
Forms of Ownership

BA291

Learning Objectives

1. Define sole proprietorship and explain the six advantages and six disadvantages of this ownership model
2. Define partnership and explain the six advantages and three disadvantages of this ownership model
3. Define corporation and explain the four advantages and six disadvantages of this ownership model
4. Explain the concept of corporate governance and identify the three groups responsible for ensuring good governance

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Selecting Form of Organization

One of the first decisions that the business owner will have to make is how the business should be structured. All businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure.

- Vision regarding the size and nature of the business.
- The level of control
- The level of "structure".
- The business's vulnerability to lawsuits.
- Tax implications of the different organizational structures.
- Expected profit (or loss) of the business.
- Ability to raise fund

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Forms of Business Ownership

Structure	Control	Profits and Taxation	Liability Exposure	Ease of Establishment
Sole proprietorship	One owner has complete control	Profits and losses flow directly to the owners and are taxed at individual rates	Owner has unlimited personal liability for the business's financial obligations	Easy to set up; typically requires just a business license and a form to register the company name
General partnership	Two or more owners; each partner is entitled to equal control unless agreement specifies otherwise	Profits and losses flow directly to the partners and are taxed at individual rates; partners share income and losses equally unless the partnership agreement specifies otherwise	All partners have unlimited liability, meaning their personal assets are at risk for mistakes made by others partners	Easy to set up; partnership agreement not required but strongly recommended
Limited partnership	Two or more owners; one or more general partners manage the business; limited partners don't participate in the management	Same as for general partnership	Limited partners have limited liability (making them liable only for the amount of their investment); general partners have unlimited liability	Same as for general partnership
Corporation	Unlimited number of shareholders; no limits on stock classes or voting arrangements; ownership and management of the business are separate (shareholders in public corporations are not involved in management decisions; in private or closely held corporations, owners are more likely to participate in managing the business)	Profits are taxed at corporate rates; profits are taxed again at individual rates when (or if) they are distributed to investors as dividends	Investor's liability is limited to the amount of his or her investment	More complicated and expensive to establish than a sole proprietorship; requirements vary from state to state

Important Terms

Unlimited liability

A legal condition under which any damages or debts incurred by a business are the owner's personal responsibility

Limited liability

A legal condition in which the maximum amount each owner is liable for is equal to whatever amount each invested in the business

Double taxation

Income taxes paid twice on the same source of earned income e.g. when income is taxed at both the corporate level and personal level.

Limited life

End upon the withdrawal or death of an owner(s)

Liquidity

A measure of how easily and quickly an asset such as corporate stock can be converted into cash by selling it

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Sole Proprietorships

A business owned by a single person

- Consists of one individual doing business
- The simplest and most common structure chosen to start a business
- The most numerous form of business organization worldwide
- Owner is entitled to all profits and responsible for all business's debts, losses and liabilities



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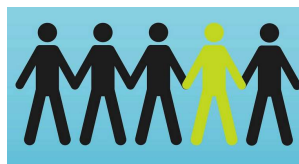
Partnerships

A company that is owned by two or more people but is not a corporation

- Appropriate for firms that need more resources and leadership talent than a sole proprietorship but don't need the fundraising capabilities

General partnership

All of the partners have the ability to actively manage or control the business. This means that every owner has authority to make decisions about how the business is run as well as the authority to make legally binding decisions.



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Partnerships (cont.)

Limited partnership

A type of partnership that consists of at least one general partner and at least one limited partner

- General partners can be personally liable for all the partnerships' debts
- Limited partners are not liable for the partnership's debts beyond the funds they contribute to the partnership and does not participate in making managerial decisions for the business
- Limited partners receive proceeds from the business after the general partners have received their share of company profits

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Partnerships (cont.)

Limited Liability Partnership (LLP)

A partnership in which each partner has unlimited liability only for his or her own actions and at least some degree of limited liability for the partnership as a whole

LLP does not have a general partner, since every partner in an LLP is given the ability to take part in the management of the company

Partners in an LLP have limited liability protection against malpractice suits that stem from another partner's negligent acts thus become popular in certain professions such as law, medicine and accounting

- All partners have limited liability protection against company obligations and debts
- Each partner receives profits and losses from the company according to her ownership interest in the company.

