CHAPTER IV

BUSINESS ORGANIZATIONS

Concepts & Issues that emerge from the content

- ✓ An organization - Introduction
- ✓ Characteristics of a formal organization
- ✓ Business organizations - Introduction
- ✓ Classification of Business organizations
- ✓ Special businesses
- ✓ Sole proprietorships
- ✓ Partnerships
- ✓ Incorporated companies
- ✓ Co-operative businesses
- ✓ Franchise Businesses
- ✓ Business combinations
- ✓ Public sector business organizations

4. 1 INTRODUCTION

Organizations

An organization can be identified as a group of people, who are working together to achieve a common goal or purpose. They can differ in size, purpose, needs, effectiveness, time period etc depending on many criteria. In this chapter we mainly focus only on Business organizations.

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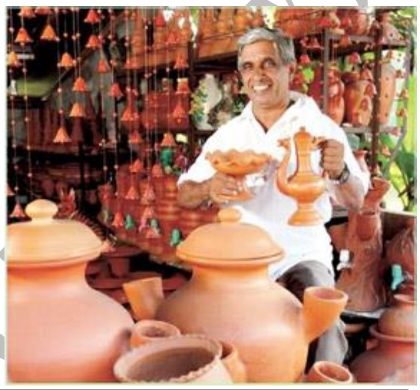

Business Organizations

A Business Organization can be broadly identified as Enterprises of different types which exist to provide / supply a range of goods & services (products) to fulfill human needs & wants. These organizations may range from a small scale vendor by the road to a large scale global conglomerate.

Ex-

Food	Education	Electronics	Transportation	Communication

Features of Business Organizations

A conventional Business Organization will have few or all of the following features;

+. A name

+. A set of people

+. A set of objectives

+. An employee hierarchy

+. Performing an economic activity

+. A culture & a set of values

+. A system of information & communication

+. A system of Accounting & Auditing

+. A system of rewards & punishments

+. A system of monitoring

+. A boundary showing limitations

Classification of Business Organizations

Business Organizations can be classified using many bases which are as follows;

Based on Scale

Scale	Capital	Employees
Small		
Medium		
Large		

Based on Ownership

Business Organizations	
Private Sector	Public Sector
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Based on Motive

Business Organizations			
Private Sector		Public Sector	
Profit	Non-profit	Profit	Non-profit
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Based on Function

Business Organizations		
Manufacturing	Trading	Services

Reasons for different types of Business Organizations

All businesses are not of the same type, scale, ownership, function etc. There are many reasons for the differentiation of such business organizations;

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Private Sector Businesses

These are business organizations which are owned & run by a person or group of people (other than the government) mostly with the view of profit. Some businesses such as co-operatives, clubs & charities exist for the social welfare motive. These private sector businesses may involve in social welfare in the form of CSR, but always their motive is nothing but profit.

Ex-

Public Sector Businesses

These are business organizations which are owned & run by the government of a country, mostly with the view of social welfare for its citizens. Some organizations such as state corporations & state companies have the profit motive but at a very small level compared to the private sector businesses.

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4.2 SOLE PROPRIETORSHIPS

Introduction

A sole proprietorship is a business which owned, established, financed & managed by an individual (1 person) with the view of profit & having an unlimited liability but enjoying all benefits by himself. The owner of a sole-proprietorship is called a "Sole proprietor" or "Sole Trader".

Ex-

Features of a Sole-Proprietorship

1.	Ownership	
2.	Management & Administration	
3.	Decision Making	
4.	Liability	
5.	Legal Personality	
6.	Registration	
7.	Capital	
8.	Profits & Losses (Benefits & Risks)	
9.	Tax payments	
10	Accounting & auditing	
11.	Perpetual Succession (Continuity)	

Advantages of Sole Proprietorships

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Disadvantages of Sole Proprietorships

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Laws & Legislations applicable to Sole Proprietorships

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Documents to be submitted for registration of sole proprietorships

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Advantages of registering the business name of a Sole Proprietorship

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4.3 PARTNERSHIPS

KANDY
Your Biggest Fashion World

Introduction

A Partnership can be broadly identified as an association between 2-20 persons who agree to contribute capital & carry on a business with the view of profit. The owner of a Partnership is called a "Partner".

Ex –

As per the section 519 of the Companies Act no-7 of 2007, maximum number partners have been limited to 20. (Unless it's a business which compulsorily have to be a partnership or any other form).

The definition of a partnership as per the “Partnership Act of 1890” can be;
“A 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”.

Features of a Partnership

1.	Ownership	
2.	Management & Administration	
3.	Decision Making	
4.	Liability	
5.	Legal Personality	
6.	Registration	
7.	Capital	
8.	Profits & Losses (Benefits & Risks)	
9.	Tax payments	
10	Accounting & auditing	
11.	Perpetual Succession (Continuity)	

Types of Partnerships

Two types of partnerships can be identified based on the business’ liability;

Types of Partnerships	
General/Unlimited Partnership - Partner's liability is unlimited & goes beyond the capital employed. Excess liability must be covered by personal assets	Limited Partnership - Partner's liability is limited to the capital employed. Here at least 1 partner should be unlimited

Important facts in a partnership

1. There should be an agreement –

2. The agreement must be between 2 or more –

3. Existence of a business –

4. Agreement on profit sharing –

5. Mutual agency -

Forming of a Partnership

A partnership business can be formed in one of the 2 main methods given below;

Forming a Partnership	
Partnership Act of 1890 - Follow the act on all aspects of business (commencement, operation & dissolution)	By an Agreement - A voluntary agreement generated by partners covering all aspects of the business (Commencement, Operation & dissolution)

Partnership Agreement		
Written	Verbal	Mutual

Note –

Partnership Deed

This a written agreement between the partners along with their signatures. Since it contains the partner's signatures, it is also referred as the "articles of partnership". As per the prevention of fraud ordinance no-7 of 1840, if the partnership's capital exceeds Rs. 1,000/- the agreement must be in the written format. Out of all other types of agreements, a written agreement is considered the most suitable & the safest due many reasons.

