

A-Level Business (9609)

TaYYaB Elahi

(0300-8461922)

Visiting Teacher

Lahore Grammar School

KIMS

GACS

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About the author

The author, Mr. Tayyab Elahi is a veteran teacher with over a decade of experience at educating and cultivating success in students for A-level business and the life thereafter. He has upskilled students to their true potential at prestigious schools like the Lahore Grammar (Phase 1 & 5 campuses), Keynesian institute of management & sciences (KIMS), Garrison academy for Cambridge studies (GACS), etc, as a visiting member of the faculty. Having worked and lived in London, he has an innovative and diverse approach to stimulate a learning environment to not just pursue success but rather have excellence follow it.

Preface

These revision notes have been long overdue and been in the works for the past two to three years. It is mainly thanks to my loving wife and the kids who have patiently held on to the sight of me being a sleep-deprived laptop zombie. These notes are an amalgamation of the collective knowledge pooled in over the years thanks to my inquisitive students, exemplary resources and most prominently my own teachers who instilled within me a love for knowledge and its practical application.

Key attributes to this book, which not just students but teachers as well might find helpful in achieving the best grades:

- Specifically written for the A level Business 9609 CAIEs 2019-2021 syllabus.
- Colour coded content and reader-friendly infographics enhancing visual memory.
- Gradual building block learning.
- Concise yet comprehensive definitions constituting of all key terms that could get tested.
- An exemplary guide to “expressive writing” expected of A level business candidates.
- Mind-maps that your mind will not mind mingling within your mind’s memory. They cling on.
- Innovative approach to exam preparation.

Even though it is highly recommended that these notes are used in conjunction with Business textbooks prescribed by your teachers, these are reliable enough to help you pull through your final days towards exam prep sessions as well as to establish an all-round thorough understanding of key business concepts and how are they should be put to practice differently in each of the respective papers; P1, P2 and P3.

Feel free to get in touch with me through my Facebook page

<https://www.facebook.com/OALevelsBusiness/>

to clarify any ambiguities or thoughts these newer perspectives might provoke in your mind.

Wishing you all the best for your exams.

Best regards,

TaYYaB Elahi.

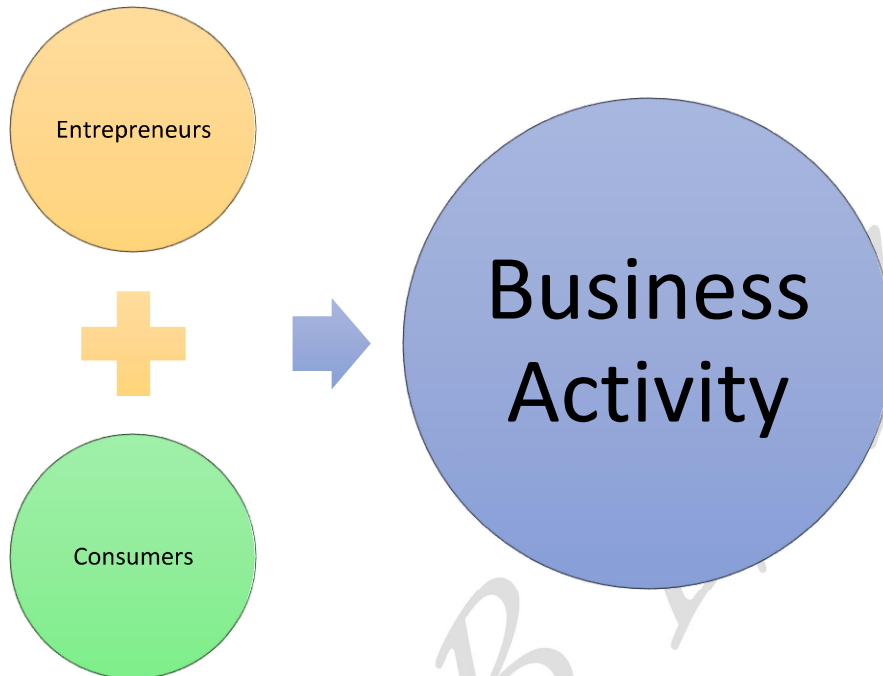
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SEC 1: BUSINESS ACTIVITY AND EXTERNAL INFLUENCES

Who needs Business Activity and Why?



An **Entrepreneur** is a person who has a flair for business ideas and is willing to take the risk of setting up a business by investing his capital into it.

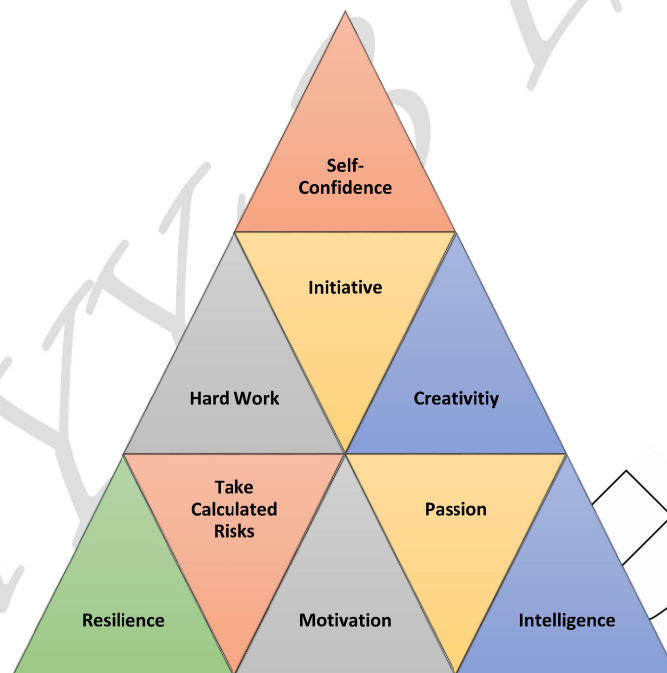
The word “risk” in English language, simply refers to chances of things going wrong. In the context of a business risk refers to the chance of incurring a loss, the chance that the entrepreneur might end up losing the entire capital (in some cases his lifelong savings) he had invested in the business. Yet, this doesn’t deter entrepreneurs, here’s why?

