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Business Environment & Business Organizations

AAT Level I

BEN - Business Environment

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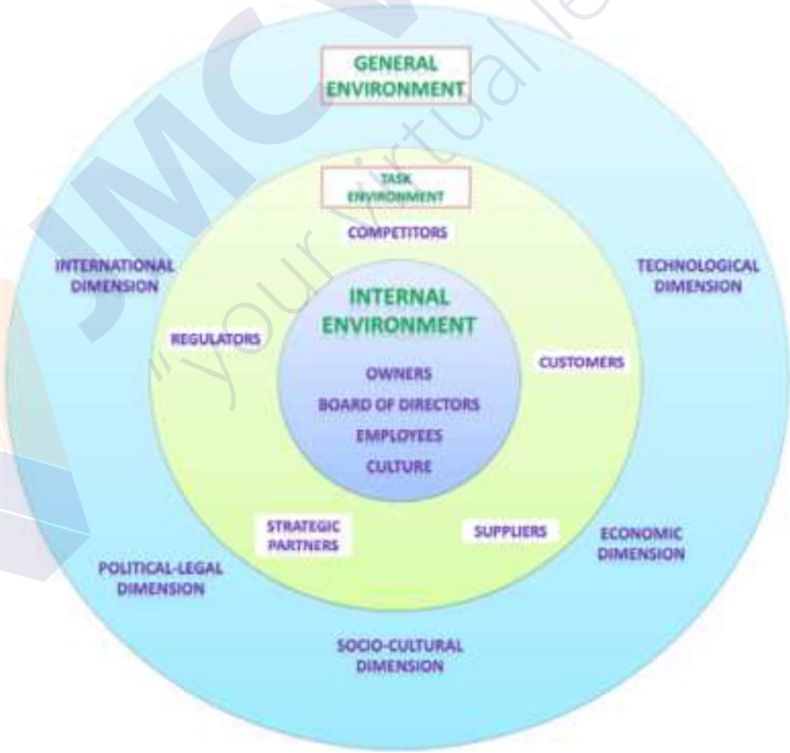
Chapter 2

BUSINESS ENVIRONMENT

1. What is meant by Business Environment?

The Business Environment is the most important aspect of any business. To be aware of the ongoing changes, not only helps the business to adapt to these changes but also to use them as opportunities. Business Environment presents threats as well as opportunities for any business. A good business manager not only identifies and evaluates the environment but also reacts to these external forces.

The combination of internal and external factors that influence the operating situation of a company call business environment. The business environment can generally include factors such as organizational factors, clients and suppliers, its competition and owners, improvements in technology, laws and government activities and market, social and economic trends.



➢ Internal Environment

An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior. Although some elements affect the organization as a whole, others affect only the manager.

➢ External Environment

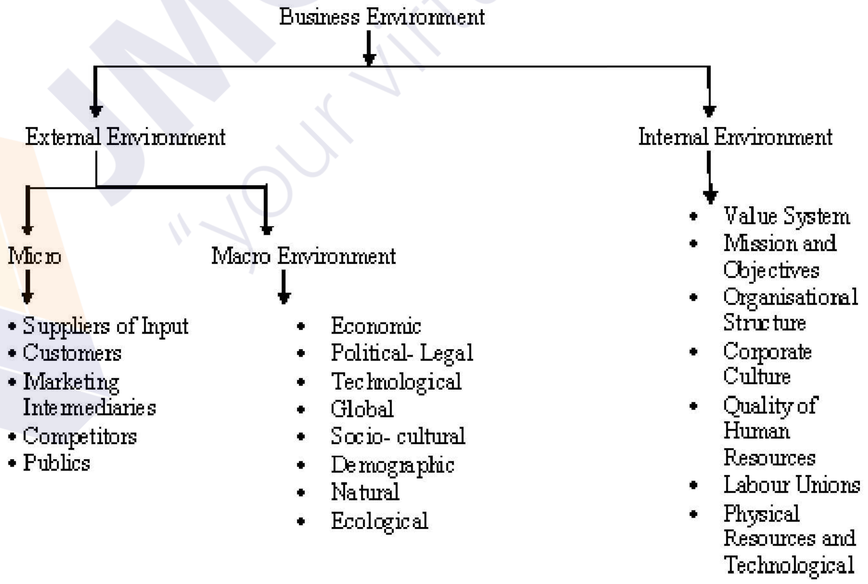
An external environment is composed of all the outside factors or influences that impact the operation of business. The business must act or react to keep up its flow of operations. The external environment can be broken down into two types: **the micro environment and the macro** environment.

- **Micro Environment**

Factors or elements in an organization's immediate area of operations that affect its performance and decision-making freedom. These factors include competitors, customers, distribution channels, suppliers, and the general public. It is also known as the Task environment or operating environment because the micro environmental forces have a direct bearing on the operations of the firm.

