Chapter 6
Business Ownership and Operations
Section 6.1
Types of Business Ownership

Read to Learn
- Describe the advantages and disadvantages of the three major forms of business organizations.
- Describe how cooperatives and nonprofits are like and unlike corporations and franchises.

The Main Idea
Sole proprietorships, partnerships, and corporations are the most common forms of business organization. Cooperatives, nonprofits, and franchises are other forms.

Key Concepts
- Organizing a Business
- Other Ways to Organize a Business

Key Term
- sole proprietorship: a business owned by one person
- partnership: a company that is registered by a state and operates apart from its owners
- corporation: a business owned by two or more people who share its risks and rewards
- unlimited liability: when the owner is responsible for the company's debts

The Main Idea
Sole proprietorships, partnerships, and corporations are the most common forms of business organization. Cooperatives, nonprofits, and franchises are other forms.
Section 6.1 Types of Business Ownership

Reading Guide

Key Term

limited liability holding a firm’s owners responsible for no more than the capital that they have invested in it

cooperative an organization that is owned and operated by its members

Key Term

nonprofit organization a type of business that focuses on providing service, not on making a profit

franchise a contractual agreement to use the name and sell the products or services of a company in a designated geographic area

Section 6.1 Types of Business Ownership

Organizing a Business

The three main types of business organizations are:

- Sole Proprietorships
- Partnerships
- Corporations

Figure 6.1

U.S. Sole Proprietorships, Partnerships, and Corporations

Total Number of Businesses
- Sole Proprietorships: 72%
- Corporations: 20%
- Partnerships: 3%
- Other: 3%

Amount of Revenue Generated by Each Kind of Business
- Sole Proprietorship: 85%
- Corporation: 7%
- Partnership: 8%
- Other: 2%

Section 6.1 Types of Business Ownership

Sole Proprietorships

About three-quarters of all businesses in the United States are sole proprietorships.

Key Term

sole proprietorship a business owned by one person

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Advantages of Sole Proprietorships

- Easy to start
- Proprietors are in charge
- Proprietors keep all the profits
- Taxes are lower than a corporation’s
Sole Proprietorships

A major disadvantage of owning a sole proprietorship is that the owner has **unlimited liability**.

- **Key Term**
  - unlimited liability when the owner is responsible for the company's debts

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Disadvantages of Sole Proprietorships

- Limited access to credit
- Many run out of money
- The owner may not have the necessary skills
- The business ends when the owner dies

Partnerships

To start a **partnership**, you need a partnership agreement.

- **Key Term**
  - partnership: a business owned by two or more people who share its risks and rewards

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Advantages of Partnerships

- Easy to start
- Easier to obtain capital
- Easier to obtain credit
- Not dependent on a sole person
- Only taxed once
- Diversity in skills

Corporations

To form a **corporation**, the owners must get a corporate charter from the state where their main office will be located.

- **Key Term**
  - corporation: a company that is registered by a state and operates apart from its owners
Corporations

Limited liability is a major advantage of a corporation.

Limited liability holds a firm’s owners responsible for no more than the capital that they have invested in it.

Limited liability is a major advantage of a corporation.

Advantages of Corporation

- Limited liability
- Ability to raise money by selling stock
- Business does not end when an owner dies

Disadvantages of Corporation

- Double taxation
- More government regulation
- Difficult and costly to start

1. Income is taxed.
2. Stockholders pay taxes on profits issued to them

Other ways to organize a business include:

- Cooperative
- Nonprofit Organization
- Franchise

The purpose of a cooperative is to save money on the purchase of certain goods and services.

A nonprofit organization does not pay taxes because it does not make a profit.

Cooperative

An organization that is owned and operated by its members

Nonprofit organization

A type of business that focuses on providing a service, not making a profit.
Other Ways to Organize a Business

To run a franchise, you have to invest money and pay franchise fees or a share of the profits.

Key Term

franchise
a contractual agreement to use the name and sell the products or services of a company in a designated geographic area

Real World

Car Sharing

Car sharing is a popular European process in which many households share vehicles. Mobility CarSharing cooperative in Switzerland has over 50,000 clients.

1. What is the difference between a sole proprietorship and a partnership?

A sole proprietorship is owned by one person. A partnership is owned by two or more people.

2. If a partner makes a bad decision, what responsibility do the other partners have?

All partners share responsibility for a bad decision.

3. Why are cooperatives formed?

so that the members have advantages in buying and selling products and services