**Businesses may be organized in a variety of ways:**

* 1.)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* 2.)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* 3.)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Each type of organization offers significant advantages and disadvantages:**

* The most common form of business organization in the United States
* \_\_\_\_\_\_\_% of all firms in U.S. are sole proprietorships
* The most profitable of all business organizations
* This is a business owned and run by one person
* Smallest size of business organization

**Advantages of Sole Proprietorships:**

* Easy to start up
* Easy to manage
* One \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_= flexibility & quick decision making
* Single owner does not have to share profits with anyone else
* Business is not recognized as a separate legal entity; therefore, owner does not have to pay separate business income tax
* Psychological satisfaction: you have become successful using your own skills/creativity & you are your own boss
* Ease of getting out of business: all you have to do is close your shop and pay any outstanding bills

**Disadvantages of Sole Proprietorships:**

* Unlimited liability for the owner: owner is personally responsible for all of the business's debts and losses
* Difficulty in raising financial capital: businesses need a lot of money to start up individuals often have trouble raising that kind of money, banks are hesitant to give loans to new/small businesses
* Limited size & efficiency: because of limited capital, there may not be enough personnel or stock inventory to operate the business efficiently
* Proprietor often has limited managerial experience: lack of “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_”
* Small, non-established businesses have difficulty attracting qualified employees
* Limited Life: The firm legally ceases to exist when the owner dies, quits, or sells the business.

**Partnerships:**

* Types of partnerships
* General Partnerships: all partners are responsible for the management and financial obligation of the business (most \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ form of partnership)
* Limited Partnerships: at least one partner is not active in the daily running of the business

**Forming a Partnership:**

* Formal legal papers (articles of partnership) need to be drawn up
* These papers aren’t always required, but are drawn up to agree upon profit sharing and management decisions.
* Partnerships make up \_\_\_\_\_% of all firms in U.S.

**Advantages of Partnerships:**

* Easy to form:
* Ease of management: each partner brings their own unique skills to the organization
* No special \_\_\_\_\_\_\_\_\_\_\_ on partnerships: partners withdraw profits from the firm and pay individual income taxes.
* Partnerships can usually attract financial capital more easily than sole proprietorships.
* Larger size of partnerships makes them more efficient
* Partnerships have an easier time attracting talented, qualified employees

**Disadvantages of Partnerships:**

* In a general partnership, each partner is responsible for the acts of all other partners… one person messes up, everyone suffers
* The business has a limited life
* Potential for conflict between partners

**Corporations:**

* Corporations account for 1/5 of all firms in the U.S. and \_\_\_\_\_\_\_% of all sales
* A corporation is a form of business organization recognized by law as a separate legal entity having all the rights of an individual

**Forming a Corporation:**

* People must ask the government for permission to incorporate
* This is done through a corporate charter which is a government document giving individuals the right to incorporate
* A corporate charter specifies the number of shares of stock, or ownership certificates in the firm
* These \_\_\_\_\_\_\_\_\_\_\_ are sold to investors who are called stockholders or shareholders
* If the company is successful, it will issue a dividend a check representing a portion of corporate earnings to each stockholder

**Different types of stock:**

* Common Stock: basic ownership of a corporation. 1 share of stock = \_\_\_\_ vote for corporate board of directors
* Preferred stock: Non-voting shares, these stockholders may not vote on the Board of directors, but they receive their dividends first

**Advantages of a corporation:**

* Ease of raising financial capital: if the corporation needs money, they sell stocks, or bonds: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Professional Managers run the firm: Shareholders can sit back and earn dividends, while someone they hired runs the business
* Limited Liability: If a corporation goes out of business, runs afoul of the law, etc. the shareholders lose the money they’ve invested, but are not responsible for any debts incurred by the corporation.
* Unlimited Life: the corporation is a legal entity, so the name of the company stays the same, and they continue to do business despite changes in ownership

**Corporate Disadvantages:**

* It is expensive and difficult to get a corporate charter (except in Delaware) corporate charters cost thousands of dollars
* Shareholders have little say in how the business is run: They turn the running of the company over to the people they’ve hired and the board of directors
* Double Taxation: Stockholder’s dividends are taxed twice; once as corporate profit, then again as personal income.
* More government regulation: Corporations must register with the state they are chartered in. In order to sell their stock, they must register with the S.E.C. (Securities and Exchange Commission), provide financial info. To the federal government, seek federal approval before taking over another business, etc.

**Are corporation’s people?**

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