BUSINESS ORGANIZATION AND LABOR

Sole Proprietorships and Partnerships

A **sole proprietorship** is a business owned by only one person; it may be managed by the owner or by persons the owner chooses. Some businesses commonly organized as sole proprietorships are barber shops, repair shops, service stations, restaurants, and boutiques.

The owner of a sole proprietorship enjoys the advantage of not having to share the profits. The owner is also free to make decisions on his or her own. However, he or she is also responsible for all the losses and debts of the business. If the business fails, debts can ruin the owner financially. Unfortunately, a great many sole proprietorships do fail, and some owners are never able to repay their debts. For this reason, many banks do not like to lend money to sole owners.

In a **partnership,** the business is owned by two or more individuals, or partners. Each partner contributes work or money to the business, and together the partners share profits and losses. The rights and responsibilities of each partner are usually specified in a written contract called a partnership agreement.

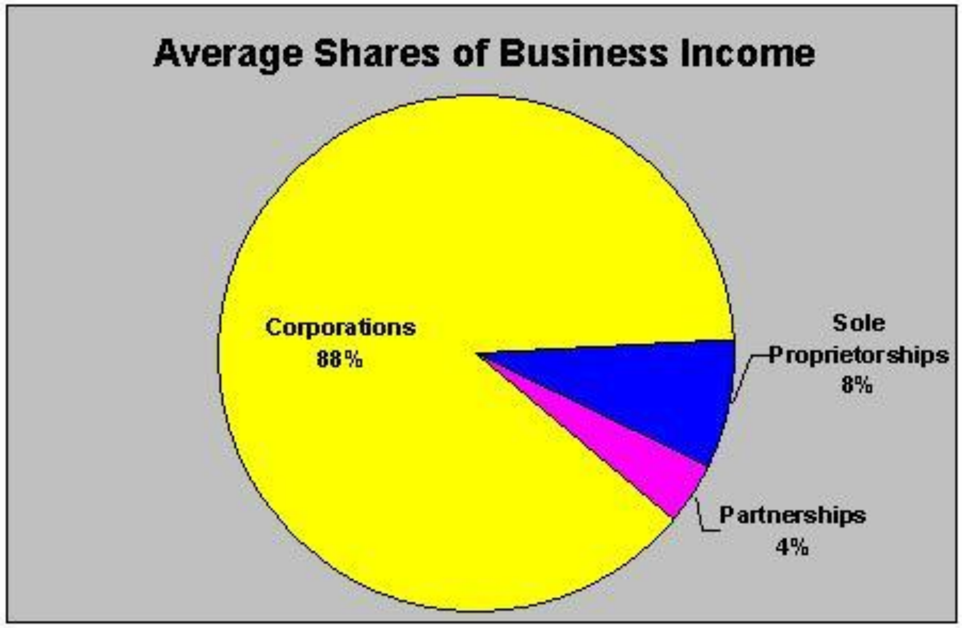
Professionals such as lawyers, doctors, dentists, and accountants often form partnerships. Each partner can bring different skills and talents to the partnership. In a law partnership, for instance, each partner may be a specialist in a different aspect of the law.

Partnerships have less difficulty borrowing money than sole proprietorships do. Partnership organizations usually have more possessions and money to back their requests for loans. On the other hand, business decisions become more difficult in a partnership because the individuals involved may disagree. If the business fails, *all* partners must pay a share of the losses, even if only one partner was responsible for the failure.

Back to Top

Corporations

Only about 14 percent of all profit-making organizations in the United States are corporations. However, corporations are by far the nation's most important kind of business organization. Why is that? Corporations hire the largest number of workers in the United States and produce the most goods and services. And, as recorded in the graph on the right, corporations also claim the largest share of business income.



A **corporation** may have just a few owners or hundreds of thousands of them. Ownership in a corporation is divided into a number of equal **shares.** The people who own the shares are called shareholders or **stockholders.** They are the true owners of the corporation.

A corporation is managed by a board of directors, which is elected by the stockholders. The board of directors selects the main officers of the corporation, such as the president and the treasurer. In the election of the board of directors, the voting rights of each stockholder are determined by the number of shares of stock he or she has. Stockholders with many shares have considerable influence in the election of the board of directors. Sometimes these majority stockholders elect themselves to the board of directors.

