

Chapter 01

Concepts in Business

❖ Forms /Kinds of Business Organization

1. Private Enterprise: These are enterprises owned by private individual(s) or organizations. They include the following;

i. **Sole Proprietorship**; Sole Proprietorship is simply a one-man business. A sole proprietorship does not require documents before commencement of business; however, permit or license may be required.

Advantages; Ease of communication and Termination, Greater Efficiency, Freedom and Flexibility, Pride of Ownership, Ownership of all profits.

Disadvantages: Unlimited Liability, Lack of Specialization, Limited Financial Resources, Limited life Span, Absence of Employee development.

ii. **Partnership**: A legal business organization owned by at least two persons and at most twenty persons who pool their resources together for profitable business. Usually they require partnership agreement which could be written or oral. The Deed specifies the right, responsibilities/obligations and interest of the partners. The types of partnership includes

a. General Partnership

b. Limited Partnership

c. Master Limited Partnership (MLP)

Advantages; larger Capital, Pooled Knowledge and Decision, Tax Benefit, Longer Survival or continuity,

Disadvantages: Distrust and disagreement among partners, unlimited liability, slow decision, difficulty of termination.

iii. **Companies**- A Company is a legal person without physical existence recognized by law to do business for profit through its agents and servants who exist physically. A company being a legal entity can sue and be sued.

Classification of Companies

a. Limited; Limited by share or guarantee b.Unlimited

Private Limited Company

-Private Companies Limited by shares

-Private Companies Limited by

Guarantee -Private Unlimited

Company

Advantages of Private Limited Company; Ability to raise large capital, limited liability. **Disadvantages of Private Limited Company:** Prohibition on public Invitation for shares, Double taxation etc.

Public Limited Liability Company-A public limited liability company is a business firm owned by a minimum of seven persons without upper limit of membership. In other words, it can have shareholders.

Types of Public Limited Liability Company;

-Public Company Limited by shares

-Public Unlimited Company

Advantages: Large Capital, Limited Liability, Appointment of Qualified Workforce, Permanent Life and Employees-owners

Disadvantages: Lack of personal Interest or Commitment, Lack of confidentiality, impersonal Relationship, Corruption and Fraud, Double Taxation.

iv. **Co-operative Societies**-This a form of organization, wherein persons voluntarily associate together as human beings on the basis of equality for promotion of the economic interest for themselves.

Types: - Consumer Cooperative Society
- Producers Cooperative Society
- Thrift-and-credit Cooperative Society
- Multipurpose Cooperative Society

Advantages: They serve as sources of income, goods and services attract low prices, members enjoy easy access to loans, encourages savings habit, democratic in nature, increase standard of living and enhance economic development.

Disadvantages; they suffer management problems, they lack adequate capital, members are prone to non-payment of loan and some members even embezzle funds.

Sources of Capital: Registration fees, Shares, Thrift savings, loans from financial institutions, interest received on loans, fines imposed on members on default etc.

v. **Public Enterprise:** These are organizations set up as a corporate body and as part of the governmental apparatus for entrepreneurial or entrepreneurial-like objectives. The forms includes:

- Government departmental enterprises
- Public Corporations
- State owned Companies
- Municipal Enterprises
- Mixed-Economy Enterprise

Sources of Capital for Public Enterprises: Loans and grants from the government, loans and overdrafts from financial institutions such as banks, sales of shares, ploughed back profits/retained earnings from the enterprise, credit facilities from suppliers.

Advantages: Provisions of essential services to the public, greater access to capital, they are not easily threatened by business competitors who provide similar services, cheaper services to the public, decrease in cost of living.

Disadvantages: Excessive interference of government, little or no threat from business competitors could cause management to be less effective, poor management, political interferences in most awards and appointments.

Factors to Consider in choosing Form of Business ownership

1. Cost of establishing the venture
2. The legal requirement
3. The ease of organization
4. Government regulations
5. The ability and knowledge of the entrepreneur
6. The tax grade of the venture
7. Degree of control wanted by the entrepreneur
8. Ease of ownership
9. Level of profit.