Why would a person want to become an entrepreneur?

- ✓ **In order to make money;** Money in the business comes in the form of profits which is the excess revenue over the costs of a business and generally it would make sense that taking the risk of a loss would only be worth it, if the profits earned by the business are greater than the wages or salary, he/she could’ve earned otherwise. (Profits > Salary)
- ✓ **To be his/her own boss;** Many individuals do not like the idea of taking orders from others or being bossed around due to their self-respect, dignity, ego etc. Just recall the last time your elder siblings told you to do something for them and you will know the feel. Why take orders when you can give em!
- ✓ **To be independent:** being employed for someone creates both financial and non-financial dependence. The employee keeps looking up to his boss for guidance and approval and his/her cash cycle depends on that of the business. Not everyone is comfortable with such a dependent situation. Just imagine the agony you tend to go through awaiting your pocket money from your parents or simply waiting for your friend to pick you up for a hangout. Relatable?

- ✓ **To enjoy flexibility;** Not everyone likes to wake up early in the morning (Do you?) or the 9-5 work routine or working 5 days a week, but being an employee does not offer the liberty to work on one's own schedule which can be a compelling reason for someone to start a business.
- ✓ **Personal ambition, status and/or Individuality;** Some people have the passion for making a name for themselves, converting their identity into a greater existence acknowledged and recognized by the entire world. Entrepreneurs such as Bill Gates, Steve Jobs, Laxmi Mittal, Sir Alan Sugar, Richard Branson, Mark Zuckerberg all rose to fame thanks to their business models and leadership skills. Similarly, if not for fame, our societies tend to envy and respect employers more than the employees, hence, the greater status in society.
- ✓ **To explore their creativity and potential;** The workplace can act as confinement on the abilities, skills and potential of people as most of them tend to commit employees to monotonous and repetitive work routines that keep them occupied with enough to even consider following up on an idea they once had. Indeed, if it wasn't for the personal space offered by entrepreneurship, we wouldn't even give any heed to all these high-profile names listed above.

Key Attributes of successful Entrepreneurs



BUT that's all just one side of the picture, entrepreneurs in order to make money need someone willing pay them money, in return for providing them with something they might be interested in. Who are they?

THE CONSUMERS!

WHY DO CONSUMERS NEED BUSINESS ACTIVITY?

Before the why, what exactly is a consumer?

A **Consumer** is an existence that uses commodities for personal or business use. So, in short, its everyone; whether it's an infant, a teenager or someone elderly, rich or poor, male or female, black or white, Muslim or Christian, an individual or a group and even a cat or a dog. Consumption is a trait common to all, being alive we **need** no.1 to stay alive and no.2 we **want** to live it in the best possible way. As such consumers need business activity to be provided with commodities that can satisfy their **needs** and **wants**.

Needs

The basic survival kit, the necessities common to everyone to be able to continue living.

- Food (Hunger)
- Shelter (Protection)
- Clothing (comfort and covering)
- Transport (move)

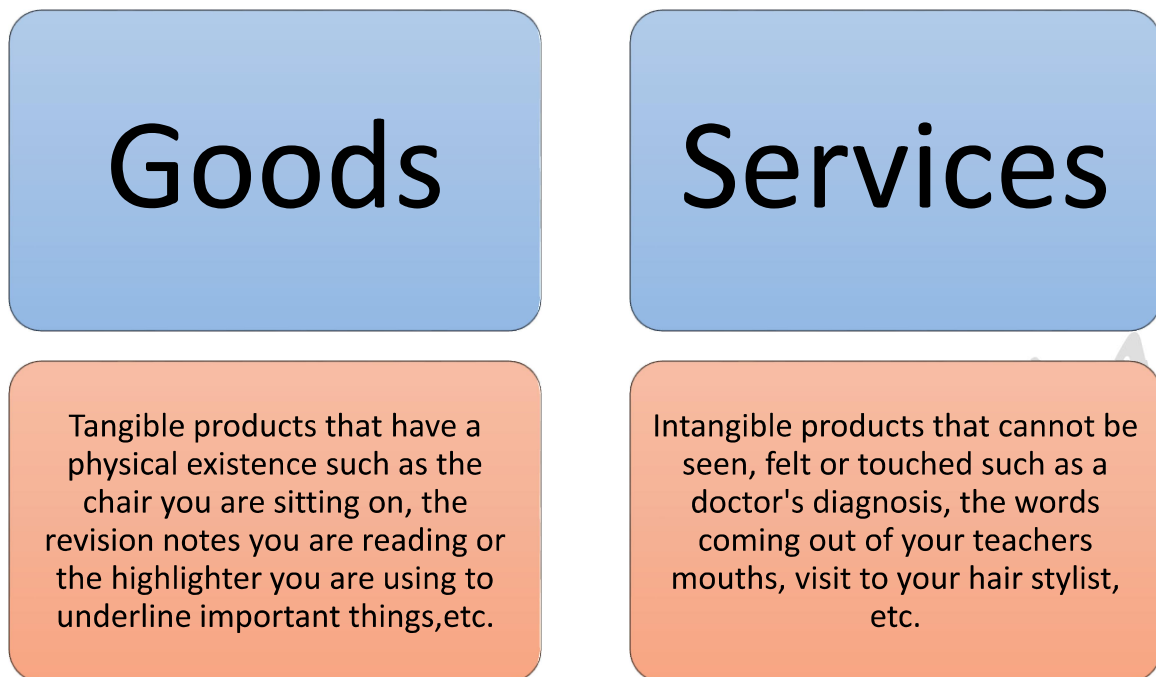
Wants

Everything in excess of a need, everything born out of desire, our wishes which vary from person to person.

