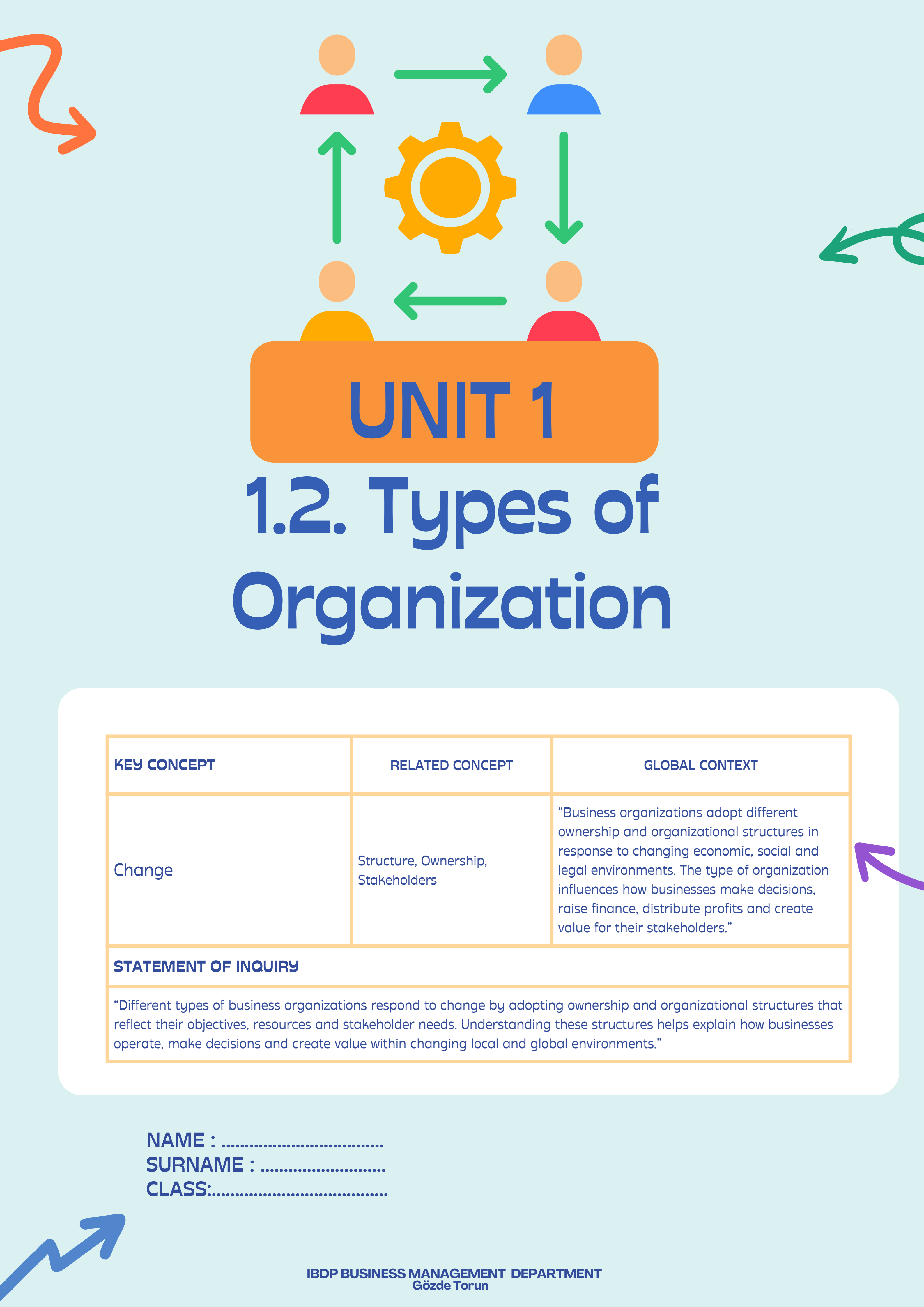




UNIT 1

1.2. Types of Organization

KEY CONCEPT	RELATED CONCEPT	GLOBAL CONTEXT
Change	Structure, Ownership, Stakeholders	“Business organizations adopt different ownership and organizational structures in response to changing economic, social and legal environments. The type of organization influences how businesses make decisions, raise finance, distribute profits and create value for their stakeholders.”
STATEMENT OF INQUIRY		
“Different types of business organizations respond to change by adopting ownership and organizational structures that reflect their objectives, resources and stakeholder needs. Understanding these structures helps explain how businesses operate, make decisions and create value within changing local and global environments.”		

NAME :
SURNAME :
CLASS:.....

CONTENTS

SL/HL content		Depth of teaching
1	Distinction between the private and the public sectors  PRIVATE SECTOR  PUBLIC SECTOR	AO2
2	The main features of the following types of organizations (for-profit): - Sole traders - Partnerships - Privately held companies - Publicly held companies  Sole trader  Partnerships  Privately held companies  Publicly held companies	AO3
3	The main features of the following types of for-profit social enterprises: - Private sector companies - Public sector companies - Cooperatives  Private sector companies  Public sector companies  Cooperatives	AO3
4	The main features of the following types of non-profit social enterprises: Non-governmental organizations (NGOs)  NGO	AO3

UNIT OPENER – MATCH THE BUSINESS!

You do not need to know any business terminology yet!
Read each business story and match it with the most suitable description. Use each letter once.

	Business Story	Organizaton Type
1. ☕ Emma's Coffee Shop	Emma started a small coffee shop using her own savings. She makes all the decisions herself and keeps all the profits.	