- **Macro Environment**

The major external and uncontrollable factors that influence an organization's decision making, and affect its performance and strategies. These factors include the economic factors; demographics; legal, political, and social conditions; technological changes; and natural forces. It is also known as General environment or remote environment since the macro factors are generally uncontrollable.



The Comparison between Micro and Macro Environment

Macro Environment	Micro Environment
It is very large in size	It is smaller than the macro environment.
The components of the macro environment cannot be controlled.	The components of the micro environment can be controlled to some extent.
It is very unpredictable and highly uncertain	It is not very unpredictable and ranks low uncertain.
The components are very complex in nature.	The components are comparatively simple in nature.
Macro environment cannot be identified as specific person or organization.	Micro environment components will be the person, group or organization.
Macro environment includes political, social, economical, cultural, natural and technological environment.	Micro environment includes customers, suppliers, intermediaries, competitors and publics.

2. Role of Micro Environment in Business Operations

Components of the Task Environment and its Impact on the Business

- **Customers**

People and organizations in the environment who acquire goods or services from the organization. These people of an organization in the environment who acquire goods or services from the organization are customers. As recipients of the organization's output customers of hospitals, students, the customers of school and travelers, the customers of airlines.

- **Competitors**

Other organizations in the same industry or type of business that provide goods or services to the same set of customers are referred to as competitors. Each industry is characterized by specific by specific competitive issues. Competitors in term of better pricing, new products, quality of services, etc represent, and environmental forces that managers must monitor along with the competitive scene for potential newcomers.

- **Suppliers**

People and organizations who provide the raw materials the organizations uses to produce its output. Suppliers provide the raw materials the organizations use to produce its output. Suppliers provide the raw materials the organizations use to provide the raw materials the organizations use to produce its output. Many companies are using fewer suppliers and trying to build a good relationship with them so that they will receive high quality parts at lower prices. The relationship with them so that they will receive high-quality parts at lower prices. The relationship between manufacturers and suppliers has traditionally been an adversarial one, but many companies are finding that cooperation is the key to saving money, a maintaining quality and speeding products to market.

- **Pressure Groups**

Pressure groups refer to the special-interest groups that attempt to influence the success of organization therefore managers have to be careful in their decisions and actions. The power of pressure groups changes with the change in social and political in social and political attitudes. Therefore, organizations have continuously to monitor the major shifts in the society.

Who are Stakeholders of an Organization?

When discussing the business environment, it is not more suitable to divide the environment into internal and external since they are not very significant. Hence, micro environmental factors are used to discuss mainly. The micro variable such as customers, suppliers, intermediaries and publics are also the stakeholders of an organization. Stakeholders are the groups or individuals having a legitimate interest in the activities of the organization. Stakeholders fall into two categories. The influences of stakeholders towards the organization may depend on the power and the interest they have on the organizational activities.

Internal Stakeholders	External Stakeholders
Employees	Groups of Suppliers, Financiers
Shareholders	Customers, Social Interest groups
Board of Directors	Competitors, Government
	Intermediaries, Political Parties

- **Power of stakeholders**

Different stakeholders have different amount of power.

Position power	The power is derived from the statues of stakeholders. Ex – board of directors has very high power
Resource power	The power is derived from the resources. Ex – trade unions has a resources power, since it controls the employees.
System power	That is the format representation in the decision making process.
Expert power	If an individual has information knowledge and expertise that is important to the organization, which is called expert power.
Personal power	If a person has good communication skills and reputation and is well liked within the organization, he is said to have personal power.

Assessing the interest of stakeholders

Where the interest rests - This is about the stakeholder's interest rest at. Managers want to further interest of their departments and their own career, employees require higher pay and promotion and customers want good quality at reasonable prices, suppliers want continues business and early payments, local authority wants jobs and economic developments etc.

How interest they are – not all stakeholders have the time or inclination to follow management's decisions closely. However, if a shareholders has a high stake in the business. He would be more interested in the company's plan.

Stakeholder Management (Mendelow's Matrix)

Strategies for managing stakeholders can be planned using Mendelow's Matrix. The extent to which stakeholders affect the activities of an organization depends on the relationship between stakeholder and the organization. Mendelow's matrix a way of mapping stakeholders based on the power to affect the organization and their interests in doing so.

3. Role of Macro Environment in Business

PEST Analysis

PEST Analysis is a simple and widely used tool that helps you analyze the Political, Economic, Socio-Cultural, and Technological changes in your business environment. This helps you understand the "big picture" forces of change that you're exposed to, and, from this, take advantage of the opportunities that they present.

