Business Ownership

Forms of Business Organizations

- Three main forms: **Sole Proprietorship**, **Partnership**, **Limited Liability Company**.
- Factors to consider when selecting a form:
    - Owner's **liability** for firm's debts.
    - Ease and cost of **forming** the business.
    - Ability to **raise funds**.
    - **Taxes**.
    - Degree of **operating control**.
    - Ability to **attract employees**.
    - **Aims and objectives** of the business.
    - Desire of how/not to **share profits**.

Sole Proprietorship

- Advantages:
    - Ease and low cost of *formation*.
    - Owner's rights to all *profits*.
    - Owner's absolute *control* of the business.
    - Relative freedom from *government regulation*.
    - Absence of *special taxes*.
    - Ease of *dissolution*.
- Disadvantages:
    - Unlimited *liability* of the owner for debts.
    - Difficulty in *raising capital*.
    - Limited *managerial expertise*.

        - Large *personal time commitment*.
        - *Unstable business life*.
        - Difficulty in *attracting qualified employees*.
        - Owner’s personal absorption of all *losses*.

Partnerships

- **General Partnerships**: Partners co-own assets and share profits; each partner is individually liable for all debts and contracts.
- **Limited Partnerships**: Controlled by one or more general partners who have unlimited liability; dormant partners’ liability is limited to their investment.
- Advantages:
    - Ease of *formation*.
    - Availability of *capital*.
    - Diversity of *managerial expertise*.
    - Flexibility to respond to *changing business conditions*.
    - Relative freedom from *government*.
- Disadvantages:
    - Unlimited *liability* for general partners.
    - Potential for *conflict* between partners.
    - *Limited life*.
    - *Sharing of profits*.
    - Difficulty in *leaving a partnership*.

Limited Liability Company (LLC)

- A **legal entity** with an existence separate from its owners, who are not personally liable for its debts.
- Advantages:
    - *Limited liability*.
    - Ease of *transferring ownership*.

    - *Stable business life*.
    - Ability to *attract financing*.
- Disadvantages:
    - *Double taxation* of profits.
    - Cost and complexity of *formation*.
    - *Government restrictions*.
    - *Government regulations*.

LLC Structure

- **Stockholders/shareholders**: Own the company, can sell/transfer shares, entitled to receive profits (dividends).
- **Board of Directors**: Elected by stockholders, govern the firm (formulate policies).
- **Officers (management)**: Carry out the goals and policies set by the board (implement policies).

Steps to Form an LLC

- Select company’s name.
- Write and file Articles of Incorporation paperwork.
- Pay fees and taxes.
- Hold organizational meeting.
- Adopt bylaws, elect directors, pass operating resolutions.

Specialized Forms of Business Organizations

- **Cooperatives**
- **Joint Ventures**
- **Franchises**

Cooperatives

- Formed by people with similar interests (customers, suppliers).
- Aim to lower costs, increase economic power, share in profits.
- Members/owners pay annual fees.
- Common in agriculture, hardware/lumber, grocery.

Joint Ventures

- Two or more companies form an alliance to pursue a specific project, usually for a specific time period.

Franchises

- **Franchising**: A business organization in which a franchisor supplies the product concept to the franchisee, who sells the goods or services.
- Advantages (Franchisor): Increased opportunity to *expand*.
- Advantages (Franchisee): Recognized *name, product, and operating concept*; management training and assistance; financial assistance.
- Disadvantages (Franchisor): Loss of *control*.
- Disadvantages (Franchisee): Costs of *franchising*; restricted operating freedom.

Mergers and Acquisitions

- **Merger**: The combination of 2 or more firms to form a new company.
- **Acquisition**: The purchase of a corporation by another corporation or investment group.

Reasons for Mergers and Acquisitions

- Growth or diversification of *product lines*.
- Increased *market share*.

- *Economies of scale*.
- Financial restructuring to *increase company value* to stockholders/shareholders.
- To increase the *capital base* of the new firm.
- To use *complementary resources*.
- To *spread risk*.
- To *expand production*.
- To avoid the *failure of the firms*.
- To increase the *power or strength of the market*.
- For more *profit*.

Types of Mergers

- **Horizontal mergers**: Same industry, same stage of production.
- **Vertical mergers**: Same industry, different stages of production.
- **Conglomerate mergers**: Different industries.
- **Leveraged buyouts**: Corporate takeovers with borrowed money.

Effects of Mergers

- Reduced:
    - *Costs*.
    - *Overlap in operations*.
    - *Competition*.
- Increased:
    - *Purchasing power*.
    - *Market share*.