

Introduction to Mineral Economics

BUSINESS STRUCTURES

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BUSINESS STRUCTURES

- From a technical and legal aspect, there are three major forms of business organizations i.e.
- **Single proprietorship;**
- **Partnership; and**
- **Corporation**
- About 80% of business firms are operated as Sole Proprietorships
- The remainder equally divided between partnerships and corporations.

Cont ...

- There are several hybrid business structures which have evolved out of the partnership;
- These are neither true partnerships nor corporations.
- The selection of the particular form of business unit to be employed is a matter for the founders to determine at inception.

Factors to consider when deciding a mining business structure

- Size of deposit
- Investment requirements
- Technological requirements
- Managerial requirements
- Income tax effects
- Desire for management control (as size of co-operation enlarges decision making becomes complicated)

Principle Business Forms

- Sole Proprietor
- Partnership
- Private Company
- Public Limited Company
- Public Corporation
- Co-operatives

Sole Proprietor

- This is the simplest form of business structure.
- A sole proprietorship is a one-person business
- The firm and owner is completely identified.
- It is not registered with the state as a corporation.
- This type of business is completely controlled by the owner.
- Sole proprietorships are so easy to set up and you may already own one without knowing it.

Cont ...

- For instance, if you are a
 - freelance photographer;
 - a craftsperson who takes jobs on a contract basis
 - a salesperson who receives only commissions
 - or an independent contractor who isn't on an employer's regular payroll.

Cont ...

- However, even though a sole proprietorship is the simplest of business structures, you shouldn't fall asleep at the wheel.
- You may have to comply with local registration, business license, or permit laws to make your business legitimate.
- You should look sharp when it comes to attending to your business
- This is because you are personally responsible for paying both income taxes and business debts.
- As a sole proprietor, you can conduct business under your own name or under a trade name.

Source of funds

- Sources of finance for this type of business are the following:-
 1. Personal savings
 2. Banks (this loan should be limited to available collateral)
 3. From profits
 4. Other loans (pre-financing of miners e.g. by illegal dealers)

Advantages

1. Flexible
2. Swift decision
3. Cheap and easy to start
4. All the profits are yours
5. You are your own boss
6. You do all the work

Disadvantages

1. Unlimited liability (no separation between business and owner i.e. if owner dies, business dies as well)
2. Long working hours
3. Not easy to raise capital
4. Disruption of activities with absence of owner
5. All the risk is yours
6. You do not have all the skills.

Partnership

- A partnership is usually defined as the association of two or more persons for the purpose of carrying on a business as co-owner, for profit.
- Each partner contributes money, property, labour or skills to the partnership
- You expects to receive in return a share of the profits and loses of the business;
- A partnership is not a legal entity separated from its members.
- Since a partnership is not a legal entity, the debts of the partnership are the debts of the individual partners

Cont ...

- Therefore, one partner may be held liable for the indebtedness of the entire partnership.
- A partnership is a highly personal relationship.
- Each partner has a right to take part in the management of the business, to handle the assets for partnership purposes and to act as an agent of the partnership.
- Therefore, one has a right to choose his partner.
- No person can become a member of the partnership without the consent of all partners.

Advantages

1. Contribution of specialization from each of the partnership
2. More funds
3. Easier to cover absence

Disadvantages

1. Incompetent partners can land business in difficulty
2. Unlimited liability like sole proprietor

Private Company

- In this type of business structure, shareholders are the owners;
- Minimum of two shareholders and not more than 50;
- The company has separate identity from shareholders;
- Sources of finance are from issue of shares;
 - These shares are very choosy who to give
 - From Bank loans.
- Private Company is controlled by majority shareholders
- The day-to-day control of operations are done by managing directors.

Advantages

1. Limited liability meaning that you do not sue the owner (shareholders) but the company
2. Easy and inexpensive to establish; i.e. many sole proprietors, partnerships become private companies to obtain limited liability.

- **Disadvantages**
 1. Cannot invite general public to subscribe to share issue (because it does not want to dilute control);

Public Limited Company

- In this type of business structure, anyone is free to buy shares.
- In this case, the company must have share capital.
- Therefore, there should be some form of CV for the company
- If one is not satisfied with the CV of the company, he/she should go to the brokers who will explain the facts about the company.
- Sources of finance is from issue of shares as well as from Bank loans.
- This business structure is controlled by the majority shareholders.

Advantages

1. Limited liability;
2. Public subscription for shares;
3. Larger amounts of capital can be accumulated;
4. Easier access to finance;

Disadvantages

1. You have to publish results;
2. Others, e.g. auditors have to look at your books;
3. Greater need to conform to legal procedures;
4. Owners might lose control;
5. Danger of growing too large and therefore difficult to manage;
6. Full disclosure of activities – expose its strategy to the public and hence attract competition;

Public Corporation

- Public Corporations are owned by the state
- These are separated by legal identity i.e. registered as a company on its own.
- This type of business structure raises capital via the government, bank loans and foreign loans (should be government guaranteed).
- It is controlled by the management structure that does day to day controls.
- Board of directors is appointed by the government.

Advantages

1. Company is very large and able to make more profits
- **Disadvantages**
 1. Very often so large that they become difficult to manage;
 2. Political interference and mismanagement;
 3. Although required to be profitable, they may have social or political aims which reduce their profitability.

Co-operatives

- A co-operative is a business that is owned and controlled by the very same customers who use its services.
- The voice of every person makes a difference.
- The economic benefits of a cooperative are given back to the members, reinvested in the co-operative or used to provide member services.
- Those returns are called *capital credits*.
- Co-operatives are owned by members and are separated by legal identity.

Cont ...

- Sources of finances are through subscriptions by members in form of withdrawable shares and loans.
- It is controlled by management committee elected by members.
- It is a democratic organization whose money and resources belong to its members.
- By becoming an active member of a co-operatives, you will have more say on what goes on in your business organization.

Cont ...

- There are different types of co-operatives including:
 - food co-operatives
 - housing co-operatives
 - arts and crafts co-operatives
 - book co-operatives
 - bakery co-operatives
 - bike co-operatives
 - farm co-operatives
 - financial co-operatives (credit unions)
 - insurance co-operatives among others.
- Although different in what they produce most cooperatives have several things in common mainly the ideas and principles of how they got started.

Advantages

1. Cooperatives encourage
 - Participation
 - Responsibility
 - Unity and
 - Education for their members, while promoting financial growth.
2. Being involved, the sense of belonging and the teamwork are a very important basis for success in cooperatives as everyone is working for the same aim

Disadvantages

1. Generally unprofessional management
2. Interpersonal conflicts and delays in decision making.

THE END