The content of a Partnership Deed

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Steps to be followed if there isn't a Partnership Deed (As per the Partnership Act)

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Types of Partners

According to the Partnership Act, "Every partner has the right to take part in the conduct of the business". The act further specifies that, all partners need not to take part in the conduct of the business, which means that there can be partners who may not be actively involved in business' activities, but being simple owners. Therefore just because it is a right, it is not compulsory to take part in active business activities. The following 8 types of partners can be found;

1. Active / Working Partner –

2. Sleeping / Dormant / Inactive Partner –

3. Nominal Partner –

4. Partner in Profit only –

5. Silent Partner –

6. Quasi Partner –

7. Limited Partner –

8. Immature Partner –

Rights of Partners / Duties of the Partnership

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Duties of Partners / Rights of the Partnership

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Dissolution of Partnerships

This is the winding up process that can take place in a partnership business during or at its end of the period. As per the Partnership Act of 1890, a Partnership can wind-up in 2 basic ways;

Dissolution	
Dissolution of Partnership - Any changes being made to the existing agreement between partners. Old agreement gets & new one comes into effect. The business still exists.	Dissolution of Firm / Business - Shutting down the business & its activities permanantly. After such, the business cannot exist.

Dissolution of Firm / Business	
Voluntary Dissolution	Court order Dissolution
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Advantages of Partnerships

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Disadvantages of Partnerships

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Laws & Legislations affecting Partnerships

1. Partnership Act of 1890 –

2. Limited Partnership Act of 1907 –

3. Prevention of fraud ordinance no-7 of 1840 –

4. Business name registration ordinance no-6 of 1918 –

5. Companies Act no-7 of 2007 -

Registration Process of a Partnership

1. The standard application form –
2. The "Grama-Sevaka" report –
3. The certification from the "Justice of Peace" –
4. Receive the "Certificate of registration of firm" –
5. Any other special licenses needed -

Similarities of Sole-proprietorships & Partnerships

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4.4 INCORPORATED COMPANIES

Introduction

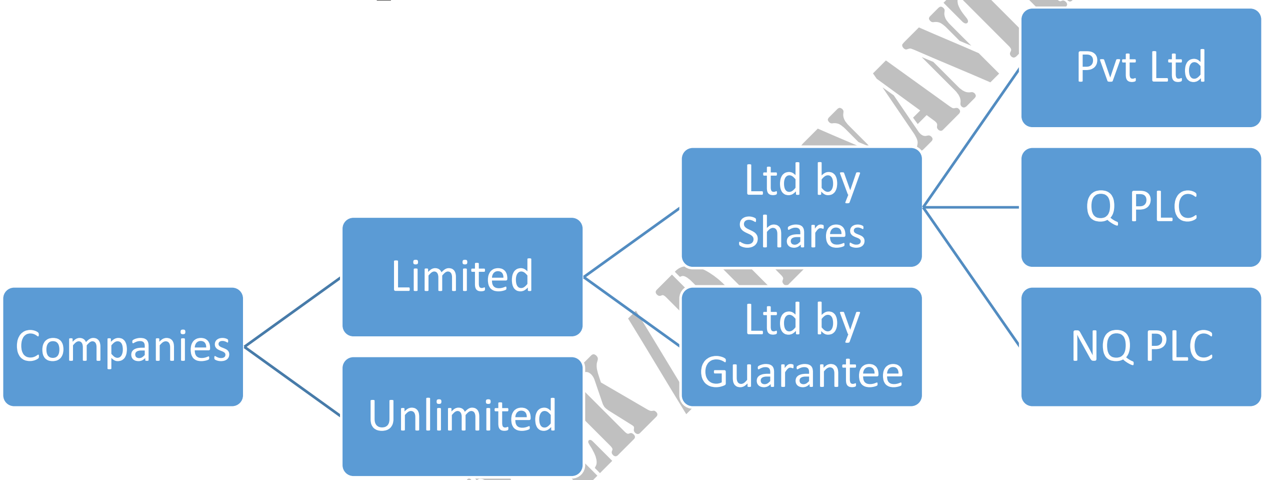
An incorporated company also known as a limited liability company can be broadly identified as a business association between person/s with a limited liability, legal personality, a separate existence from owners & incorporated under the companies act.

Limited liability companies are the most well organized & powerful organizations in the private sector, which are capable of penetrating any potential market.

In Sri Lanka, the act governing all incorporated companies is, the Companies Act no-7 of 2007. (Formally known as Companies Act no-17 of 1982). The following types of companies are recognized by the Companies Act no-7 of 2007 in Sri Lanka;

Companies Act no-17 of 1982	Companies Act no-7 of 2007
+. Private limited companies	+. Private limited companies
+. Public limited companies	+. Public limited companies
+. People's companies	#. Quoted PLC
+. Companies limited by guarantee	#. Non-quoted PLC
+. Off-shore companies	+. Companies limited by Guarantee
+. Foreign companies	+. Off-shore companies
+. Unlimited companies	+. Foreign Companies
	+. Unlimited companies

Classification of Companies



Common Features or Qualities of Limited Liability Companies

1. Limited Liability –

2. Legal Personality –

3. Perpetual Succession –

4. Authority over Ownership & Administration –

5. Accounting & auditing –

Sri Lanka Telecom
One Country. One Voice.