PEST Analysis is useful for four main reasons:

1. It helps you to spot business or personal opportunities, and it gives you advanced warning of significant threats.

2. It reveals the direction of change within your business environment. This helps you shape what you're doing, so that you work with change, rather than against it.

3. It helps you avoid starting projects that are likely to fail, for reasons beyond your control.

4. It can help you break free of unconscious assumptions when you enter a new country, region, or market; because it helps you develop an objective view of this new environment.

The following table provide some important common variables in the general environment.

Political - Legal	Economic	Social - Cultural	Technological
Form of government	Economic development	Customs, norms, values	Transportation network
Political Ideology	Per capita income	Language	Skill level of workforce
Tax Laws	GDP Trends	Demographics	Internet availability
Stability of government	Unemployment levels	Life expectations	Regulations on technology transfer
Government attitudes towards foreign companies	Memberships in economic associations - Ex WTO, EU, ASEAN	Attitude towards foreigners	Computer hacking technology New energy sources
Strength of opposition groups	Monetary and fiscal policies	Social symbols	Patent – trademark protection
Trade regulations	Nature of competition	Religious beliefs	Natural resources availability
Foreign policies	Outsourcing capability	Lifestyle	Telecommunication infrastructure
Legal System	Global financial system	Human rights	
		Environmentalism	

SWOT Analysis

SWOT Analysis is a useful technique for understanding your Strengths and Weaknesses, and for identifying both the Opportunities open to you and the Threats you face.

It can help you uncover opportunities that you are well-placed to exploit. And by understanding the weaknesses of your business, you can manage and eliminate threats that would otherwise catch you unawares.

More than this, by looking at yourself and your competitors using the SWOT framework, you can start to craft a strategy that helps you distinguish yourself from your competitors, so that you can compete successfully in your market.

Strengths	**Weaknesses**
What advantages does your organization have? What do you do better than anyone else? What unique or lowest-cost resources can you draw upon that others can't? What do people in your market see as your strengths? What factors mean that you "get the sale"? What is your organization's Unique Selling Proposition (USP)?	What could you improve? What should you avoid? What are people in your market likely to see as weaknesses? What factors lose you sales?
Opportunities	Threats
What good opportunities can you spot? What interesting trends are you aware of? Useful opportunities can come from such things as: Changes in technology and markets on both a broad and narrow scale. Changes in government policy related to your field. Changes in social patterns, population profiles, lifestyle changes, and so on. Local events.	What obstacles do you face? What are your competitors doing? Are quality standards or specifications for your job, products or services changing? Is changing technology threatening your position? Do you have bad debt or cash-flow problems? Could any of your weaknesses seriously threaten your business?

Porter's Five Forces (Porter's five forces model)

Porter's Five Forces is a simple but powerful tool for understanding the competitiveness of your business environment, and for identifying your strategy's potential profitability.

Porter recognized that organizations likely keep a close watch on their rivals, but he encouraged them to look beyond the actions of their competitors and examine what other factors could impact the business environment. He identified five forces that make up the competitive environment, and which can erode your profitability. These are:

Competitive Rivalry: This looks at the number and strength of your competitors. How many rivals do you have? Who are they, and how does the quality of their products and services compare with yours? Where rivalry is intense, companies can attract customers with aggressive price cuts and high-impact marketing campaigns. Also, in markets with lots of rivals, your suppliers and buyers can go elsewhere if they feel that they're not getting a good deal from you.

On the other hand, where competitive rivalry is minimal, and no one else is doing what you do, then you'll likely have tremendous strength and healthy profits.

Supplier Power: This is determined by how easy it is for your suppliers to increase their prices. How many potential suppliers do you have? How unique is the product or service that they provide, and how expensive would it be to switch from one supplier to another?

The more you have to choose from, the easier it will be to switch to a cheaper alternative. But the fewer suppliers there are, and the more you need their help, the stronger their position and their ability to charge you more. That can impact your profit.

Buyer Power: Here, you ask yourself how easy it is for buyers to drive your prices down. How many buyers are there, and how big are their orders? How much would it cost them to switch from your products and services to those of a rival? Are your buyers strong enough to dictate terms to you?

When you deal with only a few savvy customers, they have more power, but your power increases if you have many customers.

Threat of Substitution: This refers to the likelihood of your customers finding a different way of doing what you do. For example, if you supply a unique software product that automates an important process, people may substitute it by doing the process manually or by outsourcing it. A substitution that is easy and cheap to make can weaken your position and threaten your profitability.

Threat of New Entry: Your position can be affected by people's ability to enter your market. So, think about how easily this could be done. How easy is it to get a foothold in your industry or market? How much would it cost, and how tightly is your sector regulated?