2. 🦷 Smile Dental Clinic	Alex and Mia opened a dental clinic together. They both invested money, make decisions together and share the profits.	
3. 📱 BrightTech	Three friends created a technology business. They want to bring in a few private investors but do not want everyone to be able to buy part of their business.	
4. ✈️ GlobalGo	The business has grown enormously. Thousands of people can invest in it by buying its shares.	
5. 🍓 Happy Farmers	Twenty local farmers work together. They jointly own the organization and cooperate to sell their products and support each other.	
6. 🌱 Green Future	This organization works to protect the environment. Making profit for owners is not its main purpose.	

What do you think this type of organization is called?

Sole Trader

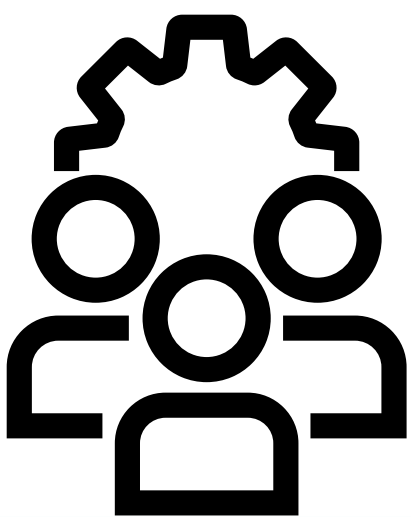
NGO / Non-profit Social Enterprise

Publicly Held Company

Cooperative

Partnership

Privately Held Company



CASE STUDY • From One Bakery to a Growing Company



Maya started Sunrise Bakery five years ago as a sole trader. She invested her own savings, made all major decisions and kept all of the profits. As demand increased, however, she found it difficult to manage production, marketing and finance alone. Her friend Deniz, who has experience in digital marketing, has offered to invest in the business and become a partner.

Maya is also considering registering Sunrise Bakery as a privately held company. She believes limited liability could reduce her personal financial risk and that selling shares privately could help the business raise additional capital. In the long term, Maya dreams of expanding across Türkiye and is curious about the possibility of becoming a publicly held company.

At the same time, Maya wants the business to create social value. She is considering employing disadvantaged young people and reinvesting part of the profit in vocational training. She has also spoken with a local cooperative that supports small food producers.

