

BUSINESS ORGANIZATION

LECTURE 4

Learning Objectives

- Define a business organization
- Determine factors involved in selecting the best organization form for an agribusiness
- Understand the importance of registering your business with Patents and Companies Registration Office (PACRO)
- Identify the four legal forms of business organization
- Distinguish between sole proprietorship, partnership, corporation and Cooperatives
- Identify the basic principles that ensure that cooperatives serve the needs of member patrons.
- Explain how local and regional cooperatives are organized to serve members.

Presentation Outline

- Introduction
 - What is an organisation?
 - What is a business organization?
- Factors Influencing choice of a business organisation
- Why is it important to register your business with PACRA?
- Legal forms of business organisation
 - Sole proprietorship
 - Partnership
 - Corporation
 - Cooperatives

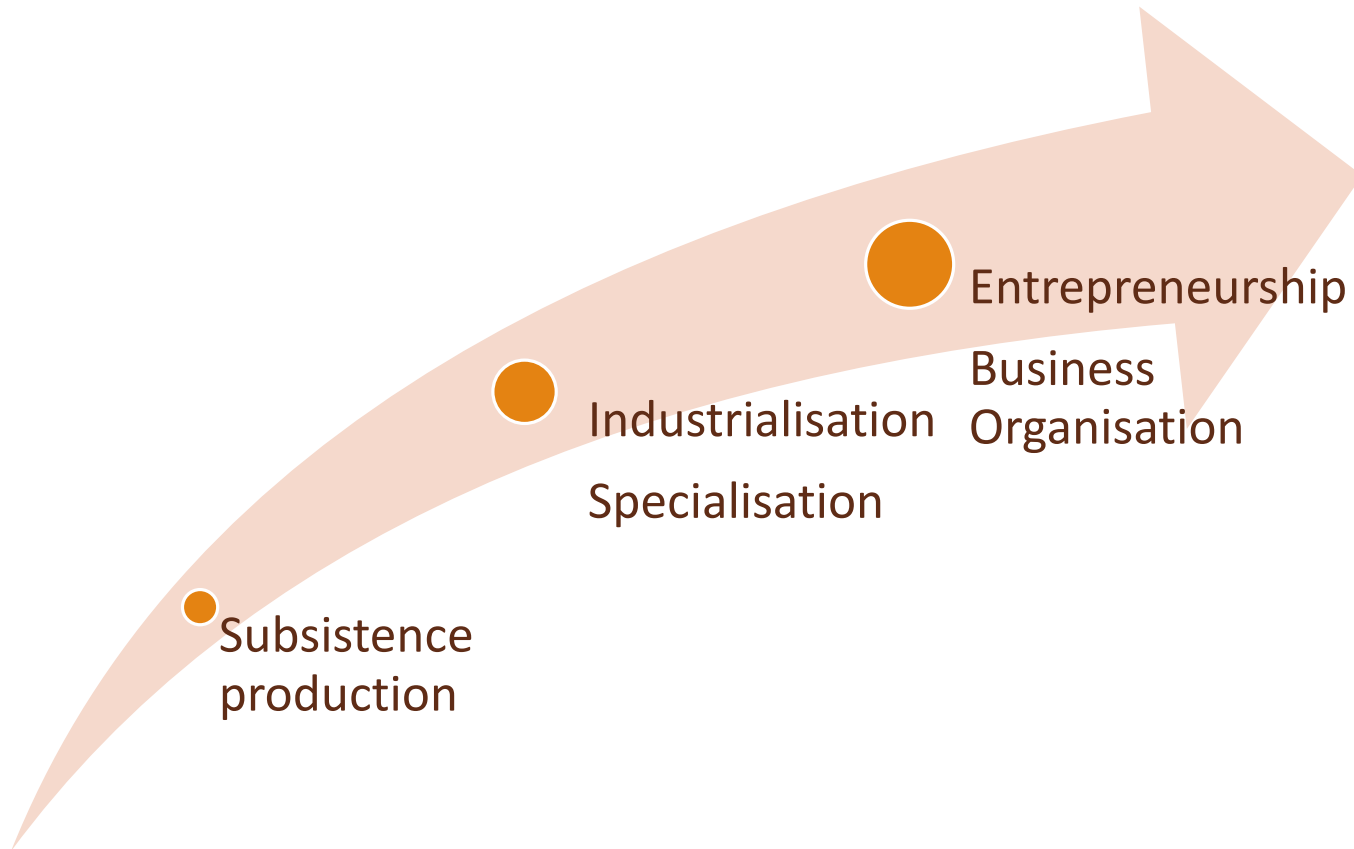
Introduction

- ❑ We live in a pluralistic society made up of organization units
- ❑ People combine their efforts to achieve goals that no individual could possibly achieve alone.
- ❑ Variety of sizes and types
- ❑ Organizations serve a wide variety of functions and they are important for all of us because we frequently associate with them.
- ❑ We typically earn our livelihoods as organizational members and they are building blocks upon which society is constructed.

What is an organization?

- System- established & conscious planning
- People work and deal with one another in a coordinated and cooperative manner
- Aimed at accomplishment of recognized goal(s).

The Business Organisation- Evolution



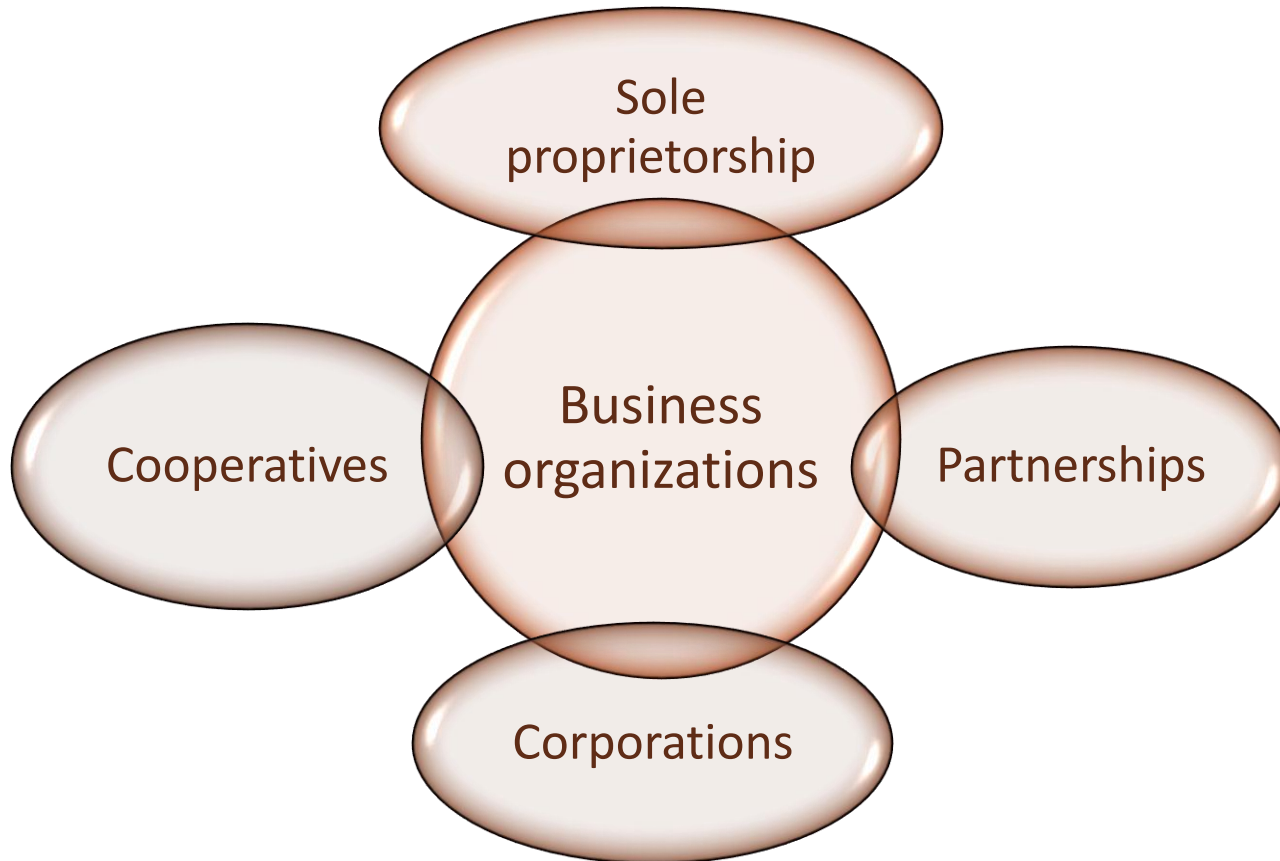
What is a business organization?

