

### IMPACT OF TYPES OF OWNERSHIP ON SUCCESS OF BUSINESS

#### 1. CAPACITY OF BUSINESS

**Capacity, in terms of the success or failure of businesses, refers to the ability of a business to produce goods and services during a period of time using the available labour, capital, resources and space.**

##### A. Labour Issues

**A business is likely to failure its workers who:**

- \* are not motivated
- \* are unwilling to contribute their full potential to making the business a success
- \* lack the necessary skills, knowledge and ability to run the business
- \* have negative attitudes towards customers and suppliers

##### B. Capital Issues

**Lack of capital means that a business is unable to:**

- \* buy inventories, equipment and other tangible assets needed to run its business
- \* to take advantage of special discounts when making purchases
- \* offer special deals to their customers
- \* allow their customers credit
- \* grow and expand

**Expansion can be managed by:**

- \* Taking on partners i.e. other can be asked to join the business for a share of the profit. This would mean forming a partnership, CC or a company. Bringing in others would also mean that the burden of building the business is shared.
- \* Borrowing money. This can be done by means of loans from banks, bank overdrafts and debentures in case of companies

In the **sole trader** capital issues is the sole responsibility of the owner. This limits the expansion of the business. The common cause of failure of this form of ownership is the lack of capital. The owner's ability to secure capital is limited. These businesses struggle to obtain capital because financial institutions regard them as high risk business especially when they are young businesses.

The **partnership** as a form of ownership has greater financial strength, longer durability and sustainability. This is so because each partner contributes money, labour, tangible assets or skills to the business.

The members of a **Close Corporation** also contribute money, skills and tangible assets as members contribution (capital) to the business. The contributions can be drawn from a maximum of ten members. This will also ensure some financial strength and stability to the enterprise.

**Companies** raise capital through the sale of shares to shareholders. Shareholder interests are expressed by the number of shares they hold. Companies which do not set out to make a profit, may obtain capital in the form of donations.

##### C. Tangible Assets, Resources and Space

Lack of capital will impact on a business's ability to acquire tangible assets, materials for production / sale and space. Sufficient supply of these is essential for the success of the business.

#### 2. LEGAL IMPLICATION

##### A. Sole Trader

The law requires that the business registers with the relevant authorities, local municipalities and SARS ( South African Revenue Services ). Certain businesses need to follow the Businesses Names Act 27 of 1960 and the Licences Act 44 of 1962 if they trade in areas that requires a licence (e.g. Selling liquor, legal drugs or guns). Restaurants and other food outlets need to adhere to certain health regulations.

In terms of the law sole traders do not have separate legal personalities. This means that the owner and the business are one and the same. The owner is entitled to all profits and must bear all losses. The owner is also liable for all debts and claims against the business. The liability of the owners is thus unlimited.

##### B. Partnership

Just as in the case of the sole trader, a partnership is required to register certain authorities, local municipalities and SARS. A partnership agreement binds the partners. Partners are jointly and severally liable for the debts of the business. The liability of partners are also unlimited.

##### C. Close Corporation

The CC is a legal entity and should be registered in terms of the Close Corporations Act 69 of 1984 before it can operate. A name is chosen for the enterprise and a certificate of incorporation is issued; this contains all the information about the CC. The business can act in its own name, hold property and take out loans.

##### D. Companies

Companies are subject to many legal requirements. Companies have to be registered in terms of the Companies Act 61 of 1973 with the Registrar of Companies. They have to prepare financial statements annually which have to be audited. Public companies are required to publish the financial statements in a national newspaper or inform the shareholders by means of postal notification.

#### 3. TAXATION

##### A. Sole Trader

The business owner is liable for paying taxes on the business. Net profit of the business is included in the owner's personal tax return. The owner is also responsible for paying other taxes such as VAT, for which he must be registered. The higher the person's income, the higher the tax rate.

##### B. Partnership

Each partner is taxed on his share of the profits earned by the partnership in his private capacity.

##### C. Close Corporation

The business is a legal person and pays taxes in its own right. The members of the CC are not responsible paying the business taxes.

##### D. Companies

Companies are separate legal persons and must register as taxpayers. The company is responsible for the payment of company taxes and this would include income tax and secondary taxes on dividends declared. Dividends received by shareholders are tax free except certain foreign dividends.

#### 4. MANAGEMENT

##### A. Sole Trader

There is only one owner for this business and she is responsible for all decisions. She has to bear all risks as well. The owner is entitled to all profits and if the business fails her private assets can also be attached to settle the debts of the business (unlimited liability).

##### B. Partnership

All partners have say (authority) in the running of the business and their action binds the other partners. Decision making can be slow because of the differences of opinions. The partners are jointly and severally liable for the debts of the business. Poor judgement or dishonesty by a partner can have disastrous consequences for all other partners.

##### C. Close Corporation

The CC has a simple structure for management and decision-making. All members may share in the management of the business. Members represent the CC and act on behalf of the CC. The accounting officer must draw up the financial statement which must be approved by all members.

##### D. Companies

A board of directors is elected by the shareholders to manage the company. The Articles of Association provides a guide for management. The articles of association can be amended by the shareholders. All shareholders have a say in decision-making and when decision have to be made inputs are obtained from shareholders. Unlike the CC, companies have to ensure that their financial records are audited. Directors usually hire managers to run the day-to-day business activities.

#### 5. SHARING OF PROFITS

##### A. Sole Trader

All profits and assets in the case of sole trader belongs to the owner.