4. Recent changes of global environment

1. Emerging markets increase their global power

Emerging market economies will grow almost three times faster than developed ones, accounting for an average of 65% of global economic growth through 2020.

But while the emerging market spotlight has long been focused on the BRIC nations of Brazil, Russia, India, and China, the report, entitled *Reaching the emerging middle classes beyond BRIC*, notes that attention is turning to smaller markets. The shift is being driven by the rates of faster economic and demographic growth in many of those markets – factors that are together fueling growth in consumer spending, including highly valued spending areas such as education.

2. Cleantech becomes a competitive advantage

Cleantech, or clean technology, investing seeks sustainable investments in environmentally friendly companies. The goal of these firms is to lower their costs, waste, or pollution, and improve performance, productivity, and efficiency. And, the result can create greater economic value for their stakeholders and the society. Cleantech is a relatively young marketplace; however, an increasing number of people are highly interested in this area in response to scarcity of natural resources and potential return from green technology.

Chapter 3

BUSINESS ORGANIZATIONS

1. Classification of Business Organizations

1.1 Introduction

A business organization is an individual or group of people that work together to achieve certain commercial goals by providing goods and services to meet various customer wants and demands. Some business organizations are formed to earn income for owners and some business organizations are formed for public purposes.

1.2 Classification

Business organizations can be classified based on various criteria as shown in the below.

Criteria	Classification	Examples
Nature of production	Services Production Merchandizing Hybrid (combination of all three above)	❖ Banks, Hospitals ❖ Manufacturing companies ❖ Retail shops, Supermarkets ❖ Supermarkets that produce their own products, merchandize other products and offer services such as home delivery (Cargills)
Production section	Primary sector Industrial Services	❖ Agriculture producers ❖ Pharmaceutical, Beverages, Construction ❖ Banking, hotels

Ownership	Private ownership Public Ownership	❖ Private banks (HSBC) ❖ Private hospitals (Durdans hospital) ❖ Public bank (Bank of Ceylon) ❖ Public Hospitals
Objective	For profit Non for profit	Hotels, Shops, Restaurants Government departments, Religious associations Sports clubs
Size	Small scale Medium scale Large scale	Retail shops, small jewelry shops Island wide bakeries, Unilevers, Cargills, John Keells

1.3 Classification Based on the Ownership

The main type of classification is ownership. This implies the legal aspect of the organization. Ownership can be mainly classified as private and public organizations.

- **Private Sector:**

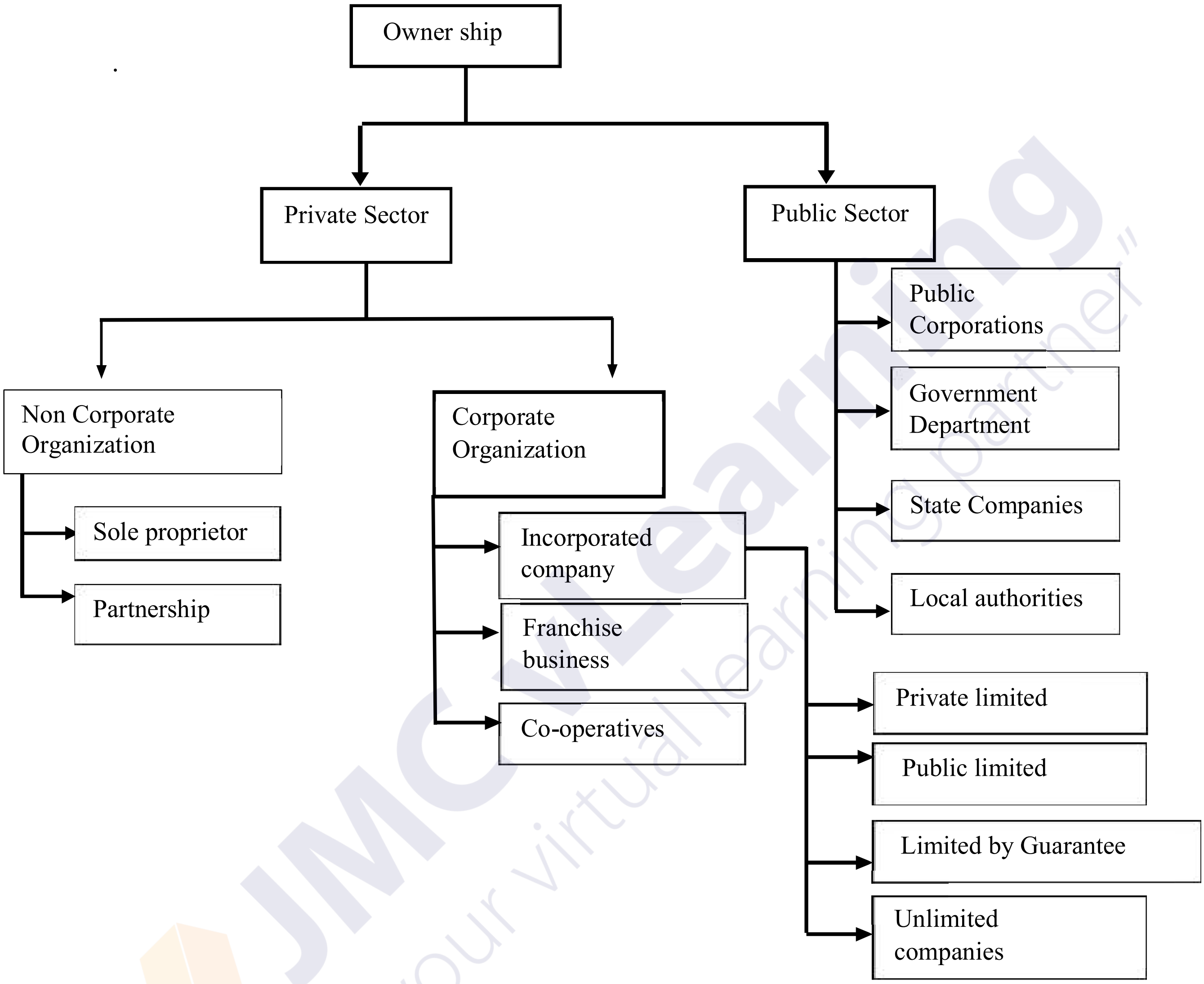
  Business organizations which are run by the individuals or group of people with the **intention of gain profit**. Private entities can be mainly classified as Corporate and Non Corporate organizations. Non corporate organization do not have a separate legal identify from its owners. This simply means a legal action cannot be taken in the name of the business, but only the owner's names.

