ARUSHA CITY COUNCIL

FORM FOUR COMMERCE NOTES

3RD TOPIC: BUSINESS UNITS

- A business Unit is a particular form of business formed by one or more people to provide goods and services usually with the aim of making profits.
- The following are the main forms of business units
  a) Sole proprietorships
  b) Partnerships
  c) Joint stock company
  d) Public enterprise
  e) Cooperative organization
- Depending on their legal structure, business Units may be classified as unincorporated or incorporated.
- Unincorporated business is the type of business which do not have a separate legal existence from that of their owners.
  eg Sole proprietorships.
- Incorporated business is the type of business which have a separate legal existence from that of their owners. eg. Companies.

(A) Sole proprietorship

Is a business that is owned and operated by one person who is solely responsible for providing capital, managing the business and bearing all the risks associated with his/her business.

Features of sole proprietorship

- It is owned by one person
- Sole proprietorship does not have a separate legal entity from its owner.
- The proprietorship has unlimited liability
- The business has a limited legal life
- The owner is the sole decision maker.

Formation and management

- The business only requires a trading license from the relevant authority to start operation. In Tanzania it need to obtain such a license from local government and TIN number TRA.
- The business is managed by the owner who may employ other people or get some assistance from family members.

Source of capital of sole proprietorship

(i) The owner in form of personal savings, inheritance or donation from friends or relatives
(ii) Banks and non-banks financial institutions in form of loan.
(iii) Suppliers, through trade credit
(iv) Government institutions through loan (with/without interest)
(v) Non-government organizations (NGO'S) through loan.

Advantages of sole proprietorship

- Decisions – making is fast as the owner does not need to consult anybody.
- The sole proctorship can maintain close and personal contact with customers and employees.
- The owner has a high level of control over business secrets thus enjoy privacy of the business.
- Possible tax advantages as there is no double taxation because all profit are taxed as the owner's personal income.
- There is a high level of flexibility as the business can adapt quickly to changes in terms of business line, products or any change in business premises.

Disadvantages of a sole proprietorship

- It has unlimited liability as the owner is personally responsible for all the debts of the business.
- It can be difficult to raise adequate capital for the business's expansion.
- The business has no perpetual life as the life of the business is tied to the life of the owner.
- There is lack of specialization as the owner manages all the aspect of the business as there is limited business skills and knowledge
- The owner bears all the risks regarding the business.

Dissolution of sole proprietorship

- Dissolution refers to the termination of the legal life of a business.
- The following circumstances may cause the sole trade to be dissolved.
    - Death insanity or bank raptly of the owner
    - Transfer of the business to another person
    - Voluntary closure of the business by its owner
    - Government policy that render the activity of the business illegal

(B) Partnership

- Partnership is the relationship that subsist between persons carrying on a business in common with a view of making profit. Each of these persons is called a partner.
- A partnership is formed by the people of minimum of two persons and maximum of twenty persons and maximum of fifty for a professional services.

Feature of partnership

- A partnership has a limited legal life tied to the relationship between the partners.
- The decisions of a partner acting on behalf of the business are binding to all partners.
- Each partner has an equal right in the business.
- The partnership may have limited or unlimited liability depending on the nature of the partnership as to whether is limited or general partnership
- A person who does not have a contractual capacity can't be a partner.

Formation and management of partnership

- The partnership may be formed through an oral agreement among the partners or written legal agreement known as a partnership deed. If a partnership is formed through oral then partnership act is used.
- The partnership starts its operation after registration its name and securing a trading license from relevant authority, while in Tanzania must also have a TIN - number from Tax authority (TRA).
- Members of a partnership generally are collectively responsible for the management of the business.
- However it may hire professionals to run the business.

Source of capital for partnership

- The owners (partners) in form of partner's contributions
- Banks and other non-banking financial institutions inform of loan.
- Credit from suppliers
- The business itself from retained earnings
- Non-governmental organizations.

Types of partnership

a) By activity

(i) Trading partnership is a partnership whose main activity is manufacturing, processing, and construction or merchandise business.