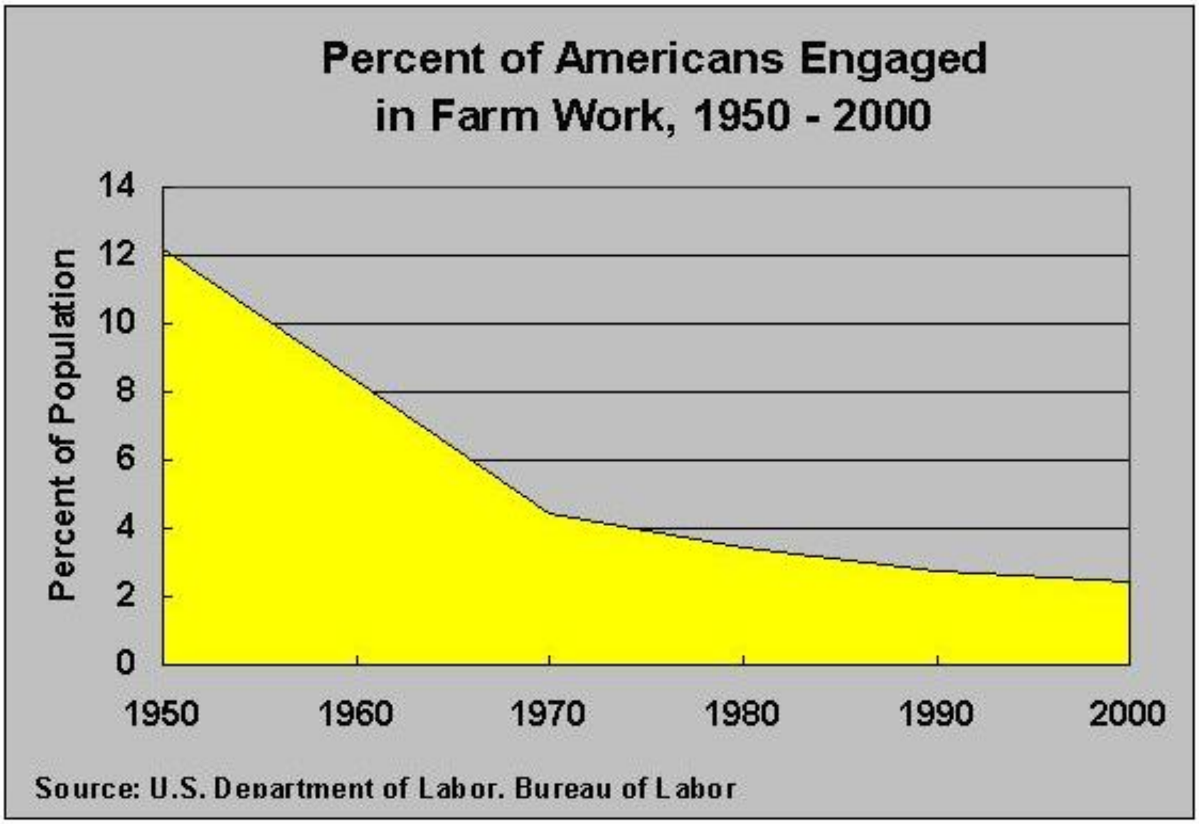
The corporation has several advantages over other forms of business organization. It is easier for corporations to raise funds; they can do so by selling shares of stock or by borrowing money. If the corporation fails, its stock will lose value, but the stockholder cannot be held responsible for the debts of the corporation. Remember that the owners of sole proprietorships and partnerships must pay for their companies' debts. Moreover, the owners of a corporation do not have to be involved in management of the company; that is the responsibility of the corporation's board of directors and managers. If one of the owners of a corporation decides to sell his or her shares of stock, he or she can easily do it, unless the corporation is in very serious financial trouble. While sole proprietorships or partnerships have to be closed or reorganized if an owner withdraws or dies, corporations hardly change if an owner withdraws or dies.

Back to Top

The Labor Force and the Economy

Labor is one of the factors of production. Labor provides the work needed to produce goods and services. This work can be mainly physical, like that of a fruit picker, or mainly mental, like that of a lawyer. The **labor force** is the group of men and women who are available to work.

In the United States, the labor force is made up of people 16 years of age or older who either are employed in nonmilitary jobs or are looking for work. People with military jobs usually are not considered part of the labor force. The U.S. labor force, in the early days of the country's history, was about 2 million people. Now it is more than 100 million.



The nature of the work also has changed. Most workers are now in white-collar office jobs, sales and marketing, managerial positions, or service industries. In contrast, when the United States became independent in 1776, about 90 percent of the people in the country were farmers. Today, the U.S. farm population is less than 2 percent of the total population. The dramatic decline of the farm population over the last five decades is illustrated in the graph on the left.

In return for their work, members of the labor force are paid wages. Some workers are paid by the amount of work actually completed; others are paid a specific amount by the hour, week, month, or year. In a free market economy like that of the United States, wages—like prices—are determined by supply and demand. For instance, wages of unskilled workers are usually low because the supply of workers is usually larger than the demand for such workers. On the other hand, **skilled workers,** who have received special training, usually receive higher wages. This is because the supply of skilled workers is not as large as the demand for them.

In dealing with employers, workers have often found themselves at a disadvantage. A worker who looses a job may be unable to support his or her family. The loss of a worker, however, is not a serious problem to a company. In the past, workers sometimes had to accept low wages or unsafe working conditions because the alternative, not having a job at all, was even worse.

Labor unions are workers' organizations that have been formed to protect the members' interests and increase their bargaining power with employers. Labor unions are very influential in the United States, even though only about a fifth of all workers in the country are union members.

Back to Top