  Ex- Sole Proprietors and Partnerships

  Corporate organization have its separate legal identity. Contracts and legal action can be taken in the company name and not the individual's names.

- **Public Sector:**

  Entities which are owned by the Government or local government bodies. A Purposes of having this sector is **social service and maintain public wellbeing.**



2. Sole Proprietor

2.1 Introduction

Owned and run by an individual person and there is no legal division between the owner and the business. This is also called as sole trade or self-employment. The owner is in direct control of all elements such as decision making, accountable for the finances etc.

2.2 Characteristics of Sole Proprietor Business

Criteria	Descriptions
Ownership	One individual Administration and decision making main authority and power on the owner. (However several employees could handle various tasks with less authority)
Liability	Unlimited liability In case of bankruptcy the owner should use own properties to meet financial obligations
Legal identity	The business has no legal identity Any legal matters should be done in the name of the owners
Registration	Not compulsory If the business is carried in any other name other than the owner's name, the business should be registered under the **Business Name Registration** **Act of 1918**
Capital	Capital is raised personally (Savings/Loans). Capital will be comparatively low.
Profit / Loss	Gain profit or bear the loss alone
Tax liability	Pays tax under the owner's name.
Accounting & auditing	It's not compulsory.
Going concern	There is no going concern. Since the business could close with the death or any inability of the owner.

2.3 Advantages and Disadvantages

Advantages	Disadvantages
A sole proprietor has complete control and decision-making power over the business.	Sole trader are subjected to unlimited liability
Staring a sole proprietor is much less complicated	All responsibilities and business decisions fall on the shoulders of the sole proprietor
Retain all the profit of their business	It may difficult to expand the business in the future
Sole trader can make decision quickly and act on them rapidly , providing for the needs of their customers	Limited funds
Few minimal business requirement	Reverse economies of scale
Information about the sole traders is kept private	

3. Partnership

3.1 Introduction

Generally two or more people start a business together called as partnership. "The relation that subsists between partners carrying on a business in common with a common view to profit". A partnership is mainly governed by the Partnership Act of 1980. A partnership could have a **maximum of 20 partners**.

3.2 Laws and regulations that effect to Partnership:

- Partnership Act of 1980
- Prevention of Frauds and Ordinance (It says that any partnership start with a capital more than Rs. 1000.00 should have a written agreement)
- Business name registration Act of 1918 (It says that business carried under the name other than the partners' names should be registered under)
- Companies Act 2007 (It says that partnership cannot have more than 20 partners)

