Business

Structure AS Business

Types of Business

- ***Private Sector***: any business that is privately owned like McDonalds, KFC, Honda, Toyota etc.

- ***Public Sector***: The businesses owned by government like PIA, Pakistan Railways etc. ***These are also known as Public Corporation***.

Type of Businesses in Private Sector

1. ***Sole Trader***
2. ***Partnership***

3. Private Limited Company

4. Public Limited Company

Sole Trader

- Any business that is owned by ***one individual.***
- Since there is a limit to how much finance one individual can raise the size of sole trader businesses is quite small

Partnership

- Is when 2 or more people collectively start and own a business.

- Relatively larger businesses compared to sole trader because more partners contribute more finance as compared to sole trader.

Private Limited Company

- ***The shares of private limited company are held by group of family and friends.***

- In the case of private limited company the outsiders cannot buy shares. Hence the shares of Private Limited Company are not traded on Stock Exchange.

Public Limited Company

- ***The shares of public limited company can be bought by general public through the stock exchange. Unlike its name the company is privately owned and it is not owned by the government.***

- Anyone can buy shares of the public limited company through stock exchange.

Difference between Incorporated and Un-incorporated Businesses

- Private and Public Limited companies have some unique features which are different from Sole Trader and Partnership.

- ***Sole Trader and Partnership*** are collectively known as **Un-incorporated businesses.**
- ***Private and Public Limited companies*** are known as ***Incorporated businesses.***

Refers to sole trader and partnership	Refers to private and public limited companies
Unlimited Liability	***Limited Liability***
No separate legal entity	***Separate legal entity***
No continuity	***Continuity***

Limited Liability vs Unlimited Liability

- Liability is any business financial obligations that needs to be repaid. For instance a bank loan that needs to be repaid is liability for the business.

- ***Limited Liability:*** owners cannot lose their personal assets for repayment of company’s debt.
- ***Unlimited Liability:*** is when the owners’ personal assets can be used to pay back company’s debt.

For instance, if a business is registered as a sole trader or partnership then in case the business owes money to another business or to bank the owners personal assets like car of the entrepreneur can be used to pay of company’s debt which is not possible in case of limited liability.

Separate Legal Entity

- ***Separate Legal Entity:*** the business has its own unique identity in the eyes of law and therefore the case would be against the company and not against the shareholders / owners.

- ***No Separate Legal Entity***: the business has no separate legal identity and therefore the case would be against the business owners.

For instance if a restaurant is registered as sole trader or partnership then in case of a customer suing the business the legal case will be filed against the owner of the business like Qasim Shamim but if in case of Private or Public Limited Company the case is against the restaurant like “Tasty Food” which is name of the business.

Continuity versus Non-Continuity

- ***Continuity:*** means that business does not need to be registered again if new shareholders are coming in and / or some shareholders leave the company.

- ***Non- Continuity:*** in the case of sole trader and partnership when a new partner comes in or existing partner leaves then the business needs to be registered again.

Sole Trader

Owner is the sole decision maker – does not need to take someone else opinions regarding business decisions.	Limited finance available which restricts business growth
The owner gets to keep all the profit – profits will not be shared with other partners.	Unlimited Liability
The owner has complete freedom concerning business activities without any involvement and interference from anyone.	Non-Continuity
	No Separate Legal Identity

Partnership

Compared to sole trader there is more finance available which will make it easier for the business to expand.	The decisions of the business are made after consultation with your partners
Workload can be divided between partners unlike in the case of Sole Trader where there is single owner.	Unlimited Liability
	Non-Continuity
	No Separate Legal Identity

Private Limited Company

There are no chances of take over by other businesses because the company shares are not traded on the stock exchange.	Limited finance available since shares are not traded on stock exchange which can limit a firm's ability to expand.
Lesser chances of conflicts if the company is managed by group of family and friends.	
Limited Liability	
Continuity	
Separate Legal Entity	

Public Limited Company

Much more finance available compared to private limited companies due to shares being traded on stock exchange	There is a chance of take over by outsiders if they get to buy more than 50% of company shares.
Limited Liability	More chances of conflicts since the directors are not related to each other as is the case in Private Limited Company.
Continuity	
Separate Legal Entity	

Joint Venture

- Joint Venture is when 2 businesses cooperate with each other on a project to benefit from each other expertise and resources.

- NHA – National Highway Authority
- NLC – National Logistics Cell

- So on a particular projects lets say to make a motorway the 2 companies might be working together so to benefit from each other resources and knowledge.

Joint Venture

Companies benefit from each other resources and knowledge	There are chances of conflict that can result in inefficiency.

Public Corporations

- Public Corporations are government owned businesses like PIA, Pakistan Railways.

Public Corporations

Provide cheaper and reasonable prices to consumers because these businesses do not aim to maximize profits unlike private sector businesses.	Government owned businesses are usually inefficient because they are not aiming for profit and so they are less innovative and creative.

Cater to people even who cannot afford to pay for the services.	Due to some loss making businesses like PIA in Pakistan the government will need to make up for the loss which is obviously burden on government budget.