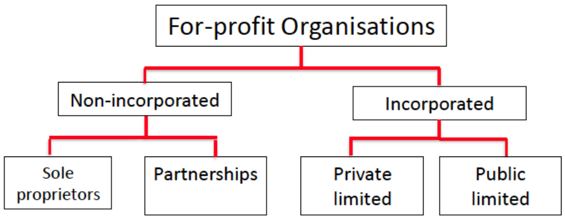
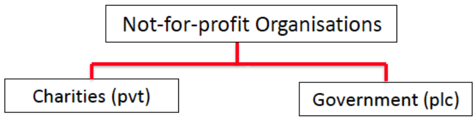
Week 3 Managing in & beyond Corporations





Non-incorporated Organizations

- Organizations that are not recognized on their own as a 'legal entity'
    - <u>Unlimited liability</u>
    - Legal entity has rights to
        - Make contracts
        - Carry out business transactions
        - Own property
        - Employ ppl
        - Sue & be sued for breach of contract
- Two types
    - **Sole proprietor**
        - Sole person carrying out some form of business
        - For the purpose of profit-maximization
        - Common examples
            - Trades ppl (plasterers, electricians, painters
            - Market stall holders
            - Small independent retailers (fish & chips shops, newsagents, greengrocers etc.)
            - 'cottage industry' proprietors (craft workshops)
            - Farmers/cleaners
    - **Partnership**
        - A business r/ship established between two/more persons
        - For the purpose of profit-maximization
            - i.e. accountants, lawyers, surveyors, management consultants, general practitioners etc.
        - Partnership agreement
            - Partners are equal in their positions in the partnership unless agreed by the other partners
            - A formal declaration of partnership leave no doubt who the partners are
            - Prevents the situation of some partners escaping from the liability when there are losses
- Adv. Vs. Disadv.

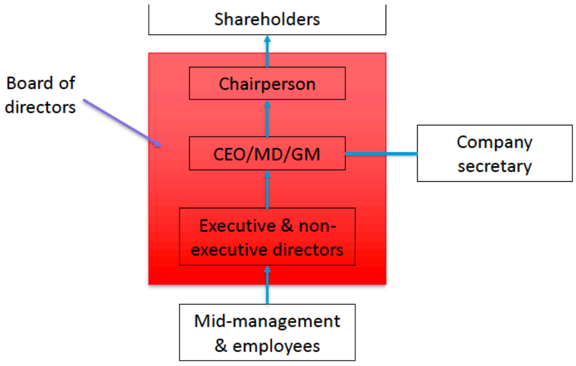
	Sole person	Partnership
Advantages	Low cost	Greater capital, breath of skills &abilities
	100% access to profits	100% access to profits & losses shared amongst partners
	Exclusive decision-making authority, total autonomy & independence	Tasks can be divided between partners
	Limited need for formal documentation	Limited need for formal documentation
Disadvantages	Sole responsibility for tasks	Decisions by consultation
	Skills limited to owner-labour intensive	Limited independence
	Poor economies of scale	Risks associated with exit of partner
	Unlimited liability	Unlimited liability

Incorporated Organizations

- Organizations that are recognized on their own as a 'legal entity'
    - Limited liability
        - Allow ppl to invest in a business which is good for the business's growth & development
        - if the business succeed, they get return of investment
        - if failed, investors' liability limited to their initial investment
- The need for limited liability
    - To grow greater investment is needed
    - To entice investors, personal liability must be limited to value of investment
- How does limited liability work
    - Value of business broken into 'shares'
    - Agents of organization look after shareholder interests
    - Liability associated with losses incurred as a consequence of organizational failure limited to organizational assets
- Types
    - **Private**
        - Most common form of limited company
        - Shares owned by private individuals
        - Not available to the public
        - To purchase shares need to directly approach an existing shareholder, often requires consent from other shareholders
    - **Public**
        - Public limited company – plc
        - Anyone can purchase shares through a stock exchange

        - Often a consequence of growth
        - Change from private to public referred to as an organization being 'floated'
- Limited liability partnerships – LLP
    - Share many of the normal partnership features
    - Offers reduced personal responsibility for the business debt
- Advantages vs. Disadvantages

Advantages	Disadvantages
Limited liability	Legal constraints & procedures
Access to greater capital	Weak asset base could limit funding sources
	Investors entitles to 100& of profits



- Management of incorporated organizations (picture on the right)
    - The chairperson
        - Most senior employee in the organization
        - Primarily presidential role rather than operational
        - Assume an overseeing/advisory role
        - Primary roles
            - To chair the meetings
            - To report to, liaise with the shareholders
    - The chief executive officer – CEO
        - Sometimes called the MD/general manager
        - Responsible for actually managing the business
        - Chief steward of the shareholders' assets, must act in such a way to maximum return on shareholders' funds
        - Most important duties
            - To manage the company with objective of achieving the maximum financial benefit of the shareholders
            - To ensure all aspects of company activity are legal/within the law
            - To sign the annual accounts
            - To formulate suitable strategies & to implement them in conjunction
            - Responsible for the resources of the other members of the board
            - Approve all major investments made by the company
    - Executive & non-executive directors
        - Executive directors
            - Full-time employees report to CEO of the category
            - Charged with oversight of a specific part of activities
            - Each director will be responsible for a function
                - Marketing/financial/…
        - Non-executive directors - NEDs
            - Not full-time employees