Public Limited Companies

A public limited company (PLC) can be broadly identified as a company owned by 1 or more shareholders, registered under the companies act with the right to issue shares & debentures to the general public by issuing a prospectus.

These shares & debentures purchased by the public can be freely transferred among others in the public without any restrictions. These companies are also known as "Joint stock companies" & PLC's.

Ex -

The 2 types of PLC's found are;
1.
2.

Features of PLC's

1.	No of Shareholders	
2.	Transfer of shares	
3.	No of directors	
4.	Controlled by	
5.	Sources of capital	
6.	Issue of prospectus	
7.	Starting	
8.	Naming	

Advantages of PLC's

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Disadvantages of PLC's

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Private Limited Companies

A Private Limited Company can be broadly identified as a company owned by 1-50 shareholders, registered under the companies act without the right to issue shares & debentures to the general public by issuing a prospectus.

Shares must be issued privately in order to raise capital. Therefore mostly private limited companies are owned by families, friends & very close & mostly trustworthy associates. Most of the companies in Sri Lanka are private limited companies.

Ex-

Features of Private Limited Companies

1.	No of Shareholders	
2.	Transfer of shares	
3.	No of directors	
4.	Controlled by	
5.	Sources of capital	
6.	Issue of prospectus	
7.	Starting	
8.	Naming	

Advantages of Private Limited Companies

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Disadvantages of Private Limited Companies

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Companies Limited by Guarantee

A Company Limited by Guarantee can be broadly identified as a company owned by 2 or more shareholders, registered under the companies act with the right to issue shares & debentures to the general public or privately by issuing a prospectus or does not issue shares.

The specialty is that shareholders will be liable to the amount agreed & guaranteed at the beginning but not for the value of shares acquired. Therefore shares in such a company shall have a purchased liability as well as a promised liability.
Ex-

The 2 types of Companies Limited by Guarantee can be;
1.
2.

Features of Companies Limited by Guarantee

1.	No of Shareholders	
2.	Transfer of shares	
3.	No of directors	
4.	Controlled by	

5.	Sources of capital	
6.	Issue of prospectus	
7.	Starting	
8.	Naming	

Advantages of Companies Limited by Guarantee

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Disadvantages of Companies Limited by Guarantee

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Other Types of Companies

In addition to the 3 types of companies discussed above, the following types of companies can also be found;

1. Off-shore Companies

This is a company registered under the companies act no-7 of 2007 in Sri Lanka, but without the authority to carry out business activities in Sri Lanka. A company incorporated abroad & gets registered in Sri Lanka under the companies act can also be considered an Off-shore company. These companies can carry out business activities anywhere in the world except for Sri Lanka.

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2. Foreign / Non-resident Companies

This is a company incorporated abroad & carries out business activities in Sri Lanka. Such company should be registered in Sri Lanka too under the companies act no-7 of 2007.

Ex-

3. Unlimited Companies

This is company registered under the companies act no-7 of 2007 with the right to issue shares & debentures privately & in public. Here unlike any other type of company discussed, the shareholders are fully liable for all the company's liabilities where at the point of liquidation, if needed even the personal property of shareholders must be utilized to cover up.

Note-

4. Listed companies

This is a company registered at the Colombo Stock Exchange (CSE) & have the authority to trade its shares through the CSE. Such company is also known as a "Quoted PLC". The official list of the CSE shows all registered listed / quoted companies.

Ex-

5. Parent / Holding Companies

This is a company which owns / holds 51% or more of the ordinary share capital of another company. Such company has the authority to control & govern the holding company & its board of directors due to the ownership of a majority equity / stake. The financial statements of a parent company shall consolidate / amalgamate its subsidiary's financial statements as well.

Ex-

6. Subsidiary Companies

This is a company where 51% or more of its ordinary share capital is owned by a parent company, whereby making it a subsidiary of the parent. A subsidiary will be controlled by a parent since it owns the majority of its equity / stake. A subsidiary's financial statements will be consolidated / amalgamated into the financial statements of a parent company.

Ex-

7. People's Companies

This is a type of company incorporated under the companies act no-17 of 1982 with shareholders amounting from 50 & above, nominal value of a share being Rs. 10/-, should have minimum 3 directors & one person or his family cannot own more than 10% of the company's ordinary share capital. Owning at least 1 share will make the person a member / shareholder.

Note-

8. Multinational Companies

This is a company with the head office in one country & branches / subsidiaries in many countries. In other words a multinational company (MNC) is a business that operates in many different countries at the same time. It's a company that has business activities in more than one country, where the main office / company being in one country while the sister companies operating abroad.

Ex-

An official definition can be; a company whose turnover of more 25% comes from aboard other than the country incorporated is a multi-national company. A MNC sister company can be a fully owned subsidiary of the parent company / head office or even a PLC in that country where part of the equity is given to the locals.