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The Partnership Agreement

A **partnership agreement** should address investment percentages, profit-sharing percentages, management responsibilities and other expectations of each owner, decision-making strategies, succession and exit strategies, and dispute-resolution procedures.



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Corporations

A **legal entity**, *distinct from any individual persons*, that has the power to own property and conduct business

- An independent legal entity owned by shareholders (investors who purchase shares of stock in a corporation)
- Corporation itself, not the shareholders that own it, is held legally liable for the actions and debts the business incurs
- Unlimited number of shareholders
- Private vs. Public



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Private vs. Public Corporation

Private corporation

A corporation in which all the stock is owned by only a few individuals or companies and is not made available for purchase by the public

“Privately Held”



Public corporation

A corporation in which stock is sold to anyone who has the means to buy it

“Publicly Traded”

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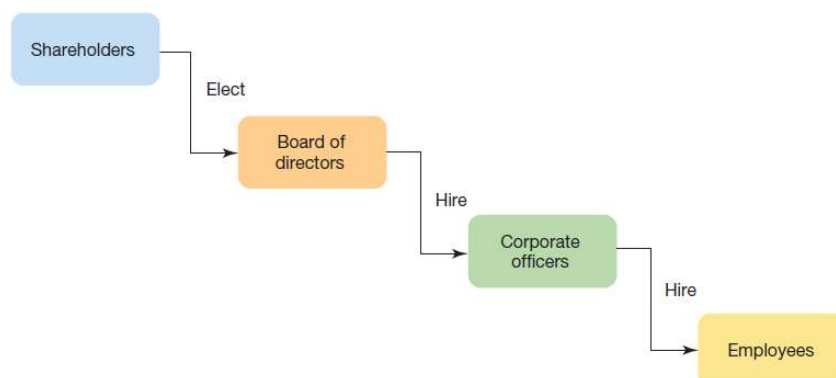
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Advantages vs. disadvantages

	Advantages	Disadvantages
Sole Proprietorship	<ul style="list-style-type: none"> ▲ Ease of formation / dissolution ▲ Low start-up cost ▲ In complete control of the business ▲ Owner receives 100% of profit ▲ Fewer regulations ▲ No corporate income tax (single layer of taxation) 	<ul style="list-style-type: none"> ▼ Unlimited liability ▼ Limited life (owner dies, the business dies) ▼ Limited access to capital ▼ Limited managerial perspective
Partnership	<ul style="list-style-type: none"> ▲ Ease of formation ▲ Fewer regulations than corporation ▲ Access to capital ▲ Benefit from partners skills ▲ No corporate income tax 	<ul style="list-style-type: none"> ▼ Unlimited liability (except for Liability Limited Partnership) ▼ Limited life (owner dies, the business dies) ▼ Share control and profit
Corporation	<ul style="list-style-type: none"> ▲ Limited liability ▲ Unlimited life ▲ Transfer of ownership ▲ Access to capital ▲ Liquidity (public company) 	<ul style="list-style-type: none"> ▼ Regulatory restrictions ▼ Double taxation ▼ More expensive to create than partnership or sole proprietorship

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Corporate Governance



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Designing an Effective Organization Structure

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Learning Objectives

1. Explain the major decisions needed to design an organization structure
2. Define four major types of organization structures
3. Explain how a team differs from a group and describe the six most common forms of teams

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Designing an Effective Organization Structure

Organization Structure

A framework that enables managers to divide responsibilities, ensure employee accountability, and distribute the decision-making authority

Organization Chart

A diagram that shows how employees and tasks are grouped and where the lines of communication and authority flow

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Identifying Core Competencies

- Core competencies
Activities that a company considers central and vital to its business

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Identifying Job Responsibilities

Work specialization

- Specialization in or responsibility for some portion of an organization's overall work tasks
- Also called *division of labor*

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Defining the Chain of Command

Chain of command

A pathway for the flow of authority from one management level to the next

Line organization

A chain of command system that establishes a clear line of authority flowing from the top down

