

Subject : Business studies
Topic : Forms of Business Organization
Class : JSS1
Week : Week 4

Learning Objectives

1. Define Business Organization
2. Explain types of business organization
3. Mention the advantages and disadvantages of the various types of business organization

Meaning of Business Organization

A business organization is an entity aimed at carrying on commercial enterprise by providing goods or services, to meet the needs of its customers.

Types of Business Organization

The following are the four forms of business ownership

1. Sole proprietorship
2. Partnership
3. Co-operative societies and
4. Private and public limited liability companies

SOLE PROPRIETORSHIP

This is a business organization established, owned, financed and controlled by one person with the aim of making profit

Advantages of Sole Proprietorship

1. It requires small capital to establish
2. Decisions are quickly made
3. He or she determines location of the business
4. It is easy to establish
5. All the profits belong to the owner

Disadvantages of Sole Proprietorship

1. Capital is usually limited
2. A sole proprietor bears the risks and liabilities alone.
3. They tend to lose their best workers to competitors
4. He or she may not be able to employ experts due to limited financial resources
5. Money made in doing business may be spent on personal matters or irrelevancies.

PARTNERSHIP

This exists when two or more persons come together for the purpose of doing business. By law, the number of persons that can form a partnership is between 2 and 20.

Advantages of Partnership

1. There is more capital for doing business
2. There is usually more commitment to work
3. Better business decisions are usually made by more than one person
4. Business risks and liabilities are shared
5. More jobs are created.
6. There is a diversity of talents among the partners.

Disadvantages of Partnership

1. Liabilities are usually limitless
2. Disagreement between partners may affect the ability of the business to make profit
3. Decision is slower than the sole proprietorship
4. Death of one or more active partners may end the life of the company
5. Capital beyond the means of the partners may be difficult to obtain.
6. Introduction of a new partner, if not well managed may end the company.

CO-OPERATIVE SOCIETY

This is an association of individuals with a common interest, who agree to come together to promote welfare.

There are several forms of cooperative societies operating in Nigeria today. Some of these are:

Consumer Cooperative : This is a form of cooperation in which individuals who have a common interest come together to buy goods in bulk and at cheaper prices for mainly consumption purpose. They buy from distributing centres or wholesalers in bulk and resale to their members in lesser prices.

Farmers Cooperative : These societies are formed by farmers who want to take advantage of cheap seeds, seedlings, grains and fertilizers supplied by government marketing boards. This can be formed at local or state level.

Thrift and credit Cooperative : This is formed by individuals whose common interest include borrowing money and buying goods at reduced price. They are formed through various networks: employees, community and market. Example is isusu (monthly contribution). In most cases they operate by unwritten agreement and unregistered.

Advantages of Co-operative society

1. Members are allowed to pay back debts in installment
2. Profits are shared in proportion to contribution
3. Every member is entitled to only one vote, irrespective of his or her contribution
4. Members have equal rights to benefit from the existence of the cooperative
5. Members are able to solve problems beyond their individual means

Disadvantages of Co-operative society

1. Capital is limited to the amount members can afford to pay
2. Decision making process is longer
3. Poor management of the society's resources may be easily noticed if unqualified individuals are elected into positions
4. Lack of proper planning and ignorance may affect the success of the cooperative society.
5. Lack of commitment by the elected officials can lead to the failure of a cooperative society.

LIMITED LIABILITY COMPANY (LLC)

This may be defined as a legal entity created through state approval and treated as separate from its owners. It has a separate legal identity of its own because it can sue and be sued. A member's contribution to capital is usually quoted in shares.

An LLC is regulated in Nigeria by the Companies and Allied Matters Act (CAMA), 1990. The company is required by law to complete:

A Memorandum of Association which indicates the type of business to be engaged in

An Articles of Association that indicates rule to guide the management.

An LLC can either be Private or Public.

A private limited liability company is registered as such and bears any name with the word "Limited" attached to it. For example "OJU Transport Limited", "West African Book Publishers"

An LLC can be formed by one or more persons (maximum of 50 people). It cannot offer shares to the public for subscription.

A Public limited liability company is one in which contribution to its capital is open to the public. It can bear any name with "PLC" attached to it. Buyers of its shares are called "Shareholders" and their reward is in 'Dividends'. Examples are: "First Bank of Nigeria PLC" and "Nestle PLC"

Advantages of Limited Liability Company

1. Capital is readily available since the public company can sell shares to get money for expansion.
2. Liabilities of its members are limited
3. Ownership is easily transferred to ensure continuity of the business
4. Experts are usually appointed to manage the affairs of the company
5. Shareholders are usually invited to meetings where decisions concerning the company are made

Disadvantages of Limited Liability Company

1. LLC are difficult to establish
2. Individual shareholders have no control over the company's operations
3. It involves a rigorous registration process
4. No secrecy regarding operation of the business
5. There is usually the burden of high tax especially for the private company

PUBLIC ENTERPRISES : These are companies owned by the government they are established to provide services to the society and not necessarily to make profit. Whenever profit are made, they are paid into the treasury of the government examples are Universities, Schools, Hospitals e t c

Advantages of public enterprises

1. Government provides the capital
2. They usually sell their products at subsidized rates leading to lower prices.
3. Government

Disadvantages of public enterprises

1. Poor management of companies resources
 2. Appointment of incompetent management team
 3. Most decisions are based on politics
- operations of government companies are not usually examined or frequently audited
4. Employees are usually on committed to the goals of the organization

Assignment

1. Mention three (3) Advantages and three (3) Disadvantages of Partnership
2. Which of the the form of the business organization is most popular and why do you think so