(ii) Non trading partnership is a partnership mainly offering professional services.

b) By liability

(i) General ordinary partnership is a partnership where all the partners have unlimited liability

(ii) Limited partnership is a partnership where son of the partners have limited liability.

c) By time duration

(i) Temporary partnership is a partnership that is formed to carry out a specific activity /tusk or for a specific period of time after which the partnership is dissolved.

(ii) Permanent partnership is a partnership that is formed to operate for indefinite period of time.

TYPES OF PARTNERS

(a) By activity

- Active partners are those partners who apart from contributing capital, they involves in the day to day activities of running the business.
- Dormant/ sleeping partners, are those partners who do not involves in a day to day activities of the business although they contribute capital

(b) By liability

- General partner is a partner whose liability is not limited to capital contributed to the business thus own resources can be used to settle the partnership debt.
- Limited partner, is a partner who liability is limited to the amount of capital contributed to the business.

(c) By age

- Minor partner is a partner who is less than 18 years of age. This partner has limited liability.
- Major partners is a partner who has attained the age of 18 years and above.

(d) By capital contribution

- Read partner is a partner who contributes capital to the partnership and whose name may be used in the business transactions.
- Quasi partner, is a partner who has retired from active participation in the business (retired from partnership) but whose capital remains in the business as loan which he/she receives interest.
- Nominal partner, is a partner who does not contribute capital to the business but allows the business to use his/her name for prestige.

Advantages of partnership

- Losses and liability are shared among the partners
- Duties may be allocated according to the expertise or skills of the partners, this allows effective running of the business.
- Relatively few legal requirements are fulfilled to form a partnership.
- Better decisions are arrived due to consultations among the partners.
- Capital is contributed by partners, thus have more possibility of having enough capital to start and operate a business, and thus enables a business to expand as compared to sole proprietorship.

Disadvantages of partnership

- Partners have unlimited liability except for the limited partners, where the law requires at least one partner should be general.
- Decision – making may take long time due to consultations or discussions among partners, this may cause the partnership to lose some opportunities.
- A partnership does not have perpetual life (has a limited life) as its life depend on the relationship that exists among the partners.
- Any mistake made by one partner in the cause of running the business affects all the partners
- There is possibility of conflicts among the partners since each may have different interest, altitudes and needs.

Dissolution of partnership

A partnership may be dissolved due to the following reasons.

- Expiry of the life of the partnership or the accomplishment of purpose for a temporary partnership
- Mutual agreement by the partners
- Change in law that make activity of the partnership un law full or making the business illegal.
- Withdrawal of the partners.
- Death, bankruptcy or insanity of a partner.
- Unfavorable conduct of a partner, eg fraud or misrepresentation.

(C) Company / joint stock company

- A company is a corporate is a corporate association of persons formed to carry out certain specific function. It is a business unit created by the association of a number of persons in accordance with the law for

the purpose of achieving a defined objectives. The owners of a company are called shareholders.

- A company is a corporate body that is created by the law and has an entity of its own quite separate from its owners. Thus has the status of an artificial person. It can therefore
- Own and dispose property.
- Can sue and be sued.
- Can enter into a contracts in its own name.
- Can fire or hire employees.
- Can form subordinate agencies.

Features of a company

- A company is owned by shareholders
- Shareholders have limited liability
- It has a separate legal entity from its owners
- It is created for a particular purpose(s)
- It has perpetual life independent from that of its owners
- It has right and obligations of a natural persons

TYPES OF COMPANIES

(a) Statutory companies

- These are companies whose formation and control is vested under the parliamentary control.

(b) Registered companies

- These are companies registered and operating under company's Act. Are registered by the registrar of the companies. (BRELA – in Tanzania)
- Registered company can be public limited company and private limited company.
- Registered company can also be limited company or unlimited company.
- Limited company are company whose liability of members is limited while unlimited company are those companies whose liability of members are not limited.
- A limited company can be limited by shares or guarantee.

Formation and management

- Both private limited companies and public limited companies must file the following documents.

(a) Memorandum of Association

- Is the document that defines the constitution of the undertaking in relation to the outsider it lays down powers and limitations of the company. It has the following clauses

(i) Name clause

- This states the name of the company with the last word of name to be limited. The company can adapt any names except that it may not registered a name identical with that of company that has already registered and does not give a false idea of the nature of the company

(ii) Situation clause

- This provide the location of the company, include a country and physical location.