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Defining the Chain of Command

Line-and-staff organization

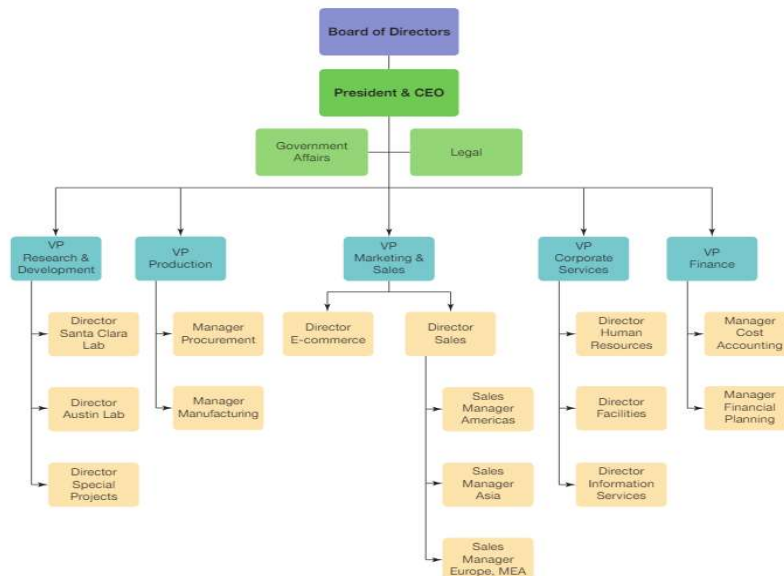
An organization system that has a clear chain of command but that also includes functional groups of people who provide advice and specialized services

Span of management

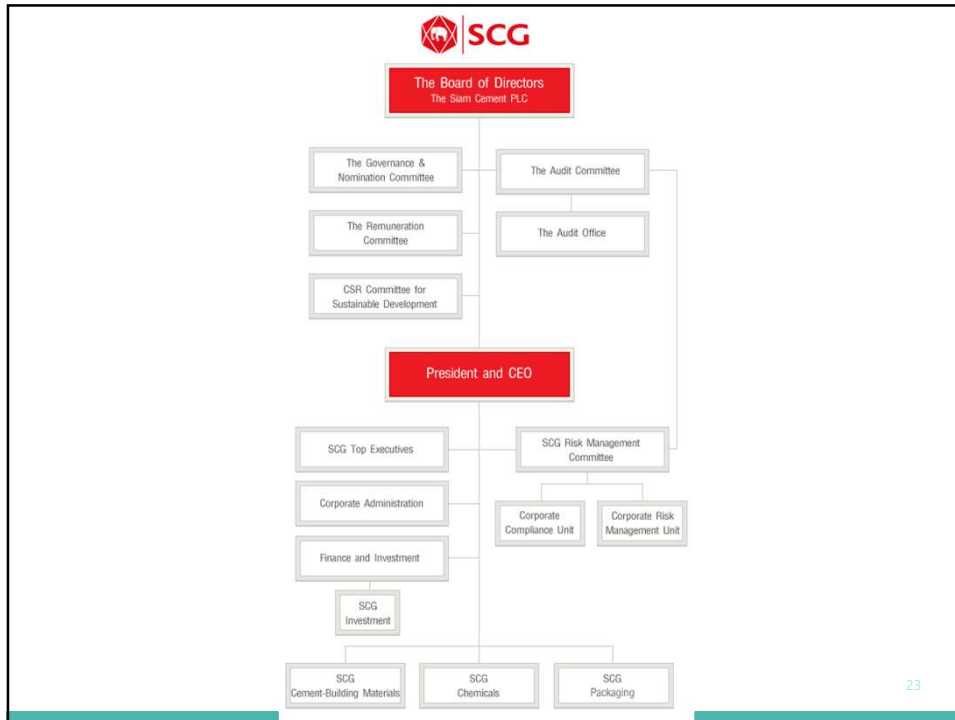
The number of people under one manager's control
Also known as *span of control*

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Simplified Line-and-Staff Structure



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Centralization Versus Decentralization