- a lavish and delicious meal served with an eye-catching presentation in an ambient environment.
- Luxury bungalow with a swimming pool and jacuzzi
- Armani, Hugo Boss, Zara, Sapphire
- Bugatti Cheyron

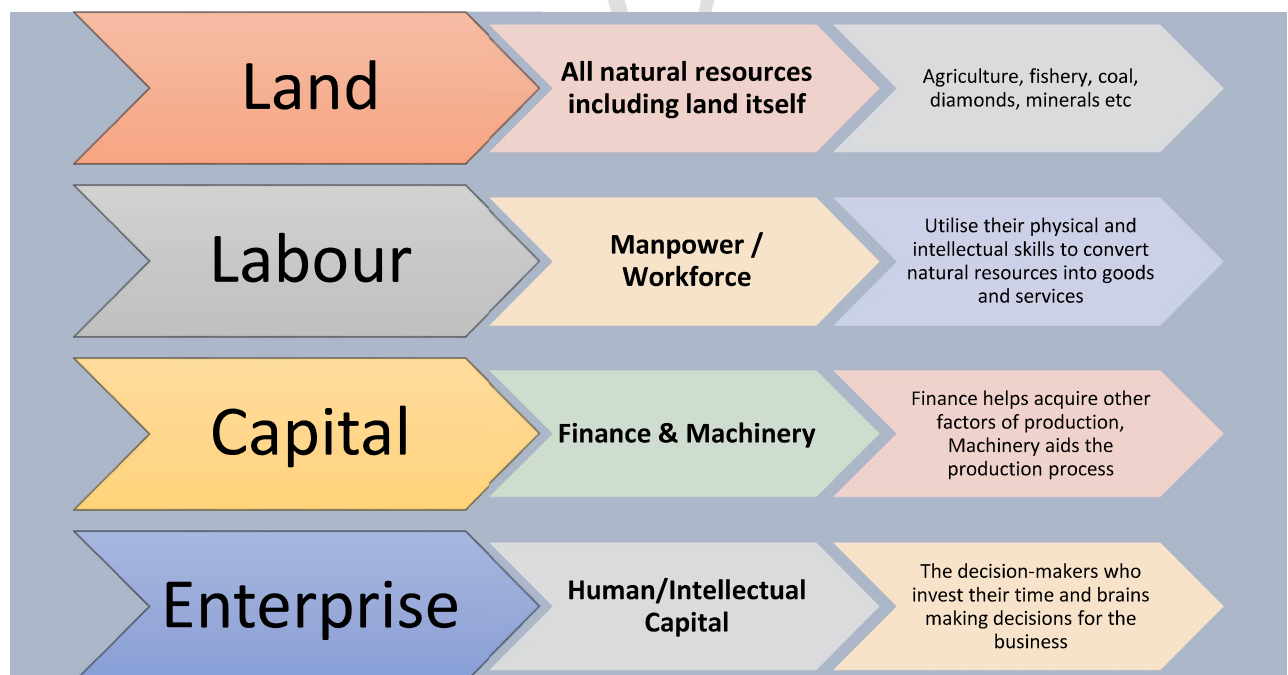


Products can be categorized into:

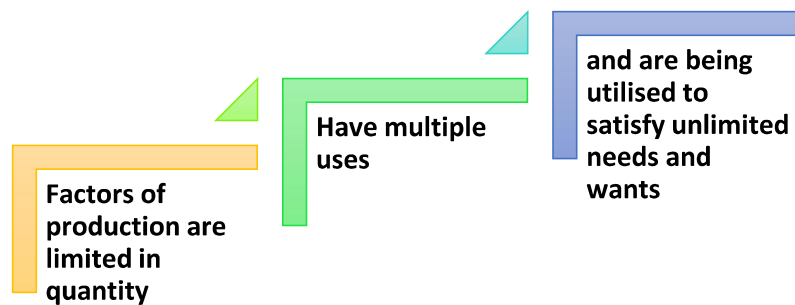


In order to produce goods and services, businesses need resources popularly categorized as

Factors of Production



Scarcity of resources – The basic underlying economic problem



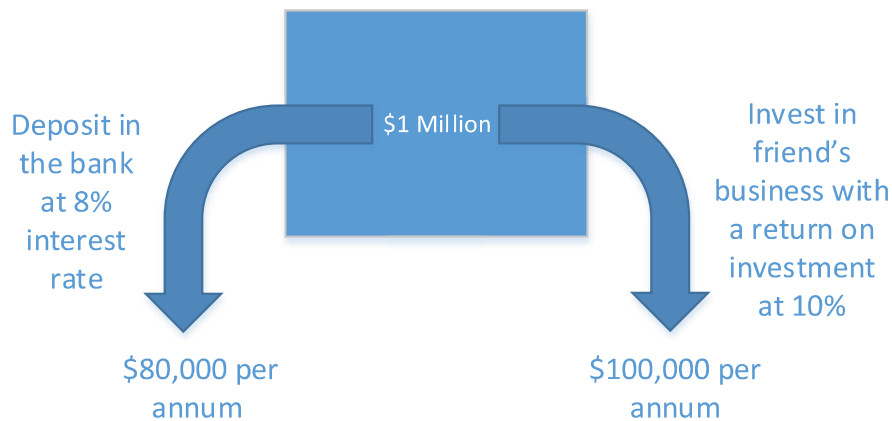
“Nothing in life is free.”

A popular phrase that you might already be familiar with. Why it holds true is because scarcity of resources creates a cost for every business decision. No, that’s an understatement, it creates a cost for every decision that we make in our lives whether as an individual or in any professional capacity. This inherent cost, part of every business decision making process is known as the **Opportunity cost**. It is defined as the **cost of giving up the next best alternative use of a resource by utilizing the resource somewhere else**.

This is a highly applicable concept not just to any business decision making but also to our daily lives. The simple gist is that because resources have multiple uses, we must choose how in particular that resource is to be utilized. Once we’ve finalized a particular use, we’ve also given up so many other uses of the resource that were possible but it isn’t all of them that are the opportunity cost, **it’s the next best use that we chose not to put it to that becomes our opportunity cost** – the runner up use. For example, for students like you the pocket money is an essential resource that your parents provide you with. It is firstly, limited in quantity. Secondly, you will put it to so many multiple uses such as buying lunch from the school canteen, topping up your mobile balance, buying video games, hangouts with friends, shopping for clothes, etc. and yet finally you won’t be able to do everything you wanted to with it. However, this only illustrates scarcity, in order to understand the opportunity cost let’s pursue the example that you only have two possible uses for the pocket money and those are either you can go on a road trip with your friends or you could go shop for all those cool clothes you had been looking at online. Ideally, you would want to do both but given the limited amount of money you’ve you can only choose one of the two. This is where opportunity cost comes into play, now you must **incur the cost of giving up one opportunity to avail the other**.