(iii) Objective clause

- This outlines the objectives for the company's existence, where after registration the company cannot do beyond these objectives.

(iv) Capital clause

- This states the share capital the company with to have, from total share capital to types of shares.

(v) Liability clause

- Is the statement that states that the liability of the company is limited by its shares.

(vi) Declaration (Association and subscriptions) clause.

- This contains a declaration of promoters of their desire to form a company and most signed it.

(b) Articles of association

- This is a document that contains the rules and regulations governing the organization. It is an internal documents.
- It contain the following information

(i) The rights of each type of shareholders
(ii) The procedures for calling and conducting meetings
(iii) Qualifications, powers, duties and rights of directors
(iv) Rules regarding the preparation and auditing books of accounts
(v) The issues, transfer and for future of the shares and alteration of share capital.

(c) A list of directors of the company with the details such as their name, addresses, occupations, shares subscribed and statement of agreement to save as such

(d) A statuary declaration of compliance with the company's act. This must be signed by a director or company's secretary as named in articles of association.

(e) A statement of share capital giving the amount of capital the company wishes to raise and the number of shares

- After fitting all these documents have been filed the registrar of companies will issue a certificate of Incorporation.
- A company is managed by Board of directors which also elect director(s) to act on their behalf in the day to day operation of the company.

Source of capital of a company

- Shareholders through sale of shares
- Commercial banks and other financial institution in form of a loan
- The company itself in form of retained profits credit from suppliers.
- Leasing of properties
- Public, other companies' government etc. through the sale of debentures or bonds.

Public limited company

Features of public limited company

- It have a minimum of seven members and no specific maximum membership.
- Shares are freely transferable from one person to another (one share holder to another)
- Its shares and debentures can be offered to the public for subscription.
- It has an authorized minimum share capital, of which if cannot be reached a company cannot start its operation.
- It can only start operations after receiving a certificate of trading.

Private limited Company

Features of a private limited company

- It is formed by minimum of two persons and maximum of fifty person.
- Its shares cannot easily transferred from one person to another.
- It prohibits any invitation to the public to subscribe any shares or debentures of the company.
- It has no authorize minimum share capital
- It can start operations immediately after receiving the certificate of incorporation.
- Public limited company and private limited company their both limited company thus have similar advantages and disadvantages. However in some areas might have slight differences

Advantages of limited company

- The liability of owners/shareholders is limited
- There is possibility of raising a large amount capital

- It has perpetual life since any changes in membership do not affect the business.
- It has a separate legal existence from that of its owners
- It is easy for members to transfer their shares to other parties (for public limited company)
- There is greater ability to hire professional services as companies have adequate resources.

Disadvantages of a limited company

- Activity/ activities are restricted as a company can only engage in what it has been registered for.
- Shareholders suffer double taxation since the income of the company and the dividends payable to individual members are all taxed.
- Formation is difficult as it requires a long legal process/ procedures and heavy financial commitment.
- There is delays in the decision making especially structural decision which have to be approved by shareholders.
- Shareholders transfer their control to directors and management who are in charge of the day to day operations of the business as a result company's resources may be mismanaged.

Dissolution of the company

- The company can be dissolved under the following circumstances.
- Insolvency or bankruptcy, where the company fail to settle its debt
- Through a decision by the shareholders to voluntarily wind it up.
- Merger with or purchased by a large company
- Membership falling below the minimum that is required by law.
- De registration by the Registrar of companies due to failure to comply with the law
- Accomplishment of purpose of expiry of period of operation

Shares and Debentures

- Share is a unit of ownership that represents an equal proportion of a company's capital. It is an indivisible unit of capital
- Shares can be divided into ordinary shares (equity) and preference shares.
- Ordinary shares (equity) is the type of shares with no fixed rate of return but receive residual after preference share have been paid.
- Preference share is the type of share with fixed rate of return. Their holders are given priority in the payment of dividend at a fixed rate

Debenture – is a document that evidences that a company has borrowed a specified amount of money from a person named on its face and undertakes to pay a fixed rate of interest for the loan, thus it is a unit of loan. It has a fixed amount and bear a fixed rate of interest.

