

# CHAPTER 1: THE PURPOSE AND TYPES OF BUSINESS ORGANISATION

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## LEARNING OUTCOME

At the end of the chapter, you should be able to:

**TLO A1a:** Define 'business organisations' and explain why they are formed.

**TLO A1b:** Describe common features of business organisations.

**TLO A1c:** Outline how business organisations differ.

**TLO A1d:** List the industrial and commercial sectors in which business organisations operate.

**TLO A1e:** Identify the different types of business organisation and their main characteristics:

- i) Commercial
- ii) Not-for-profit
- iii) Public sector
- iv) Non-governmental organisations
- v) Cooperatives



**1.1 Definition of “Business” and “Organisations”**

A business can be operated by a single person but when the business expands, more people are required to run its operations. Hence when business expands into an organisation, it becomes a business organisation, like the examples in Diagram 1.1

Diagram 1.1: Definition of Business and Organisation

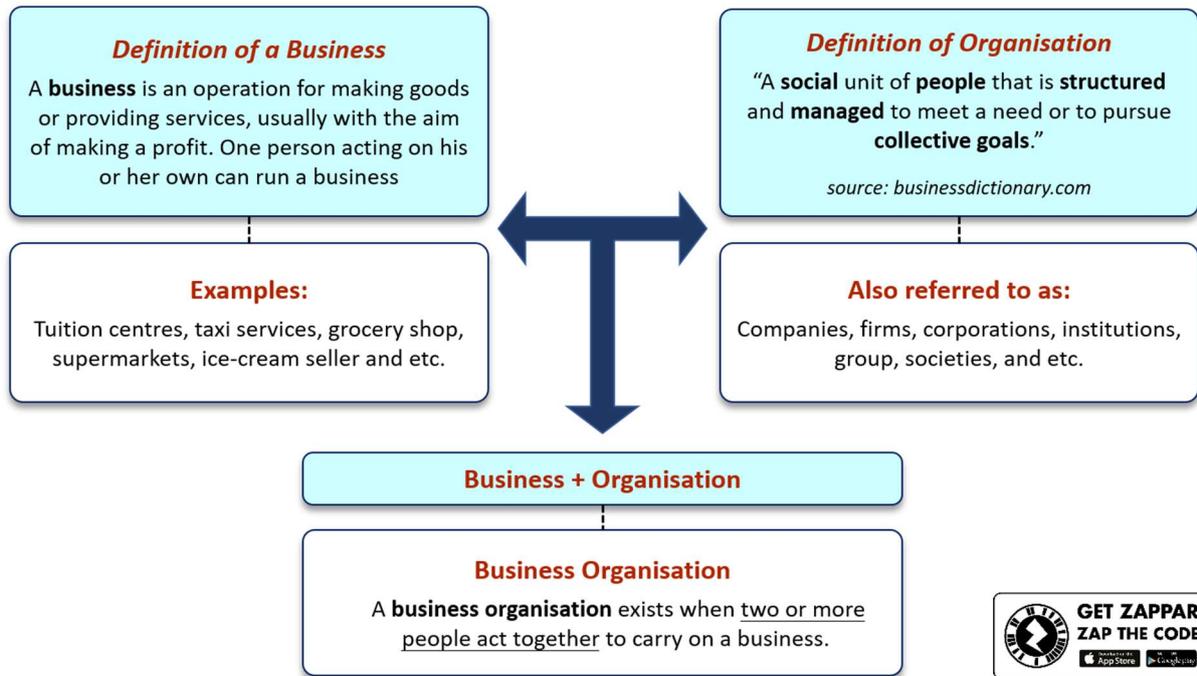


Illustration 1.1: Large Business Organisations



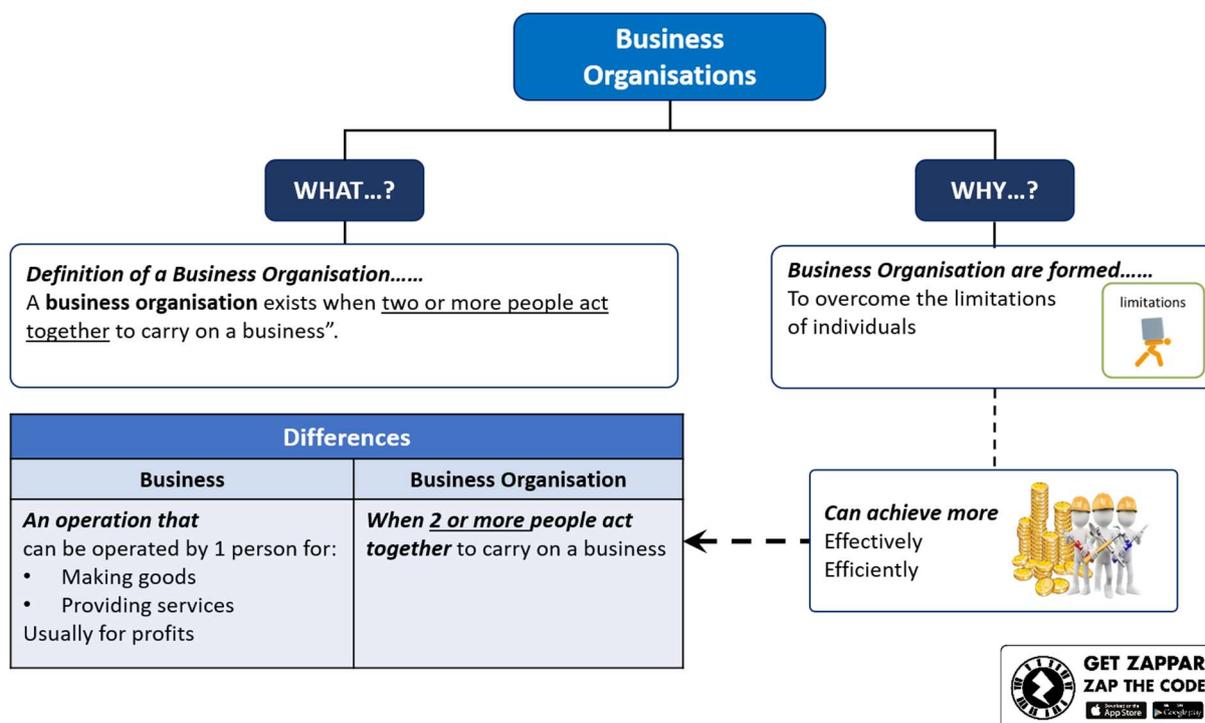
## 1.2 Business Organisations

### Learning Outcome (ACCA Study Guide Area A)

**A1a: Define** 'business organisations' and explain why they are formed.

**A1d: List** the industrial and commercial sectors in which business organisations operate.

Diagram 1.2: Overview of What Are Business Organisations and Why Are They Formed



### 1.2.1 Definition of a Business Organisation

A business organisation is a collection of persons working to achieve a common objective through structured and coordinated activities. The purpose of a business organisation is to carry on a business.

There is a difference between a **business** and a **business organisation**:

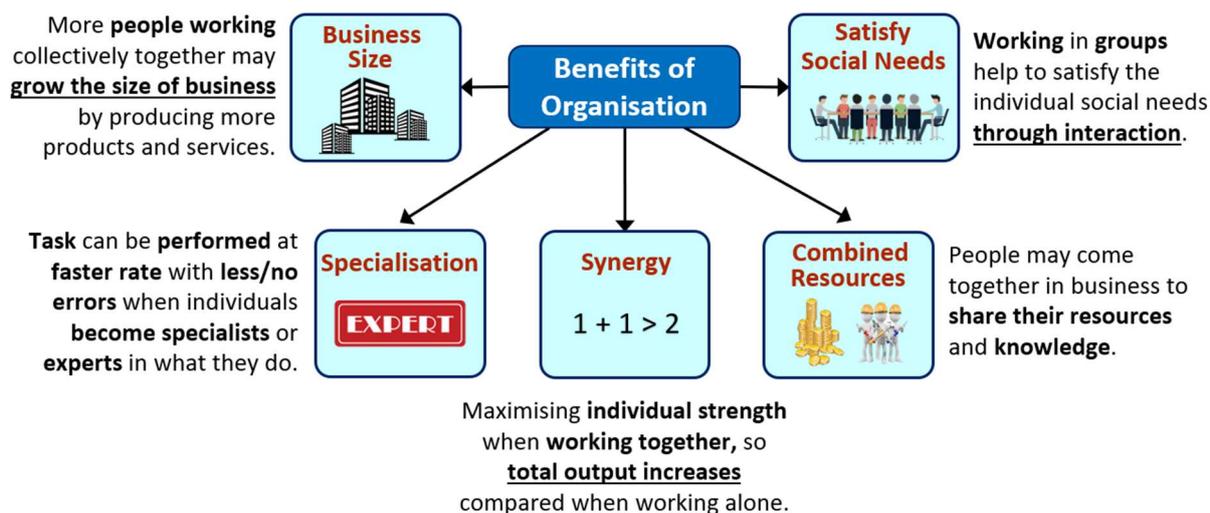
- A **business** is an operation for making goods or providing services, usually with the aim of making a profit. One person can run a business.
- A **business organisation** exists when two or more people act together to carry on a business.