3.3 Characteristics of Partnership

Element	Description
Owner ship	There should be 2 members minimum and according to the Companies Act No. 07 of 2007, a maximum of 20 members to commence a partnership. Qualified and practicing accountants and solicitors and the business members of a recognized stock exchange partnership can have more than 20 partners)
An agreement	A partnership commences with an agreement among its partners, which is known as the partnership agreement. This agreement can be in written, orally or implied. According to the Prevention of Fraud Ordinance if the initial capital of the partnership is greater than Rs. 1000, a partnership is required to be conducted under a written agreement. This written agreement is known as partnership deed.
Business	The partnership should have an oral, written or implied agreement.
Profit Sharing	The partnership should be based on sharing the earned profits. This implies that all partners enter into the partnership with a profit motive. The profit sharing ratio should be decided in the partnership agreement. The loss bearing ratio should be as the profit sharing ratio. If the agreement does not say about the profit sharing ratio it should be shared equally according to the partnership ACT 1980. If only one or few of the partners share the profit , it is not considered as a partnership.
Mutual Agency	A partnership is the relation that subsists between persons. Hence, every partner is an agent and principal for himself and each other. All should be responsible to each other's activity towards the business.

3.4 Partnership Agreement

Partnership agreement / deed can be in written, oral or implied. The most preferred is to have a written agreement where all the partners have signed. When a written agreement is signed it is also called as articles of partnership.

Partnership agreement shall include followings:

- Business name
- Names and addresses of partners
- Nature of business
- Capital contribution of each partner
- Drawings of partners
- Interest for the provided for the capital
- Interest to be provided for the drawings
- Rights of the partners
- Duties of the partners
- Salaries to partners
- Profit / loss sharing ratio
- The base to calculate business Goodwill (when a new partner comes in and exiting partner moves out or death of a partner)
- Accounting procedure
- The procedure and cash settling method when the partnership is to be ceased
- The procedure to settle any disagreements

When **there is no partnership agreement** set by the partnership, the Partnership Act of 1980 should be followed. **Rules and procedures of the Partnership Act of 1980** are as follows:

- Equal sharing of profit and loss
- Interest should not be provided for capital
- No salaries for partners
- Interest should not be charged for drawings
- If a partner lends money to the business an interest of 5% should be given
- All partners have the right to be involved in the business activities

- A new partner should not be joined without the agreement of all the existing partners
- Business assets and property should be used for business purpose and betterment of the business
- All partners have a right to have access to business accounts and books

3.1 Rights and Duties of Partners

Rights	Duties
To be involve in the business	Observe good faith
To be able to voice your opinion front of all the partners	Be responsible for any fraud act and bear the loss
To access accounts and books	Attend business activities diligently
To earn a share of the profit	Bear the agreed loss
To earn interest for capital	Not to account for personal profits
To earn interest for the loans provided to the business	Not to earn profits from competing business
Right of indemnity	Act within the given authority and rights
To use business properties for business activities	Collective responsibility and accountability
To take action on sudden occasions with a good intention of the business	
To bring in a new partner only with the acceptance of all the other existing partners	
To withdraw from the business	
Right not be expelled	
To earn a profit at the time of leaving the business	
To be involve in a competitive business after leaving this partnership.	

3.6. Dissolution of Partnership

This has two aspects

1. **Dissolution of partnership**

   Any changes between the partners of the business would resulting the dissolution of the partnership. Example: the partnership between two people will get dissolve when a new partner joins the business. It will be considered as new partnership business and reconstructing a new agreement when new partner joins and dissolution of partnership is ending the old agreement.

2. **Dissolution of firm**

   This means close the business. The relationship between all the partners is ceased. All assets and liabilities should be settled. The dissolution of firm can take many forms. They are depicted in the following figure.

Dissolution of firm

- By order of court
  - A partner becomes unsound
  - A partner is unable to perform duties as a partner
  - A partner is guilty of misconducts
  - A partner willfully violates the partnership agreement
  - A partner transfer all his interest to a third party
  - The firm cannot be carried except at a loss
  - Any other just and equitable reason
- Without court intervention
  - When all partners agreed
  - Compulsory dissolutions
  - On any incident
  - By notice

3.7 Types of Partners

There are different types of partners.

Active partners

A person who takes active interest in the conduct and management of the business of the firm is known as active or managing partner. He carries on business on behalf of the other partners. If he wants to retire, he has to give a public notice of his retirement; otherwise he will continue to be liable for the acts of the firm. They have unlimited liability and may have a right to earn a salary apart from the profit share.

Sleeping (Dormant) partner

A sleeping partner does not involve in the business though contributes to the capital and have profit/ loss share. This partner has unlimited liability. Since this partner does not involve in business activities and his name not revealed as a partner

publicly, the name sleeping partner is given.

Nominal partner

This partner does not contribute towards the capital but gives his name only to the business. This would be a highly accepted and well known as a professional or business person. Hence, adds more goodwill to the partnership. This partner also has profit/ loss share as well an unlimited liability.

Partners in profit only

These partners would contribute to the capital, have unlimited liability and have a right to the profit share. However, this partner does not bear any losses. Such partners have no right

Silent partner

This partner does not involve in the business though contributes to the capital and have profit/loss share. This partner has unlimited liability. His name is revealed publicly as a partner.