(D) Co-operative

A co-operative – is an association of persons who jointly and voluntarily work together to achieve a common goal. It is a body of people who have agreed to cooperate with each other to attain a common objectives.

Features of a Co-operatives

- It is formed by a minimum of ten members while the maximum is unspecified.
- Members have limited liability
- It is a separate legal entity from its owners
- It has perpetual life since continuity does not depend on the lives of its members.
- It is governed by using by- laws
- All members have equal; rights
- It is run by management committee
- Surplus is distributed among members
- Share capital is subdivided into units.

Formation and management

- A co-operative is started by a minimum of ten members who are engaged in similar economic activities and /or located in the same geographical area
- A co-operative form its constitution (by – law) and submit to the commissioner of co-operatives who issue a certificate of registration.
- Then recruit members if wish. These members pay registration fees and pay specified number of shares.
- The running of a co-operative is through a governing authority /managed by management committee who are democratically elected by members among themselves on a one member- one vote basis.
- The management committee may however employ professionals to assist in running the organization.
- Generally all co-operative operates within the policies and laws laid down by the ministry concern.

Structure of co- operative

- Structure of cooperative refers to the hierarchy of the co-operative. It show the levels on which various co-operatives operates. This structure/level is determined by the members constitute the co-operative.

(i) Primary co-operative

- The members are individuals, can be producer's consumers or any other depending on the activity carried out. eg. Coffee producers co-operative society (like KNCU)

(ii) Secondary co-operative

- Is a co-operative formed by different primary co-operative mostly those which engage in the same activity.

(iii) National co-operative

- Is a co-operative formed by different co-operatives at National level.

(iv) Apex co-operatives

- Is an overall co-operative bodies to which all the co-operatives are affiliated.

(v) International co-operative

- Is the co-operatives compose of various National co-operative (ie cooperative from different countries).

Types of co-operatives

(i) Producer co- operative

- Is a cooperative formed by producers of similar goods. It is mostly formed by formers. Example coffee farmer's tea farmers, sisal farmers etc, fishermen etc.
- They buy raw material/inputs collectively, provide training to members and help members to get loan. Then later they collect, process, market and distribute members produce.

(ii) Consumer co-operatives.

- Are associations formed by consumers who have similar needs. They buy high quality goods in bulk and sell to members at the lowest possible price. Provides members with credit purchases and protect them from exploitation by dishonest traders.

(iii) Savings and credit co-operatives (SACCO'S)

- Are associations formed by members to save and borrow money when in need at low interest. At the end of the year members get dividend depending on the performance of the society.

NB: These are examples of cooperatives which are mostly common, however,
practically are might come across different types too.

Source of capital of cooperatives

- Members, in form of registration fees and share contribution paid by members.
- Interest on loan to members.
- Banks and other financial institutions in form of loan
- Profits from sales of members produce.
- Government/government institutions in form of loan, grants/aids.
- Non- governmental organization (NGO'S) in form of Loan, grants/aids
- Income from Investment like dividends
- Leasing of properties. eg. Rent

Principles of co-operatives

(i) Open and voluntary membership, member wishing to join a co-operative society do so on a voluntary basis and can leave at will. Thus there should be no any form of segregation in terms of racial, colour, ethnicity, religious, tribe etc. However some restrictions may occur in terms of geographical area and economic activities.

(ii) Democratic administration running and management of cooperative is made an democratic manner by management committee elected by members among themselves on the basis of one member – one vote also each member is free to be elected or elect.

(iii) Dividends and repayment any surplus made are share among the members according to share contribution or amount of produce brought by member or any as agreed.

(iv) Education, training and information, a cooperative should educate its members.

(v) Members treatment and participation, all the members of the co-operative are equal and should be accorded equal treatment

(vi) Cooperation with other co-operative.

(vii) Concern for the community a cooperative is expected to help improve the life of the people in the surroundings.

Advantages of co-operative

- All members have equal rights irrespective of number of shares held.
- It encourage and help to encourage savings and investment
- It offer credit facilities to its members at lower costs.
- Members enjoy high quality product at low costs.
- Members enjoy high quality product at low costs

- It protect members from exploitation by middlemen
- Liability of members is limited
- It enjoy the government and NGO'S support
- It has perpetual life
- It have large capital base

Disadvantages of co-operative

- It may be mismanaged by unqualified /un trustful committee
- Member with drawl may crate financial problems
- The decision -making process is slow this may cause co-operative to miss some opportunities
- There is lack of secrecy in the affairs of the association.
- Sometimes there is interference by politicians.