And as we said earlier that it’s the next best alternative use of the resource that becomes the opportunity cost, given the example above if you choose to go shopping, then trip in itself isn’t the opportunity cost, the fun, leisure and memories that you are going to miss out on will be the opportunity cost. Similarly, if you decided to make the trip, shopping in itself isn’t the opportunity cost, which means **“it’s use”** i.e. the feeling of looking cool in those clothes, that modelling in front of the mirror and the selfies you were going to take will become the opportunity cost.

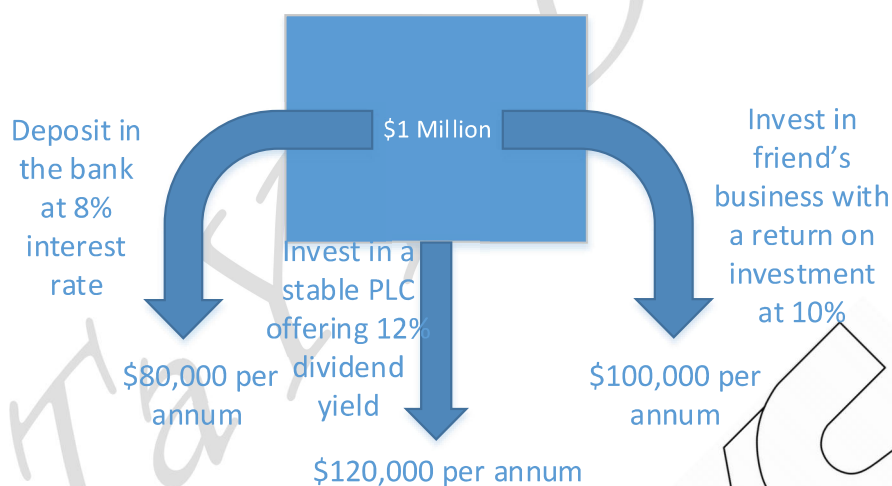
So, emphasizing on the use of the resource, as such **Opportunity cost of Capital is the cost of giving up the next best alternative rate of return by investing the capital somewhere else**.



Imagine you wake up one day to find your dad handing you over a million-dollar cheque telling you to live it off and you jump with excitement thinking it's too good to be true (well, it is. Keeping dreaming!)

Anyway, being a business student, you realise that this is an excellent opportunity that you shouldn't blow away partying (yeah right! This has nothing to do with being a business student, you should totally party as soon as you've the cheque cashed ;)) so you consider your choices as illustrated in the diagram above and settle for investing in your friend's business, naturally the 8% return becomes your opportunity cost.

However, being a prudent person, you consider your choices further and finally narrow it down to these three.



Now considering the unreliable and instable nature of the new business your friend is setting up, you decide to invest in a Public limited company that's existed for decades and now your opportunity cost is not the 8% bank interest rate as it's not the next best alternative use to your current choice. Now it's the 10% return on your investment that was being offered by your friend that becomes your opportunity cost.

As we always keep hearing about minimizing the costs, the same goes for opportunity cost. However, that is not literally possible but could be done in relative terms by generating a greater return out of the chosen option through an effective application of the 3E's and Division of labour.

Efficiency – measures and compares quantities of outputs vs inputs
Effectiveness – refers to the quality of output produced
Efficacy – the quality of inputs being used

Division of Labour is the process of breaking down the entire production mechanism into smaller tasks that are specifically allocated to an individual employee (or workgroup) facilitated by technology to be performed on a continuous basis leading to **specialization**.

“Practice makes a man perfect.” (and women too!)

And as such yields the following benefits:

- ✓ Reduction in the time taken to produce an individual unit.
- ✓ Reduction in the wastages as chances of human error diminish.
- ✓ Improved and standardised quality of output.
- ✓ Greater consistency.

Division of labour eliminates the “The jack of all but master of none” feeling in the workforce by making them skilled experts and specialists at what they do, but in the long-run this can create some unwanted costs for the business, such as:

- ✗ Boredom and monotony amongst the workers due to the repetitive nature of work reducing productivity.
- ✗ Increased dependence on the specialist skills of expert workers also leading to an increased bargaining power for workers.
- ✗ Confined towards creativity and innovation due to rigorous repetitive work killing opportunities for brain storming.

The benefits can however, help reduce the costs such as per unit labour costs and wastages and might enable the business to charge a premium price for the superior quality products leading to improved profitability and relatively reduce the opportunity cost by getting more out of the chosen option.

Opportunity cost also verifies in due time if the decision taken was right or not, as eventually in the future if the chosen option fails to yield a greater return than the opportunity cost, there is definitely a reason to regret the original decision.

Why do Businesses exist?

Till this point the discussion has been mostly about the need for business activity in general and not specifically as to why an individual business might exist?

The answer to this question is mostly provided by the business itself officially stated in its **Mission** statement containing its **Aim** which seeks to address the overall purpose behind its existence often in a memorable way. You might’ve already seen the one for your school printed on the first page of the prospectus or might easily find one online or through the stock exchange for listed companies. As introductory informative these statements still are vague and do not hold true at times for the current situation of the business.

Here are some examples:

Ford Motor Company PLC "...is a worldwide leader in automotive products and services, as well as in newer industries such as aerospace and communications. Our mission is to improve continually and meet our customers' needs, allowing us to prosper as a business and to provide a reasonable return for our shareholders."

General Electric's mission is "to invent the next industrial era, to build, move, power and cure the world."