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Note-

Advantages of MNC's

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Disadvantages of MNC's

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Incorporation of Limited Liability Companies

The incorporation process steps of a limited liability company can be summarized as follows;

1. Registration of the company's name by the registrar general of companies
2. Preparing the articles of association & getting the initial founder shareholder's signatures
3. Appointing directors & secretaries & obtaining their consent
4. Submitting those documents along with the standard / prescribed application form including signatures of initial shareholder to the registrar general of companies
5. Pay the required fees & taxes
6. Receive the certificate of incorporation & publishing it (in a newspaper)
7. Have an organizational statutory meeting, appoint directors & pass laws & resolutions.
8. Start founders / initial activities

Documents to be submitted for Registration

1. Name of the company
2. Articles of association
3. Consent from directors
4. Consent from secretaries

Registrar General's function upon receiving application

1. Enter the particulars / details of the company on the Companies Register
2. Assign a unique number to that company as its "company number"
3. Issue a "certificate of incorporation" in the prescribed form to the applicant company.

Certificate of Incorporation

This is the official document issued by the registrar general of companies certifying that documents & application has been accepted & the company has been registered in accordance with the companies act no-7 of 2007. This will include the following information;

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இலங்கைச் சனநாயக சோசலிசக் குடியரசு
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(Pursuant to Section 5)

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மார்கட் லங்கா சொலுஷன்ஸ் (பிறைவட்) லிமிடட்

2007 ஆம் ஆண்டின் 7 ஆம் இலக்க கம்பனிகள் சட்டத்தின் கீழான எல்லாத் தேவைப்பாடுகளும் இணங்கியொழுகப்பட்டு இத் திகதியன்று தனியார் கம்பனியாக கூட்டிணைக்கப்பட்டுள்ளது என்றும் அக்கம்பனி வரையறுக்கப்பட்டதென்றும் நான் இத்தால் சான்றளிக்கின்றேன். இரண்டாயிரத்து பதின் மூன்று ஆம் ஆண்டு ஏப்பிறல் மாதம் இருபத்தொன்பதாம் திகதியன்று கொழும்பில் என்னால் கைச்சாத்திட்டுக் கொடுக்கப்பட்டது.

I hereby certify that MARKET LANKA SOLUTIONS (PRIVATE) LIMITED

is this day incorporated as a Private Company having complied with the requirements under the Companies Act, No. 7 of 2007 and that the Company is limited.

Given under my hand at Colombo, this Twenty Ninth day of April Two Thousand Thirteen

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For Registrar-General of Companies (Covering up Duty
Deputy Registrar of Companies
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Note - When the company is incorporated, it will have certain effects. They are separate legal personality, perpetual succession, Common seal and Increase borrowing power.

Conditions on Naming a Company

A company shall not be registered by a name with the following conditions;

1. A name identical with the name of any other company or of any registered overseas company
2. A name containing the words "Chamber of Commerce"
3. A name as per the opinion of the Registrar being misleading
4. A name containing the following except with the consent of the Minister given having regard to the national interest;
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Stating the Company's Name & Number

- ✓ All business letters of the company
- ✓ All notices and other official publications of the company
- ✓ All bills of exchange, promissory notes, endorsements, cheques and orders for money or goods signed on behalf of the company
- ✓ All invoices, receipts and letters of credit of the company
- ✓ All other documents issued or signed by the company which creates or is evidence of a legal obligation of the company
- ✓ The company seal

Articles of Association

This is a document that contains the purpose of the company as well as the duties and responsibilities of its members defined and recorded clearly. It is an important document which needs to be submitted / filed with the Registrar of Companies. It also governs all internal as well as external affairs of the company.

The articles of a company shall bind the company and its shareholders as if there were a contract between the company and its shareholders. In particular, all money payable by any shareholder to the company under the articles, shall be a debt due from that shareholder to the company.

Main information found in an articles of association can be;

1. Objectives of the company
2. Rights & duties of shareholders of the company
3. Management & administration of the company

Other information included can be;

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Consent of Directors

This is a statement certifying the acceptance by persons appointed as directors to act in such capacity. Here the standard / prescribed format is provided by the registrar general of companies & it will include the following information;

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Consent of Secretaries

This is a statement certifying the acceptance by persons or organization appointed as secretaries to act in such capacity. It is compulsory that all companies have a corporate secretary. Here the standard / prescribed format is provided by the registrar general of companies & it will include the following information;

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Rights of an Ordinary Shareholder

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Duties of an Ordinary Shareholder

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Shares

A share is the equity capital of the company being divided into small & equal units & issued to shareholders. In other words, a unit of ownership that represents an equal proportion of a company's capital. It entitles the shareholder to an equal claim on the company's profits and an equal obligation for the company's debts and losses.

A conventional company may have 2 types of shares which are;

1. Ordinary shares (common stock) - which entitle the shareholder to share in the earnings of the company (dividends) as and when they occur, and to vote at the company's annual general meetings and other official meetings. Ordinary shareholders receive a variable dividend.
2. Preference shares (preferred stock) - which entitle the shareholder to a fixed periodic income (dividends) but generally do not give him or her voting rights. Preference shareholder receive a fixed dividend.