Dissolution of co-operative

- Massive withdrawal of members which leaves the society with less than ten members.
- Insolvency, when the society fail to meet its debt/obligation
- Continued disagreements among the members
- Members voluntarily deciding to wind up the co-operative
- The parent ministry ordering the dissolution of the co-operative in the interest of its members.
- A court order, resulting from any reason(s)

Public enterprise

- Public enterprise are those enterprise which are wholly or partially owned by the state. It is an enterprise that is owned managed and controlled by the government or is an enterprise where tasks are performed by the management with the intention of providing services to the society.
- Example of public enterprise are TBC, TANESCO, Ngorongoro conservation Area authority, Tanzania, Petroleum Development Corporation (TPDC) etc. also includes hospitals, Universities, colleges, etc.

Features of public enterprise

- Sometimes are referred to as objectives of public enterprise as they differentiate public enterprises from private enterprises. They include the following.
- It provide the general public with the services
- They forget to break even rather than generating a surplus (in order to stay in the business)

- It provide the services and fulfil the objectives that they were created to fulfil.
- Each enterprise is normally established under its own act of the parliament. Example the Act that established TPDC is different from that established TBC.
- It is formed, owned and controlled in are way or another
- It has perpetual succession.

Note: One characteristics may fit to one enterprise and not necessarily to fit for another.

Source of capital for public enterprise

- The government, through donations, loans or express budgetary allocations. This form the major source of capital for public enterprises
- Joint owners if the enterprise partially owned by the government and another party.
- Banks and other financial institutions in form of loan
- Suppliers in form of trade credit
- Revenue from operating activities.

Formation and management

- Public enterprises are formed by Acts of parliament which defines their powers, duties and ministry under which they will operate
- It is managed by a board of Directors which is appointed by the government or by the government and the relevant joint owners

Advantages of public enterprise

- Owners have limited liability
- Raising capital is easy since the initial capital may be provided by the government.
- They enjoy government support and protection
- They provide services to the citizens / general public
- They can afford to line qualified staff.

Disadvantages of public enterprise

- They are managed by political appointee who may not have necessary managerial know-how
- Political interference may hinder efficiency in the achievement of sell goals and objectives.
- Decision- making is slow and difficult
- There are insensitive to the customer’s needs because most of them operates as monopolies.

Dissolution of public enterprise

- Bankruptcy where the enterprise fail to pay its debt
- Change in the Act of Parliament that formed the corporation.
- Privatization, when the government decides to privatize the enterprise.
- Mismanagement, resulting in poor performance

BUSINESS STRUCTURES ADOPTED BY INTERNATIONSL BUSINESS VENTURES

a) Joint venture

- Is a commercial enterprise under taking jointly by two or more parties which otherwise retain their district identities. It is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task.
- The parties involve in joint ventures are known as covertures, where their liability is limited to the joint venture only.

b) Franchise

- Is a type of strategic alliance/is an arrangement where the franchisor is responsible for corporate activities such as marketing and brand building and franchisee (owner/operator of outlet) is responsible for all the operations involved in running the individual outlets.
- The franchisee outs as a local representative of the franchisor in the particular area where the franchisee has been appointed to market sell the franchisor's products.
- A franchisor is a person/company that grants the license to another party for conducting of business under their brand name.

c) Strategic alliances

- Is an arrangement where two or more organizations share resources and activities to pursue strategy. It occurs when two or more organizations want to enter a particular industry or market with a particular product but do not individually have all the needed resource. eg. Of strategic alliance is a Joint venture.

d) Multinational corporation

- Is a corporate organization that own or control productions in at least more than one country than its own country. It is a corporate which has facilities and other assets in at least one country other than its home country.

Group work.

QUESTIONS.

1. What are the strength of business units in Tanzani? (Opportunities).
2. What are the challenges facing business Units in Tanzania.
3. Describe partnership deed and partnership Act.