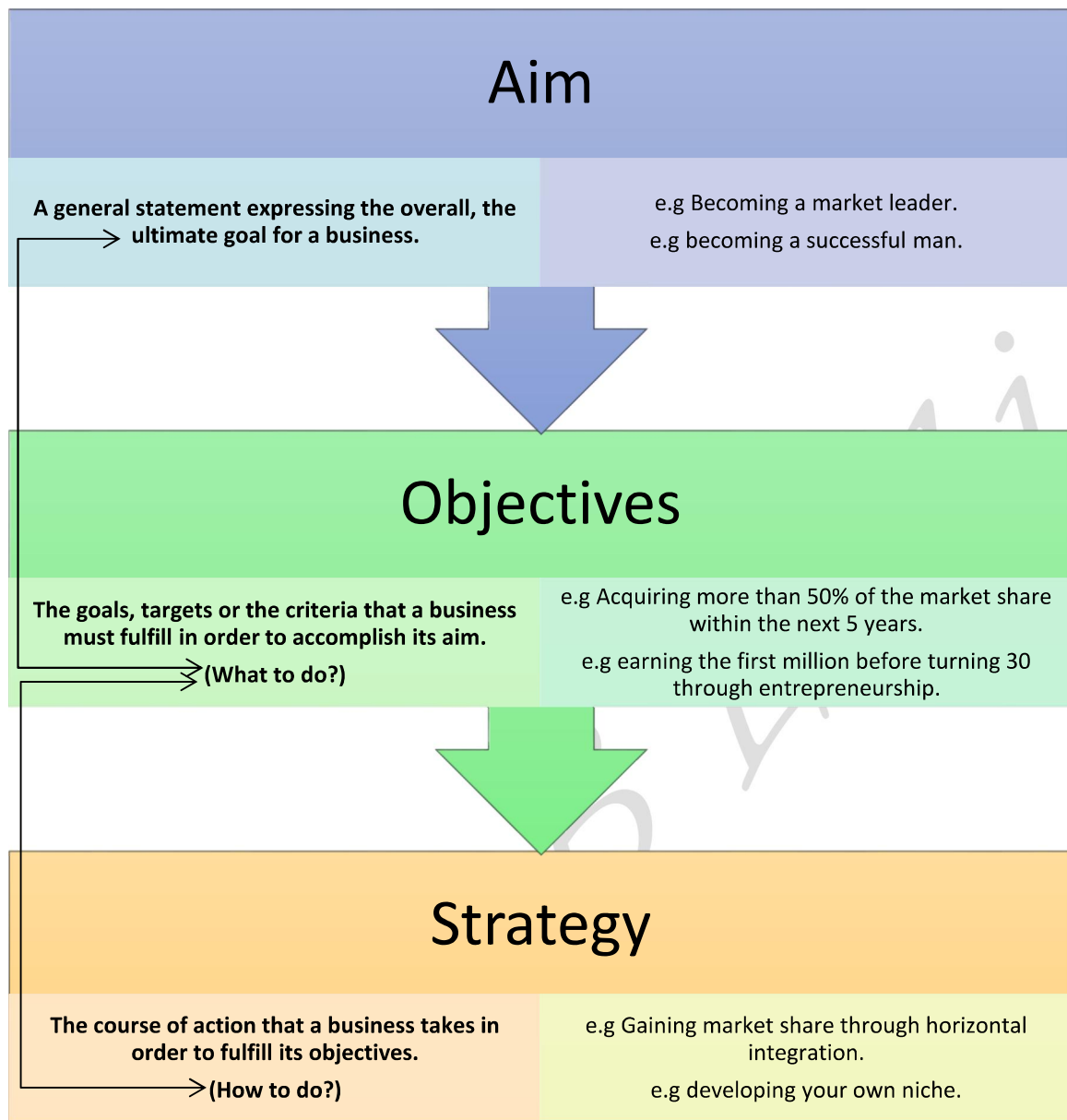
Apple Inc's mission statement is more of a disappointment considering the greater stature of the company it feels more like a glorified product list: "Apple revolutionized personal technology with the introduction of the Macintosh in 1984. Today, Apple leads the world in innovation with iPhone, iPad, Mac, Apple Watch and Apple TV. Apple's four software platforms — iOS, macOS, watchOS and tvOS — provide seamless experiences across all Apple devices and empower people with breakthrough services including the App Store, Apple Music, Apple Pay and iCloud. Apple's more than 100,000 employees are dedicated to making the best products on earth, and to leaving the world better than we found it." But then perhaps Apple believes in doing and telling instead of telling and doing.

AliBaba group's mission is "To make it easy to do business anywhere. We provide the fundamental technology infrastructure and marketing reach to help merchants, brands and other businesses that provide products, services and digital content to leverage the power of the Internet to engage with their users and customers. Our businesses are comprised of core commerce, cloud computing, digital media and entertainment, innovation initiatives and others. Through investee affiliates, we also participate in the logistics and local services sectors."

And finally, your all-time favourite **Facebook's** mission is "to give people the power to share and make the world more open and connected. People use Facebook to stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them." (In case you are looking for more interactive learning and connecting feel free to follow my page: www.facebook.com/OALevelsBusiness/ or simply search for "O & A level Business with TaYYaB Elahi".)

And my personal favourite under the leadership of Elon Musk, **Tesla's** mission is "to accelerate the world's transition to sustainable energy."

As evident from the above, these are good introductory statements giving different stakeholders of the business some idea about the business, perhaps good from a marketing perspective but for the management and workforce of the business that actually needs to fulfil such aims, these are general guidelines and perhaps only a starting point to get them started onto detailed planning to fulfil the aim – the ultimate goal.



The process of planning to fulfil the aim(s) starts with transforming the vague overall goal into clearly defined and understandable **Objectives**; the goals and targets that businesses setup in order to fulfil their aim. In order for these objectives to be effective, they need to be:

S
M
A
R
T

SPECIFIC – to the point.

MEASURABLE – in terms of something quantifiable.

AGREED UPON – by the participating **stakeholders** who are expected to fulfil them.