Types of shares

A company may have the following types of shares;

Ordinary Shares	Preference Shares
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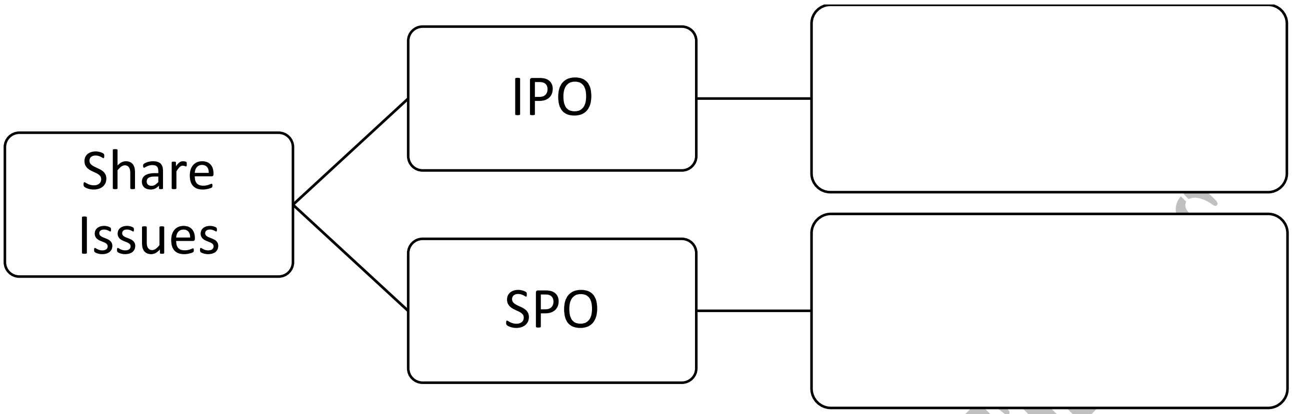
Types of Share Issues

Within 20 working days of the issue of any shares under this section, the company shall give notice to the Registrar in the prescribed form of;

- ✓ The number of shares issued;
- ✓ The amount of the consideration for which the shares have been issued or its value as determined by the board
- ✓ The amount of the company's stated capital following the issue of the shares

✓ Deliver to the Registrar a copy of any terms of issue approved by directors

A company may have the following types of share issues;



Stated Capital

This is the total amount money received or receivable by a company from share issue or calls on shares. This is also referred as the share capital. In other words; the amount of capital that a company must hold, in order to pay dividends and other payouts. Stated capital usually equals a stock's stated value times the amount of outstanding stock.

Note –

Prospectus

This is a document published by a PLC inviting the general to public to purchase its shares & debentures. It shall have a date & it will be the date of publication & will contain an application form for potential investors to fill out & apply for shares & debentures. This is simply a "bona-fide" invitation.

A prospectus will have the following facts included;

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Note - No prospectus shall be issued by or on behalf of a company or in relation to a company to be formed, unless on or before the date of its publication, there has been delivered to the Registrar for registration a copy of such prospectus signed by every person who is named in such prospectus as a director or proposed director of the company, or by his agent authorized in writing.

Minimum Subscription

Minimum subscription is the amount of money to be raised from a share issue as mentioned in a prospectus in order to provide for specified matters such as-

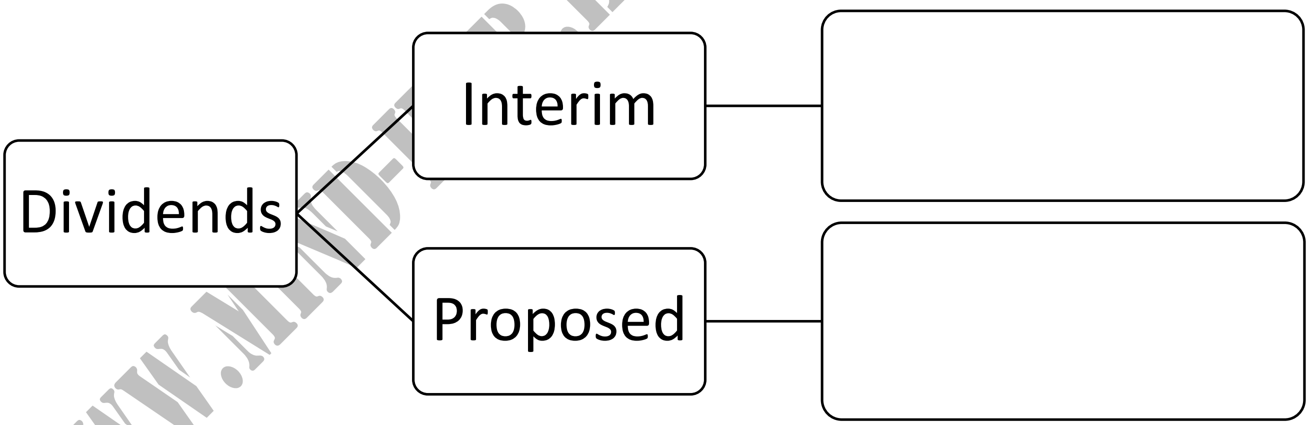
- ✓ The price which is to be paid for acquiring any property or for repaying a loan incurred for the property or paying for property already purchased
- ✓ Preliminary expenses, share issue & redemption expenses or any loan in connection therewith
- ✓ Working capital requirements

This minimum amount is stated by the promoters of the company in the Articles of Association and prospectus. Unless the minimum subscription is raised the company cannot make allotment of shares.

Note – Share Under-writing

Dividends

This is amount or portion of the profit earned or retained which is being paid or proposed to be paid to a shareholder of the company. Based on the time period of payment in the financial year, dividends can be classified as follows;



Note –

Annual Report

This is the statement indicating performance of finance & administration issued by a limited liability company to its shareholders. In other words, an annual report is a comprehensive report on a company's activities throughout the preceding year. Annual reports are intended to give shareholders and other interested people information about the company's activities and financial performance.

