**Chapter 1.2**

**Activity 1.2.1**

1. A ‘sole trader’ is a business in which one person provides the permanent ﬁnance, has full control of the business and is able to keep all of the proﬁts.
2. A possible advantage for Helene being a sole trader could be one of the following:

* Easy to set up
* The owner is in control
* The owner keeps the profit.

A possible disadvantage of being a sole trader could be one of the following:

* Unlimited liability
* The owner is responsible for all aspects of management
* Problems of raising finance.

1. Benefits of introducing a partner to Helene’s business might include:

* Utilising any specialist skills a partner may have
* Additional finance
* Shared decision-making.

Activity 1.2.2

1. A public limited company is a business that sells shares in its organisation to the general public through a stock exchange.
2. Potential benefits of going public might be:

* Limited liability
* Continuity of existence
* Access to significant finance.

1. Potential drawbacks of going public might be:

* Legal requirements on formation and disclosure of information
* Loss of control to shareholders
* Risk of takeover.

**Activity 1.2.3**

1. A ‘cooperative’ is a group of people acting together to meet the common needs and aspirations of its members, sharing ownership and making decisions democratically.
2. Reasons why a cooperative like MONDRAGON might have an advantage over a private enterprise include:

* It can keep profits to re-invest in the organisation
* Motivation for employees who can share in the profits
* Easier to make long-term decisions.

1. Two disadvantages an organisation might face as a cooperative include:

* Democratic approach slows down decision-making
* Access to investment finance is more difficult
* Prevents the organisation from making decisions to reduce labour costs.

**Activity 1.2.4**

1. Features of microfinance loans provided by Mibanco are:

* Loans made to individuals on low incomes
* Loans made to small businesses
* High interest rates
* Small loans made.

1. Advantages of microfinance to small business might be:

* Access to finance not available from commercial banks
* Access to small loans
* Favourable terms on loans in terms of interest rates and repayment periods.

1. The problems microfinance providers may face in trying to be profitable might be:

* Non-repayment if borrowers go out of business
* Small loans have high administrative costs per loan made
* The high cost of obtaining capital to make loans
* Low income of borrowers restricts the interest rates lenders can charge.

**Activity 1.2.5**

1. A ‘public–private partnership’ (PPP) involves the private sector, in the form of management expertise and/or ﬁnancial investment, in public sector projects aimed at beneﬁting the public.
2. Reasons why the city government decided to create Capital Waste Disposal plc as a privatised business might be:

* To raise finance
* To improve efficiency
* To reduce political interference in decision-making.

1. Disadvantages of the city government privatising waste disposal might be:

* Higher prices in the short term when government support is removed
* Shareholders have lower profits in the short term as profits need to be invested in new capital
* Workers may face redundancy.

1. The advantages of the public-private partnership for building a new waste recycling plant might be:

* Access to private sector finance
* Private sector expertise in managing the organisation
* Private sector profits and competition create incentives for performance.

The disadvantages might be:

* Private business desire for profits might conflict with public service
* Cost cutting by the private business might lead to redundancies
* Private business may have a more short-term view than the public sector business.

**Exam practice question**

1. A ‘partnership’ is a business formed by two or more people to carry on a business together with shared capital investment and responsibilities.
2. Benefits to Larry Page and Sergey Brin starting Google as a partnership might be:

* Shared finance
* Shared expertise
* Joint involvement in decision-making.

1. Possible problems Larry Page and Sergey Brin might encounter as a partnership might be:

* Profits are shared
* Unlimited liability
* Raising finance.

1. The advantages of Google converting to a public limited company in 2004 might be:

* Limited liability
* Continuity
* Access to significance finance
* Separate legal identity.

The disadvantages of going public include:

* Legal requirements on formation and disclosure of information
* Loss of control to shareholders
* Risk of takeover
* Fluctuations in share price.

Key concept question

The impact of different types of organisational ownership on business strategy might include:

* Objectives of the organisation (private business/cooperatives/public sector organisations)
* Number of owners (sole trader/plc)
* Nature of owners (private limited company/plc)
* Accountability to society (private business/public sector organisation)
* Scale of activity (sole trader/plc)
* Access to finance (partnership/plc).