BUSINESS UNITS AND THEIR ORGANISATION

Meaning of a business unit: It is a business organization or enterprise which is engaged in the production or distribution of goods and services with a view of making profits.

Forms of Business Units:
These can be classified according to the following criteria:

i) according to ownership

ii) according to the size of the business unit. Here we have large-scale, medium scale and small- scale business units.

Classification according to ownership

Here we have two categories of ownership of business units.

i) Privately owned business enterprises (Business units in the private sector)

ii) Government owned business enterprises (Business units in the public sector)

Business units in the private sector include the following:

1. Sole proprietorship.
2. Partnerships.
3. Joint stock companies. These are further sub-divided into two forms.
   i) Private limited liability companies.
   ii) Public limited liability companies.
4. Co-operative societies.

Business units in the public or the government sector include the following:

1. Local Authorities.
2. Public corporations.
3. Parastatal bodies.
4. Nationalised industries.
5. Marketing boards.

THE PRIVATE SECTOR;

The private sector is composed of business or commercial enterprises owned and run by private individuals with a view of making profits. The government has no ownership in such business units. The duty of government is to register these business units and issue the necessary trading licenses to the owners. It also lays down laws that govern the way private businesses are to be conducted

1. Sole Proprietorship. (sole trade)
   By the word **sole**,we refer to **one or single**. Therefore, a sole proprietorship is a business unit owned and run by one person.

A sole trader (sole proprietor) is a person who owns a business unit alone.
The owner carries out business exclusively by himself/herself. The owner may employ some helpers or use family members but the business is owned by a single person who provides capital, makes decisions, bears risks/ losses and enjoys all the profits alone.
Sole trade is the **most** common type of business ownership in East Africa. It is desired by people who want to run their business units independently without involving other people.

Characteristics /features of sole trade

1. Capital is contributed by one person and no outsiders are invited to contribute capital in the business unit.
2. The owner is the organizer and manager of the business unit although he/she may be assisted by some family members and hired workers.
3. The owner takes all the profits and bears all the risks and losses alone
4. The owner is faced with unlimited liability i.e personal property of the owner can be sold in order to raise money to pay debts of the business unit.
5. This type of business ownership is mainly found in retail trade. For example, single shops in many parts of Uganda are run by sole traders.
6. Formation of this business unit **does not** require complicated documentation.

Advantages of sole proprietorship/sole trade

1. ***Little initial capital is required.*** A sole trader especially one opening up a single shop does not need much initial capital as compared to other forms of ownership like partnerships and limited liability companies.

2. ***There is easy and quick decision making.*** Business decisions are executed quickly and easily by the owner since there is no one to consult before making them. This saves time hence enabling a sole trader to quickly take advantage of business opportunities as they arise.

3. ***Profits and other gains are enjoyed alone.*** This gives the sole trader an incentive to work harder and gain more profits which he or she enjoys alone, unlike in a partnership where profits are shared by partners, including the dormant partners.

4. ***There is self- accountability.*** A sole trader does not need to explain to anyone the way he/she earns and spends in the business unit. The owner is financially accountable to him/herself and no one else.

5. ***Little documentation is required***. A sole trader is not required by law to prepare documents when forming the business unit. The only document that may be required is a trading license issued by the relevant authorities like a town council- where the business unit is located.

6. ***There is top secrecy and confidentiality.*** A sole trader is the only one who knows his or her business affairs or secrets. The owner is in a better position to keep the business secrets unlike in other forms of business units with many members.

7. ***There is greater personal contact with the customers.*** A sole trader is ever in direct contact with the business customers. As a result of this, the owner is able to know their needs and attend to their complaints. This facilitates a sole trader to meet the customers' requirements from time to time.

8. ***The business unit is easier to manage and supervise.*** In many cases, the business is carried out on small scale and it becomes easier for one person to conduct and supervise all the activities with minimal problems.

9. ***High level of flexibility in business is assured.*** A sole trader can easily change from a less profitable line of business to a more profitable or lucrative business activity. This is **not** easy for business units like limited liability companies.

10. The owner has greater personal interest in the success of the business. This arises because the success of the business unit means his or her personal success. Therefore, this encourages him to be committed and efficient at work.

Disadvantages of sole proprietorship/ sole trade

Running a business as a sole proprietorship is associated with the following demerits:

1. ***There is unlimited liability.*** The owner is personally liable for the debts of the business unit. The owner is bound to sell his or her personal property to raise money to clear or pay the business debts if the business funds are not sufficient to meet the payment.

N.B: The law does not separate a sole trader from the business. That is why unlimited liability is a **major** disadvantage of sole trade as a form of business ownership.

2. ***Insufficient capital for expansion.*** A sole trader may find it difficult to mobilize funds to expand the business unit. As a result, he may not be able to hold large stock. He /she cannot appeal to the public for more funds like public limited liability companies. Borrowing from commercial banks is limited by lack of collateral security. This hinders business expansion.

3. ***There is a possibility of taking wrong decisions.*** A sole trader takes decisions without consultations. There is a possibility that this trader can easily make a wrong decision which leads the business unit into losses. For example a wrong decision to buy goods from a given supplier at high prices or even buying defective goods due to absence of consultation with other people.

