The business organisation

1.1 BUSINESS ORGANISATIONS

LEARNING SUMMARY

After studying this section you should be able to:

- define ‘business organisations’ and explain why they are formed
- describe common features of business organisations.

What is a business organisation?

Defining an organisation is difficult as there are many types of organisations set up to meet a variety of needs, such as clubs, schools, companies, charities and hospitals. What they have in common is summarised in the definition produced by Buchanan and Huczynski.

DEFINITION  ‘Organisations are social arrangements for the controlled performance of collective goals’.

<table>
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<tr>
<th>Collective goals</th>
<th>e.g. a school will be organised differently to a company that aims to make profits.</th>
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<tbody>
<tr>
<td>Social arrangements</td>
<td>Someone working alone is not an organisation.</td>
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<td>Controlled performance</td>
<td>An organisation will have systems and procedures in place to ensure group goals are achieved.</td>
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Why do we need organisations?

KEY POINT  ‘Organisations enable people to share skills and knowledge, specialise and pool resources. This results in synergy where organisations can achieve more than individuals on their own.’

1.2 DIFFERENT TYPES OF ORGANISATION

LEARNING SUMMARY

After studying this section you should be able to:

- outline how business organisations differ.

Commercial organisations

KEY POINT  Commercial (or profit-seeking) organisations see their main objective as maximising the wealth of their shareholders.
KEY POINT Sole traders and partnerships - the owners are not legally separate from the business itself. If the business is sued by a customer, the customer is actually suing the owner themselves.

- **Sole traders** – the organisation is owned and run by one person.
- **Partnerships** – the organisation is owned and run by two or more individuals.
- **Limited liability companies** – a company has a separate legal identity to its owners (shareholders). The owners’ liability is limited to the amount of money they have invested into the company.

In the UK there are two types of limited company:

- **Private limited companies** (with ‘Ltd’ after their name). Shares cannot be offered to the general public.
- **Public limited companies** (with ‘plc’ after their name). These can be much larger businesses. Shares can be offered to the general public.

Not for profit organisations

**DEFINITION** Not-for-profit organisations (NFPs or NPOs) do not see profitability as their main objective. Instead, they seem to satisfy the particular needs of their members or the sectors of society that they have been set up to benefit.

The objectives of different NFPs will vary significantly:

- **Hospitals** – treat patients.
- **Government organisations** – implement government policies.
- **Councils** – care for their communities.
- **A charity** – may have ‘provision of relief to victims of disasters’ as its objective.

Remember that there are three common forms that a commercial company can take.

Take note that alternative partnership structures also exist, such as Limited Liability Partnerships (LLPS) in the UK, where the business exists as a separate legal entity and the owners’ liability is limited to the amount they have invested.
Public versus private sector organisations

The public sector is the part of the economy that provides basic government services

The private sector consists of organisations that are run by private individuals and groups rather than government

A non-governmental organisation (NGO) is one which does not have profit as its primary goal and is not directly linked to national government

Co-operatives

DEFINITION Co-operatives are organisations that are owned and democratically controlled by their members – the people who buy their goods and services.

Co-operatives are organised solely to meet the needs of the member-owners, who usually share any profit.

Each member of the co-operative usually gets a single vote on key decisions – unlike companies where shareholders get one vote for each share that they own.

1.3 MARKET SECTORS

LEARNING SUMMARY

After studying this section you should be able to:

- list the industrial and commercial sectors in which business organisations operate.

Sectors in which organisations operate

KEY POINT A further difference between organisations is the market in which they operate.
Do you understand?

1. Which of the following would be considered to be an organisation according to the definition produced by Buchanan and Huczynski?
   (i) a sole trader (ii) a golf club (iii) the police force

2. Many schools run fund-raising events, such as fetes, where the intention is to make a profit. This makes them profit-seeking.
   True or false?

3. Which of the following are usually seen as the primary objectives of companies?
   (i) To maximise the wealth of shareholders
   (ii) To protect the environment
   (iii) To make a profit

4. Which of the following organisations is most likely to be classified as part of the public sector?
   (i) a charity (ii) a social club (iii) public transport (iv) a public limited company
Exam style questions

1. Which of the following is NOT a key feature of an organisation?
   A. Controlled performance company
   B. Collective goals
   C. Social arrangements
   D. Marketing of a product or service

2. Consider the following list of different organisations:
   (i) Government departments
   (ii) Partnerships
   (iii) Charities
   (iv) Companies

   Which of these organisations would normally be classified as BOTH a not-for-profit organisation AND a private sector organisation?
   A. (i) and (iii) only
   B. (iii) only
   C. (i) only
   D. (ii) and (iii) only

3. Consider the following statements:
   (i) Public limited companies have access to a wider pool of finance than partnerships or sole traders.
   (ii) A co-operative is an organisation that is owned and democratically controlled by its members.

   Which of these statements is/are correct?
   A. (i) only
   B. (ii) only
   C. Both
   D. Neither

4. Perimax is an organisation which manufactures garden furniture and sells its products to the public in order to make a profit. It is owned by ten individual investors, each of whom owns an equal number of shares in the company. They are looking to expand the range to include storage solutions for garden furniture during the winter months. Perimax is not a public limited company.

   Which of the following is likely to be the most appropriate source of finance for Perimax?
   A. Central government funding
   B. The existing owners of Perimax
   C. Issue of shares to the public
   D. Donations from the public