### 1.2.2 Why are Organisations Formed?

Organisations are formed to overcome the limitations of individuals. By creating an organisation, an individual is able to achieve more effectively and efficiently.

**For example:** A single person can operate a small business, such as a restaurant/ food stall. But in most businesses, there is too much work or too many tasks for one person to handle.

Diagram 1.2.2: Main Stakeholders Groups



### 1.2.3 Sectors in Which Business Organisation Operate

Business activities can be grouped into different categories, or sectors. It is useful to identify the sector that a **business organisation** belongs to because businesses in the same sector often face similar opportunities and challenges.

Table 1.2.3: Example of business sector classification

Industry / Sector	Activity
Manufacturing	Obtaining raw materials and by using labour, processes and technology, they are turned into a product.
Extractive/Raw materials	Mining, processing and refining raw materials.
Energy	Transforming one resource (wind) into another resource (electricity).
Intellectual Production	Creating intellectual property.
Service	Hotels, colleges, universities, banking, advertising and etc.

Please scan the zipper code image given in the box below **for additional reading material of Standard Industrial Classification list (UK).**





## Check understanding

### Topic 1.2: Business Organisations

#### Learning Outcome (ACCA Study Guide Area A)

**A1a: Define** 'business organisations' and explain why they are formed.

**A1d: List** the industrial and commercial sectors in which business organisations operate.

#### Question:

Which statement is false?

- A. Organisations require as many individuals as possible to generate maximum profits.
- B. Organisations exist to pool resources and convert them into useful outputs.
- C. Organisations allow individuals to excel and improve on what they do best.
- D. Organisations allow knowledge accumulation and sharing which encourage individuals to work together and produce high quality output.

