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OSUN STATE UNIVERSITY

OKUKU CAMPUS

TOPIC: FORMS OF BUSINESS ORGANISATIONS

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LEARNING OBJECTIVES

At the end of this lecture, the students are expected to:

- § **understanding the different classifications of business organisations;**
- § **call to mind the determinants of the choice of business organisations;**
- § **define sole proprietorship and discuss its merits and demerits;**
- § **explain partnership form of business**

LEARNING OBJECTIVES

- § describe Limited Liability Company and the requirements for its formation;
- § compare and contrast private and public limited liability companies
- § explain public corporations; and

BUSINESS ORGANISATIONS

Introduction

A business organisation is a company founded by an individual, or a group of individuals, the government, or one of its agencies with the primary objective of producing goods and/or rendering of services that meet customers demands at a profit.

This topic opens with the classification of business organisation based on two major criteria; We then look at various factors that influence the choice of a particular form of business ownership. The sole proprietorship is then discussed with its characteristics, advantages and disadvantages. Other forms of business organisations are then examined and treated. They are Partnership, Private and Public Limited Liability Company,

Classifications of Business Organisations

1. **Classification of Business Organisations According to Their Sizes:**

a. **Small Business Organisations: These include Sole Proprietorship and Partnership.**

b. **Big or Large Business Organisations: They include Limited Liabilities Companies, Public Corporations, and Cooperative Society.**

Classifications of Business Organisations

2. Classification of Business Organisations According to Their Ownership:

a. Private Enterprises: These are business organisations that are owned and managed by private individuals.

b. Public Enterprises: These are business organisations owned and managed by the government. These may be run by

Determinants of Choice of Appropriate Forms of Business Ownership

1. Capital Requirement: The amount, source and availability of capital needed by the firm goes a long way in determining the kind of business to be chosen.

2. Market Size: Market plays a significant role in determining the form of business to operate. This is because the larger the market in focus, the larger the capital requirement to be able to exploit the market and, vice versa.

3. Managerial Capability: One of the requirements for successful business operations is managerial prowess. Therefore, a businessman who does not have good managerial ability may choose a form of business organisation in which the owner of the

Determinants of Choice of Appropriate Form of Business Ownership

4. Registration Requirements: The law specifies certain requirements to be fulfilled for the registration of business organisations.

5. Risk Bearing: All forms of business activities involve risk taking. The form of business to set up by an individual will be determined by the extent to which an individual is a risk lover or risk averter.

6. Ease or difficulty of transfer of ownership and the number of owners.

7. The number and extent of availability of factors of production to the firm

Basic Forms of Business Organisations

- 1. Sole Proprietorship: This type of business is usually owned by a single individual
- 2. Partnership: This is usually owned by 2-20 persons. However, if it is a banking business, it is usually owned by 2-10 persons.
- 3. Private Limited Company: Owned by 2-50 persons.
- 4. Public Limited Company: Owned by 7 persons upward.
- 5. Cooperative Society: Owned by any number of persons.

THE SOLE PROPRIETORSHIP

Sole proprietorship is a business concern established, owned, operated, financed and controlled by one person with the sole aim of making profit.

It is the oldest and largest form of entrepreneurial organisation even in the developed countries.

But in terms of productive capacity or business conduct, performance and amount of turnover and capital, the sole

THE SOLE PROPRIETORSHIP

The owner is fully entitled to the income or revenue of the business and fully responsible for any losses the business suffers.

The formation and operation of a sole proprietorship is subject to virtually no regulation except for the formality of obtaining a licence to operate in some cases.

Examples of sole proprietorship include small retail shops, local bookshops, the

Characteristics of Sole Proprietorship

1. Ownership: The ownership is vested in one person.
2. Liability: The liability of one man business is unlimited.
3. Source of Capital: The capital outlay in forming and running the business comes solely from the proprietor.
4. Motive for Business Formation: To make profit.
5. Legal Status of the Business: The business is not a legal entity.

