

Example of limited liability essay

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



Impact of limited liability concept on business decisions

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Before the advent of the modern capitalism the business enterprises existed in the forms of proprietorships or partnerships. Arranged in these forms, the sole owner or the partners run business themselves and their liability is unlimited. Though simple and clear, these organizations have severe drawbacks (Ross et al, 2010, p. 5) including difficulty of transferring the ownership and in raising capital. When 18th-19th centuries economical expansion led by the UK required mobilization of capital on a large scale (Davis et al, 2003, p. 118) it had to be done through a different form of the enterprise- a corporation in the form of the joint stock company. Separating ownership from the management provides a joint stock company with a number of advantages which impact the business decisions:

- The transfer of ownership for shareholders is very easy. Except in rare cases, they do not control the company individually, but in case of disagreement with the company's policies, they can easily sell their shares and get out. Their downside risk is limited to the value of shares they own.
- The corporation has its own identity not related to that of its directors or shareholders and essentially has unlimited life. If management or shareholders changes, it does not affect in the legal sense the affairs of the enterprise.
- Limited liability form makes it easier for corporation to accumulate capital for larger projects such as railway construction.

However, as owners and management are distinct groups, there could be incentives for management to pursue their own interests, which is called an

agency problem (Ross et al, 2010, p. 13). In order to keep it in check proper corporate governance and accounting are required.

References

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