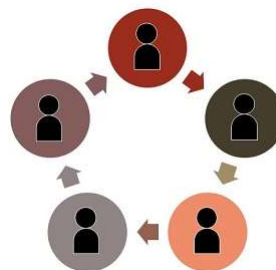
Centralization

Concentration of decision-making authority at the top of an organization



Decentralization

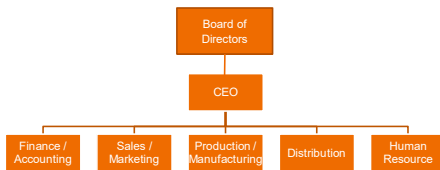
Delegation of decision-making authority to employees in lower-level positions



Organizing the Workforce

Functional Structure

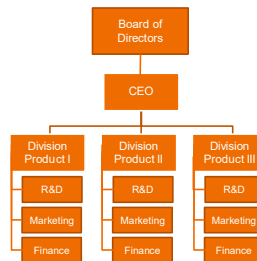
Grouping workers according to the similarity in their skills, resource use, and expertise



Divisional Structure

Grouping departments according to similarities in product, process, customers, or geography

These divisions operate with great autonomy and are often called "business units".



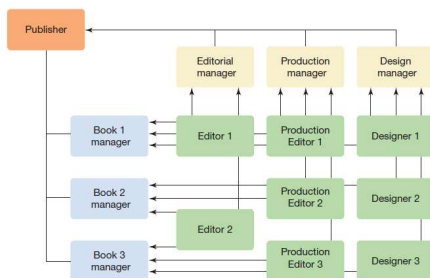
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Organizing the Workforce (cont'd)

Matrix Structure

A structure in which employees are assigned to both a functional group and a project team (thus using functional and divisional patterns simultaneously).

Allows the company to pool resources across divisions and functional groups.



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Network Structure

A structure in which individual companies are connected electronically to perform selected tasks for a small headquarters organization.

Also called "virtual organization", a network organization can outsource engineering, marketing, research, accounting, production, distribution, or other functions.

The design of a network structure stems from decisions about core competencies, with executives deciding which functions to focus on internally and which to outsource.

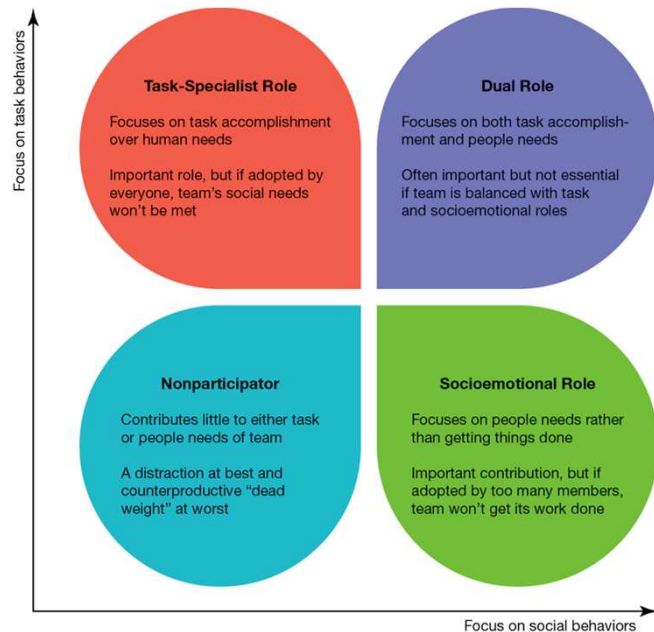
Organizing in Teams

Team

A unit of two or more people who share a mission and collective responsibility as they work together to achieve a goal

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Team Member Roles



Characteristics of Effective Teams

- Clear sense of purpose
- Open and honest communication
- Creative thinking
- Accountability
- Focus
- Decision by consensus

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Advantages of Working on Teams

- Higher quality decisions
- Increased diversity of views
- Increased commitment to solutions and changes
- Lower levels of stress and destructive internal competition
- Improved flexibility and responsiveness

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Disadvantages of Working on Teams

Inefficiency

Groupthink

Diminished individual motivation

Structural disruption

Excessive workloads

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