Chapter MP3 script 12

Business Organisations and Corporate Governance

In this recording we summarise the content of chapter 12 Business Organisations and Corporate Governance.
Studying this chapter should help you compare and contrast the most common types of business organisation; discuss the responsibilities of a company director; identify the basic principles of good governance; discuss the risk management process and its contribution to corporate governance; discuss what is meant by the theory of the firm and contrast it with the triple bottom line; .

Introducing the chapter, the authors start with 1. The subject-matter of this book is management. Many of the management issues touched upon are common to every kind of organisation, be it business, state enterprise, public service, non-profit-making charity or private club. However, the full range of management theory and practice occurs mainly in what we call 'business organisations'. We introduced the general meaning of organization in chapter 2 and in this chapter describe the main legal characteristics of such organisations.
2. A Business organisation, in contrast to a public service organisation or a charity, exists to provide goods or services usually at a profit. Making a profit may not necessarily be the sole aim of a business (see the theory of the firm and the triple bottom line at the end of the chapter), but it is certainly what distinguishes it from a non-business organisation. In Britain, business organisations are mainly to be found in the private sector of the economy. The business organisations we are concerned with here range in size from the sole trader, through partnerships between two or more people working in collaboration, to large public limited companies (plc's) employing thousands of staff in a variety of locations. There are also cooperative enterprises, notably in retail distribution, but also in manufacturing on a small scale.
3. The most common types of business organisation are as follows:
- limited companies
- sole traders
- partnerships
- cooperatives

The following paragraphs summarise the principal features of these businesses, together with the main advantages and disadvantages for the parties concerned. We also introduce the concept of corporate governance and the related concept of risk management..

The key concepts discussed within this chapter are:
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; .

Other terms discussed include:
CEO; combined code; company's memorandum and articles of association; Cooperative; COSO ERM framework; governance framework; Sarbanes-Oxley Act; .

Summarising and concluding, the author(s) make the following comments - 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

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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..

We have now reached the end of the chapter 'Business Organisations and Corporate Governance'.

There are a number of references for this chapter where further reading opportunities are identified for you.
Additionally, there are questions or activities to help develop and test your understanding of this chapter