This should be sent by the company before 15 working days from the expected AGM date & shall include the following information;

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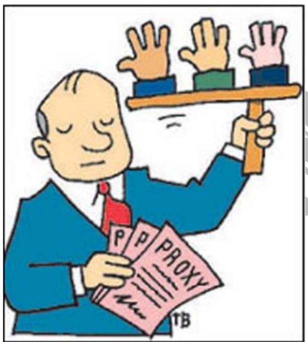
Annual General Meeting (AGM)

This is the statutory compulsory meeting held by every year by a company within 6 months from the balance sheet date & not more than 15 days from the previous AGM. As per the companies act, every company should compulsorily have an AGM. The AGM notification is sent along with the Annual report.

Note – The 1st AGM since incorporation should be held within 18 months from incorporation

Extra-ordinary General Meeting (EGM)

This is the meeting held in between 2 given AGM's for a special purpose such as making a sudden important decision. As per the companies act, to have an EGM, shareholders must be given a notice of 10 working days. EGM's are requested by directors as well as by shareholders through a resolution. Normally EGM notifications are sent by post, email & personal calls.



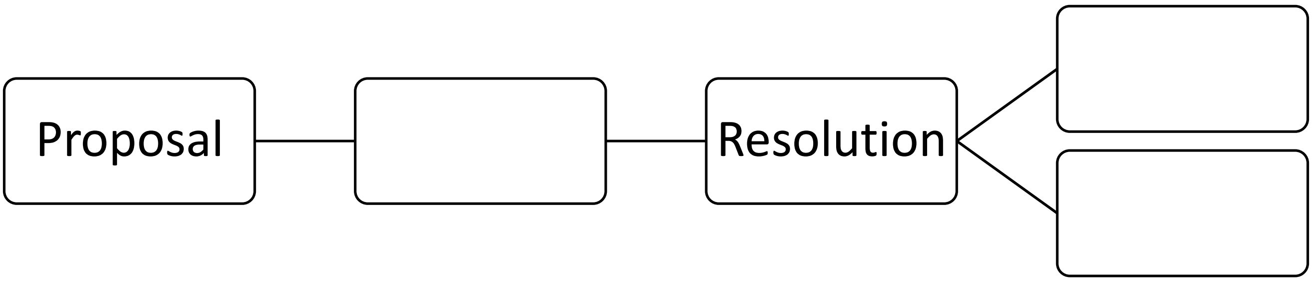
Proxies

This is an independent 3rd party appointed by a shareholder to represent him at general meetings (AGM & EGM) since he may be unable to attend. For this purpose the shareholder must issue a proxy document which must be issued before 48hours from the meeting. This will legally allow the proxy to vote & speak as required.

Note –

Resolutions

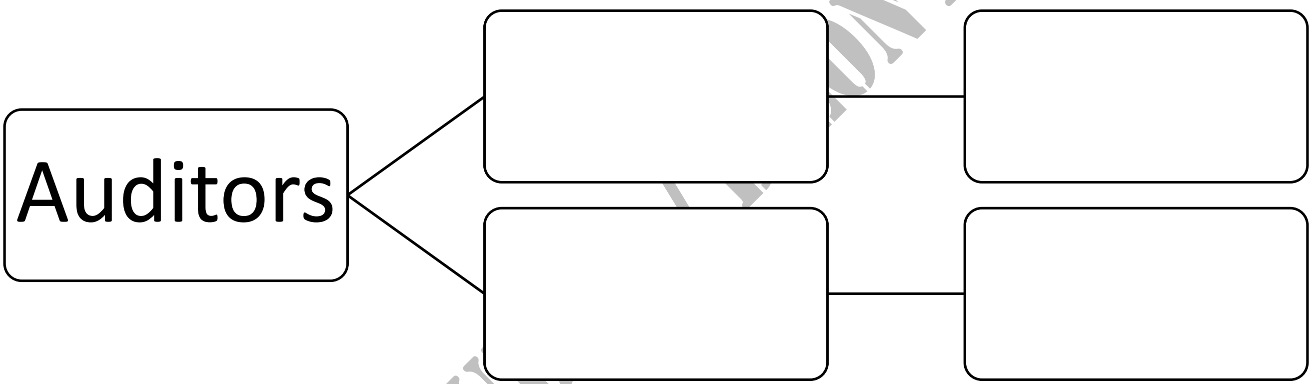
These are the decisions made by shareholders at general meetings through the voting procedure. First an idea / proposal is submitted, which will go through a voting process to determine to approve for implementation or not. Based on the percentage of approval a resolution can be classified as follows;



Note –

Auditors

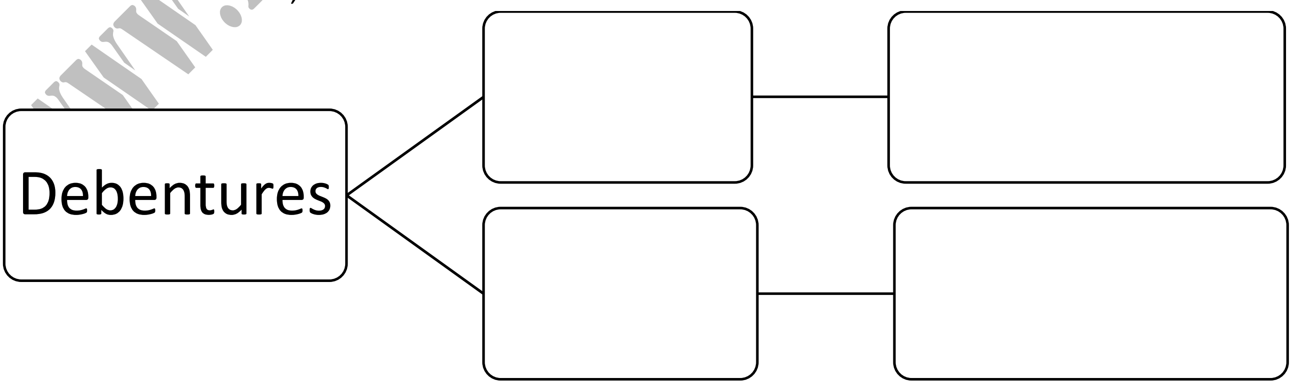
These are persons responsible to check whether all activities of the organization are in line with the rules, regulations & statutes of the company in order to ensure the true & fair view of the organization especially in financial statements. His job it is to carefully check the accuracy of business records Based on their relationship to the company & involvement, Auditors can be classified as follows;