Advantages of Sole Proprietorship

1. Small Capital Outlay: It requires small capital to start the business.
2. Easy to Establish: No formal procedures are required for its establishment.
3. Quick and independent decisions can be made without consulting anybody.
4. No business income tax/lower taxation.
5. Individual Accountability: He pays

Advantages of Sole Proprietorship

6. He singly formulates the firm's policies and set the goals that guide the business internally and externally and strives to work towards them.
7. Privacy of Business Affairs: The business and its owners are not required by law to disclose their annual account or publish them.
8. Business gains are personal gains. He retains all profits for personal use and does not share them with anybody.
9. Lower organisational costs. This makes it easy to manage.
10. Fitness to any Environment: Because of the nature of one-man business, it adapts easily to any environment it finds itself as long as there are

Disadvantages of Sole Proprietorship

1. Unlimited Liability of the Owner: The owner bears all risks and losses of the business alone.

2. Limited Financial Resources: The owner has problem of raising adequate capital in running the business. This is because the sole proprietor relies only on his personal savings and assistance from friends and family members for funds.

3. Retarded Growth: Difficulty of expansion due to smallness of capital outlay coupled

Disadvantages of Sole Proprietorship

4. Limited Life Span: There is lack of continuity which may be associated with the death or incapacitation of the owner.

5. “Workaholic:” He is very incentive to work hard and please himself.

6. Unable to employ or retain well-skilled workers.

7. Management Difficulties: This type of business does not enjoy abundance of managerial expertise

THE PARTNERSHIP

- This is a very old type of business ownership and it is most common in professional business like accounting and law.
- A partnership is an association of two or more persons who carry on as co-owners of a business for profit. The persons so associated are called partners. In other words, it can also be defined as the relationship that exists when two or more persons contribute skill, money or money's worth in order to establish, own and manage business organisation with the sole aim of making profit and jointly responsible for any

Characteristics of Partnership

1. There may be between 2 to 20 partners; but 2 to 10 partners in case of banking business.
2. The partnership must be registered with the Registrar of Company.
3. At least one of the partners must have unlimited liability.
4. If one of the partners dies or leaves the association, the partnership dies or dissolves automatically.
5. Withdrawal of capital by one partner must be approved by other partners as laid down in the partnership deed.
6. Partnership is not a legal entity

Types of Partnership

1. General/Ordinary Partnership: This is the most common form of partnership. In this case, all partners have equal responsibility and bear all the risks of the business equally. They have unlimited liabilities.

2. Limited Partnership: This type of partnership is not so well run and it must have a legal basis. Here, all partners do not take equal part in the management of the business. The liabilities of the partners are limited to the capital contributed into the business. However, in compliance with the partnership law, the partner who is active and

Types of Partners

1. Active Partner: He takes active part in the formation, financing and running of the business.
2. Dormant or Sleeping Partner: Contributes his financial resources in the formation and running of the business.
3. Nominal or Passive Partner: He does not contribute financial resources to the business. His name is only use in the formation of the business.
4. Secret Partner: This is a partner who takes active role in the management of the business.
5. Silent Partner: This is a partner who does not take active role in the affairs of the

Partnership Deed

1. Name of business firm.
2. Names of the partners.
3. The place of business.
4. The description of the nature of business.
5. The amount of capital contributed by each partners.
6. The role of each partner in the business.
7. The method by which profits and losses are to be shared.
8. The compensation, if any, to be received by each partner for services rendered to

Partnership Deed

9. The rights and obligations of the partners.
10. Interests to be paid on capital and drawings of the partners.
11. How long the business shall last.
12. Procedures for the admission of the new members.
13. The limitations of liability of one or more partners.
14. How matters affecting the business shall be resolved.
15. Arrangement for the dissolution of the

Rights and Duties of Partners

1. Each partner is entitled to participate in the management of the firm.
2. Each partner has the right to inspect the books at the place of business.
3. No partner may be expelled by the other partners unless there is an express provision for this in the Deed of Partnership.
4. Unless there are unanimous consents of all partners, no new partner can be admitted into the business.
5. All partners have the right to share equally in the profits and must contribute equally to the losses of the firm.

Rights and Duties of Partners

6. Each partner must be indemnified for payments and liabilities incurred in the ordinary course of partnership business.
7. Each partner must deal in partnership affairs with the utmost good faith and consent to changes in the nature of the partnership business.
8. No partner is entitled to interest on his capital before profits have been determined.
9. Any partner who loans or advances money to the firm to use in the partnership business over and above the amount of capital he has agreed to contribute is entitled to receive interest on the amount advanced.

