

TYPES OF BUSINESS

- The word “Business” means the state of being busy
- Generally, an organization (combination of resources) entity engaged for making profit
- In other words all legal and economic activities undertaken towards achieving organizational objective of an enterprise referred to Business

Different authors define business in their own context; however, central idea is same



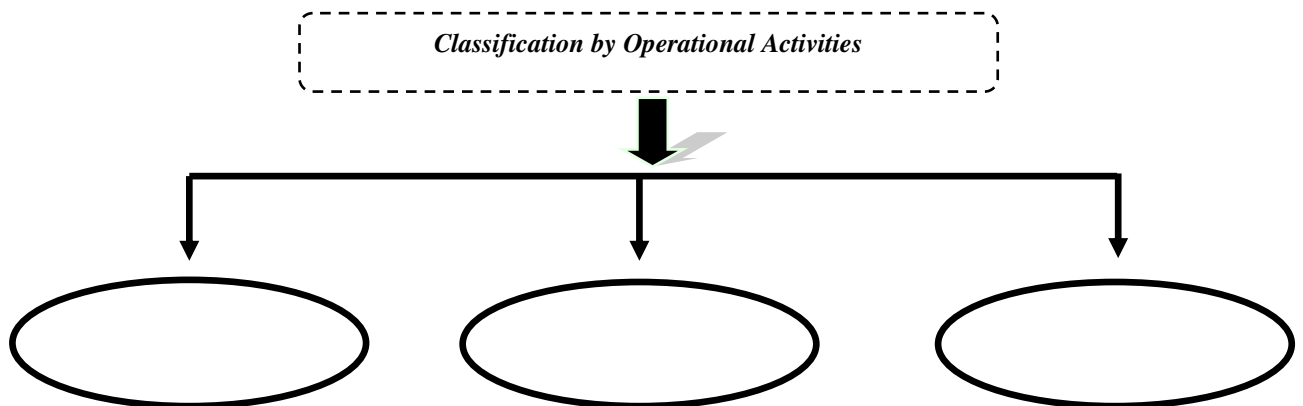
- *Every human activity which is engaged in for the sake of earning profit may be called business*
- *Business may be defined as human activities directed toward providing or acquiring wealth through buying and selling of goods*
- *An institution organized and operated to provide goods and services to the society, under the incentive of private gain is business*



Concluded that, the term business includes all human activities concerned with earning money or it is an activity in which produce or exchange goods and services for mutual gain or profit. The goods and services produced or purchased for personal use are not included in business. Business can be classified into different types under different basis by different authors. Some forms under some basis are discussed below:

2.1 Classification by Operational Activity

From operational activities point of view business can be classified into three main classes of activities. These activities are as follows

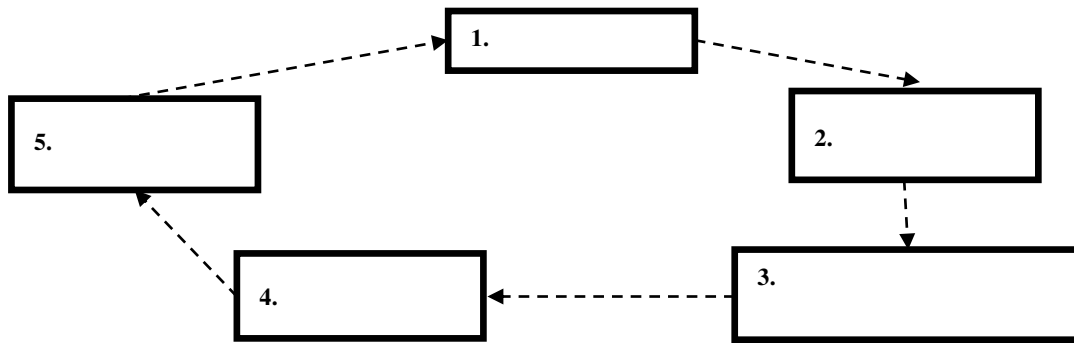


2.1.1 Merchandising Activity:

- This type of business does not change the shape of the goods rather by adding their profit
- Business received goods in finished form and sell to customers as it is

2.1.2 Manufacturing Activities:

- ❖ The enterprises which are involved in manufacturing activities, start their activities from purchase of raw material and put labor and factory overhead on the raw material and develop products
- ❖ Produced products are looks entirely different from raw material
- ❖ Hence we can say that in this type of business value addition is carries out



2.1.3 Services Activities:

✚ The organizations involve in providing service like banking, education, insurance, management development and training are called services activities

