Chapter Review 12

Business Organisations and Corporate Governance

Objectives...

1 compare and contrast the most common types of business organisation
2 discuss the responsibilities of a company director
3 identify the basic principles of good governance
4 discuss the risk management process and its contribution to corporate governance
5 discuss what is meant by the theory of the firm and contrast it with the triple bottom line

Key Terms

Corporate governance	the system used to control and direct a company's operations
enterprise risk management	A framework of methods and processes used by organizations to manage their risks and take opportunities related to the attainment of their objectives
Limited company	a corporation with shareholders whose liability is limited by shares
Partnership	When you go into business with someone else (more commonly associated with professional services such as accountants, solicitors and doctors)
public limited company (plc)	a limited company whose shares may be purchased by the public and traded freely on the open market and whose share capital is not less than a statutory minimum (for the UK -a company registered under the Companies Act (1980) as a public company)
Sole trader	a type of business entity which legally has no separate existence from its owner (the limitations of liability benefited from by a corporation, and limited liability partnerships, do not apply to sole traders) - the simplest form of business

26. In part one we explored management and organisational theory, discussing how organisations should be managed. Whilst in chapter 2 we stated, in broad terms, what is meant by the term 'organisation' , we did not explore types of organisation in practice. That was the focus of this chapter. Different types of company can exist in law and each have different advantages and disadvantages and rules within which they must comply. In this chapter we explored the main types of organisation (limited companies, sole traders, partnerships and cooperatives) and how they come into existence. We recognised that in some cases the owners and investors may not be employed by the company, typically in public limited companies. In such situations there is a need for mechanisms to ensure that the board, directors, managers and employees act in the best interests of the shareholders. We introduced the concept of corporate governance, explicit ‘rules’ and principles to guide the management of such companies by their directors. One key aspect of managing a company on behalf of shareholders is the management of risk - to assure assets are safeguarded and organisational goals attained. We highlighted the importance of risk management and introduced several risk standards and a generic risk management process. Finally, we recognised the importance of understanding company goals and introduced the theory of the firm and the triple bottom line.