REALISTIC – practically possible determined by the gap and the resources available

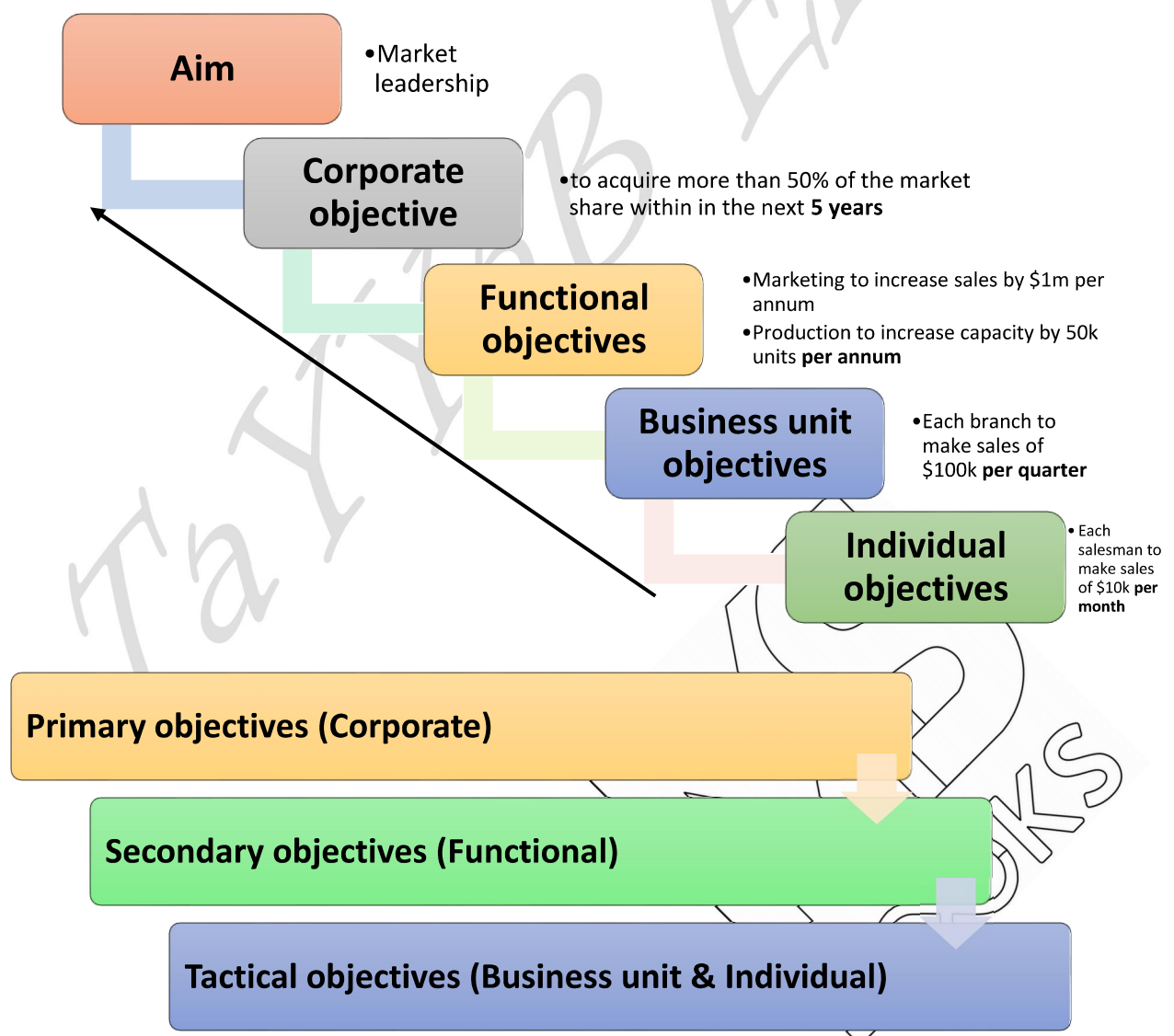
TIME-BOUND – without a time limit the clock could keep running forever.

Purposes/Benefits of setting Objectives:

- ✓ Objectives provide a sense of direction for the management to work towards.
- ✓ They aid the process of decision-making as management knows what must be accomplished.
- ✓ Help prioritising issues to enable effective organisation and co-ordination of resources.
- ✓ Act as source of motivation by creating a sense of challenge for the workers.
- ✓ Act as key performance indicators (KPIs) helping the management monitor and evaluate their performance over time.
- ✓ Help define job roles.
- ✓ Provide a rational and scientific insight into managing business operations.

But how do objectives make it possible for all that's listed above to happen?

Taking on from the example discussed above regarding a business with the aim of becoming a market leader and the SMART objective of "acquiring more than 50% of the market share within the next 5 years". This does not tell an individual employee as to what he needs to do that will make this possible and that is why these long-term objectives need to be broken down into smaller supporting objectives on the basis of time and scale. The following **Hierarchy of objectives** should help you wrap your head around the dynamics of this.