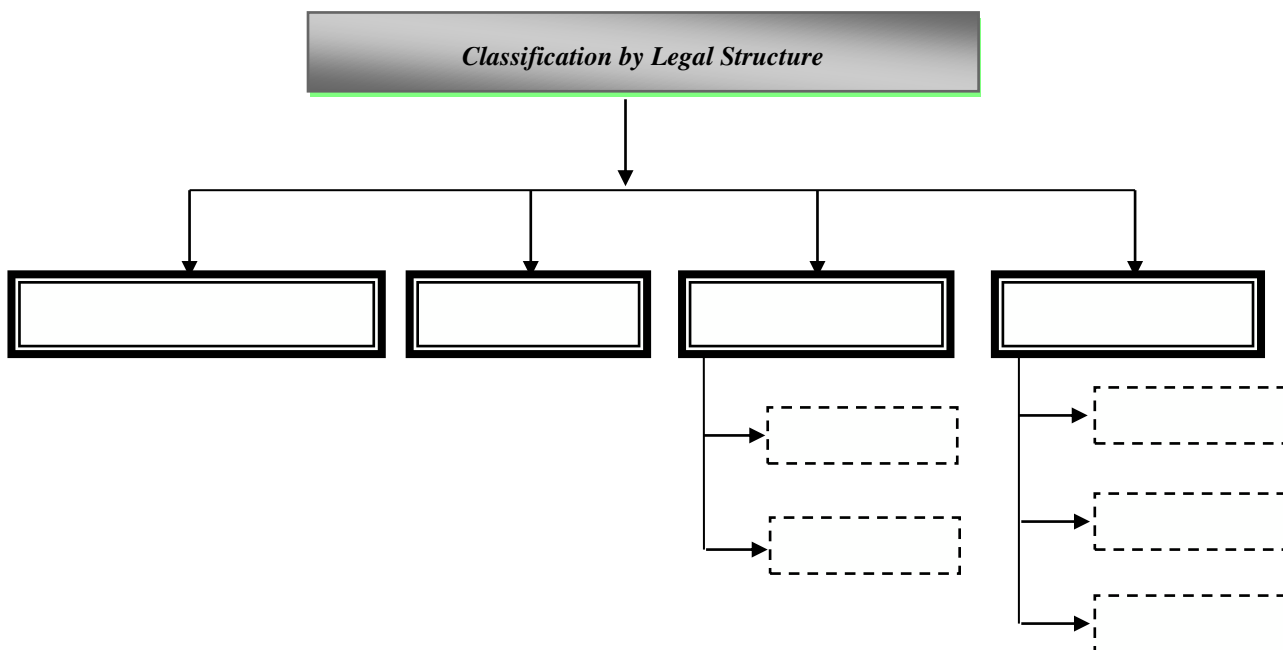
2.2 Classification by Sector

- Basically there are two sector public and private
- The public sector business organizations, for profit or non profit, are the ones controlled by the government, for instance, Pakistan Railways and WAPDA
- The firms owned by private entrepreneurs are private sector organizations like Bestway Cement etc



2.3 Classification by Legal Structure

In terms of the legal structure, firm can be categorized into the following four categories.



2.3.1 Sole Proprietorship

- ❖ A business owned by one person and the owner may operate by own or may employ others
- ❖ The owner of the business has total and unlimited personal liability of the debts incurred by the business



Stafford states, *it is the simplest form of business organization, which is owned and controlled by one man*

G. Baker defined as; *sole proprietorship is a business operated by one person to earn profit*

- ❖ Sole proprietorship is the oldest form of business organization in which one man invests his capital himself. He is all in all in doing his business. He enjoys the whole of the profit or bearing a loss

2.3.2 Partnership

- ✓ Partnership is the second stage in the evolution business organization
- ✓ It means the association of two or more persons to carry on as co-owners
- ✓ The persons who constitute this organization are individually termed as partners and collectively known as firm; and the name under which their business is conducted is called “The Firm Name”
- ✓ In ordinary business, the number of partners should not exceed 20, but in case of banking business it must not exceed 10. This type of business organization is very popular in Pakistan
- ✓ The law related to partnership is called Partnership act 1932 in Pakistan

According to Section 4 of Partnership Act 1932; *Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all*

2.3.3 Companies

- Joint Stock Company is the third major form of business organization
- It is entirely different organizational from sole proprietorship & partnership
- There are two advantages of Joint Stock Company. First of all, it enjoys the advantage of increased capital. Secondly, the company offers the protection of limited liability to the investors and disadvantage is double taxation (Corporate + Income Tax)
- The law relating to Joint Stock Company has been laid in Companies Ordinance, 1984



The most widely quoted definition of a company was given by an American judge, Justice Marshal in 1891, in which he defined a corporation as; *an artificial being, invisible, intangible and existing only in law*

According to S.E. Thomas; *a company is an incorporated association of persons formed usually for the pursuit of some commercial purpose.*

- There are two types of companies which are discussing below.

2.3.3.1 Public Limited Company:

- Company which is formed by a least ‘7’ members, and there no restrictions to maximum number of shareholders
- This company can invite public to subscribe its shares or debentures by issuance of prospectus
- The shares of a public company are freely transferable or subscribe
- The word 'Limited' is used at the end of the name of public company

2.3.3.2 Private Limited Company:

- It is a company which is formed by at least '2' members and maximum number of members which is fifty (50)
- A private company cannot invite public to subscribe to its shares or debentures by issue of prospectus
- The transfers of shares is generally restricted by the articles of association of a private company
- In case of a private company, the word 'Private Limited' must be used at the end of the name of a company

2.3.4 Hybrid

- ❖ Those combine limited liability advantage of a company with single tax advantages of a sole proprietor/ partnership

2.3.4.1 S-Type Corporation:

- ✚ S-Type corporations are limited liability corporations without double taxation
- ✚ In a regular corporation, the company itself is taxed on business profits. In addition, the owners pay individual income tax on money that they draw from the corporation as salaries, bonuses, or dividends
- ✚ In contrast, in an S corporation, all business profits "pass through" to the owners, who report them on their personal tax returns (as in sole proprietorships or partnerships)

2.3.4.2 LLP:

- ✓ Limited Liability Partnership (LLP) is also a form of partnership with allows limited liability to the owners
- ✓ These organizations are similar in many ways to the partnership; however, LLPs offer more flexibility and benefits to the owners

2.3.4.3 PC:

- Personal Corporations (PC) or Professional Corporations are generally formed by professionals to protect them against litigations. Professionals like doctors, lawyers etc. prefer to register their business as Professional Corporations

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