Quasi Partner

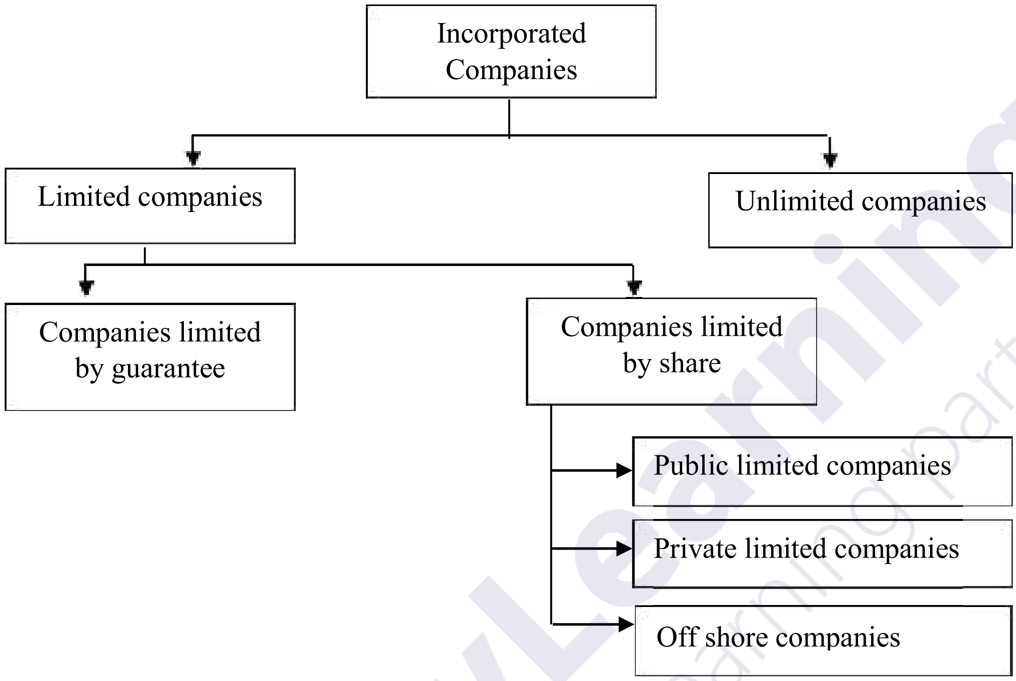
This partner does not contribute to the capital, instead provides a loan to the business. Though he is a lender to the business, he has a right for interest income that varies based on the annual business profits. He does not involve in business activities but has unlimited liability. This partner is virtually given the status of a

Limited partner

This type of partner is in a limited partnership. He does not involve in business activities. The liability is only limited to the capital given to the business. Limited partnership are not to be seen in Sri Lanka.

4. Incorporated Companies

Business organizations that are registered under the Companies Act 2007 with a legal identity and limited liabilities is called an incorporated companies. Companies Act No 2007 is the law that governs incorporated companies in Sri Lanka.



❖ **Limited Companies**

The liability of a shareholder is limited to the value of the shares issued to each shareholder as mentioned in the articles of association.

Features,

Limited liability

Legal Identity – the company has a legal identity separated from its shareholders.

Going Concern - Death and retirement of shareholders does not affect the company's existence.

Ownership and management are mutually exclusive - management and control power relies with the board of directors and management. Though the shareholders are the owners, they have less control power.

The most obvious difference between a corporation and other business structures is the ability of corporations to raise large sums of money by selling stock shares to investors. Instead of being centered on a single person or a small group, ownership of an incorporated business is spread out among stockholders, who have the right to vote on key business decisions. Corporations are listed on stock exchanges, such as the CSE - Colombo Stock Exchange and anyone can access a wide range of financial and operational data about each company.

- **Unlimited Companies**
  The liability of the shareholders not only limited to the value of shares issued to him/her. They have liability to pay off debts exceeding the share capital.

- **Companies Limited by Guarantee**
  There is no share issue in this type of companies. When the company closes the liability of each member is limited to the guarantee value mentioned in the company's Article of Association.

Private limited companies

Advantages	Disadvantages
Limited liability	Need to undergo certain legal procedures to establish the company.
Economic of Scale – Large scale operation	Cannot issue shares to the public or through stock exchange.
Rights to certain tax exemptions	Shareholders can't easily transfer their shares when they are in need of cash.
Transferability of shares is restricted. Hence can keep the ownership within the family or limited group of people.	