##### B. Partnership

In the case of a partnership, all profits and assets belong to all partners. The business assets and net profit will be shared among the partners as indicated on the partnership agreement. Losses will also be dealt with in the same way.

##### C. Close Corporation

The assets and profits of a CC belong to the business. It may be decided by the members to distribute the profits of the CC. Profits not distributed are retained by the business and may distributed at a later stage.

##### D. Companies

The profits of company belong to the company. Profits may be paid out to shareholders in the form of dividends. Profits not distributed may be retained in the company.

#### 6. CONTINUITY (LIFE SPAN OF THE BUSINESS)

##### A. Sole Trader

**A sole trader business comes to an end if the owner decides to:**

- \* sell the business
- \* transfer the business
- \* close down the business

The business will also come to an end if the owner dies or the owner becomes insolvent.

##### B. Partnership

**A partnership will dissolve if:**

- \* a partner dies
- \* a partner becomes insolvent
- \* a partner retires
- \* the partners mutually agree to do so
- \* the court orders it to close down
- \* the stipulated period for the partnership expires

##### C. Close Corporation

A CC has unlimited continuity. Members can join or leave the CC without affecting the continuity of the business. A member can only sell his or her interest to someone else only if all other members agree to it.

##### D. Companies

**Companies have an unlimited continuity but may close down if:**

- \* it loses 75% of the capital invested in it
  - \* it cannot pay its debts
  - \* the shareholders decide to close it down
  - \* it is dormant i.e. it has not done business for at least one year
- The transferring of shares in a private company must be done with the approval of the Board of Directors. In the case of a public company shares can be transferred freely.

#### Task

- a. Which is the easiest form of ownership to form?
- b. Which is the most complex form of ownership to form?
- c. What is understood by the term "unlimited liability"? Why is it important?
- d. How does taxation in sole trader differ from that of a close corporation?
- e. What is the current company taxation rate?
- f. In tabular form show the degree of control and authority in the case of other following forms of ownership:  
\* Sole trader \* Partnership \* Close Corporation \* Company

G. Identify the form of ownership in each of the following:

- \* Varsity cc
- \* Edcon (Pty) Ltd
- \* Goga & Son
- \* Ball & Bearing Ltd

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### BUSINESS INFORMATION

*Present a variety of business related information clearly and accurately in verbal and non-verbal format (including graphs), respond professionally to questions and feedback, and amend information as necessary.*

#### 1. INTRODUCTION

An entrepreneur cannot make decisions without information. The business has to plan the way it presents its information so that the information is clear. It will entail the proper gathering, storing, processing and presentation of information which must be relevant to the needs of the business.

#### 2. METHODS OF PRESENTING BUSINESS INFORMATION

##### 2.1 Written Information

- a. Information presented in writing can be referred to at a later date.
- b. Reports, notices, memos and manuals are examples of written information
- c. Written information can be faxed, e-mailed or sent by post.

##### 2.2 Oral Information

- a. This refers to the spoken word.
- b. Examples include conversations on the telephone, interviews and group discussions.
- c. In order not to get side tracked when using this method, one should:
  - \* write down in advance what you wish to say
  - \* keep all relevant documentation on hand.
  - \* write down any information given
- d. It would be wise to follow up a discussion with written information

##### 2.3 Visual Presentations

- a. This will entail the use of tables, graphs, diagrams, pictures, maps, flow charts, and plans.
- b. Visual presentations make the understanding of complex information easier.
- c. It must present information in a simple yet meaningful manner.

##### 2.4 Electronic Information

- a. This method could include all three other methods.
- b. The computer is an important aid to facilitate electronic information.
- c. E-mails and the internet have become popular ways for an organisation to distribute information.

#### 3. TABLES AND GRAPHS

Tables and graphs are used to summarise information effectively. They should be self-explanatory. The reader should be able to understand the information without reading the text.

##### 3.1 Tables

Tables are better than graphs for presenting structured numeric information. The title should be informative and the rows and columns clearly labelled

##### 3.2 Graphs

Graphs are better than tables for presenting trends and showing relationships. The title should be informative and the axes clearly labelled.

#### Types of Graphs

##### A. Line Graphs

- \* It shows more than a bar graph.
- \* It can be used to show more than one relationship e.g. The supply and demand for a particular product
- \* Use the same scale, plotting symbols and line styles for each graph.

##### B. Bar Graph

- \* It is used to display simple information.
- \* The horizontal axis represents a qualitative factor at a particular time.
- \* The vertical axis represents a scale against which the qualitative factors on the horizontal axis can be quantified

##### C. Pie Graph

- \* They are used to show similar issues in relation to each other.
- \* Pie graphs are not often used to represent information.
- \* It more difficult to work out the size of a segment of a pie graph than the length of a bar graph.

#### 4. NON-VERBAL COMMUNICATION

This is a method of conveying information without using words e.g. gestures, environment, tone, facial expression and posture

#### 5. RESPONDING TO QUESTIONS AND FEEDBACK

Set aside time at the end of a presentation for a question and answer session. If the question is not clear, get clarification on the question before attempting an answer. Feedback promotes understanding between people and creates a pleasant working environment. Feedback must be given in the correct manner.

**Bear the following in mind when providing feedback:**

- a. give feedback to the right people
- b. feedback can be positive or negative but be honest about the reasons for the feedback
- c. choose the right communication method to give feedback
- d. the purpose of the feedback is to contribute positively to the business

