

Who owns a business, who takes the risk, and who does it serve?

Syllabus sections 1.4 Types of business organisation · 1.5 Business objectives and stakeholders

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Running case: Chamarel Fruit Co. · 55 minutes

How this topic is examined

Paper 1 · Short answer and data response

Define [2] · Identify [2] / [4]

Outline [4] · Explain [6]

Explain two... Which is most important? [6]

Do you think... Justify your answer [6]

Paper 2 · Case study

Explain two advantages and two disadvantages... [8]

Consider... Which should the business choose? Justify your answer [12]

Typical questions on this topic

Define 'sole trader', 'partnership', 'franchise', 'joint venture' or 'stakeholder group'. [2]

Identify two features of a sole trader / a public limited company. [2]

Explain one advantage and one disadvantage to [owner] of becoming a private limited company. [6]

Explain two advantages and two disadvantages of being a public limited company. [8]

Explain one way each stakeholder's objectives might conflict with the objective to increase profit. [6]

Consider three objectives. Which should be most important in the long run? [12]

By the end of this lecture you can...

- 1 Explain limited and unlimited liability, and incorporated and unincorporated businesses.
- 2 Compare sole traders, partnerships, private and public limited companies.
- 3 Explain franchises, joint ventures and public corporations.
- 4 Recommend a suitable form of organisation for a business, with reasons.
- 5 Explain why businesses set objectives and how objectives differ and change.
- 6 Identify stakeholder groups, their objectives, and how they can conflict.

Starter: remember Lecture 2?

- Q1** Identify two ways to measure the size of a business.
- Q2** Name one diseconomy of scale.
- Q3** Give one reason why a new business is more likely to fail than an established one.
- Q4** A business cannot pay its debts. Should the owner lose their own house?
- Q5** Name one group of people, other than the owner, who cares how a business performs.

Meet Priya and Chamarel Fruit Co.

The situation

Priya turns local fruit into jams, chutneys and syrups.

She runs the business on her own as a sole trader, so all the risk is hers.

Now she wants to grow: alone, with investors, or with a large hotel group.

Questions we will answer today

- 1 What happens to Priya's house if the business fails?
- 2 Should she form a company and share ownership?
- 3 Is a joint venture with a hotel group a good idea?
- 4 What does Priya want, and what do others want?
- 5 Whose interests matter most?

Case study: Chamarel Fruit Co., Mauritius

The business

Priya Ramdin started Chamarel Fruit Co. as a sole trader six years ago. She buys pineapples, mangoes and guavas from 30 local farmers and turns them into jams, chutneys and fruit syrups in a small kitchen unit. She employs nine people and sells to hotel gift shops, tourist markets and two supermarkets.

Option A: a resort group that owns 12 hotels offers a joint venture. It would provide a new production kitchen and sell a co-branded range in all its hotels. Priya would manage production and the profits would be shared equally.

Option B: grow internally by moving to a larger unit, costing about \$120,000. Her brother and a local investor will invest if she forms a private limited company.

Farmers want long-term contracts at fair prices, employees want job security and training, and neighbours complain about lorries and fruit waste. Priya wants to keep control of quality and the Chamarel name.

The numbers

Key facts	
Revenue last year	\$180,000
Employees	9
Farmers supplying	30
Mango chutney (250 g)	\$6 a jar
Fruit, sugar, jar, label	\$2.20 a jar
Cost of larger unit	\$120,000

Added value per jar: \$6 – \$2.20 = \$3.80

Liability: what can the owner lose?

Unlimited liability

The owner is personally responsible for ALL the debts of the business.

If the business cannot pay, the owner may have to sell personal possessions, such as a house or car.

Limited liability

Shareholders can only lose the money they invested in the business.

Their personal possessions are safe if the business fails.

Unincorporated business

No separate legal identity: the owner IS the business.

Examples: sole trader, partnership.

Unlimited liability; ends if the owner dies or leaves.

Incorporated business (company)

A separate legal identity from its owners.

Can own assets, sue and be sued in its own name.

Limited liability; continues if an owner dies (continuity).