Note -

Debentures

This is where the debt capital of a company is broken into small & equal units & issued to the public for which a fixed rate of interest will be paid. This simply acquiring a loan where the specialty is that it is collected from the public & in small & equal units. Based on security / collateral, debentures can be classified as follows;



Note –

Commercial papers

This is a short term collateral free loan obtained by a PLC from the general public. An interest will be paid where the interest rates are quite high compared to other sources. The time period may range from 1 day – 3 years.

Share Under-writing

This is the agreement a company gets into with a finance company to buy the deficit no of shares if the company is unable to get its minimum subscription. Such measures are taken if the company is doubtful of achieving the minimum subscription. This is similar to an insurance policy.
Note –

Share Certificate

This is the document issued by a company to its shareholder stating that he has purchased a certain number of shares at a given price & he's the owner of the company for those number of shares.
Note –

Share Warrant

This is the document issued by a company to a shareholder stating that the company has all the right to buy back / redeem the shares at a currently agreed price on a future date.
Note –

Dividends Warrant

This is a document issued by a company with its seal stating amount of dividends payable to a shareholder for a certain time period. This will guarantee a shareholder of a certain amount of dividends for a stated number of years.
Note –

Registrar General of Companies

This is the government appointed main person who heads the registrar general's office of companies & responsible for all activities & affairs of limited liability companies in Sri Lanka.

As per the companies act no-7 of 2007, the registrar general of companies has been granted the following powers & authorities;

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Winding up of Limited Liability Companies

This is the process of shutting down the business due to many reasons & liquidating the assets in order to pay the liabilities. A wind up may happen in 3 forms;

1. Wind-up by court order

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2. Wind-up voluntarily

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3. Wind-up on court supervision

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Joint Ventures

This is a short term alliance formed by 2 or more persons or organizations to carry on a project or purpose for a short period of time. This is a new form or type of organization from the original type of alliance members. In contrast this is exactly similar to a partnership except for the time period factor.

Main features of a Joint Venture can be;

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4.5 CO-OPERATIVE SOCIETIES

A Co-operative society is the association of persons who voluntarily come together on the basis of equality for the promotion of the economic interests of the society

The international C-operative association says that; A Co-operative is an autonomous association of persons united voluntarily to meet their common economic, social & cultural needs & aspirations through a jointly owned & democratically controlled enterprise.
Note –

Features of Co-operative Societies

1.	Members	
2.	Capital	
3.	Registration	
4.	Legal Personality	
5.	Management & Administration	
6.	Liability	
7.	Accounting & Auditing	
8.	Profits paid	
9.	Taxation	

Special Features found in Co-operatives

All co-operatives in Sri Lanka will have the below mentioned common features;

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Ethics & Values of Co-operatives

Unlike any other business type, Co-operatives are built on certain values & ethics which can be stated as follows;

1. Self-aid
2. Self-responsibility
3. Democracy
4. Equality
5. Equitable / Reasonable
6. Solidarity
7. Honesty
8. Social responsibility
9. Openness
10. Concern on others

Policies of Co-operative Societies

The first Co-operative society was found in 1844 in England by 28 workers from a village called "Rochdale" by investing a very small capital. Based on the policies brought up by those Rochdale pioneers, the Manchester Summit organization published the following 7 policies in 1995 which are accepted by the international co-operative alliance;

COOPERATIVE SOCIETY
FOR ECONOMIC GROWTH & DEVELOPMENT

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Co-operative Societies in Sri Lanka

Co-operatives started in the first half of the 20th century while the first main act was "Co-operatives Act no-5 of 1972". The act affecting today will be "Co-operative societies act (amended) no-11 of 1992. The criteria followed in Sri Lanka with regards to Co-operatives can be;

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Registration of a Co-operative Society

All registration activities of co-operatives are handled by the commissioner of co-operatives from the department of co-operative development. This department is affiliated to the provincial councils & therefore all registration & other activities are done by the commissioner of the relevant province.

The documents to be submitted for registration can be;

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Government Organizations governing Co-operatives in Sri Lanka

The following 4 government established & operated organizations can be found in Sri Lanka affecting Co-operatives;

Department of Co-operative Development	National Co-operative Board of Sri Lanka
The main government appointed organization responsible for all main activities & affairs related to Co-operatives in Sri Lanka.	The national level organization consisting of board of directors appointed by the government & co-operative agents.
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Co-operative Employees Commission of SL	National Institute of Co-operative Mgt
The government appointed organization responsible for all employee (HR) related activities & affairs of Co-operatives in SL.	The national level organization providing the necessary management knowledge & skills to Co-operatives in Sri Lanka
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The Co-operative Structure in Sri Lanka

The structure in Sri Lanka can take 3 levels;

Primary	Secondary	National

Importance of Co-operatives to Sri Lanka

For a developing country like Sri Lanka, a co-operative society can play a major role which can be elaborated as follows;

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New Trends in Co-operatives

Following are some of the new trends that can be identified in a competitive dynamic business world;

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Failure of Co-operatives in Sri Lanka & Suggestions to Improve

The following reasons can be highlighted as some of the reasons for the failure of co-operatives especially the retail outlet segment starting from "Sathosa" along with some suggestions to improve the current situation.