Advantages of Partnership

1. Greater capital or financial resources.
2. Greater specialisation and diversified managerial talents.
3. Better credit rating than the sole proprietorship.
4. Less government regulations.
5. Creation of employment opportunities.
6. Cordial relationship existence between partners and customers.
7. Taxes are paid on individual partner's income only.
8. Opportunity for extending the business and for increasing its efficiency by exploiting the benefit of division of labour.

Disadvantages of Partnership

- 1. Unlimited Liability
- 2. Not a Legal Entity
- 3. Disagreement
- 4. Limited Life
- 5. Limited Capital
- 6. Difficulty in finding qualified and agreeable partners.
- 7. Delay in decision making.
- 8. General Agency

Dissolution of Partnership

1. The expiration of the agreed life span of partnership.
2. The completion of the project that led to the formation of partnership.
3. Through the mutual consent of all the partners.
4. The death, retirement or insolvency of a partner especially an active partner.
5. When the business becomes illegal
6. When the Court orders that the

LIMITED LIABILITY COMPANIES

A company can be defined as an association of people who agreed to, and jointly pool their capital together in order to establish a business venture distinct from owners. Limited Liability Company is also called Joint Stock Company. It exists in law absolutely independent of the owners. This implies that the owners have limited liability. That is, their liability is limited to the amount of capital they have invested in the company. Limited Liability Company can own property, make contracts, borrow money, sue and can be

Types of Limited Liability Companies

a. **Limited by shares**

b. **Limited by guarantee**

c. **Unlimited company**

A business is considered to be limited by shares if the memorandum limits the liability of its members to the amount of shares owned by individual member.

A corporation is considered to be limited by guarantee if the memorandum specifies the maximum amount that each member may agree to contribute to the business's assets in the case of its dissolution.

Private Limited Liability Company

This type of company is one whose membership is limited to fifty whereas the minimum membership is two. It is otherwise known as a close company. The company can neither request nor subscribe for shares from the general public and the holder of the company shares cannot transfer such shares without the knowledge of the registrar of companies. Besides, such shares cannot be sold on the stock exchange market and this explains why it is called a close company.

This form of business organisation can be formed by a family. In forming the business, the business name, nature of the business, site of the business, membership as well as the type of product to be produced will be included in the charter or agreement of association. This charter will then be registered with the Registrar of

Features of a Private Limited Company

1. It is established by two to fifty persons.

1. **It is managed by Board of Director headed by a Chairman.**

2. **Limited Liability up to the number of shares held.**

3. **Members of the public cannot be invited to subscribe to shares.**

4. **Payment of shares of profits is on the basis of the number of shares held.**

5. **There is restriction on transfer of shares.**

6. **It does not require by law to publish its financial statements at the end of the year.**

7. **The shares are not quoted in the stock exchange.**

8. **Voting right is according to the number of shares**

Public Limited Liability Company

This type of company can be formed by minimum number of seven persons while it has no maximum number. It is otherwise known as an open company. This means that its shares are available for sale to the public and it is usually through the stock exchange. The shareholders are the real owners of the company and are free to transfer their shares to other people. The liability of shareholders is limited to the amount

Features of Public Limited Liability Company

1. It has minimum of seven owners but has no upper limit.

2. The public can subscribe to its shares.

3. Shareholders can transfer their shares on stock exchange market.

4. It is managed by Board of Directors through appointed Managing Director.

5. The liability of the shareholders is limited.

Features of Public Limited Liability Company

6. It is a legal entity different from the owner.

7. Dividend is paid to shareholders on the basis of the shares they held.

8. Required by law to prepare its financial statement on annual basis.

9. It can commence business as soon as both certificate of incorporation and certificate of trading are obtained.

Legal Requirements for Company Registration

- **Section 35 of the Companies and Allied Matter Acts defined the papers of incorporation as follows:**

a. **Memorandum of Association;**

b. **Articles of Association;**

c. **The Prospectus;**

d. **Notice of the address of the registered office and head office;**

e. **Statement of the lists and particulars of the first directors of the company;**

f. **Statutory declaration of compliance with the**

Certificate of Incorporation

- This is the certificate issued by the Registrar of Company to signify that a business unit has been incorporated. This certificate is usually given to both private and public limited companies after the Registrar of Company is satisfied with the information contained in Memorandum of Association and Article of Association. The certificate of incorporation confers legal status on a company. Once the certificate of incorporation is obtained, the private limited company can commence operation. However, public limited

Certificate of Trading

- This is a certificate issued to a public limited liability company by the Registrar of Company to commence business and exercise borrowing powers. It should be noted that the certificate of trading is issued only when the company has fulfilled some requirements like raising the minimum required capital from the public, and each director has paid for his own shares among others.

