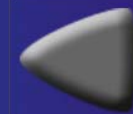


Sole Proprietorships

- **What role do sole proprietorships play in our economy?**
- **What are the advantages of a sole proprietorship?**
- **What are the disadvantages of a sole proprietorship?**



The Role of Sole Proprietorships

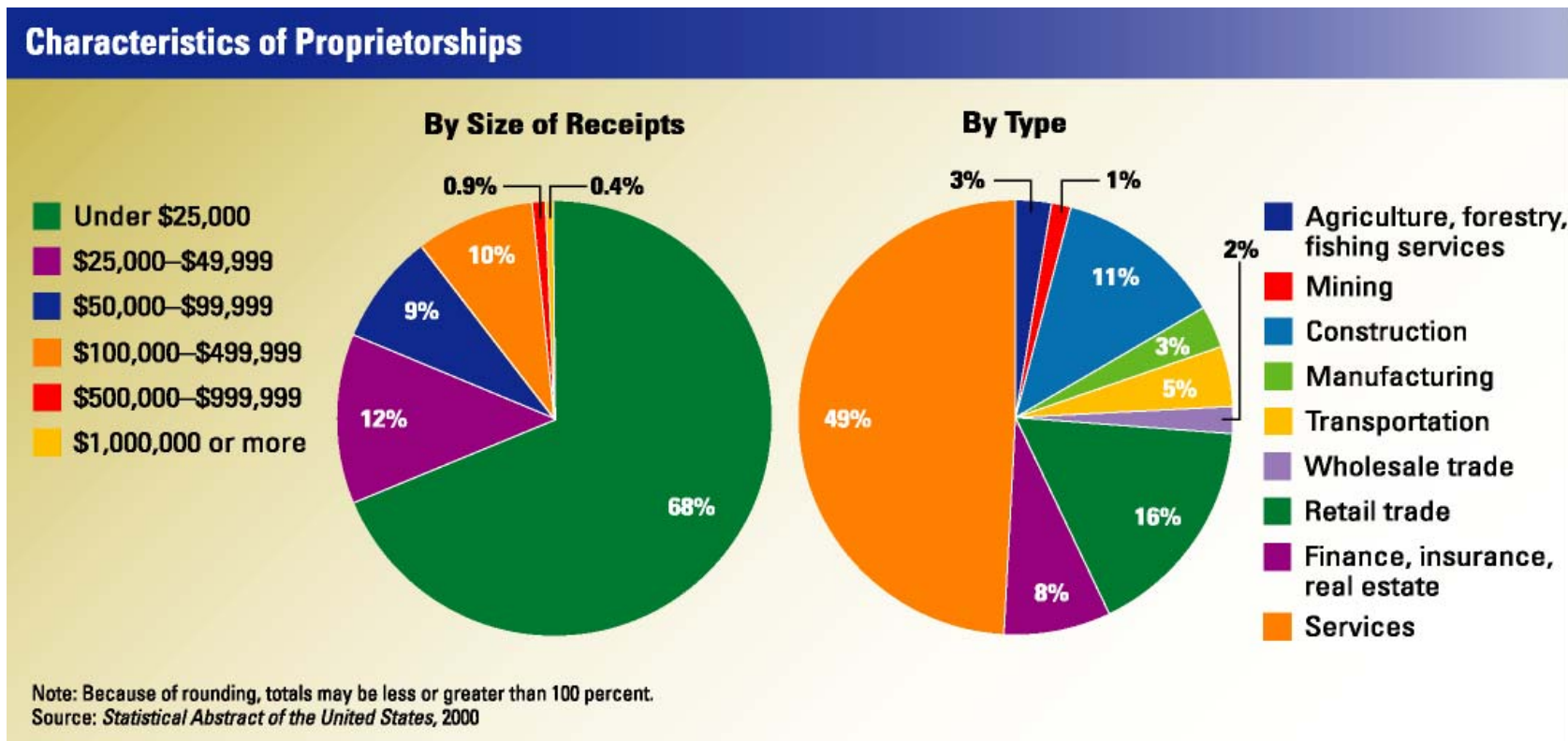
- A **business organization** is an establishment formed to carry on commercial enterprise. Sole proprietorships are the most common form of business organization.
- Most sole proprietorships are small. All together, sole proprietorships generate only about 6 percent of all United States sales.