- a) Define the term sole trader. [2 marks]
- b) Explain one advantage and one disadvantage to Maya of operating as a sole trader. [4 marks]
- c) Explain one reason why Maya may choose to form a partnership with Deniz. [2 marks]
- d) Explain how limited liability could influence Maya's decision to form a privately held company. [4 marks]
- e) Distinguish between a privately held company and a publicly held company. [4 marks]

ANSWER



ACTIVITY 1 • Ownership Brainstorm

What comes to mind when you hear the phrase TYPES OF ORGANIZATION?
Add words or short phrases around the central idea. Think about ownership, liability, control, finance, profit and social purpose

	TYPES OF ORGANIZATION	



ACTIVITY 2 • Private Sector or Public Sector?

Classify each example. Then give one reason for your choice.

Example	Sector	Reason
A family-owned café		
A government-run municipal transport service		
A privately owned technology company		
A state-owned public hospital		
A partnership of two architects		
A government-owned postal service		

ACTIVITY 3 • Match the Organization



Match each scenario to the most appropriate type of organization: sole trader, partnership, privately held company, publicly held company, cooperative, NGO.



Scenario	Type of Organization
1. A graphic designer owns the business alone and keeps all profits.	
2. Two dentists jointly own and manage a dental clinic.	
3. A company is owned by shareholders, but its shares are not offered to the general public.	
4. A large corporation can sell its shares to the general public through a stock exchange.	
5. A group of farmers jointly owns an organization and works for the mutual benefit of its members.	
6. An independent non-profit organization campaigns to protect the environment.	

ACTIVITY 4 – Complete the missing words

A _____ is a business owned and run by a single person. Such firms are very common, partly because there are few legal procedures involved in setting up the business. The owner bears all the _____ of running the business but has full _____ and gets to reap all _____ that the business earns. However, the owner also has unlimited _____, meaning that they may need to sell personal possessions in order to pay off any debts that the business may have.

An ordinary _____ is an alliance of between 2 and 20 individual owners who are jointly responsible for the affairs of the business (although the maximum number can vary in different countries). The joint owners will usually sign a mutually agreed contract known as the _____. Most, if not all, of the partners face _____ liability for any debts the business might incur. Partners that simply place their money into the business as an investment and without any direct involvement in the business are known as _____ partners. These partners enjoy _____ liability.

_____ are for-profit _____ enterprises owned and run by their members (usually employees or customers). Their primary aim is to create value for their members by being socially responsible. They share any profits earned between their _____.

Non-profit social enterprises are businesses run in a commercial-like manner but without _____ being the main goal. For example, _____ (NPOs) use their surplus revenues to achieve their social goals, rather than distributing the surplus as profits or _____ to shareholders. A _____ (NGO) is a non-profit social enterprise that operates in the _____ sector of the economy, i.e. it is not owned or controlled by the government. However, NGOs do not aim primarily to earn a profit. Nevertheless, as with all business entities, an NGO must earn a financial _____ in order to be sustainable.

Companies are owned by _____ who have limited liability. This is because all limited liability companies are _____ businesses, i.e. the organizations are treated as separate legal entities from their owners. Shareholders get one _____ for each share that they own in the company. _____ held companies tend to be relatively small businesses that are owned by family members. In order to become a _____ held company, the business has to sell shares to the public for the first time, known as an _____ (IPO).

In return for their investment, shareholders are given a proportion of the company's profits (if any is earned) in the form of _____ payments. The declared payment is paid on each share that each shareholder owns, so the more shares held the higher the total pay-out will be. Shareholders also buy shares in the hope that there is a _____ gain, i.e. the share price rises over time.

ACTIVITY 5 – True or False?