## 1.3 Common Features and Difference of Business Organisations

### Learning Outcome (ACCA Study Guide Area A)

**A1b: Describe** common features of business organisations.

**A1c: Outline** how business organisations differ.

#### 1.3.1 Common Features of a Business Organisation

Diagram 1.3.1 (i): Common Features of a Business Organisation

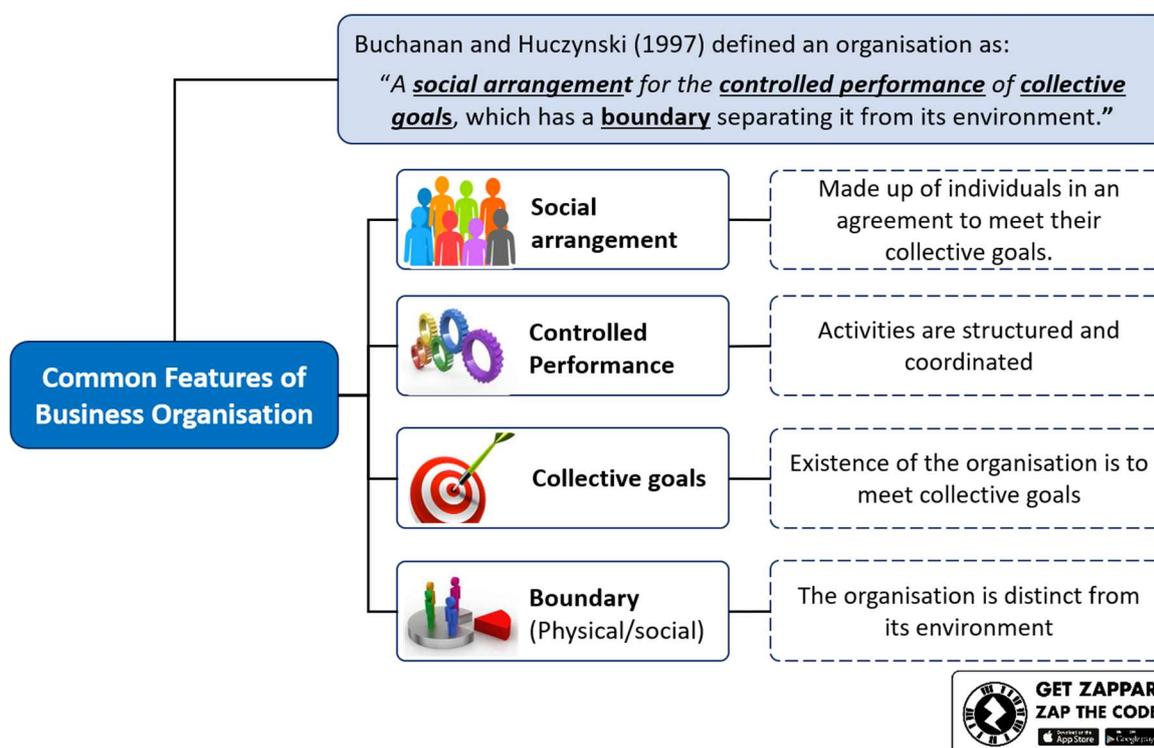


Diagram 1.3.1 (ii) Examples of Common Features of a Business Organisation.

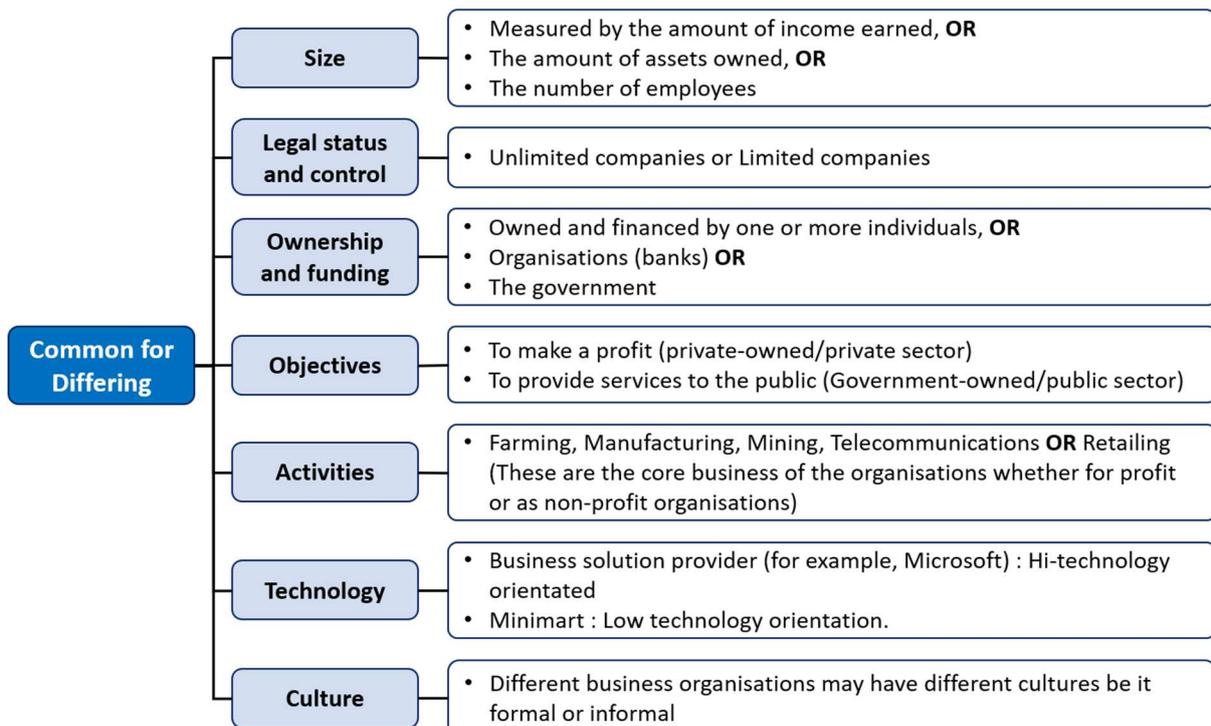
	 <b>Car Manufacturer</b>	 <b>Retailer</b>
 <b>Social arrangement</b>	<ul style="list-style-type: none"> <li>• Different divisions</li> <li>• Making different types of cars</li> </ul>	<ul style="list-style-type: none"> <li>• Departments</li> <li>• Outlets</li> </ul>
 <b>Controlled Performance</b>	<ul style="list-style-type: none"> <li>• Constant monitoring</li> <li>• Continuous improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Training</li> <li>• Customer service</li> </ul>
 <b>Collective goals</b>	<ul style="list-style-type: none"> <li>• Sell cars</li> <li>• Make profit</li> </ul>	<ul style="list-style-type: none"> <li>• Sell product</li> <li>• Make profit</li> </ul>
 <b>Boundary</b> (Physical/social)	<ul style="list-style-type: none"> <li>• Physical (factory gates and fencing)</li> <li>• Social (employment status)</li> </ul>	<ul style="list-style-type: none"> <li>• Physical (outdoor, shutters)</li> <li>• Social (employment status)</li> </ul>



