

1 Why businesses exist – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)		
sole trader	_____	_____	_____
partnership	_____	_____	_____
private limited company shares	_____	_____	_____
shareholders	_____	_____	_____
public limited company	_____	_____	_____
Liability	_____	_____	_____
limited liability	_____	_____	_____
unlimited liability	_____	_____	_____
objective	_____	_____	_____
profit maximisation	_____	_____	_____
survival	_____	_____	_____
stakeholder	_____	_____	_____
internal stakeholders	_____	_____	_____
external stakeholders	_____	_____	_____

English	Write it 3 times (English)		
conflict	_____	_____	_____

Recall

In **Part 1** you met needs and wants, the four factors of production (land, labour, capital, enterprise), adding value, and the four sectors of activity. Part 2 looks at how a business is **owned**, what it **aims for**, and **who has an interest** in it.

New ideas

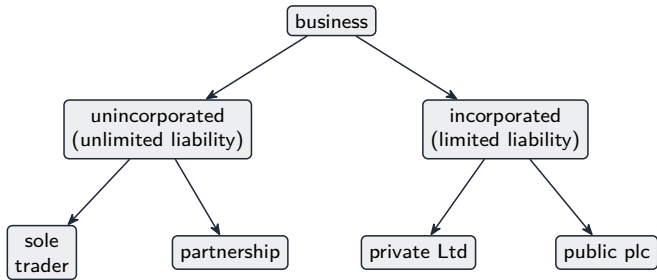
■ 1 Legal structures and liability

A business must choose a legal form:

- a **sole trader** is owned by one person – easy to set up and keeps all the profit, but finds it hard to raise money;
- a **partnership** is owned by two or more partners who share the work and profit;
- a **private limited company** (Ltd) sells **shares** to a small group; the owners are **shareholders** ;
- a **public limited company** (plc) sells shares to the public, so it can raise a lot of money.

Liability means who must pay the debts if the business cannot:

- **limited liability** – owners can only lose the money they put in (companies have this);
- **unlimited liability** – owners are responsible for **all** the debts (sole traders and most partnerships have this).



Micro-check. Does a sole trader have limited or unlimited liability?

■ 2 Business objectives

An **objective** is a target the business aims for. Common ones are **profit maximisation**, growth, **survival** (vital for a new firm), and market share.

A good objective is **SMART** – Specific, Measurable, Achievable, Realistic and Time-bound.

SMART objective

S	Specific — clear and exact
M	Measurable — uses numbers
A	Achievable — possible
R	Realistic — sensible
T	Time-bound — has a deadline

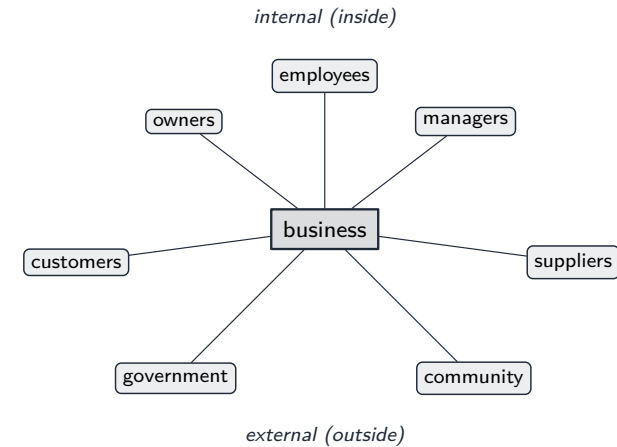
Worked example. "Get bigger" is a weak objective. "Raise sales by 10% within one year" is SMART – it is specific, measurable and time-bound.

Micro-check. Rewrite "sell more" as a SMART objective. [1]

■ 3 Stakeholders

A **stakeholder** is any person or group with an interest in a business and how well it does.

- **internal stakeholders** are inside the business: owners, managers and employees;
- **external stakeholders** are outside: customers, suppliers, the government and the local community.



Stakeholders often want different things, so their aims can **conflict** – owners want higher profit, but employees want higher pay.

Micro-check. Name one internal and one external stakeholder. [1]

Watch out: limited liability (Ltd/plc) means owners lose only what they invested; unlimited liability (sole trader/partnership) means owners are liable for *all* debts, even personal possessions. Stakeholders' aims often *conflict*.

Practice

1.1 State which legal form each describes: (a) one owner, keeps all the profit; (b) sells shares to the public. [2]

1.2 State the difference between **limited** and **unlimited** liability. [2]

1.3 Give **one** reason a sole trader might become a private limited company. [1]

1.4 A firm sets the objective “improve a bit soon”. Rewrite it as a **SMART** objective.[2]

1.5 State whether each is an **internal** or **external** stakeholder: (a) an employee, (b) a customer, (c) the government. [3]

1.6 Explain **one** way the aims of owners and employees can conflict. [2]

1.7 **Challenge.** Explain why unlimited liability makes it riskier to be a sole trader than to be a shareholder in a company. [2]
