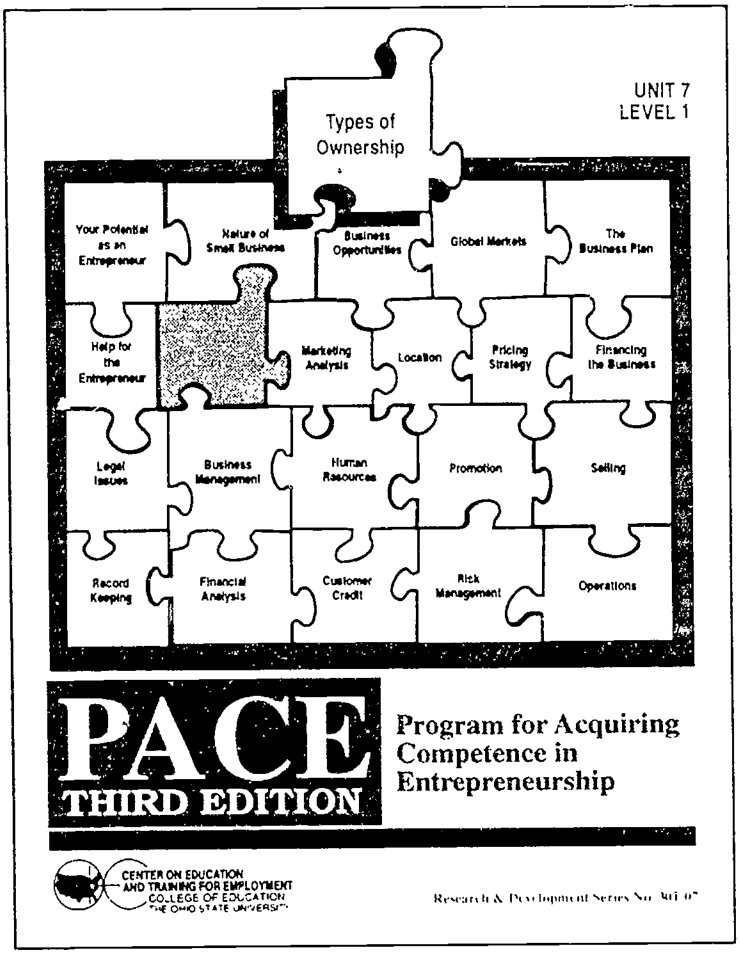
DOCUMENT RESUME

ED 373 202 CE 067 036

TITLE	Types of Ownership. Unit 7. Level 1. Instructor Guide. PACE: Program for Acquiring Competence in Entrepreneurship. Third Edition. Research & Development Series No. 301-07.
INSTITUTION	Ohio State Univ., Columbus. Center on Education and Training for Employment.
PUB DATE	94
NOTE	20p.; For the complete set, i.e , 21 units, each done at three levels, see CE 067 029-092. Supported by the International Consortium for Entrepreneurship Education, the Coleman Foundation, and the Center for Entrepreneurial Leadership Inc.
AVAILABLE FROM	Center on Education and Training for Employment, 1900 Kenny Road, Columbus, OH 43210-1090 (order no. RD301-07 IG, instructor guide $4.50; RD301-07 M, student module, $3; student module sets, level 1--RD301M, level 2--RD302M, level 3--RD303M, $45 each; instructor guide sets, level 1--RD301G, level 2--RD302G, level 3--RD303G, $75 each; 3 levels and resource guide, RD300G, S175).
PUB TYPE	Guides - Classroom Use - Teaching Guides (For Teacher) (052) -- Guides - Classroom Use - Instructional Materials (For Learner) (051)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Behavioral Objectives; *Business Education; *Competency Based Education; Corporations; *Entrepreneurship; Learning Activities; *Ownership; Postsecondary Education; Secondary Education; *Small Businesses; Student Evaluation; Teaching Guides
IDENTIFIERS	*Program for Acquiring Competence Entrepreneurship

ABSTRACT

This instructor guide for a unit on types of ownership in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 1 of learning--understanding the creation and operation of a business. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Discussed in the unit are the various advantages and disadvantages of sole proprietorships, partnerships, and corporations as forms of business ownership. (MN)



INSTRUCTOR GUIDE

Unit 7

Types of Ownership

Level 1

Objectives:

- Describe sole proprietorships, partnerships, and corporations.