	Statement	True / False
a.	A not-for-profit organization is any business entity that does not primarily aim to earn a profit.	
b.	A publicly held company can advertise its shares and have them traded on a stock exchange.	
c.	A stock exchange represents the market where secondhand shares can be bought and sold.	
d.	All non-governmental organizations (NGOs) operate in the private sector.	
e.	Limited liability means that if a firm is unable to pay back its debts, the owners of the business can lose everything, including their personal possessions.	
f.	Cooperatives are an example of for-profit social enterprises.	
g.	Publicly held companies are examples of private sector business entities.	
h.	Social enterprises do not strive to earn a profit. There are for-profit social enterprises that exist, such as cooperatives, private sector companies, and public sector companies.	
i.	State-owned enterprises are also known as publicly held companies.	
j.	The liability of shareholders is limited to the amount of their investment.	

ACTIVITY 6 – Explain one...

- a. Benefit of a business remaining small.
- b. Purpose of holding an Annual General Meeting (AGM) for shareholders of a publicly held company.
- c. Feature of the private sector.
- d. Feature of public sector companies.
- e. Difference between a state-owned enterprise and a publicly held company.

Question 2.5– Hong Kong Disneyland (HKDL)

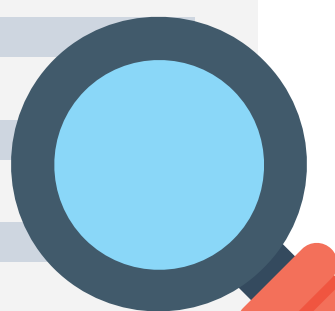
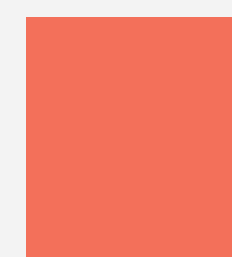
Hong Kong Disneyland (HKDL) is a theme park with three on-site hotels. The theme park is jointly owned by the Hong Kong Special Administrative Region of the People's Republic of China (the majority **shareholder**) and the Walt Disney Company. HKDL opened on 12th September 2005, having created 36,000 jobs. It is the smallest of all Disneyland theme parks in the world. HKDL did not earn a profit until 2012, declaring a net profit of HK\$109m (\$13.97m). Analysts estimated that the theme park would generate HK\$148bn (\$19bn) in net benefits to the economy over a 40-year period as the **public sector company continues** to expand its operations in Hong Kong.

(a) (i) Define the term shareholder. [2 marks]

(ii) Define the term public sector company. [2 marks]

(b) Discuss the decision of the Hong Kong Special Administrative Region of the People's Republic of China to expand HKDL as a public sector company. [10 marks]

**CASE
STUDY**



Multiple-Choice Test

1. Which statement does not apply to sole traders?

- A. A business that is owned by one person
- B. The most common form of business ownership
- C. There can be more than one employer
- D. There may be more than one employee

2. A sole trader is a person who

- A. Forms a business with another person
- B. Has exclusive responsibility for the running of the business
- C. Is not legally liable for any debts of the business
- D. Sets up the safest form of business organization

3. In comparison to other forms of business, sole proprietors face the problem of

- A. Administration and set up procedures
- B. Continuity
- C. Privacy of financial accounts
- D. Specialisation

4. Disadvantages of sole traders do not include

- A. A reliance on the efforts and liability of just one person
- B. Autonomy in decision making
- C. Constraint of lack of time and specialisation to complete all tasks
- D. The demands of having to be multi-skilled

5. Advantages of sole traders do not include

- A. A high degree of confidentiality in administration and financial reporting
- B. Flexibility and freedom in decision making
- C. Profits not having to be shared with others
- D. The various sources of finance available

6. Which of the following is not a reason why people may choose to set up their own business?

- A. There are a lack of employment opportunities
- B. There are higher risks than working for someone else
- C. To enjoy autonomy in decision making
- D. To extend personal interests and hobbies

7. Which of the following is not a necessary condition for an ordinary partnership?

- A. Having at least one partner with unlimited liability
- B. Having between 2–20 partners
- C. Shares cannot be issued by the business
- D. Signing the contents of a partnership deed