A **sole proprietorship** is a business owned and managed by a single individual.



Characteristics of Proprietorships

- Most sole proprietorships earn modest incomes.
- Many proprietors run their businesses part-time.



Advantages of Sole Proprietorships

Sole proprietorships offer their owners many advantages:

Ease of Start-Up

- With a small amount of paperwork and legal expenses, just about anyone can start a sole proprietorship.

Relatively Few Regulations

- A proprietorship is the least-regulated form of business organization.

Sole Receiver of Profit

- After paying taxes, the owner of sole proprietorship keeps all the profits.

Full Control

- Owners of sole proprietorships can run their businesses as they wish.

Easy to Discontinue

- Besides paying off legal obligations, such as taxes and debt, no other legal obligations need to be met to stop doing business.



Disadvantages of Sole Proprietorships

- Sole proprietorships have limited access to resources, such as physical capital. Human capital can also be limited, because no one knows everything.
- Sole proprietorships also lack permanence. Whenever an owner closes shop due to illness, retirement, or any other reason, the business ceases to exist.

The biggest disadvantage of sole proprietorships is unlimited personal liability. **Liability** is the legally bound obligation to pay debts.



Section 1 Assessment

1. Any establishment formed to carry on commercial enterprises is a
 - (a) partnership.
 - (b) business organization.
 - (c) sole proprietorship.
 - (d) corporation.
2. Sole proprietorships
 - (a) are complicated to establish.
 - (b) make up about 6 percent of all businesses.
 - (c) are the most common form of business in the United States.
 - (d) offer owners little control over operations.

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Partnerships

- **What types of partnerships exist?**
- **What are the advantages of partnerships?**
- **What are the disadvantages of partnerships?**

Types of Partnerships

Partnerships fall into three categories:

- **General Partnership**
 - In a **general partnership**, partners share equally in both responsibility and liability.
- **Limited Partnership**
 - In a **limited partnership**, only one partner is required to be a general partner, or to have unlimited personal liability for the firm.
- **Limited Liability Partnership**
 - A newer type of partnership is the **limited liability partnership**. In this form, all partners are limited partners.

Advantages of Partnerships

- **Partnerships offer entrepreneurs many benefits.**

1. Ease of Start-Up

Partnerships are easy to establish. There is no required partnership agreement, but it is recommended that partners develop **articles of partnership**.

2. Shared Decision Making and Specialization

In a successful partnership, each partner brings different strengths and skills to the business.

3. Larger Pool of Capital

Each partner's **assets**, or money and other valuables, improve the firm's ability to borrow funds for operations or expansion.

4. Taxation

Individual partners are subject to taxes, but the business itself does not have to pay taxes.

Disadvantages of Partnerships

- **Unless the partnership is a limited liability partnership, at least one partner has unlimited liability.**
- **General partners are bound by each other's actions.**
- **Partnerships also have the potential for conflict. Partners need to ensure that they agree about work habits, goals, management styles, ethics, and general business philosophies.**

Section 2 Assessment

- 1. What advantage does a partnership have over a sole proprietorship?**
 - (a) The responsibility for the business is shared.**
 - (b) The business is easy to start up.**
 - (c) The partners are not responsible for the business debts.**
 - (d) The business is easy to sell.**
- 2. How is a general partnership organized?**
 - (a) Every partner shares equally in both responsibility and liability.**
 - (b) The doctors, lawyers, or accountants who form a general partnership hire others to run the partnership.**
 - (c) No partner is responsible for the debts of the partnership beyond his or her investment.**
 - (d) Only one partner is responsible for the debts of the partnership.**

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Corporations, Mergers, and Multinationals

- **What types of corporations exist?**
- **What are the advantages of incorporation?**
- **What are the disadvantages of incorporation?**
- **How can corporations combine?**
- **What role do multinational corporations play?**

Types of Corporations

- A **corporation** is a legal entity, or being, owned by individual stockholders.
- **Stocks**, or shares, represent a stockholder's portion of ownership of a corporation.
- A corporation which issues stock to a limited a number of people is known as a **closely held corporation**.
- A **publicly held corporation**, buys and sells its stock on the open market.

Advantages of Incorporation

Advantages for the Stockholders

- Individual investors do not carry responsibility for the corporation's actions.
- Shares of stock are transferable, which means that stockholders can sell their stock to others for money.