- The term '*business organization*' refers to how a business is structured
- It refers to a commercial or industrial enterprise and the people who constitute it (shareholders, managers and workers)
- A group of people forming a structure with rules and authority; pursuing predetermined objectives and using economic resources to satisfy economic wants for which people are prepared to sacrifice their resources.

Main goal(s)/objectives of a business organization

- Most important goal of any business organization is generation of profit
 - Survival
 - Growth
- Primary objective of any business is to create a customer through whom profits are made

Types of business organizations



Choice of a Business Organisation Form

The choice of a business organisation depends on various interrelated factors

- 1• Nature of the business
- 2• Scale of operation
 - Volume of business (large, medium, small)
 - Size of the market area (local, national, regional, international)
- 3• The degree of control desired by the owner(s)
- 4• Amount of capital required for the establishment and operation of the business
- 5• How much capital needed does the owner(s) have available & ease of acquisition of additional capital for the business



Choice of a Business Organisation Form

- 6• How much capital needed does the owner(s) have available & ease of acquisition of additional capital for the business
- 7• The volume of risks & liabilities as well as willingness of the owners to bear it
- 8• Comparative tax liability
- 9• Stability, continuity and transfer of ownership
- 10• Owners' objectives and philosophies for the business
- 11• Desirability to keep the affairs of the agribusiness secret



Why is it important to register your business with PACRA?



**PATENTS AND COMPANIES
REGISTRATION AGENCY**

Why is it important to register your business with PACRA?

- Legal requirement to register business Patents and Companies Registration Agency
- Gives business under taking a legal status
- Grants you the exclusive right to personally use your company and business name
- Right to enter with confidence into the competitive business arena having a business /corporate identity
- Enables you to enjoy the pride of being an honest citizen
- Affords you an opportunity to contribute to national development (taxes).

SOLE PROPRIETORSHIP

A sole proprietorship, also known as the sole trader or simply a proprietorship, is a type of business entity that is owned and run by one natural person and in which there is no legal distinction between the owner and the business.

