

Exploring the Forms of Business Organization

There are four basic forms of business organization. They are:

- Sole Proprietorship
- Partnership
- Corporation
- Cooperative



Sole Proprietorship

- An unincorporated business owned by a single individual.
- The law does not distinguish between the business and the owner.



Sole Proprietorship

Advantages

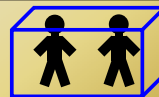
- low start-up cost
- great freedom from regulation
- all profits to owner
- owner has complete control



Sole Proprietorship

Disadvantages

- unlimited liability
- difficult to raise capital
- limited to owner's knowledge
- lack of continuity
- profits taxed at personal rate



Partnership

- An unincorporated business owned by more than one individual.
- The law does not distinguish between the business and the owners.




Partnership
Advantages

- ease of formation
- broader management skills
- limited regulations
- more capital resources




Partnership
Disadvantages

- unlimited liability
- possible disagreements
- divided authority
- difficult to find partners
- partners liable for each other



Corporation

- A business which is an entity in the eyes of the law.
- The law views the business as a separate entity from the owner(s).




Corporation

- Profits of the corporation are distributed to the shareholders by way of "dividends".
- The more shares one owns, the more dividends they will receive.


example

Dividends:	Shareholder owns:	Shareholder
\$1.00 / share	1000 shares	receives: \$1,000.00





Corporation
Advantages

- limited liability of shareholders
(However, directors and officers can be liable in certain circumstances.)
- possible lower taxation rate



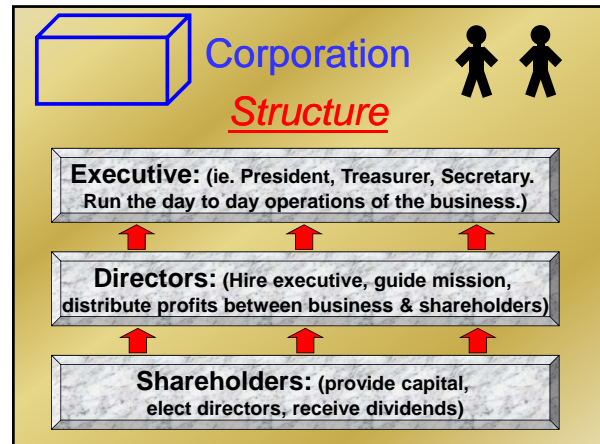
Corporation
Advantages



- can sue (and be sued) in the corporation name
- more prestige
- continuity of business

 Corporation 



Disadvantages

- higher start-up costs and greater formalities
- requires annual maintenance from accountant and lawyer
- losses cannot offset personal income





 Cooperative 

- A modified form of corporation in which the customers (*or patrons*) are the shareholders.
- The law still separates the business from the owner(s).

 Cooperative 

- Stock is issued in exchange for payment when one joins (1 vote per patron).
- Profits are distributed by way of a “patronage dividend” or “patronage refund.”
- The more a patron uses the coop, the more dividends they will receive.



Coop's Income: \$10,000.00 Patron Provides: 10% of business Patron Receives: \$1,000.00

 Cooperative 

Types of Cooperatives

- Consumer Cooperatives
- Producer Cooperatives
- Purchasing Cooperatives
- Marketing Cooperatives

NOTE: Cooperatives usually attempt to provide service or value to patrons / shareholders, as opposed to profit.

 Cooperative 

Advantages

- economies of scale: *production, storage, distribution, purchasing, etc.*
- cooperation: *patrons and managers all motivated to achieve success.*

Disadvantages

- Too democratic: *losers who have no stake in the coop get the same vote as major stakeholders.*