### 1.3.2 How Do Business Organisation Differ?

Business organisations differ for even those that are established for the same purpose and under the same flagship. The common features that help to distinguish the different business organisations are as follows:

Diagram 1.3.2: Common Features





## Check understanding

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### Topic 1.3: Common Features and difference of Business Organisations

#### Learning Outcome (ACCA Study Guide Area A)

**A1b:** Describe common features of business organisations.

**A1c:** Outline how business organisations differ.

#### Question 1:

All of these are common features of business organisation, EXCEPT

- A. Profitability
- B. Goals
- C. Social limitations
- D. Controlled performance

#### Question 2:

Which of the following does not fall within the definition of an organisation given by Buchanan and Huczynski?

- A. Shareholders in a quoted company
- B. Service companies
- C. Factories
- D. Political parties

#### Question 3:

*WWF and World Vision are dedicated to serving a cause and this differs from commercial companies such as Exxon and Shell.*

Which of the below BEST distinguishes the difference between these companies?

- A. Profit motive
- B. Ownership
- C. Legal status
- D. Sources of finance

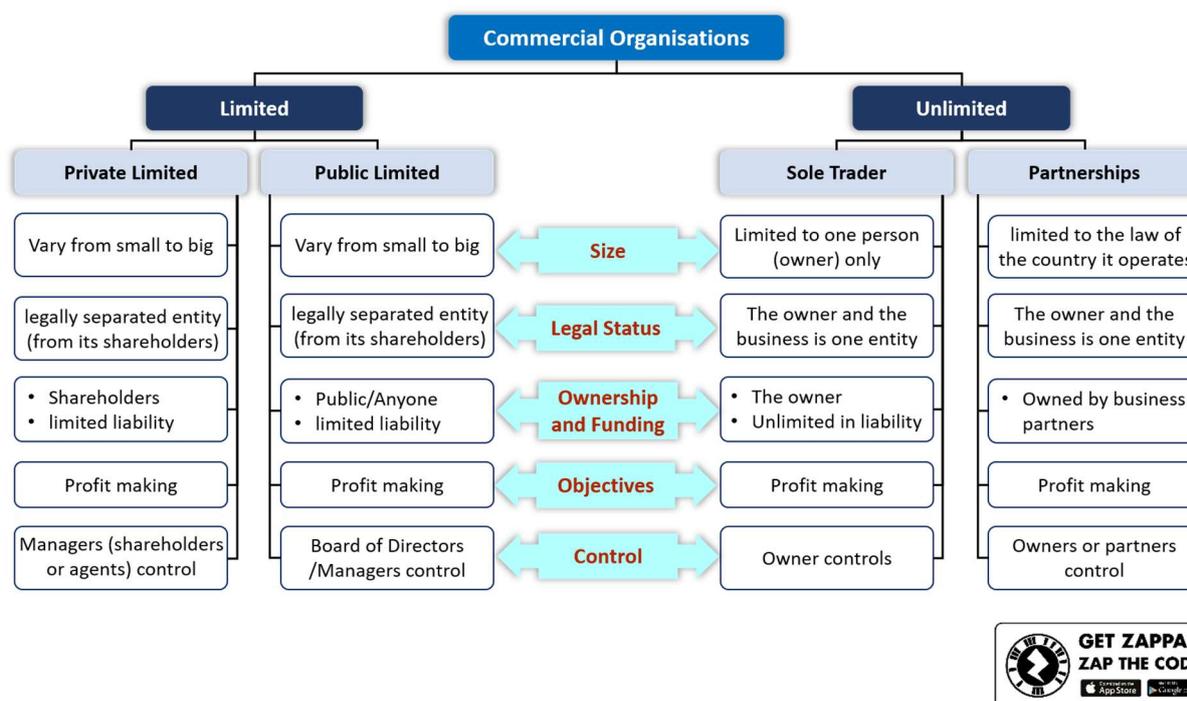
## 1.4 Different Types of Business Organisations