- Identify the advantages and disadvantages of proprietorships, partnerships, and corporations.

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.

- Duplicate the glossary from the *Resource Guide* to use as a handout.

- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.

- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.

- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

Objectives	Teaching Suggestions
1. DESCRIBE SOLE PROPRIETORSHIPS, PARTNERSHIPS, AND CORPORATIONS	
What are the various types of ownership?	Use an overhead or chalkboard to outline the types of ownership. Include both limited and general partnerships.
What is a sole proprietorship?	Ask students if they have family members, friends, or acquaintances who are the sole owners of their business. Lead students in a discussion on entrepreneurs' needs and capabilities to develop sole proprietorships.
What is a partnership?	Introduce the concept of partnership by explaining both general and limited partnerships. Use a chart to highlight the differences between the two forms of ownership.
What is a corporation?	Give examples of well-known companies which chose corporation as a form of ownership (e.g., Wendy's, McDonald's, Jenny Craig, The Limited, etc.) to introduce the concept of corporation. Outline the main characteristics of corporations and define the notions related to this form of ownership (e.g., offices, board of directors, stockholders).
2. IDENTIFY THE ADVANTAGES AND DISADVANTAGES OF PROPRIETORSHIPS, PARTNERSHIPS, AND CORPORATIONS	
What are the advantages of a sole proprietorship?	Encourage students to use individual note cards to list each advantage of sole proprietorships as they are explained to them. Next, quiz students to test their understanding of the concepts.
What are the disadvantages of a sole proprietorship?	Refer to above suggestion.
What are the advantages of a partnership?	Briefly explain advantages of a partnership.
What are the disadvantages of a partnership?	Divide the chalkboard or overhead into two columns. Have students list advantages of partnership on the left hand-side column. Help them list disadvantages of partnerships in the right hand-side column.

Objectives	Teaching Suggestions
What are the advantages of a corporation?	Invite a local entrepreneur who owns shares in a corporation to discuss why he/she chose corporation as the form of ownership.
What are the disadvantages of a corporation?	Refer to above suggestion.

MODEL ASSESSMENT RESPONSES

The following table answers the assessment questions in a comprehensive manner. Students should be encouraged to prepare similar tables in order to better understand the differences, advantages, and disadvantages between the types of ownership discussed in this unit.

FORMS OF OWNERSHIP	ADVANTAGES	DISADVANTAGES
Sole Proprietorship	1. Low start-up costs 2. Greatest freedom from regulation 3. Owner in direct control 4. Minimal working capital requirements 5. Tax advantage to owner 6. All profits to owner 7. Simplest way to start a business	1. Unlimited liability 2. Lack of continuity 3. Difficulty in raising capital 4. Lack of assistance
Partnership	1. Ease of formation 2. Low start-up costs 3. Additional sources of venture capital 4. Broader management base and expertise 5. Possible tax advantage 6. Limited outside regulations	1. Unlimited liability 2. Lack of continuity 3. Divided authority 4. Difficulty in raising additional capital 5. Difficulty in finding suitable partners 6. Sharing of profits
Corporation	1. Limited liability 2. Specialized management 3. Transferable ownership by stock selling 4. Continuous existence 5. Legal entity 6. Possible tax advantages 7. Ease of raising capital	1. Close regulation 2. Most expensive to organize and run 3. Charter restrictions 4. Extensive recordkeeping 5. Double taxation and a higher rate of taxation

PACE THIRD EDITION

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For information on PACE or to order, contact the Publications Department at the
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Support for **PACE, Third Edition** provided in whole or in part by:

International Consortium for Entrepreneurship Education
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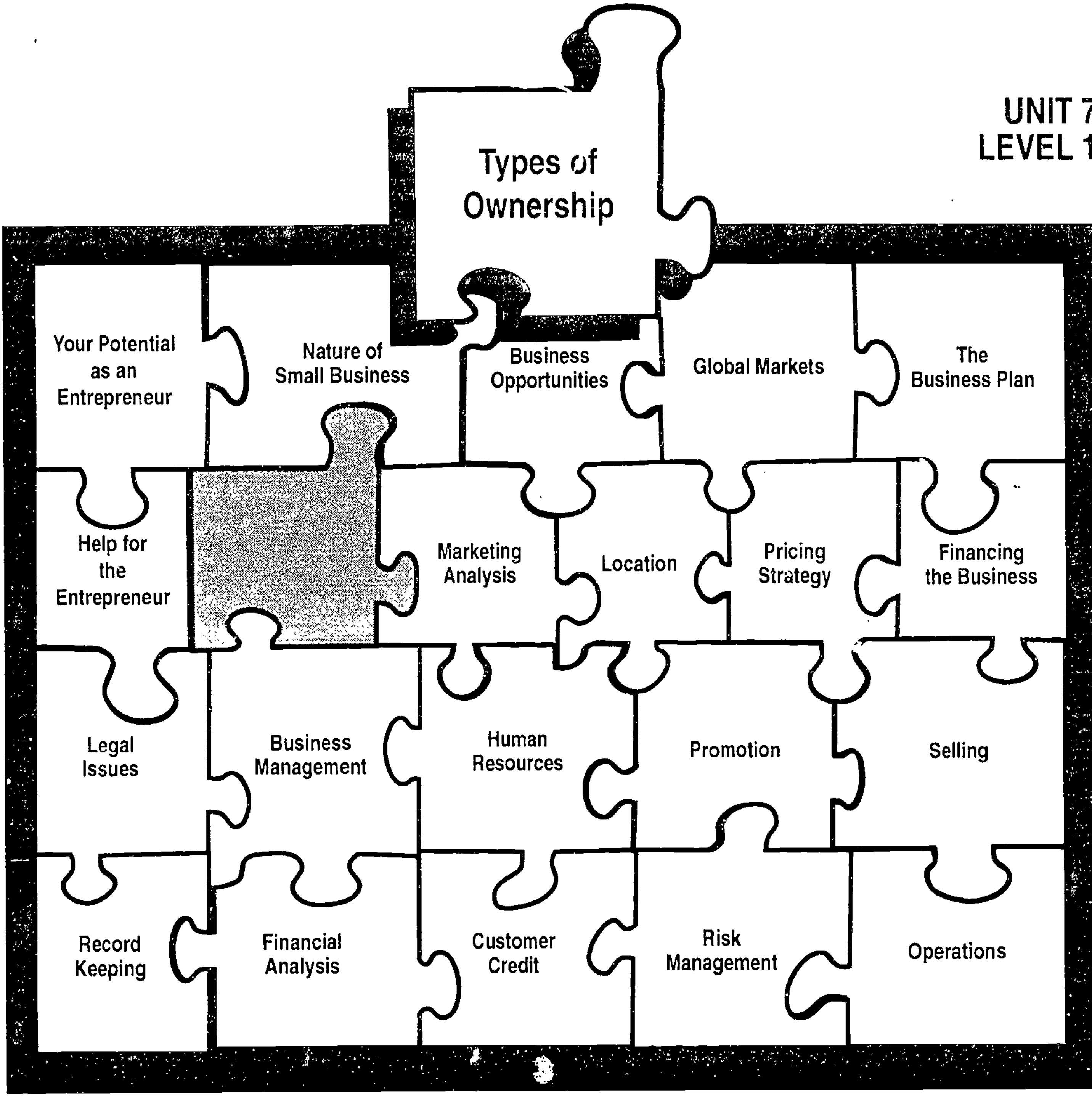
UNIT 7
LEVEL 1



PACE
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CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 301-07

TYPES OF OWNERSHIP

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Board of directors
Business assets
Capital
Certificate of incorporation
Corporation
Debt
Double taxation
General partnership
Limited partnership
Officers
Partnership
Personal assets
Personal liabilities
S corporation
Sole proprietorship
Stockholder/shareholder
Unlimited personal liability

TYPES OF OWNERSHIP

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- describe sole proprietorships, partnerships, and corporations and
- identify the advantages and disadvantages of proprietorships, partnerships, and corporations.