Reasons	Suggestions
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4.6 SPECIAL BUSINESSES

Franchises

A franchise is a legal & commercial agreement between the franchisor & franchisee with regards to a franchise business. In other words, the arrangement where one party (the franchiser) grants another party (the franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or service according to certain specifications.

Ex-

Parties in a Franchise Business

Two main parties can be identified in a franchise business;

Franchisor

Franchisee

Franchise Agreement

This is the written & legal binding agreement / contract between the franchisor & franchisee including all important conditions & clauses with regards to running a franchise business. A franchise agreement is formed for a certain time period where a further renewal or cancellation can be made as required. This outlines the franchisor's terms and conditions for the franchisee & the obligations of the franchisor and the obligations of the franchisee.

Note –

Methods of Franchising

Franchising can mainly take place in the following 3 methods;

Product / Trade Name

Manufacturing

Business Format

Franchisor vs Franchisee

Franchisor provides	Franchisee does
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+.	+.
+.	+.

Franchisor	
Advantages	Disadvantages
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Franchisee	
Advantages	Disadvantages
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Franchises in Sri Lanka	
Franchisor	Franchisee
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Business Combinations

A Business Combination is types of different mixes that can be found in business activities & forms. Due to globalization & a dynamic environment, today's businesses don't stick to one business or field, but instead they prefer a variety other forms to keep the business' profitability & momentum going.

The 2 most common types of combinations can be;

1. Mergers

This is where 2 or more businesses join together in business & other means to work together in all markets or a given specific market segment. Here no company is taking over another & therefore under normal circumstances, one company can't rule over another.

This is a very common strategy adopted by many businesses today especially when they want to avoid unwanted competition & stand strong against direct & indirect competition from other businesses.

Ex-

2. Acquisitions

This is where one organization buys out the equity capital or ordinary shares (fully or majority) of another company & therefore securing ownership & control. This is exactly similar to a parent company & subsidiary.

These acquisitions are very common in the world today where strong companies takeover weak companies either on an agreement or in a hostile manner through the stock market.

Ex-

Different Types of Business Combinations

1.	Vertical Combination	
2.	Horizontal Combination	
3.	Conglomerate Combination	

4.	Market Extension Combination	
5.	Product Extension Combination	

4.7 PUBLIC SECTOR BUSINESSES

These are organizations which are owned (fully or majority), established, financed & managed by the government of a country. Most of these organizations are set up by the government in order to provide social welfare & benefits to the public at a very concessional rate.
Ex-

State Corporations

This is an organization which is owned (fully or majority) by the government & incorporated under a parliamentary act (special or common) other than the companies act to provide products (goods & services) to its citizens. Most of these products fall into the essential category.

Characteristics of State Corporations

1.	Ownership	
2.	Incorporation	
3.	Sources of Income	
4.	Sources of Capital	
5.	Management & Administration	
6.	Legality	
7.	Liabilities	
8.	Accounting & Auditing	
9.	Profits & Losses	
10.	Motive	

Examples for State Corporations-

Government Departments

These are organizations that are fully owned & controlled by the government which have been established to carry out government administration, policies & services. This is where people go when they need to get any government administration work done such as getting the national identity card, drivers licence or even the passport.

Characteristics of Government Departments

1.	Ownership	
2.	Incorporation	
3.	Sources of Income	
4.	Sources of Capital	
5.	Management & Administration	+. +. +.
6.	Legality	
7.	Liabilities	
8.	Accounting & Auditing	
9.	Profits & Losses	
10.	Motive	

Examples for Government Departments-

State Companies

This is type of PLC which is incorporated under the companies act no-7 of 2007 with a profit motive where the government or any government institution owns 51% or more of the ordinary share capital of this company. These companies were opened in an era where state corporations were inefficient & unsuccessful.

Ex-

Organizations run by Local Authorities

These are organizations which are owned & run by the local authorities (Provincial Councils, Municipal Councils, Urban Councils & Pradeshiya Sabhas) of the country. These local authorities will fund, manage & administrate the respective organization which are mostly carried out for the benefit of the people.

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Reasons for State Ownership

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Advantages of State Ownership

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Disadvantages of State Ownership

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STUDENT'S NOTES

Support Class Information

ADVANCED LEVELS - 2022 / 2023 / 2024

Business Studies (Theory program) by Mr. Dilon Anthonys

- **Vision International School** – Kandy – Info – 0777277729
- **Sigma Institute** – Colombo 06 – Info – 0112-559877
- **Online** – www.mind-hub.lk/programs/business-studies

Economics (Theory Program) by Mr. Imran Hasheem

- **Sigma Institute** – Colombo 06 – Info – 0112-559877
- **Online** – www.mind-hub.lk/programs/economics

Accounting (Theory Program) by Mr. Pasindu Wijerama

Contact on 0773002551, 0705002551 for more details on the Accounting class.

More details visit www.mind-hub.lk & register for online classes. Hotline 0777277729
General Information hotline – 011-2559877, 011-4935135