### Learning Outcome (ACCA Study Guide Area A)

**A1e: Identify** the different types of business organisation and their main characteristics

#### 1.4.1 Commercial Organisation

Diagram 1.4.1: Commercial Organisation



#### 1.4.2 Other Types of Organisation

Table 1.4.2: Other types of organisations

	Not-for-Profit	Public Sector	NGOs	Cooperatives
Size	Any size	Any size	Any size	Any size
Legal status	Presence of legally separated entity.	Presence of legally separated entity.	Presence of legally separated entity.	The owners and entity are one.
Ownership and funding	<ul style="list-style-type: none"> <li>Theoretically owned by the public.</li> <li>Funding from membership fees, conduct revenue, generating activities, and donations.</li> </ul>	<ul style="list-style-type: none"> <li>Owned by government or the public.</li> <li>Funding from taxes and charges (could be from borrowing).</li> </ul>	<ul style="list-style-type: none"> <li>Theoretically owned by the public.</li> <li>Funding by grants from government or donations.</li> </ul>	<ul style="list-style-type: none"> <li>Owned by its workers or communities who take a share of profit.</li> <li>Funding is primarily from workers or communities.</li> </ul>

	Not-for-Profit	Public Sector	NGOs	Cooperatives
Objectives	Provide service to the less fortunate in the societies.	To provide a public service because commercial entities did not do a good job.	NGOs are not-for-profit entities, their aims are related to social and/or political needs and purposes, e.g. public sector.	Not-for-profit entities, aimed at meeting some common economic, social and/or cultural objectives.
Examples	<ul style="list-style-type: none"> <li>Charity watch</li> <li>Accounting Std Board (ASB)</li> </ul>	<ul style="list-style-type: none"> <li>NHS, UK</li> <li>Education, UK</li> </ul>	<ul style="list-style-type: none"> <li>UNESCO</li> <li>WHO</li> </ul>	<ul style="list-style-type: none"> <li>British Chambers of Commerce</li> <li>Confederation of British Industry</li> </ul>

### 1.4.3 Advantages and Disadvantages of Different Business Types

Table 1.4.3: Comparison of the advantages and disadvantages of doing business differently

Advantages		Disadvantages
<ul style="list-style-type: none"> <li>More money available for investment.</li> <li>No restrictions on size. Some companies have millions of shareholders.</li> <li>Flexibility. Capital and enterprise can be brought together.</li> </ul>	 <b>Commercial</b>	<ul style="list-style-type: none"> <li>Legal compliance costs. Financial statements have to be audited.</li> <li>Shareholders have little practical power.</li> </ul>
<ul style="list-style-type: none"> <li>Perceived as having greater stability.</li> <li>Varied skills and qualities, more efficient production.</li> </ul>	 <b>Not for Profit</b>	<ul style="list-style-type: none"> <li>Less access to loan.</li> <li>Disagreements can happen.</li> </ul>
<ul style="list-style-type: none"> <li>Fairness. Ensure that everyone has the same access service.</li> <li>Economies of scale.</li> <li>Filling the gaps left by the private sector.</li> </ul>	 <b>Public Sector</b>	<ul style="list-style-type: none"> <li>Accountability. Inefficiency may be ignored as taxpayer's bear losses.</li> <li>Cost. There can be a conflict between economy of operation and adequacy of service.</li> </ul>
<ul style="list-style-type: none"> <li>Less restrictions from the government.</li> <li>Flexible in adapting to local needs.</li> </ul>	 <b>NGO</b>	<ul style="list-style-type: none"> <li>Lack of funds.</li> <li>Can be ineffective due to lack of coordination.</li> </ul>
<ul style="list-style-type: none"> <li>Ease of establishments by order of government.</li> <li>Continuous existence as it is owned and controlled by its members.</li> </ul>	 <b>Cooperatives</b>	<ul style="list-style-type: none"> <li>Limited activities by order of Articles of Incorporation.</li> <li>Limited equity investment.</li> </ul>