WHAT IS THIS UNIT ABOUT?

When you are planning your business, you must decide which type of ownership would be best for your business. This unit focuses on the three major types of business ownership: sole proprietorships, partnerships, and corporations. The characteristics, advantages, and disadvantages of each form of business ownership are discussed. The main purpose of this unit is to help you discover the advantages and disadvantages of each form of business ownership. This information is helpful when deciding which type of ownership is best for you and your business.

WHAT ARE THE VARIOUS TYPES OF OWNERSHIP?

A large manufacturing firm may not need the same form of business organization as a small drugstore, a health food shop, a nursing home, or a restaurant. To find the best organization for your business, you will need some understanding of the various types of ownership. These are—

- sole proprietorship,
- partnership, and
- corporation.

WHAT IS A SOLE PROPRIETORSHIP?

The most common form of business organization is sole proprietorship. Sometimes it is called the individual proprietorship. This business has only one owner and is usually operated by that person. Often it is run with the help of a few employees, most likely family members. Sole proprietorships can

operate with very little capital resources (money). Sole proprietorships exist in a great variety of businesses. These may include the neighborhood beauty parlor, bike repair shop, restaurant, or newsstand.

The sole proprietorship is the least complicated form of organization. It is the easiest to enter into and to terminate. Entry requires a location, expertise in an area of business, a source of capital, the ability to make contracts, sometimes a license, and the desire to start your own business. Termination generally requires only paying your debts and closing the doors.

WHAT IS A PARTNERSHIP?

Next to the sole proprietorship, the partnership is the least complicated way to begin and operate a business. A partnership is a business that has two or more co-owners. Often, but not always, a partnership is formed when a sole proprietor takes on additional owners. These additional owners help in certain areas of expertise or skill. They may also aid in expanding the business by providing an additional source of capital, since in most cases two people have or can borrow more money than one person. Partnerships are found in every type of business from auto repair shops to law firms. Forming a partnership may be a good choice for many businesses, especially those that require more skills or capital than one person can provide.