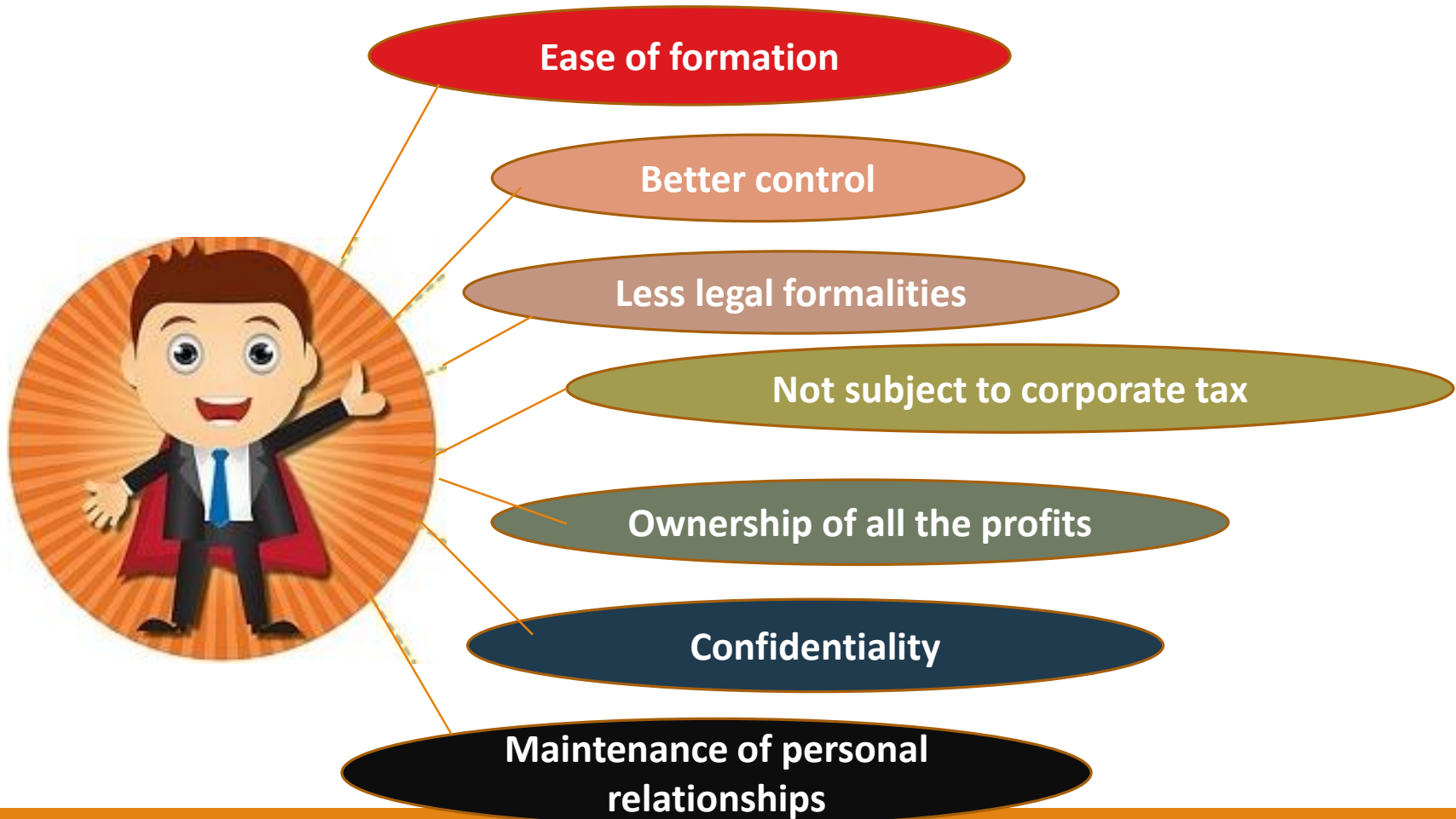


Sole proprietorship- Characteristics



- Oldest, simplest & most common structure
- Business enterprise is owned by one single individual
- Owner is manager
- Owner is the only source of capital
- The proprietor & business enterprise are the same in the eyes of the law
- Proprietorships generally tend to be small businesses
- However, when a business reaches a certain size, other business organization forms become more attractive.

Advantages of a Sole Proprietorship



Disadvantages of Sole Proprietorship

- Owner has unlimited liability
- Difficulty in raising capital
- Lacks stability and continuity
- Difficulty of doing business beyond a certain size
- Business profit is considered as personal income to the owner, whereby a high business profit may throw the owner into a higher tax bracket.
- Limited managerial skills



Partnership

- A Partnership is a business formed for profits by two or more co-owners



Characteristics of a Partnership

- The rights and duties of the partnership are regulated by laws of the state and bounded by a legal agreement “ Partnership agreement "entered into by the co-owners.
- Each partner customarily contributes economic assets to the enterprise in form of money, skill & labor.
- Profit is divided in an any ratio as stipulated in the partnership agreement
- No partner can sell/transfer his/her interests in the firm to anyone without the consent of other partners



Types of Partnership

General partnerships

- Most common type of partnership
- Each individual partner, regardless of the percentage of capital contributed, has rights and liabilities
- A general partner has authority to act as an agent for the partnership, & normally participates in business management & operations
- Each partner is liable for all partnership debts, and may share profits in equal proportion with all partners.
- General partners may contract among themselves to delegate certain responsibilities to each other
- Divide business revenues or costs according to a chosen criterion
- Each general partner may bind the partnership to fulfill any business deal he/she makes

Limited Partnership

- ❑ All partnerships are required by law to have at least one partner who is responsible for business operations and activities
- ❑ YET it is possible for the other partners to partake in the business on a limited basis.
- ❑ Permits individuals to contribute money or ownership capital without incurring the full legal liability of a general partner.
- ❑ Limited partner's liability generally limited to the amount that the individual has personally invested in the business.