## Check understanding

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### Topic 1.4: Different Types of Business Organisations

#### Learning Outcome (ACCA Study Guide Area A)

**A1e: Identify** the different types of business organisations and their main characteristics:

- i) Commercial
- ii) Not-for-profit
- iii) Public sector
- iv) Non-governmental organisations
- v) Cooperatives

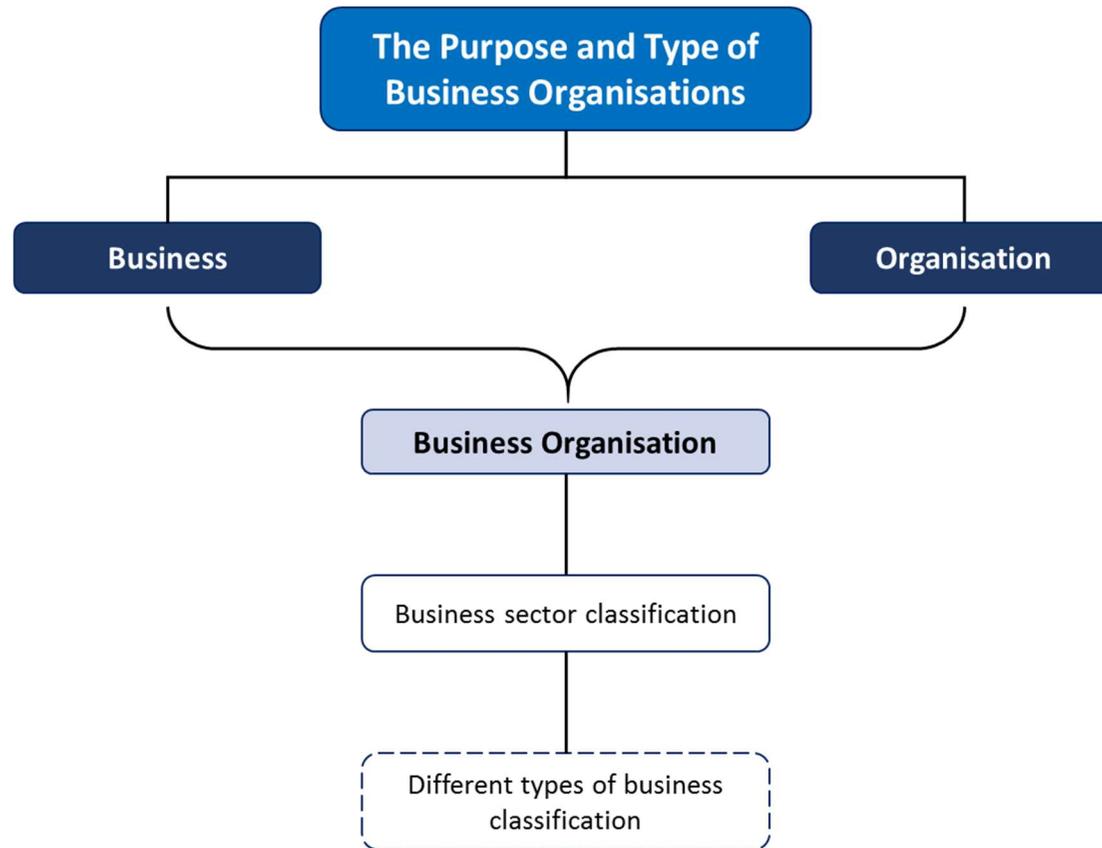
#### Question:

A sole trader is person who \_\_\_\_\_

- A. Sets up the safest form of business organisation
- B. Has exclusive responsibility towards the owner
- C. Is legally liable for any debts of the business
- D. Forms a business with another single person.

## 1.5 Summary: Chapter 1

Diagram 1.5: Summary of the purpose and types of Business Organisation.



## 1.6 Chapter 1 Check Understanding: Answers

### Topic 1.2: What are Business Organisations and Why are they formed?

Answer:

1. A

### Topic 1.3: Common Features and Differences of Business Organisations

Answer:

1. C
2. A
3. A

### Topic 1.4: Different Types of Business Organisations

Answer:

1. C