Sole traders and partnerships

	Sole trader	Partnership
Definition	Owned and controlled by one person	Owned by 2 to 20 people (usual limit)
Advantages	Easy to set up; full control; keeps all profit; flexible; personal service	More capital; shared workload and skills; shared losses; easy to set up
Disadvantages	Unlimited liability; hard to raise finance; long hours; no continuity	Unlimited liability (usually); disagreements; profits shared; bound by partners' decisions
Chamarel	Priya today	If her brother joined as a partner

Partnership agreement: a written contract setting out each partner's capital, profit share and role.

Check 1

1

Define 'unlimited liability'.

Answer: The owner is personally responsible for all the debts of the business, so personal possessions can be taken.

2

Identify two features of a sole trader.

Answer: Owned and controlled by one person; unlimited liability; keeps all the profit; unincorporated.

3

Give one disadvantage to Priya of taking her brother as a partner.

Answer: She must share the profit and decisions, and could be liable for his decisions.

Private and public limited companies

	Private limited company (Ltd)	Public limited company (plc)
Shares	Sold privately, only with the agreement of other shareholders	Sold to the general public on the stock exchange
Finance	More than a partnership, from friends, family and investors	Very large sums from selling shares to the public
Control	Original owners usually keep control	Owners (shareholders) and managers are separate; risk of takeover
Drawbacks	Legal paperwork; accounts filed; cannot sell shares to the public	Expensive to set up; accounts published for anyone to see

Both: limited liability, separate legal identity, continuity, owned by shareholders, run by directors.

Franchises

Definition A business (the franchisor) allows another business (the franchisee) to use its name, logo and way of trading, in return for a fee and a share of the revenue (royalty).

The franchisor (sells the franchise)

- + Grows quickly with little of its own capital
- + Earns fees and royalties
- + Franchisees are motivated to work hard
- Less control over quality
- One bad franchisee damages the whole brand

The franchisee (buys the franchise)

- + Lower risk: a known brand and proven idea
- + Training, advertising and support provided
- + Easier to get a bank loan
- Expensive fee and royalty on sales
- Must follow the franchisor's rules: less freedom

Joint ventures and public corporations

Joint venture

Two or more businesses agree to work together on a project, sharing costs, risks and profits, while staying separate businesses.

- + Share costs and risk
- + Gain the partner's knowledge, market or customers
- + Faster entry into new markets
- Profits shared
- Disagreements over control

Chamarel: the resort group provides the kitchen and 12 hotels to sell in.

Public corporation

A business owned and controlled by the government, in the public sector, run by a board appointed by the government.

Examples: national railway, state electricity or water company, national broadcaster.

Objectives: provide an essential service, keep prices affordable, protect jobs, cover costs.

Trap: a public LIMITED company (plc) is in the PRIVATE sector.

Choosing the right form of organisation

Form	Liability	Finance	Control	Best when...
Sole trader	Unlimited	Low	Full	small, low risk, owner wants control
Partnership	Unlimited	Medium	Shared	skills or capital from a partner needed
Private limited company	Limited	Medium–high	Owners keep it	growing, more risk, family or friend investors
Public limited company	Limited	Very high	Shareholders	very large expansion plans
Franchise	Depends on form	Fee needed	Franchisor's rules	want a proven idea and support
Joint venture	Shared	Shared	Shared	enter a new market with a partner

Exam tip: the best form depends on the business's size, the risk, the finance it needs and how much control the owner wants.

Check 2

1

Give one difference between a private and a public limited company.

Answer: A plc can sell shares to the general public; a private limited company cannot.

2

Give one advantage and one disadvantage to a franchisee.

Answer: Advantage: known brand, so lower risk. Disadvantage: fees and royalties, or less freedom.

3

Is a public limited company in the public sector?

Answer: No. It is owned by private shareholders, so it is in the private sector.

Business objectives

Definition The aims or targets that a business works towards.

Survival

most important for a new business

Profit

reward for owners;
finance for growth

Growth

bigger sales, more
power

Market share

a bigger slice of the
market

Social / ethical

help society or the
environment

Why set objectives?

