF BUSINESS: Entity involved in providing a G/S to consumers

1. SOLE TRADER

-Business with one owner who is solely responsible for the operations of a business, both financially and legally.
-Operates with sole rights to all capital and profits but also operates with unlimited liability

STRENGTHS	WEAKNESSES
Low entry cost (the only legal requirement that needs to be done is set up the name of the business with ASIC – Australian Securities and Investment Commission)	**Unlimited liability** for all of the debts of the business (If the business runs into trouble, the owner will need to use their personal assets to pay the debts) – owner and business are not separate legal entity's
Less operations costs (no staff) and **less government regulation**	Difficult to operate if sick and ceases if owner dies **(no staff = over reliance on health of owner)**
No disputes amongst partners	Because there is no one else in the business, owner of the business is responsible for carrying all the losses of the business, and cannot share the workload
Full profits, no tax on profits only on personal income. Also, owner of the business has the right to keep all of the profits.	Can be **hard to find money** to expand the business if they want to (since banks are less likely to give loans to sole traders)

2. PARTNERSHIP

- Setting up a partnership in order to run a company is also relatively inexpensive and refers to a business owned by a minimum of 2, and a maximum of 20 people that run the business and distribute income or loss between themselves. However, there are exceptions to this limit;
Medical practitioners and architects – Allowed up to 50 partners
Architects and chemists – Allowed up to 100 partners
Solicitors and accountants – Allowed up to 400 partners
- Each partner is jointly liable with **unlimited liability** – owner not a separate legal entity from partnership
- Different from a sole trader, partnerships have their own tax file number whilst sole traders just use the owners.

STRENGTHS	WEAKNESSES
It **less costly to operate a partnership** than it is to operate a company.	In a similar way to sole traders, partners are subject to **unlimited liability,** HOWEVER, the liability is divided amongst the partners.
Shared workload and **responsibility** amongst the partners **On the death of one partner, business can keep going**	**Possibility of conflict** and disputes between partners (due to personality clashes/animosity)
No taxes on business profits only on personal income	**Divided loyalty and authority**
Business can pool the **talent** and skills of the partners	It can be very **difficult to find a suitable partner** to go into business with.
Low start-up costs compared to that of a company.	All of the partner's in a partnership are **jointly liable for all of the other partner's debts** (crucial one)
Minimal government regulation	

Incorporation

Incorporation is when a sole trader or partnership undergoes a process to become a registered **company** and a **separate legal entity from the owner**. To be incorporated a business must register their company name with ASIC, appoint directors to run the company on behalf of owners and the owners are now called **shareholders**.

3. PRIVATE LIMITED COMPANIES

a. PRIVATE LISTED COMPANY

- An incorporated business with at least 1 one shareholder and maximum of 50 non-employee shareholders. Shareholders are normally employees or family members (whom the business can have as part-owners).
- Shareholders can only sell shares approved by other directors, not listed on ASX (stock market).
- Recognized by 'Pty Ltd' on the end of their name, which stands for 'proprietary limited'
- Separate legal identity (owner and the business are not regarded as the same)

INCORPORATED ENTITY'S (Private listed company & Public listed company)

STRENGTHS	**WEAKNESSES**
Limited liability to shareholder capital and greater spread of risk, meaning that the most money a shareholder can only lose is the amount they've invested in the company, and thus is not responsible for the company's debts – **separate legal entity**	Although there is limited liability, this does not occur if the directors knew at the time that the business was unable to pay their loans. **(Personal liability for business debts)**
Extra capital can be raised by issuing more shares to employees or family members. On the other hand, public listed companies can raise **extra capital** by issuing shares on the stock market to the general public. As a result, these companies are generally of a much larger size than private limited companies, which are normally small-medium sized businesses.	There is much more requirement to disclose information and publish reports on what is happening in the company However, because of this capital-raising capacity, public listed companies level of disclosure required for their reporting is much higher than private listed companies **e.g.** Requirement to deliver a prospectus (booklet) when selling its shares for the first time, and, like private listed companies are required to publish an annual report of their finances
There is an **easier transfer of ownership** within the company	Companies are more **expensive to set up** and operate
Existence is less threatened by deaths – **perpetual succession**, which is the continuation of a company's existence despite the death of any owner., or any transfer of stock.	**Double taxation** – Company (GST) and personal income **Company tax rate is lower than the personal income tax rate**
Because they generally have directors on staff, they have good levels of **management experience**	If there is a period of growth over a short amount of time, there can be **inefficiencies** in the company.