Advantages & Disadvantages of Partnerships

Advantages

- Ease of formation & Subject to fewer regulations when compared to companies
- Larger resources
- Sharing of risk
- Better management & flexibility of operation
- Taxation
- Transfer of ownership
- Easy to graduate to limited company
- Confidentiality

Disadvantages

- Liability
- Continuity and stability
- Conflicts
- Control and management of partnership
- Transfer of ownership
- Activities and flexibility
- Ease of raising funds

Partnership agreement

Advisable to have a formal partnership agreement drawn up by a solicitor (if possible one who is familiar with problems of partnerships).

- ❑ Details of the partners, and the name and nature of the business
- ❑ Duration of the partnership, date of commencement and any anticipated termination date
- ❑ Capital contributed by partners and agreement on interest payable to partners for money introduced
- ❑ Calculation and division of profits: this needs to be specified particularly where partners contribute unequally

Partnership agreement Cont'd

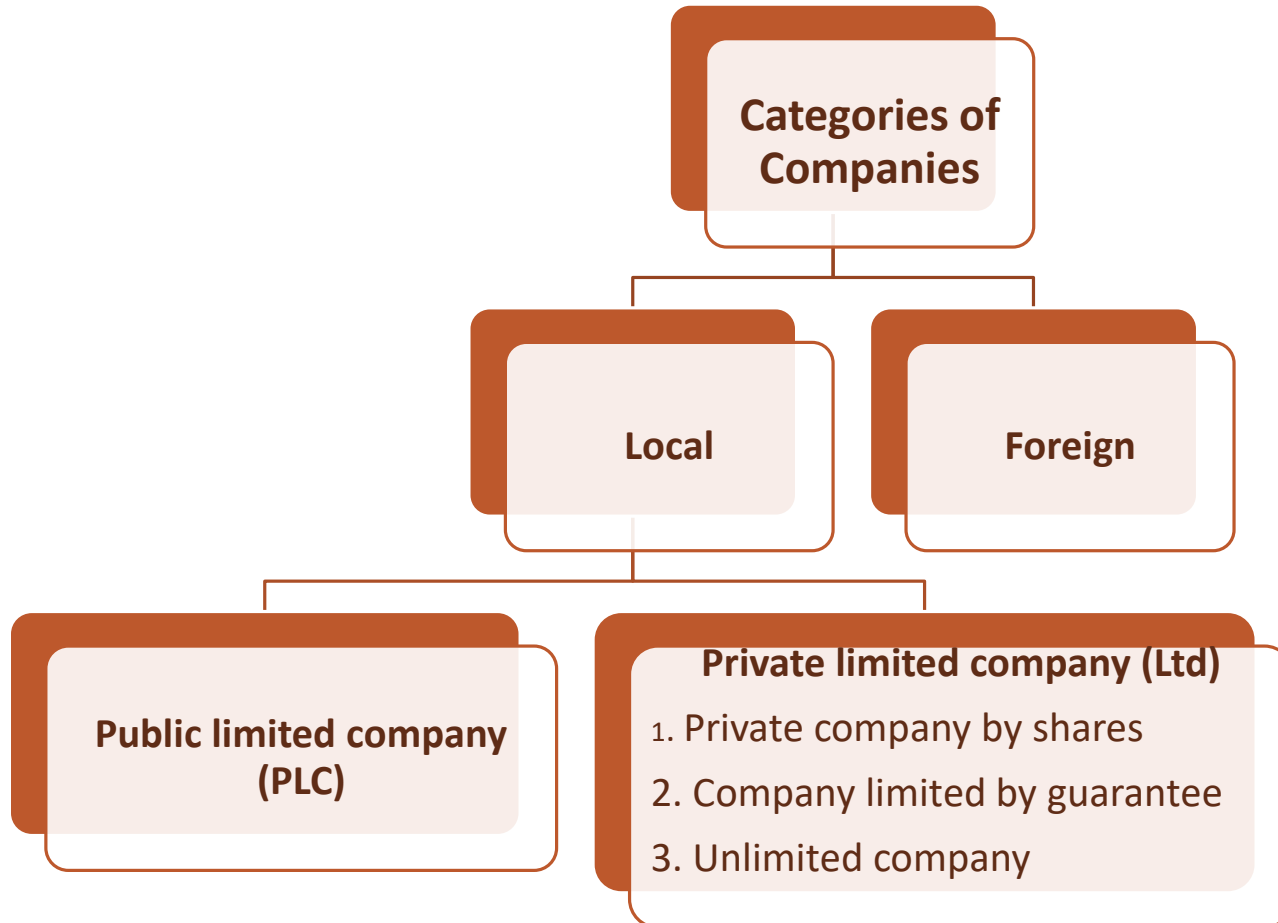
- ❑ Rights and obligations of individual partners such as management and control of the business
 - This is most needed where partners put in unequal amounts of time in the partnership.
 - Where there is a sleeping partner, management partners may need to guard against future interference and provide for their own salaries before profits are divided;
- ❑ Changes brought about by death, retirement and joining of new partners
- ❑ How the ending can be dealt with if the partnership is dissolved; and
- ❑ Participation of family members as employees of the business

