THE ORGANIZATION AND ITS ENVIRONMENT

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Nature of Organizations

Mr. Chua's grocery business is growing, and he plans to open a new branch in Cubao, managed by his trained son. To expand, he needs more capital, better credit, and possibly partners. One option is to remain a sole proprietor, where he fully owns and manages the business, keeps all profits, and enjoys easy setup and operation. However, this form is risky because there is no legal separation between him and the business.

Advantages of a Sole Proprietorship

1. Easy Formation: Simple, low-cost setup; can use owner’s name or a business name.

2. Tax Benefits: Business income is reported on the owner’s personal tax return, avoiding corporate taxes.

3. Control & Flexibility: Owner makes all decisions and can transfer the business anytime.

Disadvantages of a Partnership:

1. Joint and Individual Liability: Partners are personally responsible for business debts and actions of other partners; personal assets can be used to cover business debts.

2.disagreements Among Partners: Decision-making requires consultation, which can lead to conflicts over management, salaries, and other issue.

3.Shared Profits: Profits must be divided among partners, and unequal contributions can cause disputes

Partnership (Second Option):

A partnership is a business owned by two or more people who contribute money, property, labor, or skills and share in profits and losses. Partners should create a legal agreement outlining decision-making, profit sharing, conflict resolution, changes in ownership, and procedures for dissolving the partnership.

Advantages of a Partnership:

1. Easy and Inexpensive Formation: Simple to set up, mainly requires a partnership agreement.

2. Shared Financial Commitment: Partners pool resources, making it easier to raise capital and secure credit.

3. Complementary Skills: Partners can combine their strengths, resources, and expertise.

4. Employee Incentives: Offering partnership opportunities can attract motivated and qualified employees, common in law, auditing, and consulting firms.

Disadvantages of a Partnership:

1.Joint and Individual Liability: Partners are personally responsible for business debts and actions of other partners; personal assets can be used to pay business debts.

2.Disagreements Among Partners: Decision-making requires consultation, which can lead to conflicts over management, salaries, and other issues.

3.Shared Profits: Profits must be divided among partners, and unequal contributions of time, effort, or resources can cause disputes.

Corporation (Third Option):

A corporation separates the business's assets and liabilities from the owner's personal wealth, protecting the owner from financial and legal risks. It allows raising funds from investors, who become shareholders and elect a board of directors to set policies and vision. The board appoints corporate officers, such as a president, secretary, and treasurer, to manage day-to-day operations. This structure is useful for business expansion and securing loans without risking personal assets.

Advantages of a Corporation:

1.Separate Legal Personality: The corporation is legally distinct from its shareholders, who are only liable up to their investment.

2.Ease of Raising Funds: Can easily raise capital by selling shares.

2.Continuity: Has perpetual existence, allowing long-term planning beyond the owners' lifetimes.

3.Ease of Ownership Transfer: Shares can be easily transferred, simplifying changes in ownership.

5.A corporation often appears more credible in the business world, which can attract more investors, customers, and partners.

Disadvantages of a Corporation:

1. Time and Costly to Organize: More expensive and time-consuming to set up than sole proprietorships or partnerships

2. More Paperwork: Requires extensive documentation, annual reports, and corporate tax filing

3. Higher Taxes: Profits may be taxed at both corporate and individual levels.

4. Ongoing Expenses: Regular board and shareholder meetings, plus legal and accounting services, add to costs.

Nature and Role of the Firm

HRM: Manages employees to boost performance and achieve goals.

Marketing: Identifies and meets customer needs profitably.

Operations: Oversees production and service processes efficiently.

Finance: Controls costs, manages funds, and supports growth.

Procurement: Ensures timely, quality sourcing of materials and services.

Office Management: Improves internal systems and productivity.

ICT Management: Provides IT and communication tools for efficient operations.

THANK YOU

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