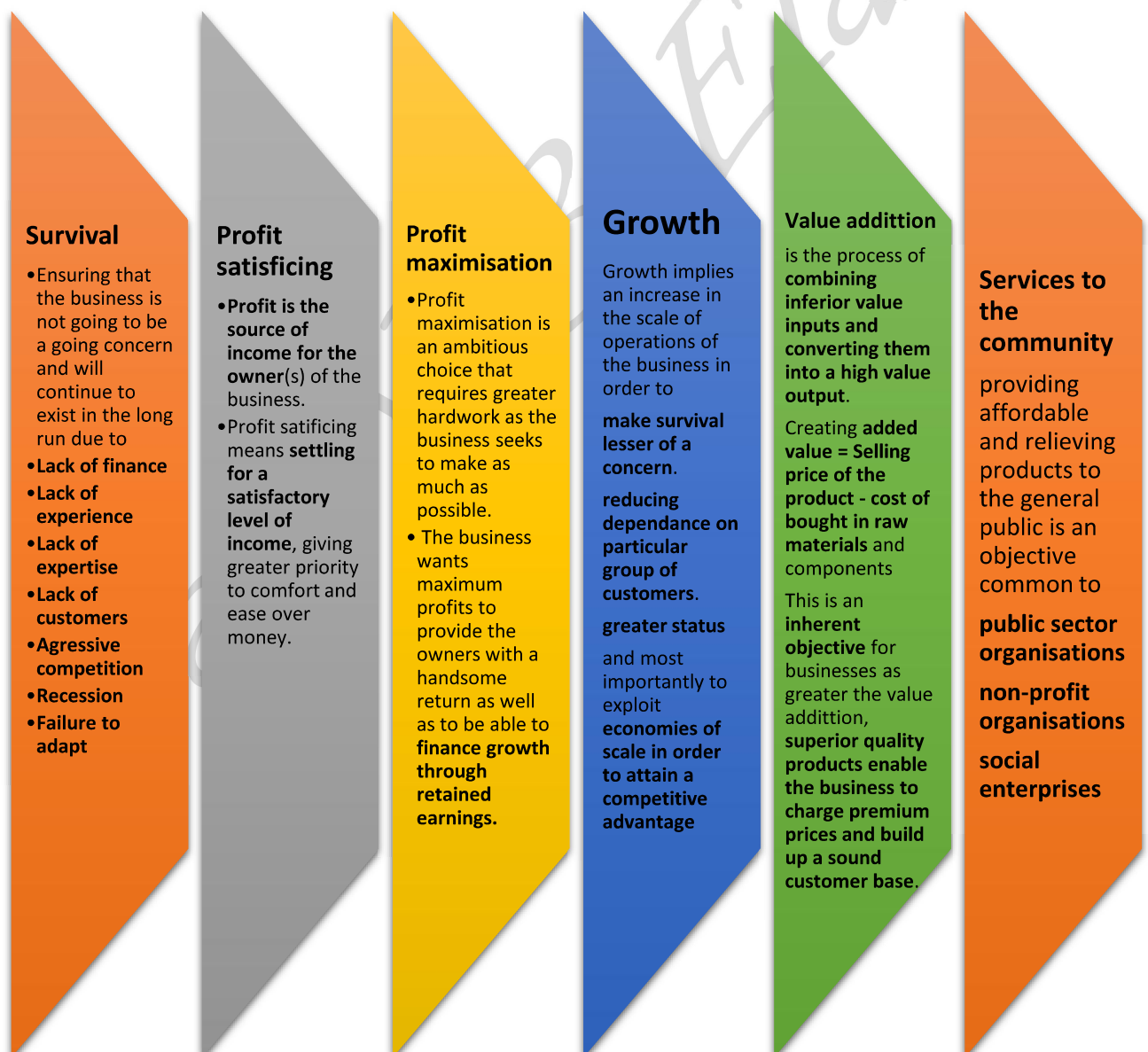


Corporate objectives are the long-term goals set-up by the senior management of a business for the entire organisation to fulfil their aim. They are also classified as the **primary objectives** as fulfilling these targets is crucial for the success of the business.

Secondary objectives are defined in order to support the fulfilment of primary objectives. Hence, they become specific and concise in context of functional, product line or geographic specialisms spread over a shorter span of time.

Tactical objectives are the day to day operational targets fulfilling which supports successful achievement of the secondary objectives. These are the grass root goals that mark the completion of planning process but more importantly are the starting point for the execution of plans.

“Planning” as stated earlier means preparing ourselves for the future. That means by setting objectives for every layer of hierarchy in the organisation, we’ve at least prepared ourselves for what needs to be done from top to bottom, but that is all just on paper. In order to deliver on the future, we need to start today from the bottom to the top, we need to climb up the ladder of objectives step by step to eventually proudly stand at the top of success.



Stakeholders are people or entities that may have a direct or an indirect interest in a business's activity. Examples include the following as categorised and etc.

Internal	Connected	External
<ul style="list-style-type: none"> • Directors • Managers • Employees 	<ul style="list-style-type: none"> • Shareholders • Suppliers • Customers • Banks • Advisors • Competitors 	<ul style="list-style-type: none"> • Government • Local community • Pressure groups • Media

Stakeholders are important to businesses as they can facilitate or undermine business's ability to accomplish their objectives. In fact, businesses are dependent on a variety of stakeholder groups to ensure successful implementation of strategies designed to meet the set objectives. As stated earlier that objectives need to be SMART, the "A" in this acronym implicating that they need to be "Agreed upon"; agreed upon by who? By the participating stakeholders and this could be an odd balance for the management of a business to strike as they all tend to have **different degree of interest** vested in the business along with a **different degree of influence** that they can exert on it, frequently creating a **conflict of interest** among themselves and between the business objectives and them owns.

Stakeholders	Main Interests	Power & Influences
Directors & Managers	Salary, share options, status, job satisfaction	Decision making authority, have access to information
Employees	Pay structure, job security, job satisfaction and motivation	Labour turnover, trade union pressure, efficiency and effectiveness of work
Shareholders	Share price growth and dividends	Election of directors at AGMs
Suppliers	Timely payments, larger orders	Pricing, product availability, quality of inputs
Customers	VFM products, customer services, quality	Source of revenue, repeat purchases, word of mouth marketing
Banks	Interest and principal repayments	Can enforce loan covenants
Government	Legal operations, tax collection, employment opportunities	Intervention, support, regulation, policies
Local community	Environment, jobs, local impact	Indirect via local bodies, pressure groups

Mentioned below is an example of a conflict of interest might arise between different stakeholders and a business's objectives with assumptions stated in front of wherever the 😞: **conflict of interest** arises.