8. Which of the following is least likely to be a disadvantage of a partnership?

- A. Having less control of business activities
- B. Having to share profits with other partners
- C. Managing conflict and disagreements
- D. Spreading workload with other partners

9. The legal document that sets out the constitution of a limited liability company is known as the

- A. Articles of Association
- B. Certificate of Incorporation
- C. Deed of Incorporation
- D. Memorandum of Association

10. Which document is issued to a limited liability company before it can start trading?

- A. Articles of Association
- B. Certificate of Incorporation
- C. Deed of Partnership
- D. Memorandum of Association

11. The Memorandum of Association

- A. Sets out rules for the appointment and remuneration of directors
- B. Shows how profits will be distributed to its owners
- C. States the main purpose of a limited liability company
- D. Stipulates the internal functions and rules of an organization

12. Which of the statements is false?

- A. A privately held company cannot sell its shares on a stock exchange
- B. Publicly held companies operate in the private sector
- C. Second-hand shares of publicly held companies can be traded on a stock exchange
- D. The Board of Directors of a privately held company own the business

13. Which of the statements about shareholders is correct?

- A. An advantage for shareholders is having limited liability
- B. As co-owners of a company, shareholders have equal voting rights
- C. Shareholders are paid annual dividends for investing in the company
- D. They own and control private and publicly held companies

14. Identify the incorrect statement below.

- A. A Deed of Partnership is advised for ordinary partnerships as it helps to resolve disagreements
- B. A silent partner is another name for a sleeping partner
- C. Publicly held companies operate in the public sector
- D. Shareholders are not personally liable for the debts of the company

15. The shareholders of a company

- A. Are legally entitled to a share of any profits earned
- B. Are wealthier than sole traders or partners
- C. Control the running of the business
- D. Earn a capital gain in their investment by selling their shares

16. 'Unincorporated' means that a business entity

- A. Has shareholders
- B. Has unlimited liability for its debts
- C. Is a separate legal entity from its owners
- D. Is protected by limited liability

17. A drawback of publicly held companies is that they

- A. Have limited liability
- B. Have to publish certain financial information to all stakeholders
- C. Rely on government funding
- D. Represent high risks to investors

Multiple-Choice Test

18. What is the other name for a publicly held company?

- A. Joint stock company
- B. Limited liability company
- C. Private sector company
- D. Privately held company

19. A for-profit public sector company is set up in order to

- A. Earn profits as a social enterprise
- B. Privatised the provision of certain services such as schools and hospitals
- C. Reduce the risks of share ownership
- D. Replace the government in the provision of goods and services to the general public

20. A public sector enterprise is

- A. An organization owned by private shareholders only
- B. An organization owned by shareholders who can trade their shares on a stock exchange
- C. An organization owned and controlled by the state or government
- D. Any business that has had an initial public offering

21. A non-profit organization that operates in the private sector and runs for the benefit of others in society is known as a

- A. Charitable organization
- B. Non-governmental organization
- C. Non-profit organization
- D. Not-for-profit organization

22. Which of the following is an example of for-profit organizations?

- A. Charities
- B. Cooperatives
- C. Non-governmental organizations
- D. Privately held companies

23. Which of the following is not classed as a social enterprise?

- A. Charities
- B. Consultancy service providers
- C. Microfinance providers
- D. Public sector companies

24. Which statement does not apply to non-governmental organizations?

- A. They are a type of not-for-profit organization
- B. They are private sector organizations
- C. They are registered as incorporated businesses
- D. They promote and raise money for social causes

25. Which of the following is least likely to be a non-profit organization?

- A. Museums
- B. Performing arts groups
- C. Police force
- D. Public transportation firms

26. Which of the following is an example of public (sector) expenditure?

- A. Donations made to charities and non-profit organizations
- B. Investment by publicly held companies
- C. Spending by the general public on company stocks and shares
- D. Spending on state education and healthcare

27. Which of the following is not a non-profit social enterprise?

- A. Amnesty International
- B. Habitat for Humanity
- C. International Baccalaureate Organization
- D. World Wide Fund for Nature

28. Which of the following is not a source of finance for non-governmental organization?

- A. Corporate tax refunds
- B. Donations
- C. Fund-raising events
- D. Selling products

29. Which of these factors is least likely to affect the strategic choice of the most appropriate type of business organization?

