Types of Organizations

IGCSE

Private and Public Sector

Any economies' business organizations can be classified as private or public sector firms. Any business activity that is privately owned and managed is part of country's private sector and any business activity that is owned and managed by state is part of country's public sector.

Private and Public Sector

Unlike state owned enterprises that aim to maximize citizens' welfare private businesses are primarily concerned about profit maximization.

Private Sector Organizations

All private sector organizations can be classified in one of the following four categories:

1. Sole Trader
2. Partnership
3. Private Limited Company
4. Public Limited Company

Sole Trader

Any business that is owned and mainly managed by one individual is known as Sole Trader.

Such businesses are generally small because of limited access to investment. However business owner enjoys the perks of being sole decision maker and only owner of business profits.

Sole Trader

Business expansion / growth might be seriously limited because of limited finance. Inclusion of more partners is an easy strategy for business expansion.

Partnership

Businesses with two or more owners are known as Partnerships. Business profits are distributed among partners in proportion of their investment.

Often all partners are decision makers unless there are sleeping partners. Sleeping partner has invested in a business but he does not actively manage its affairs.

Partnership

Partnerships are more likely to be bigger businesses because of greater access to capital.

Limited Companies

Private and Public limited companies are jointly known as limited companies.

Limited Companies have few unique features that are not possessed by Sole Trader and Partnership.

Firstly Limited Companies have limited liability. Shareholders' liability is limited to their investment. Meaning if company goes bankrupt then any shareholder cannot lose more than its investment and its personal belongings will not be at stake.

Limited Companies

Secondly Limited Companies have Separate Legal Entity. Limited Companies are considered to be separate entities than their owners / shareholders.

Limited Companies

Limited Liability and Separate Legal Entity are two features of Limited Companies that are not possessed by Sole Traders and Partnerships. Moreover there is divorce of ownership and control in Limited Companies unlike Sole Trader and Partnerships. This means that not all shareholders are actively managing business affairs.

Limited Companies

At Annual General Meetings (AGM) shareholders select board of directors who are responsible for selecting company's mangers who then manage business affairs.

Types of Shares

In limited companies all shareholders do not have equal privileges.

Limited Companies' shareholders can be classified in two categories namely Ordinary Shareholders and Preference Shareholders.

Types of Shares

Ordinary Shareholders are real business owners and therefore hold voting rights for election of board of directors.

Ordinary Shareholders

They might not always receive dividends. Even when they receive dividends that is after all Preference Shareholders have received dividends.

They can sell their shares on stock exchange to realize gain in share prices.

They have voting rights for election of company's board of directors.

Ordinary Shareholders

People purchasing Ordinary shares are ones who want to be company's owners for longer time period and are willing to wait till company becomes successful so that they can realize gain on share prices.

Preference Shareholders

They often receive dividends and in preference to Ordinary Shareholders.

They do not have voting rights. Hence they have no say in electing company's Board of Directors.
They have access to stock exchange to realize gain of share prices.

Preference Shareholders

Preference Shares are attractive to people who do not want to make long term investment but instead want to switch their investment from company to company in hope of making maximum possible profits.

Cooperatives

Cooperatives are company like organizations where members own shares and take part in business management affairs.

Cooperatives

Cooperatives are formed by people (members) who share common economic aims / objectives. However unlike limited companies or any other organization cooperatives primarily aim to serve their members rather than profit maximization. Often these organizations work as not-for profit entities.

Types of Cooperatives

Workers Cooperative: people relating to certain profession forming an organization to help them execute certain economic activities. Farmers Cooperatives are the most popular form of Workers Cooperatives. Collective purchasing of raw materials and collective selling of output gives members better negotiation powers making them earn more.

Types of Cooperatives

Consumers / Retail Cooperatives: consumers forming an organization to help achieve better retail facilities in terms of better service and lower prices. When group of consumers decide to form an organization that establishes retail outlets keeping in mind their members purchase needs. If any profit is made that is either reinvested or divided among members based upon their shareholdings.

Public Corporations

State owned business entities are known as Public Corporations. Industries where only one state owned enterprise exits is known as Natural Monopoly. For instance Pakistan Railway is Natural Monopoly.

Public Corporations

Public Corporations unlike private sector businesses do not aim to maximize profits. Their primary economic objective is to serve country's citizens. Metro-Bus service of Pakistan is not profit making entity.

Public Corporations

Public Corporations are more likely to be found in industries where huge investment is needed and / or services that are essential for human survival. Electricity, gas, water supply are all state owned businesses in Pakistan.

Moreover PIA being Public Corporation has comparatively much lower air fares than other private airlines.

Nationalization and Privatization

Sale of public corporations to private sector is known as privatization.

On the other hand state taking charge and ownership of previously privately owned business is known as Nationalization.

Nationalization is move towards establishment of Command / Planned Economy.

Privatization is move towards creation of Free Market.

Nationalization

Though Nationalization being politically unpopular move has been significantly reduced especially in economies where democratically elected governments exist but previously certain countries experienced Nationalization because of following reasons:

Private sector can be exploitative in some cases especially when they are stringent profit maximization objectives.

Nationalization

Secondly government want to dominate **country's economic activity** to serve certain political interests. Pakistan experienced some unsuccessful Nationalization during the reign of Zulfiqar Ali Bhutto.

Privatization

Selling state owned businesses to private sector is known as Privatization. Over time economists have consensus that Privatization can yield following economic benefits:

Privatization

Less efficient and less profitable public corporation is expected to become profitable because of greater competition in private sector and without constant government finance injections private sector businesses have to solely rely on their revenue stream.

Privatization

Laying-off extra layers of management to make business more efficient and profitable. Redundancies being politically unpopular moves are generally avoided by public corporations.

Privatization

Governments earn significant amounts of money through sale of public corporations.

Economic inefficiency that thrives in government organizations because of red tape, excessive bureaucratic procedures and nepotism can be avoided through privatization.