Advantages for the Corporation

- Corporations have potential for more growth than other business forms.
- Corporations can borrow money by selling **bonds**.
- Corporations can hire the best available labor to create and market the best services or goods possible.
- Corporations have long lives.

Disadvantages of Incorporation

- **Corporations are not without their disadvantages, including:**

Difficulty and Expense of Start-Up

Corporate charters can be expensive and time consuming to establish. A state license, known as a **certificate of incorporation**, must be obtained.

Double Taxation

Corporations must pay taxes on their income. Owners also pay taxes on **dividends**, or the portion of the corporate profits paid to them.

Loss of Control

Managers and boards of directors, not owners, manage corporations.

More Regulation

Corporations face more regulations than other kinds of business organizations.

Corporate Combinations

- **Horizontal mergers** combine two or more firms competing in the same market with the same good or service.
- **Vertical mergers** combine two or more firms involved in different stages of producing the same good or service.
- A **conglomerate** is a business combination merging more than three businesses that make unrelated products.

Multinationals

Advantages of MNCs

- **Multinationals benefit consumers by offering products worldwide. They also spread new technologies and production methods across the globe.**

Disadvantages of MNCs

- **Some people feel that MNCs unduly influence culture and politics where they operate. Critics of multinationals are concerned about wages and working conditions provided by MNCs in foreign countries.**

Multinational corporations (MNCs) are large corporations headquartered in one country that have subsidiaries throughout the world.

Section 3 Assessment

1. All of the following are advantages of incorporation EXCEPT

- (a) the responsibility for the business is shared
- (b) capital is easier to raise than in other business forms
- (c) corporations face double taxation
- (d) corporations have more potential for growth

2. A horizontal merger

- (a) combines two or more firms involved in different stages of producing the same good or service.
- (b) combines two or more partnerships into a larger partnership.
- (c) combines two or more firms competing in the same market with the same good or service.
- (d) combines more than three businesses producing unrelated goods.

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Other Organizations

- **How do business franchises work?**
- **What are the three types of cooperative organizations?**
- **What are nonprofit organizations?**

Business Franchises

- Franchisers develop products and business systems, then local franchise owners help to produce and sell those products.
- Franchises allow owners a degree of control, as well as support from the parent company.

A **business franchise** is a semi-independent business that pays fees to a parent company in return for the exclusive right to sell a certain product or service in a given area.

Advantages and Disadvantages of Business Franchises

Advantages of Business Franchises

- Management training and support
- Standardized quality
- National advertising programs
- Financial assistance
- Centralized buying power

Disadvantages of Business Franchises

- High franchising fees and royalties
- Strict operating standards
- Purchasing restrictions
- Limited product line

Cooperatives

- **Consumer Cooperatives**
 - Retail outlets owned and operated by consumers are called **consumer cooperatives**, or purchasing cooperatives. Consumer cooperatives sell their goods to their members at reduced prices.
- **Service Cooperatives**
 - Cooperatives that provide a service, rather than goods, are called **service cooperatives**.
- **Producer Cooperatives**
 - **Producer cooperatives** are agricultural marketing cooperatives that help members sell their products.

A **cooperative** is a business organization owned and operated by a group of individuals for their shared benefit.

Nonprofit Organizations

Professional Organizations

Professional organizations work to improve the image, working conditions, and skill levels of people in particular occupations.

Business Associations

Business associations promote the business interests of a city, state, or other geographical area, or of a group of similar businesses.

Trade Associations

Nonprofit organizations that promote the interests of particular industries are called **trade associations**.

Labor Unions

A **labor union** is an organized group of workers whose aim is to improve working conditions, hours, wages, and fringe benefits.

Institutions that function like business organizations, but do not operate for profits are nonprofit organizations. Nonprofit organizations are exempt from federal income taxes.

Section 4 Assessment

1. A business franchise

- (a) attempts to improve the image and working conditions of people in a particular occupation.
- (b) operates without the aim of profit.
- (c) is a semi-independent business tied to a parent company.
- (d) is not required to pay income taxes.

2. Consumer cooperatives

- (a) are owned and operated by consumers.
- (b) provide a service, rather than a good.
- (c) help members sell their agricultural products.
- (d) pay no income tax.

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