- Give a clear target to work towards
- Help managers make decisions
- Measure success against the target
- Motivate employees

Objectives differ and change

- New business: survival; later: growth or profit
- Change after a recession or new competitor
- Public sector: service, not profit
- Social enterprise: social aims and profit

Stakeholders and their objectives

Stakeholder group people or organisations with a direct interest in a business's activities and performance.

Owners / shareholders profit, dividends, rising share value	Employees job security, fair pay, training	Managers higher pay, status, growth	Customers good quality at a fair price
Suppliers regular orders, paid on time	Lenders (banks) loans repaid with interest	Government jobs, taxes, following the law	Local community jobs, little noise or pollution

Internal (navy): inside the business. **External** (teal): outside it. Shareholder ≠ stakeholder: shareholders are just one stakeholder group.

When stakeholder objectives conflict

One group wants...	Another group wants...	Why they clash
Owners want higher profit	Farmers want higher prices for their fruit	Paying farmers more raises Chamarel's costs per jar
Owners want growth	Neighbours want less noise and waste	A bigger kitchen means more lorries and fruit waste
Owners want lower costs	Employees want job security and training	Training costs money; new machines may replace jobs
Customers want low prices	Employees want higher pay	Higher wages push up prices

Managing conflict: consult stakeholders, compromise, and prioritise. Long-term success often needs a balance, e.g. fair prices keep reliable farmers.

Objectives in the private and public sectors

Private sector business

- Profit
- Growth
- Market share
- Survival
- Shareholder value

Public sector organisation

- Provide an essential service
- Keep prices affordable
- Protect jobs
- Cover costs, not maximise profit
- Meet government targets

Social enterprise

- Social or environmental aims
- Make a surplus to reinvest
- Survive financially
- e.g. pay fair prices to farmers

Remember: objectives can change, e.g. a new business aims to survive, then later to grow.

Check 3

1

Define 'stakeholder group'.

Answer: People or organisations with a direct interest in a business's activities and performance.

2

Identify two objectives for a public sector organisation.

Answer: Provide an essential service; keep prices affordable (or protect jobs, cover costs).

3

Give one way Chamarel's farmers' objectives might conflict with Priya's.

Answer: Farmers want higher prices; Priya wants lower costs and higher profit.

Back to Priya: make the decision

Option A: joint venture with the resort group

- + New kitchen provided: no \$120,000 needed
- + Sales in 12 hotels at once
 - Profits shared equally
 - Shared control of quality and the Chamarel name

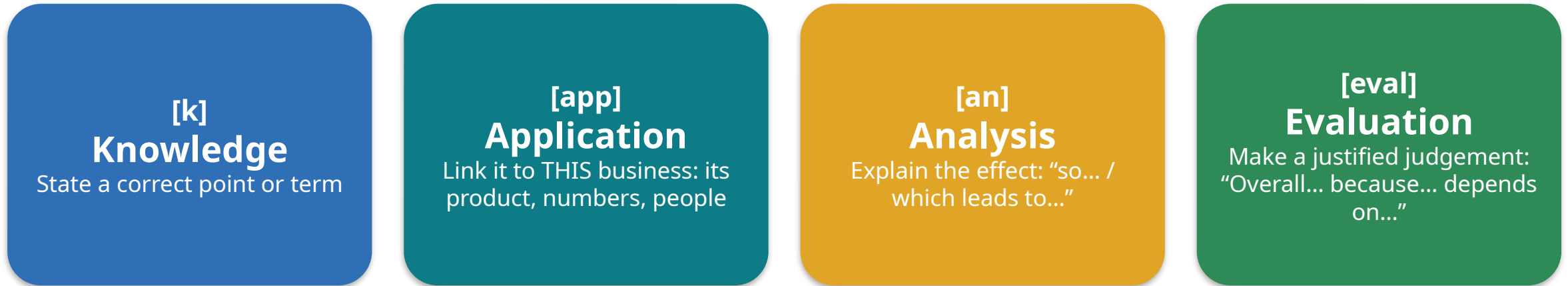
Option B: private limited company

- + Limited liability protects Priya's possessions
- + \$120,000 from her brother and an investor
 - Priya shares ownership with shareholders
 - Slower growth; more legal paperwork

Discuss: Which option should Priya choose? Judge it on control, risk, finance and the effect on two stakeholder groups.