General Partnership

Each owner has the right to participate in the management of the business

Limited Partnership

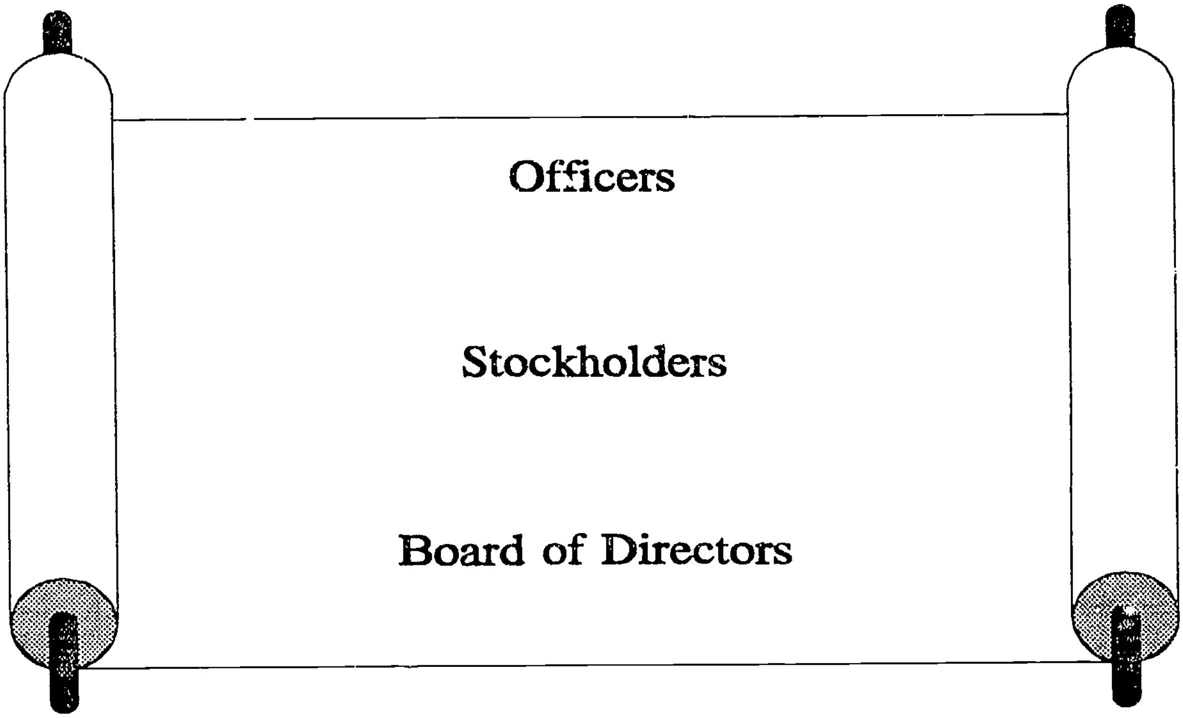
Limited partner cannot participate in the management of the business

There are two types of partnerships, *general partnerships* and *limited partnerships*. In a general partnership, all the owners are general partners. As general partners, each owner has the right to participate in the management of the business, as well as to participate in the profits of the business. The general partners are personally liable for all the debts of the business.

Limited partnerships, on the other hand, have two classes of partners—*general partners* and *limited partners*. *General partners* in a limited partnership have the same rights and liabilities as they would in a general partnership. *Limited partners* have much different rights and liabilities. They are not allowed to participate in the management of the business at all. Because they do not manage the business, they are not personally liable for the debts of the business. The most that limited partners can lose if the business fails is the amount they have invested in the business. Their personal assets, such as their car and home, will not be used to pay business debts.

WHAT IS A CORPORATION?

Corporations are the most complicated way to begin and operate a business. A corporation is an entity created by state laws for the purpose of doing business. The corporation may have more than one owner. The law treats the corporate entity like a person completely separate from its owners. The corporation is given the power to transact business, enter into contracts, and sue or be sued in its own name. The corporation can



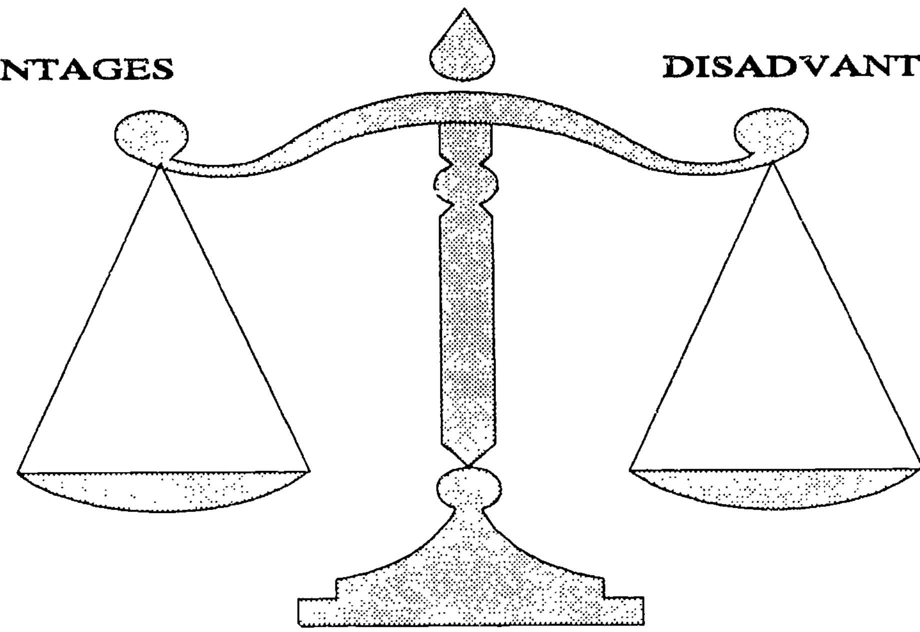
transact business in its own name because it is a separate legal entity from its owners. The corporation acts on its own through its *officers*. They have the power to make contracts and carry out business activities for the corporation.