Advantages of Limited Liability Company

1. It enjoys a separate legal entity distinct from the owners.
2. The liability of the owners is limited to the amount invested in the company.
3. Death or withdrawal of a shareholder does not lead to the end of the business.
4. It is easy to expand business because of availability of large capital.
5. There is opportunity for the employees to acquire shares in the company and thus become co-owners.
6. The interests of the shareholder in the business

Disadvantages of Limited Liability Company

1. The formalities and requirements by law for the establishment of a limited liability company are very cumbersome.
2. Public limited liability company lacks privacy because it is required by law that the company must publish its account for public consumption.
3. The managers of the business are not always the owners of the business.
4. Huge capital is required for the formation and running of the business.
5. Disagreement between shareholders and members of Board of Directors may bring the companies progress to a halt.
6. Delay in policy and decision making as it takes long time for

Winding Up of Limited Liability Companies

1. The expiration of the agreed life span of the company.
2. If there is unnecessary delay to commence business for about a year from the date of incorporation.
3. If the membership falls below the minimum number of two for private and seven for public liability companies respectively.
4. If the company default in filing its statutory reports.
5. The occurrence of event beyond the

Winding Up of Limited Liability Companies

6. When the court order that the company should be wound up.
7. By passing special or ordinary resolution partly as a result of the company’s involvement in illegal act.
8. By passing special resolution as a result of the company’s inability to pay its debts.
9. If the Registrar of companies strikes out the company’s name from the register for reasons not unconnected with criminal violation of the Companies Act regulation.

COOPERATIVE SOCIETIES

Cooperative society is a very old form of business and economic alliance by the people. It exists in the olden days and even presently in form of contributions like Ajo, Adashe or Esusu (as they are called in the local languages).

By definition, a cooperative society is a business organisation established by a group of individual people of similar economic background with the aim of protecting common interest of their members. Membership of a cooperative society is voluntary and open to all persons and members are free to leave when they wish, enjoy all the benefits as well as bear the full risk of the organisation.

Features of Cooperative Societies

1. It is a democratic organisation of one man one vote.
2. Membership is open to those who fulfil certain conditions stipulated by the societies.
3. The minimum required membership is two.
4. Dividend paid to members is based on patronage.
5. Little interest is paid on capital.
6. Elected members run the society on behalf of members.
7. It is a voluntary association.
8. The sole aim of cooperative societies is not profit maximisation but to promote the

Types of Cooperative Societies

1. Consumers Cooperative Society (CCS): This is the oldest form of cooperative societies. This type of cooperative society is established by consumers, usually with low incomes, for the distribution of basic consumer goods, primarily among its members and sometimes to outsiders living in the same locality.

2. Producers' Cooperative Society (PCS): This is otherwise known as produce marketing society. The producers' Cooperative Society is the association of producers of similar products who have come together in order to promote the production and sale of their product.

Types of Cooperative Societies

3. Credit and Thrift Cooperative Society (CTCS): This is one of the commonest and oldest type of cooperative societies found in our present day society. This type of cooperative society is organised for promoting and providing its members with a ready source of fund at moderate rate of interest.

4. Multipurpose Cooperative Society (MCS): As the name implies, a Multipurpose Cooperative Society combines two or more functions and features of different types of cooperative societies. It is set up to provide comprehensive services to members.

Types of Cooperative Societies

5. Retailers Cooperative Society (RCS): This type of cooperative is formed by retailers of same or similar products or by retailers in the same or close locality.

6. Wholesalers Cooperative Society (WCS): As indicated by the name, WCS is formed by wholesalers of same or similar products. Its functions are similar to that of retailers cooperative society discussed above.