b. PUBLIC LISTED COMPANY

- An incorporated business with a minimum of 1 shareholder and no maximum, shares are freely traded on the ASX stock exchange where there's no restrictions on transfer of shares
- Minimum of 3 directors with at least 2 in country of operation
- Operations controlled by directors but owned by shareholders
- Unlike private listed companies, in public listed companies anyone can be a shareholder
- The word limited (Ltd) in its name

KEY POINT: The advantages and disadvantages of Private listed companies and public listed companies are similar, **except** the level of disclosure required for their reporting is much higher

KEY POINT: The letters Ltd have to be put at the end of a company signifying that it has **limited liability**, it can be categorized as either proprietary (Pty) or public

4. SOCIAL ENTEPRISE

- A social enterprise is a business that produces goods and services for the market but operates with the primary objective of fulfilling a social need rather than maximizing profit for shareholders – the most common example of this is charities (e.g. St Vincent de Paul Society – Vinnies shops).
- The business may make a profit or surplus, but any such surplus will be re-invested back into the business so it can continue fulfilling its social need.
- Social enterprises don't rely on donations for main income source

STRENGTHS	WEAKNESSES
Meeting a social need can have a positively impact on their **market share** (market's total sales) and **profit** as consumers are more likely to support their efforts.	**Hard to obtain capital** to finance a social enterprise because the ability to make profit is generally lower.
Can open up **newer markets** that commercial businesses might not want to enter (e.g. because there is not enough profit available in that area)	**Significant operating costs** as they often undergo costs that commercial businesses don't have to tolerate
	It can be **difficult to balance** the need to achieve **both social and financial objectives**

5. GOVERNMENT BUSINESS ENTEPRISE

-Corporation in the public sector owned and operated by the government.
-In a similar way to companies, GBEs are run with the aim of making a profit, but they also exist to carry out government policies.
-GBEs also aim to increase value of assets and returns in shares to the government
-GBEs are large businesses with high numbers of employees – an example of a GBE is Australia post

STRENGTHS	WEAKNESSES
They can carry out government policies and deliver services to the public in areas where private sectors might hesitate to invest	**Political interference** in day-to-day operations
Can operate with **independence** from the government	**Inefficiencies** caused by excessive regulation and conformity to government rules
They can provide **healthy competition** to other businesses operating in the private sector which can lead to **lower market prices**	**Less accountability** in a GBE for the staff and management, resulting in lower productivity and negative attitude.
	Management of GBEs can be **less effective** then businesses within the private sector

BUSINESS OBJECTIVES

-Statements or desired achievements that provide direction for business action

1. Make a profit

-Surplus remaining after operating costs are deducted from total revenue

2. Increase market share

-Total percentage of industry sales that the business receives

3. Fulfil a market need

-Refers to a business producing products that close a gap in the market or provide something that doesn't already exist in the market

4. Fulfill a social need (SE)

-Production and/or selling of goods and services for the purpose of making the world a better place

5. To meet shareholder expectations (PUBLIC LISTED)

-Maximizing dividends to shareholders by improving the value of company shares
-Capital gain and return of dividend

STAKEHOLDERS
INTERNAL
1. Owners
-Want the business to make profit as sometimes they may depend on the business for income
-Operate in socially responsible manner
2. Shareholders
-Want the business they have invested in to make profits as this affects the value of their shares and the number of dividends they receive
-Operate in socially responsible manner to improve reputation
3. Directors
-Responsibility for developing and overseeing strategic direction of the company for status and compensation
4. Management
-Want business to perform financially, in return expect to be fairly remunerated
-Socially responsible to increase sales
-Satisfy stakeholder expectations while ensuring position in business is secure
5. Employees
-Paid fairly, trained properly and treated ethically I return for their contributions
-Job Security long term

STAKEHOLDERS
EXTERNAL
1. Government
-Make and change laws that impact the business
-Want the business to do well for the sake of the economy, government benefits due to tax revenue
2. Competitors
-Want to have competitive advantage over the business
-They may want to change prices or improve quality
3. Interest groups
-Organizations who attempt to directly influence or persuade a business to adopt or change particular activities or policies
4. Trade Unions
-Want to prevent anything that diminishes employee rights, safety or conditions as they work to achieve fairness and equality for employee rights
5. Consumer Groups
-Want to ensure businesses sell products that are safe, appropriately packaged, reasonably priced and honestly advertised
6. Customers
-Expect to purchase high quality products at reasonable prices
-Are becoming increasingly aware of socially responsible businesses and many will purchase products from businesses they know are SR
7. Suppliers
-Provide quality materials that are delivered reliably to ensure business makes profit, expecting to be paid promptly and in full.
8. Members of the Community
-Expect the business will give back to society
-Show concern for future welfare through employment and shore concern for environment