4. ***There is overworking and fatigue.*** The owner performs a wide range of tasks such as buying goods, arranging goods, selling goods, and book-keeping which result into limited time for resting hence causing stress and fatigue to the sole trader.(a sole trader is over-burdened since there is no division of labour)

5. ***Losses and bad debts are shared alone.*** Since he /she is alone in business, a sole trader bears the burden of losses and other risks as an individual. There is no one with whom to share the losses incurred.

6. ***There is uncertainty of the business to continue*** in case of insanity and death of the owner. The success of the business unit depends on the ability and effort of the owner. Sickness and death of the owner may lead to the collapse of the business unit.

7. ***Poor managerial skills and accountability***. Most sole trading units do not keep proper books of accounts. It becomes difficult to know the exact revenue and expenditure for a given period. This creates inefficiency.

<u>Sources of finance to a sole trader in Uganda who wishes to expand his or her business.</u>

1. Loans from commercial banks and micro- finance institutions.
2. Money accumulated from personal savings.
3. Money generated from selling personal assets or property like land. After selling such assets, the money is invested in the business unit to expand its operations.
4. Bank overdraft facilities if a sole trader holds a current account in a commercial bank.
5. Re- investing or ploughing -back the profits which have been earned. The purpose of re-investing profits is to increase the size of the business.

STUDY QUESTIONS:

1.a) What problems do sole traders in Uganda face?

b) What suggestions can you give to improve sole trading in Uganda?

2. a) Account for the popularity of sole trade as a form of business ownership in Uganda.

b) What are the shortcomings associated with this form of ownership?

c) Suggest the possible sources of finance to sole traders in Uganda.

2.PARNERSHIPS

A Partnership is defined as a *<u>relationship</u>* which *<u>exists between two or more people</u>* carrying out a business jointly with a *<u>view of making profits</u>* and *<u>sharing it in agreed proportions.</u>*

<u>Characteristics of a partnership;</u>

The number of partners needs to be between 2- 20 in an ordinary partnership and for professional partnerships such as those formed by lawyers, auditors, business consultants, teachers the number has to be 2- 50 partners.

It results from a contractual agreement among partners. That is why it is governed by either a Partnership deed or a Partnership Act of 1890. The partnership Act of 1890 is applied when the partners have **NOT** drawn up a Partnership Deed.

In case of ordinary partnership, management of the firm is carried out by all partners in the firm.

Each partner has unlimited liability except in the case of limited Partnerships.

No transfer of capital is allowed without the knowledge of other partners.

Major decisions are made by the majority of the partners with mutual Understanding.
The partnership firm is registered with the registrar of business names. The Name must be different from those of already existing partnership firms. This allows a partnership firm to operate under clear legal guidelines.

Each partner must act in good faith (must be honest) with each other for the proper conduct of the business affairs. For example, if one of the partners is appointed to be a book- keeper, he must present true books of accounts to the other partners.

Each partner is an agent of the firm. As a result of this, all partners are bound by the actions of one of them.

TYPES OF PARTNERS;
Meaning of a partner

This is a person who joins other individuals to form a partnership. The partners are classified according to the following criteria:

a) **CLASSIFICATION ACCORDING TO ROLE PLAYED BY A PARTNER**:

In this classification, we have **active partners** and **dormant partners.**

i) **An active partner** is one who contributes capital and at the same time participates actively in the day to day running of the firm as well as sharing the business profits and losses.

ii) **A dormant partner or sleeping partner** is one who contributes capital but does **NOT** actively participate in the day to day running of the business although he has a share in the business profits and losses.

b) **CLASSIFICATION ACCORDING TO LIABILITY TOWARDS FIRM'S DEBTS**.

In this classification, we have **General partners** and **Limited partners.**

i) **A general partner** is one who has unlimited liability and may be called upon to meet the firm's debts from his or her personal resources if the partnership firm fails to settle them.

ii) **A limited partner** is one whose liability towards the debts of the partnership is limited to a stated sum, usually his capital contribution. When the business firm fails to meet its debts, a limited partner is not required to contribute beyond the stated sum. A limited partner must have his or her name registered with the registrar of business names. He or she is not allowed to take any active part in the running of the business. A limited partner **does not** act on behalf of the partnership firm i.e a limited partner does not enter into contracts on behalf of the firm.

c) **CLASSIFICATION ACCORDING TO AGE OF PARTNERS:**

Under this classification, we have **major partners** and **minor partners.**
i) A major partner is a partner who is above 18 years old.
ii) A minor partner is a partner who is below 18 years of age. This minor partner does NOT enter into contract on behalf of the other partners i.e a minor partner does not have contractual capacity.

d) **CLASSIFICATION ACCORDING TO CAPITAL CONTRIBUTION:**
under this classification we have **Real partners** and **Quasi partners.**

i) **Real partner.** This is a partner who contributes capital, has unlimited liability, actively participates in the running of the business and has a share in the profits and losses of the partnership firm.

ii) **A Quasi partner/ Ostensible partner/ Nominal partner.** This is a person who neither contributes capital nor participates in the running of the firm but allows the firm to use his name as a partner to create a better business image.

He/she may be a reputable person in society so that if his/her name is used some good will or reputation is created in the firm. He /she allows a firm to use his /her name as a partner in exchange for a small share in profit or for a small fee. A quasi partner is generally **not** liable for the debts of the firm.

RESEARCH WORK:
Write short notes on the following:
a) In- coming partners.
b) Out- going partners or Retiring partners.

RIGHTS AND DUTIES OF PARTNERS IN A PARTNERSHIP FIRM;