The owners of a corporation are the *stockholders*. The number of stock certificates they purchase determines the extent of their ownership. After the corporation has been chartered, the stockholders must elect a *board of directors*. The board of directors appoints the officers who manage the business.

There are more U.S. businesses that are sole proprietorships than there are corporations. But in terms of the number of dollars earned and/or people employed, the corporation is the largest form of business organization in the United States today.

WHAT ARE THE ADVANTAGES OF A SOLE PROPRIETORSHIP?

Certain advantages of sole proprietorship are rather obvious. You have often heard people say, "If I ran this operation . . .," or "I'd like to be my own boss." That is exactly what you would be as a sole proprietor—the boss! As the boss, you make all the decisions. As long as you don't break the law or violate the rights of others, you can run the business in any manner you choose. You are free to enjoy your own successes and to make your own mistakes. You can



seek the advice of others, but you make the final decisions for your business. Other advantages of the sole proprietorship include the following:

- It is the least complicated way to get a business started.
- There is greater freedom from government regulations.
- All the profits go to the sole proprietor.
- Limited cost of actually starting the business (you are not required to pay any legal fees to get started).
- There is possible tax advantage to the small business owner.

WHAT ARE THE DISADVANTAGES OF A SOLE PROPRIETORSHIP?

The main disadvantage of being a sole proprietor is that you have unlimited liability. All business ventures entail risks. But in the sole proprietorship, no one else shares the risk. The creditors of any business can force the business to close if its debts remain unpaid. However, the creditors of a sole proprietorship can also claim your personal property if the debts of the business are not paid. This is known as personal liability. Thus, business failure can lead to the loss of your home, car, other possessions, and your business.

Other disadvantages of the sole proprietorship include—

- The difficulty of raising capital.
- The lack of assistance in operating the business. You as an owner need expertise in many areas.
- The limited life of the business. If the owner gets sick or dies, the business must temporarily close down or possibly end for good.

WHAT ARE THE ADVANTAGES OF A PARTNERSHIP?

One advantage of a partnership is the variety of skills, abilities, and ideas that are brought to the business by the partners. Each partner does not need to be an expert in all areas of the business. Each can concentrate on his or her area of expertise. Having partners also means that if one owner is ill or on vacation, the business can continue to operate. Other advantages of a partnership are—

- more sources of capital (two can borrow more often than one),
- easier to enter and terminate a partnership than a corporation,
- low start-up costs that are similar to those of a sole proprietorship but with the additional cost of preparing a partnership agreement,
- possible tax advantage, and
- limited outside regulations.

WHAT ARE THE DISADVANTAGES OF A PARTNERSHIP?

The main disadvantage of a partnership is that, like a sole proprietorship, the general partners have unlimited liability. Therefore, the general partner's personal property can be seized to settle business debts. An added disadvantage of a partnership is that one partner may not give as much time and effort as the other, yet still get an equal share of the profits. However, two heads are better than one only if both heads are working.

Other disadvantages of a partnership are—

- the sharing of profits,
- the possible limited life of the organization,
- the difficulty in raising additional capital, and
- the difficulty in finding suitable partners—those with the needed skills may be incompatible, untrustworthy, or unwilling to share the responsibilities.

WHAT ARE THE ADVANTAGES OF A CORPORATION?