- A. The amount of finance needed
- B. The products being sold
- C. The size of the business and scale of its operations
- D. Whether owners and investors want limited liability

30. Which of the following types of business entities cannot be classified as an example of a for-profit social enterprise?

- A. Cooperatives
- B. Private sector companies
- C. Public sector companies
- D. Publicly held companies

PAST PAPERS - Directly related questions

- 20N.1.HL.TZ0.4a:
 - Define the term public limited company.
- 20N.2.HL.TZ0.1a:
 - State **two** features of a sole trader.
- 20N.2.HL.TZ0.3a:
 - Describe **one** feature of a private limited company.
- 25N.2.HL.TZ1.3a:
 - State **two** features of a publicly held company.
- 24N.2.HL.TZ1.3a:
 - State **one** advantage and one disadvantage of operating as a privately held company.
- 24N.2.SL.TZ1.4a:
 - State **two** features of a cooperative.
- 24N.2.SL.TZ2.3a:
 - State **two** advantages of operating as a for-profit social enterprise.
- 25N.2.HL.TZ3.5a:
 - State **two** features of a publicly held company.
- 25N.2.HL.TZ3.2a:
 - State **two** disadvantages of operating as a sole trader.
- 25N.2.SL.TZ3.1a:
 - State **two** features of a non-governmental organization (NGO).
- 25M.2.SL.TZ2.1a:
 - State **two** features of a sole trader.
- 21M.2.SL.TZ0.1a:
 - State **two** features of a cooperative.
- 21M.2.HL.TZ0.2a:
 - Describe **one** feature of a cooperative.
- 21N.2.SL.TZ0.1a:
 - State **two** features of a sole trader.
- 21N.2.HL.TZ0.3a:
 - Define the term public sector.
- SPM.1.SL.TZ0.5:
 - Explain why KC could only purchase MT if it had permission from Jackie (line 67).
- SPM.2.SL.TZ0.1a:
 - State **two** advantages of a private limited company.
- SPM.2.SL.TZ0.2a:
 - State **two** advantages of operating as a sole trader.

- SPM.2.SL.TZ0.3d:
 - Using the information in the stimulus, discuss the rewards and challenges Yimin might experience...
- 22M.2.SL.TZ0.5a:
 - State two features of a public limited company.
- 22N.2.SL.TZ0.3a:
 - State two features of a private limited company.
- 22N.2.HL.TZ0.1a:
 - State two features of a private limited company.
- 21M.2.SL.TZ0.3b:
 - Explain one advantage and one disadvantage to Buzza of operating as a partnership.
- 21M.2.HL.TZ0.3d:
 - Discuss Chelsea's idea to convert SSC into a public limited company.
- 21N.2.SL.TZ0.5b:
 - With reference to OS, explain one advantage and one disadvantage of operating as a private limited company.
- 24N.2.HL.TZ1.1a:
 - State two features of a publicly held company.
- 24N.2.HL.TZ2.3a:
 - State two features of a cooperative.
- 24N.2.SL.TZ1.3a:
 - State two advantages of operating as a for-profit social enterprise.
- 24N.2.HL.TZ2.1a:
 - State two features of a privately held company.
- 23M.2.HL.TZ1.2a:
 - State two features of a private limited company.
- 24M.2.SL.TZ2.1a:
 - State two features of a sole trader.
- 24M.2.HL.TZ2.1a:
 - State two features of a cooperative.
- 24M.2.SL.TZ2.2a:
 - State two features of operating as a partnership.
- 25N.2.HL.TZ3.1a:
 - State two features of a partnership.
- 25M.2.SL.TZ1.4a:
 - State two advantages of operating as a privately held