Public limited companies

Advantages	Disadvantages
Limited liability	Complicated and stringent start up procedures and legal constrains.
Able to attract large capital	No direct relationship with the stakeholders
The size of the company and nature allows easy access to credit capital	The general public experts attractive gains early as possible.
Can issue shares to the public through the stock exchange.	Agency/Principle problem between the shareholders and management.
Since investors are highly attracted to share market activities, public companies can earn economic gain.	

❖ **Private and Public Limited Companies**

	Private Limited Companies	Public Limited Companies
Number of share holders	There must be at least one (1) shareholders in the case of a private or public company.	
Share issue	Most common form of companies which consists 1-50 shareholders and owned by the family members (generally).	Public companies in which shares being issued to the public.
Number of directors	A private company has a minimum of one (1) director.	At least 02 directors.
Annual reports and financial reports	Essential	Essential
Transferability of shares	Proprietary company cannot issue shares to the public (can do Private placement) but treated as a legal entity.	Proprietary company can issue shares to the public and treated as a legal entity.

Other Companies

❖ **Off Shore Companies**

Companies that are registered to conduct operations away from Sri Lanka are called off shore companies. These companies are registered under a Company act of another country and Sri Lanka as well. Benefits of such companies are:

- Foreign Exchange income
- Market Expansion
- Expansion of international relations
- Foreign employment
-

❖ **Foreign Companies**

Companies that are registered under another country's law and carry business operations in Sri Lanka.

Example: Unilever, DHL, HSBC, Nestle, Coca-Cola

Company Registration

The following documents should submit to the Company Registrar to register a company.

- Form of registration
  Company name and address, Directors' name and address with signatures, secretary's name and address with signature.
- Individuals' statements of initial directors with their consent to work as director/s signed by them.
- Statement of the secretary with his / her consent to work as the secretary signed by him/her
- Article of association
  Initial shareholders should sign for the Articles of Association
  If the company wishes they can follow the model Article provided in the Companies Act No 2007. The Article of Association should include the following:
  - Objective of the Company
  - Rights and duties of the Shareholders
  - Management and control of the company

- The issuing of shares, different voting rights attached to different classes of shares
- The appointments of directors
- Directors meetings – the quorum and percentage of vote
- Management decisions – whether the board manages or a founder
- Transferability of shares – Assignment rights of the founders or other members of the company do
- Special voting rights of a Chairman and his /her mode of election
- The dividend policy – a percentage of profits to be declared when there is profit or otherwise
- Winding up – the conditions, notice to members
- Confidentially of know-how and the founders' agreement and penalties for disclosure

  (If company wants to adopt a new Article or Alter its Articles once it was registered they have to take the approval through passing a special resolution)

Other Important Documents for Companies

- **Certificate of incorporation**

  When the company is incorporated by the registrar, Certificate of Incorporated will be issued. Followings are included:
  - The name and number of the company
  - The date on which the company was incorporated
  - Whether the company is a limited company, an unlimited company or a company limited by guarantee
  - Whether the company is a private company
  - Whether the company is an off-shore company
- **Prospectus**

  When a company offers its shares to the public a prospectus will be published with the following information. Prospectus should comply with the Securities exchange commission. It should include following:
  - Company objectives and business activity
  - Background and qualification of principal officers
  - Current financial position

- Financial statement projections with the assumptions
- Risk analysis
- Share offering price
- Interest and principal payment details of debentures

- **Shares warrant**

  A shares warrant is a bearer document of title to shares. It can be issued only by Public Limited Companies and that to against fully paid up shares only.

- **Shares certificate**

  A share certificate is a written document signed on behalf of a corporation and serves as legal proof of ownership of the number of shares indicated.

- **Annual report**

  An annual report is a comprehensive report on a company's activities throughout the preceding year. It includes information about the company's activities and financial performance

Cooperatives and Franchises

❖ **Cooperatives**

This is a special type of organization in the private sector.

- All members have voting power of one irrespective of the invested capital or service
- The share price does not change
- All members own the profits earned; however a certain amount could be kept for future business investments
- The interest for loan is limited
- Business will involve in social service activities

❖ **Franchise Business**

A franchise business is when a person or company uses another trade name, trade mark or symbol with approval to conduct business activities.

The owner of the trade mark is called the Franchisor. The uses the trade mark is called the Franchisee.

There are two types of franchises:

- Product / trade name franchises
- Business

format

- Franchising

Ex:-

Franchisor	Franchisee
Mc Donalds	Abans Company
Pizza Hut	John Keels Holdings
KFC	Cargills

Public Sector Organization

The Organizations that focus on social service developments. The government and local government bodies involve in managing and controlling Public Sector business.

Requirement of Public sector organizations:

- To control monopoly markets
- To maintain national security
- To avoid earnings of unfair profits by the private sector
- To provide essential services that are not profitable
- To carry on important large scale development projects