	Profit Maximisation	Growth
Shareholders	😊 as they get to earn greater dividends	😞 as the business might cut down dividends to fund growth.
Managers	😞 if profits are not being re-invested for growth	😊 managers will have a greater status and promotion opportunities in a larger business
Employees	😞 if cost cutting measures are put in place to maximise profits	😊 greater job security and skills development
Suppliers	😞 the business might emphasise on negotiating lower prices	😊 bulk orders
Customers	😞 might be charged higher prices or offered a lower quality	😊 might be able to avail the same product at cheaper prices
Banks	😞 might be due to lesser borrowings	😊 to fund growth business might borrow from the bank
Government	😊 greater tax revenue	😊 reduced unemployment

As evident from the many unhappy faces above, it is quite rare for businesses to have a win-win situation where they can please everyone ("just like in life. Innit?"). However, the management must not just keep the show running but also put on a good one and for that reason they have to prioritise among different stakeholder groups and plan accordingly. By winning the support of key stakeholder groups businesses can improve their chances of success and increasingly businesses are paying much closer attention to wider stakeholder groups as compared to the shareholder centric approach in the past (such as the one you might have bothered to read in Ford's mission statement earlier :P). We will be re-visiting these in the final section of strategy under a business model: "Stakeholder map". However just to leave an imprint on your mind, here's what's happening in the business world these days: *"We are moving from a chain of command to a web of connection, from competition to collaboration, from markets to networks and stockholders to stakeholders, and greed to green."* - Anodea Judith

"So much business is based on the belief that we should do whatever we can within legal limits to make as much money as we can. Ben & Jerry's was based on values and we try to operate a business

that not just sells ice cream but partners with all our stakeholders – whether that’s suppliers or customers, to bring about a more sustainable world.” – Jerry Greenfield

Legal forms of ownership

Legal structure	No of owners	Incorporated – separate legal entity	Limited Liability*	Profit & Loss	Decision-making and autonomy	Legal Requirements
<i>Sole trader</i>	1	✗	✗	Owner’s	Owner’s	Minimal
<i>Partnership</i>	2-20	✗	✗	Shared	Shared	Articles or Deed of partnership
<i>Limited liability partnership</i>	At least 1 general partner (GP), up to 19 limited partners (LP)	✗	Only to limited partners	Shared but GP’s share > LP’s share	Shared by GP’s only	Articles or Deed of partnership
<i>Private limited company</i>	Up to 50 friend & family members	✓	✓	Dividends	Board of directors	Articles & Memorandum of association
<i>Public Ltd co</i>	Unlimited	✓	✓	Dividends	Board of directors	Detailed articles & memorandum of association + Annual general meeting + Published financial statements

***Limited liability** restricts the extent of owner’s liability to settle the financial obligations of a business to the extent of their original investment. Having unlimited liability means that in case a business fails to settle its financial obligations, the court of law may order that the personal possessions of the owners to be utilised to settle the outstanding payments. Obviously, limited liability reduces the risk involved in entrepreneurship and is mainly available in incorporated businesses.

***Incorporated** businesses are those that have a separate legal identity from that of their owners and such a status is bestowed upon by the company’s registrar (government body) upon application for an incorporation certificate as a private or a public limited company. This enables the business to

own assets in its own name and protects the owners against law suits as they are filed against the company itself.

A **Sole trader** is an unincorporated legal structure of a business owned and controlled by a single individual having unlimited liability.

A **partnership** is an unincorporated legal structure for a business that can be owned and controlled by 2-20 individuals all having unlimited liability sharing profits & losses and the decision-making power as defined by the deed of partnership between them.

A **limited liability partnership** is an unincorporated legal structure for a business owned and controlled by at least 1 general partner having unlimited liability and owned by up to 19 limited partners having limited liability.

A **Private limited company** is an incorporated legal structure that can raise capital by selling its shares to up to 50 friend & family members who earn dividends in return for their investment and have limited liability.

A **Public Ltd Co (PLC)** is an incorporated premier legal structure listed on the stock exchange that enables the business to raise a vast amount of capital by selling its shares to members of the general public offering them dividends and share price growth along with limited liability.

TaYTaB

Legal Structure	Benefits	Drawbacks
<i>Sole trader</i>	<ul style="list-style-type: none"> ✓ Complete autonomy in decision making. ✓ Quick decision making as no approval needed by the sole decision-maker. ✓ Gets to take home all the profits. ✓ Easy to set-up. 	<ul style="list-style-type: none"> ✗ Faces a greater risk of losing personal possessions due to unlimited liability. ✗ No one at par to consult with, might end up making mistakes. ✗ Has to incur all the losses. ✗ Limited capital as confined to owners saving or expensive bank loans.
<i>Partnerships</i>	<ul style="list-style-type: none"> ✓ Up to 20 partners can pool in their savings providing the business with greater capital to pursue growth. ✓ Sharing of expertise and ideas. ✓ Consultation based decision making. ✓ Despite having unlimited liability, the risk of losing personal possessions is now shared by a number greater than an individual. ✓ Have someone to share the losses with. ✓ Might help boost sales and business such as lawyers and accountants running a practice together. 	<ul style="list-style-type: none"> ✗ Loss of autonomy, decision-making authority has to be shared now. ✗ Slower decision-making as partners need to agree. ✗ Disagreement b/w partners can result in a deadlock halting business operations. ✗ Have to share profits. ✗ The business faces continuity issue as a new deed of partnership has to be drawn up every time a partner leaves or joins in.
<i>Private limited companies</i>	<ul style="list-style-type: none"> ✓ Separate legal entity. ✓ Safer investment with limited liability for all shareholders. ✓ Access to an even greater amount of capital with up to 50 friend & family members investing. ✓ Protected from hostile takeovers, hence a popular structure with family owned businesses. 	<ul style="list-style-type: none"> ✗ Difficult to form due to legal and administrative requirements from the company's registrar. ✗ Liable to corporation taxes, usually a higher tax band.
<i>PLCs</i>	<ul style="list-style-type: none"> ✓ Separate legal entity. ✓ Safer for members of the general public to invest in due to limited liability as they might not know each other and the management personally. ✓ Allows the business to raise a vast amount of capital through the stock exchange. ✓ Offers ease to pursue capital intensive growth. ✓ Greater status and recognition in the industry. 	<ul style="list-style-type: none"> ✗ Strict set up requirements from the company's registrar in order to gain license to play with public's money. ✗ Compromised confidentiality as a legal compulsion to publish audited financial statements for the general public. ✗ Risk of divorce of ownership & management control due to: ✗ Dilution of ownership. ✗ Hostile takeovers.