What is a Corporation?

- ❖ Legal entity or structure created under the authority of a state's laws, consisting of a person or group of persons who become shareholders.
- ❖ The entity's existence is considered separate and distinct from that of its members, which means that corporations are capable of owning property, employing people, making contracts, suing and being sued.
- ❖ The number of shares issued is unlimited.
- ❖ The shares are issued to each stockholder according to the level of investment.



Categories of Corporations/Companies



Public limited Company

- ❖ A Public Company has share capital
- ❖ Has no limit on the number of shareholders
- ❖ Can invite the public to subscribe for its shares – usually through the stock exchange
- ❖ Ends with the letters PLC
- ❖ Refer to sections 14 - 15 of Companies Act



Private Company Limited by Shares

- ❖ Like public limited company, has share capital
- ❖ Mainly for profit
- ❖ Is not allowed to invite the public to subscribe for its shares – these are largely family businesses
- ❖ Can not have more than fifty (50) shareholders
- ❖ Should end with the word 'Limited'



Unlimited Liability Companies

- ❖ Have share capital i.e. amount agreed to be raised from subscribers divided into shares of a given amount
- ❖ Also generally for profit making purposes
- ❖ May be allowed to have more than fifty (50) shareholders
- ❖ The liability of shareholders is unlimited

Companies Limited by Guarantee

- ❖ Should not carry on business for the purpose of making profit for its members or anyone concerned in its promotion.
- ❖ Has no share capital
- ❖ Members guarantee a specified amount – this is not paid upfront. Amount guaranteed is only paid when Company is wound up.

Foreign Company

- ❖ This is a branch of a company incorporated outside Zambia which is registered in Zambia.
- ❖ A foreign company must at all times have at least one and not more than nine (9) individuals called 'local directors', empowered and authorized to conduct and manage all the affairs, properties, business and other operations of the company in Zambia.
- ❖ At least one local director of the company must be resident in Zambia, and if the company has more than two local directors, more than half of them should be resident in Zambia.

Advantages & Disadvantages of Corporations

- + Limited liability
- + Ease of raising capital
- + Ease of transfer of ownership
- + Perpetual life
- + Ease of attracting top talent and establish credibility with suppliers, partners, customers and employees.
- + Separation of ownership from management
- + Ability to diversify/ expansion/growth potential
- + Easy to increase brand awareness and build customer loyalty.
- Higher start up costs
- Extensive paper work
- Higher levels of regulation
- Double taxation
- Lack of confidentiality
- Conflicts within the corporation (shareholders & board members)
- Independent management
- Decision making

What is a Cooperative?



A cooperative can be defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Cooperative principles

There are seven cooperative principles adopted by the International Cooperative Alliance (ICA) in 1995 that countries world over have agreed to uphold.

Guidelines by which co-operatives put their values into practice and form the basis for conducting co-operative business.