Think about: Priya's main objective is to keep control of quality and the Chamarel name. Farmers want long-term contracts; neighbours worry about lorries and waste.

How you earn the marks



Identify (two/four)	[2]/[4]	1 per point; only the first answers are marked
Explain (two)	[6]	k + app + an for each point
Explain two... Which is most important?	[6]	2 k + 2 an + 2 eval: you MUST choose one
Do you think... Justify	[6]	2 k + 2 an + 2 eval. No application marks
Paper 2: Explain four	[8]	4 points + 4 explanations in context
Paper 2: Consider... Which?	[12]	Levels: discuss each option in context, choose, reject the other

Worked answer: Explain [6]

Exam-style question Explain one advantage and one disadvantage to Daniel of changing DPS into a private limited company. [6]

The business: Daniel runs DPS, a printing shop, as a sole trader. He wants to buy a \$60,000 printing machine. His sister will invest \$30,000 if he forms a private limited company and gives her half of the shares.

Advantage: Daniel would have limited liability (k), so if the \$60,000 machine does not bring in enough orders (app), he can only lose the money he invested and his house and savings are safe, so he takes less personal risk (an).

Disadvantage: He must share ownership and control (k), because his sister would own half of the shares (app), so he can no longer make every decision alone, and half of the profit would go to her (an).

Don't write: "He can sell shares on the stock exchange." Only a PUBLIC limited company can do that, so it scores 0.

Worked answer: Do you think... Justify [6]

Exam-style question Do you think shareholders are the most important stakeholder group to the success of a limited company? Justify your answer. [6]

Note: This is a general question, so there is no business to apply your answer to. Focus on analysis and a clear judgement.

Shareholders provide the capital (k) that the company needs to buy equipment and grow, so without them it could not start or expand (an). Customers buy the products (k) and their spending creates the revenue that pays all costs and makes a profit (an).

Overall, customers are more important. Shareholders' money is only rewarded if customers keep buying; without sales the company fails however much capital it has. Shareholders matter most only when the company needs new finance. (eval ×2)

Judgement tip: compare with another group and say what your decision depends on. "Shareholders are important" alone is not a judgement.

Where students lose marks

X Ltd and plc mixed up

Only a plc sells shares to the general public.

X “plc is in the public sector”

A plc is owned by private shareholders: private sector.

X “A sole trader works alone”

A sole trader is ONE OWNER but can employ many workers.

X Shareholder vs stakeholder

Shareholders are just one of many stakeholder groups.

X Wrong side of the franchise

Check: advantage to the franchisor or the franchisee?

X Naming a group, no objective

“Employees” scores nothing alone; say what they want.

Exam drill: try it under time

Exam-style question

Grace and Tunde run GT Cleaning as a partnership. They have 14 employees and want to open three new branches. They are thinking of becoming a private limited company.

- (a) Define 'partnership'. [2]
- (b) Identify two features of a public limited company. [2]
- (c) Identify four stakeholder groups a business might have. [4]

Timing rule

About 1 minute per mark.

- (a) + (b): 4 minutes
- (c): 4 minutes

Swap and mark each other's answers.

Homework: Explain two objectives a private sector business might have. Which objective is likely to be the most important? Justify your answer. [6]

Exit ticket

- 1 Define 'limited liability'. [2]
- 2 Give one advantage to Priya of a joint venture with the resort group.
- 3 Explain one way Chamarel's neighbours' objectives might conflict with Priya's plan to grow.

Next lecture: Chapter 2, People in business.

Summary: key terms from Part 3

Unlimited liability	Owner liable for all business debts	Limited liability	Can only lose the money invested
Sole trader	One owner, unlimited liability	Partnership	2–20 owners share profit and risk
Private limited (Ltd)	Shares sold privately	Public limited (plc)	Shares sold to the public
Franchise	Use another firm's brand for a fee	Joint venture	Firms share a project, costs, profit
Public corporation	Owned by the government	Business objectives	Aims a business works towards
Stakeholder group	Direct interest in the business	Conflict	Stakeholders want different things