7. Apex Cooperative Society (ACS): This is an umbrella cooperative society in a given

Advantages of Cooperative Societies

1. The credit and thrift cooperative society encourages its members to save their money for raining day.
2. Cooperative societies provide credit facilities to its members either through cash or leasing or hiring of equipment.
3. It stimulates economic growth and development through encouragement of mass production and distribution processes.
4. It educates its members in the areas of production, buying and selling, and distribution of goods and services.
5. It promotes the welfare and standard of living of members by making goods available to members at

Disadvantages of Cooperative Societies

1. Majority of cooperative members are not well educated and do not understand the working and principles of cooperative societies.
2. Lack of interest by the members on how the society is managed. Thus, some of them are managed by members who lack administrative and managerial acumen.
3. Insufficient capital is one of the challenges militating against expansion of cooperative societies places.
4. Some cooperative societies have high enrolment rate of members to the extent that the managers find it difficult to effectively coordinate and control the association.
5. Cooperative societies suffer from lack of secrecy

PUBLIC CORPORATIONS

A public corporation or enterprise can be described as a business organisation, established, owned, managed and financed with tax payers' money by government of a country with the main objective of rendering essential services to members of the public. A public corporation is also known as public enterprises or statutory corporation. It is established by acts of parliament which also determine the functions it will perform. Public corporations are owned by the government but managed by Board of Directors appointed by the government. Examples are National Electric Power PLC, Nigerian Airways, Nigeria

Characteristics or Features of Public Corporations

1. Ownership and Finance
2. Capital Involvement
3. Motive
4. Type of Services Rendered
5. Method of Establishment
6. Enjoyment of Monopoly
7. Ownership and Management
8. Restriction of Services

Merits of Public Corporations

1. Legal Status.
2. Availability of Large Capital.
3. Large-Scale Production
4. Generation of Employment
5. Enjoyment of Monopoly Power
6. Continuity
7. Employee Welfare
8. Provision of Efficient Services
9. Prevention of Exploitation

Demerits of Public Corporation

1. Undue Government Interferences
2. Bureaucracy
3. Inefficiency
4. Huge Capital Involvement
5. Delay in Policy and Decision

   Formulation
6. Social Vices

THE FOUR (4) TYPES OF ENTREPRENEURSHIP

1. Small Business Entrepreneurship: A hair salon, grocery store, travel agency, consultant, carpenter, plumber, electrician, etc.

2. Scalable Startup Entrepreneurship: This new company owner launches a venture with the conviction that their vision can alter the course of history. They draw intelligent investors and support unconventional thinking.

3. Large-Scale Business Ventures: These large corporations have established life cycles. The majorities of these businesses expands and remain profitable by introducing fresh, cutting-edge goods that complement their core offerings..

4. Social Entrepreneurship: This kind of entrepreneurship is centered on creating goods and services that address issues and needs in society. Working for society rather than

ENTREPRENEURSHIP CHARACTERISTICS

1. Ability to take a risk: Starting a new business endeavour has a high chance of failure. One needs to be a risk taker

2. Innovation is essential: one should be able to do things differently from how other are doing it.

3. Leadership and visionary qualities: An entrepreneur needs a strong vision for his new business in order to succeed. Here, a leader's ability to inspire and direct their team members down the successful road is crucial.

4. Open-Minded: Every situation in business may be turned into an opportunity and exploited to a company's advantage.

5. Know your Product: A business owner should be knowledgeable with the available products as well as the

IMPORTANCE OF ENTREPRENEURSHIP

Employment Generation: It helps to provide jobs through the establishment of new businesses, especially small and medium scale enterprises.

Productivity: One of the factors for the greater interest in entrepreneurship has been the increasing recognition of its role in raising productivity through various forms of innovation.

Facilitate the Transfer/Adaptation of Technology: It enables entrepreneurs to have the opportunities of developing and adapting appropriate technological methods and provide a veritable avenue for skilled, unskilled and semi-skilled workers.

Ensures Increased Resource Utilization: It helps entrepreneurs to put limited resources that might otherwise remain idle into good use.

Stimulates Growth in those

Reinvigorates large-scale enterprises and public enterprises.

Encourages and Sustains Economic Dynamism that Enables an Economy to Adjust Successfully in a Rapidly Changing Global