

Report on forms of business organizations

[Business](#), [Company](#)



FORMS OF BUSINESS ORGANIZATIONS

There are three main categories of business organizations. They include; sole proprietorship, partnership, and corporations (Moran, 1963, p. 4). Each of the business organizations has different operational structures. Therefore, there are both advantages and disadvantages of adopting each form of business organization.

A sole proprietorship has the advantage that no formal procedure is required for setting up such a business (Besley & Brigham, 2007, p. 8). Further, the business enjoys direct input from the owner, which is positive considering that the owner wants the business to grow. The biggest disadvantage of this form of business regards raising money. The financing of the business is limited to friends, families, and small bank loans.

A partnership is advantageous in that there is shared risk especially in case of losses (Besley & Brigham, 2007, p. 9). This is because capital for a partnership organization is provided by all members. Another advantage regards the fact that a partnership organization aids in pooling of expertise and resources. One of the disadvantages of this form of business organization is that it is limited to only twenty members except for banking companies. Further, in case of a profit, the split up according to input on the company is disadvantageous.

A corporation is an entity that has the duties and rights of a natural individual. However, the corporation has a perpetual life. The biggest advantage of this form of business organization is that it has limited liability.

Being perpetual to its owners, this form of business can still exist after the death of its owners. The main disadvantage of this business organization is that it is expensive and intricate to form. Periodic filings with the government and other requisite documents make its formation hard. In a corporation, the main goal of the finance manager is to ensure financial security for the firm. Liquidity levels have to be maintained at accepted levels. I agree with this goal mainly due to the fact that a financially insecure corporation might be forced into debts and eventually closure in the long run.

References

Besley, S., & Brigham, E. F. (2007). Essential of managerial finance. Florence, KY: Cengage

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Moran, M. (1963). Forms of business organizations. New York, NY: Graflex