They include:

- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation

Cooperative principles Cont'd

- Autonomy and Independence
- Education, Training and Information
- Cooperation among Cooperatives
- Concern for the Community

Role of Cooperatives

- Important cornerstone in the socio economic development of the country.
- Strategic means for enhancing income generation, employment creation and community development, which will lead to alleviating hunger, poverty, unemployment and income disparities in the country
- Cooperatives can provide the mechanism to organize and mobilize people for self help action in providing the services they require as a farming and rural community.

Role of Cooperatives Cont'd

- Cooperatives in Zambia act as a vehicle for the implementation of government rural development policies and strategies.
 - Agricultural development
 - Empowerment of small-scale farmers
 - Agricultural credit delivery systems,
 - Input supply and crop marketing and to some extent post harvest management.

- They appear well suited to economic, social and institutional needs of development in the rural economy.

Objectives of Agricultural Cooperatives



The general purpose for which the society is established is to promote agricultural activities of its members by: -

- Raising funds by issuing shares, receiving deposits, overdrafts, organizing and managing loans and credit schemes to promote agricultural production amongst its members;
- Engaging in agricultural farming activities of any kind: livestock, fish farming and crop production;
- Sorting, grading, storing, transporting and selling agricultural produce on behalf of its members;

Objectives of Agricultural Cooperatives Cont'd



- Processing or handling any agricultural products on behalf of its members;
- Dealing in or selling agricultural requisites and consumer goods as long as this is in the interest of members;
- Provision of agricultural related training, extension and;
- Hiring out services to agricultural related institutions/ individuals for the benefit of its members.

Structure of Agricultural Cooperatives

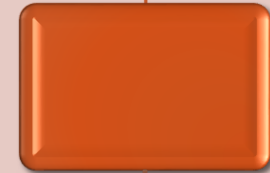
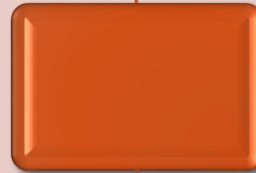
Cooperative federation:

Apex organization at a national level



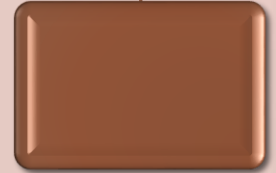
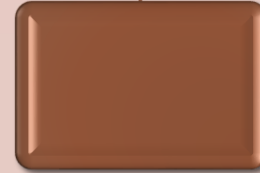
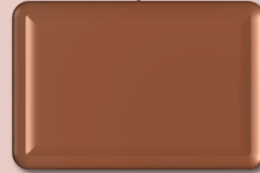
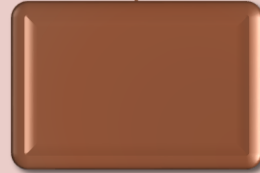
Secondary cooperatives/ unions:

Cooperatives are the members. Provides of services to member cooperatives.



Primary cooperatives:

shareholders are individuals; each of them having an equal share in its control



Advantages of Cooperatives

- Continuity: the cooperative's lifespan is dependent on a lot of people, thus if one member dies or pulls away the cooperative will still survive;
- It is easier to raise capital;
- Cooperatives are better positioned to reduce the poverty levels; and meet the economic, social and institutional needs of development in the rural economy.
- Co-operatives benefit from larger business volume, operating efficiencies and professional management of Apex organizations. Economies of scale enjoyed by co-operatives enable farmers to:
 - purchase supplies at volume discounts, and
 - receive profits from value-added processing; and
 - credit unions pool their resources together and are able to transfer surplus savings to credit unions in lower income areas.

Advantages of Cooperatives

Cont`d

- Substantial tax advantages
- Co-operatives teach people how to resolve problems democratically and empower individuals by giving them chance to participate in decisions, which impact them.
- Co-operatives teach new skills, from adult literacy to business operations.

Disadvantages of Cooperatives

- Cooperation among members may be difficult to achieve
- Slow in organizing and getting started
- Members fail to recognize their ownership responsibilities
- In some countries cooperatives are dependent on the government, hence are prone to abuse and;
- Cooperatives may not afford hiring skilled personnel since their capital base is low.

THE END