There are many advantages to the corporate form of business. A big advantage is that the corporation's owners have limited liability. This means that only the assets of the corporation, not those of the individual owners, have to be used to pay creditors. If a person owns stock in a corporation and the corporation is unable to pay its creditors, that stock becomes valueless. Creditors can take the corporation's properties to satisfy the corporation's debts. But creditors can not go after the owner's individual property. The owners will not lose more than the value of their own stock.

A corporation also may find it easier to raise money and obtain credit, because a corporation usually has many owners. This makes it easier to get credit. If a corporation becomes very successful it can decide to issue new stock and sell it to the public when additional capital is needed. This option usually is not available to small businesses just starting out. Some of the other advantages of a corporation are as follows—

- A greater variety of skills, abilities, and ideas are available.
- The responsibilities of ownership can be transferred simply by selling stock.
- The corporation can continue to exist despite changes in owners.

WHAT ARE THE DISADVANTAGES OF A CORPORATION?

The corporation also has disadvantages. The corporation is more complicated and expensive to organize and run than the sole proprietorship and the partnership. It involves obtaining a charter and having a *Certificate of Incorporation* drawn up by a lawyer. The corporation can perform only those activities stated in its charter. It may not engage in out-of-state business activities without paying a special fee. The corporation must file reports regularly with the government. The corporation may require the services of specialized and expensive employees in order to comply with all the regulations it faces. Other disadvantages of the corporation include:

- The sharing of profits.
- Double taxation. The profits of a corporation are taxed as corporate income and as the stockholder's income.
- A higher rate of taxation than other forms of business organization. (However, the tax disadvantages may be avoided if it qualifies for *S Corporation* status for tax purposes. Tax laws permit an S Corporation to have its income taxed only once and at the same rate as individuals. Tax laws change frequently, so you should consult your accountant or attorney to see if this option will help your new business).

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

Choose a business you would like to start and give it a name. On a sheet of paper briefly describe your business. Next, list the three forms of ownership and the respective advantages and disadvantages of each. Review the list and note the advantages and disadvantages that you feel are most important to you in determining which form of ownership to choose for the business you have selected. Describe why you think each is important to your decision. Based on your analysis of the advantages and disadvantages, which form of ownership would you choose? Explain your choice.

B.

Using the local Yellow Pages, identify three examples of small businesses in your community that you think fall into the following categories:

- A sole proprietorship
- A partnership
- A corporation

On a sheet of paper list the reasons why *you* think these businesses fall into each category. Contact each business you listed and ask the manager what form of ownership the business uses. You may find it helpful to explain to the manager that you need the information to complete a school project.

GROUP ACTIVITIES

A.

Work in teams of four to six. Appoint one individual from each team to *facilitate* (lead) a discussion based on the following scenario.

Each team considers starting new businesses. The businesses are retail candy stores. They involve buying candy from wholesalers in large quantities and reselling it to individuals.

The teams decide what form of ownership to adopt for their new businesses after discussing the various forms of ownership. Each team member should have the opportunity to provide input into the decision-making process.

Each team records its choice of ownership and the highlights of the discussion session on a flipchart with magic markers and makes a report to the class. Use the flipcharts from each *team* to make comparisons.

B.

Work in teams of four to six. Each team has two teams of two or three people. The teams will role play the situation described below.

Team one is assigned the role of business attorneys advising clients on the various types of ownership. Team II is a group of entrepreneurs seeking advise on which type of ownership to choose for their new business.

Team two, the entrepreneurs, starts the role play by choosing a business it would like to start and explaining it to the attorneys. The attorneys then explain the various types of ownership and the advantages and disadvantages of each to entrepreneurs.

After hearing the attorneys' presentation, the entrepreneurs choose a form of ownership and explain why they think it is the best one for their business. Does the attorney team agree? Why or why not?

CASE STUDY

Delia Ong is an experienced computer technician. She is interested in starting a computer repair business of her own.

Delia is confident she has all of the computer skills she needs to start a repair business. However, she is considering joining forces with her friend Maria Lopez.

Maria has a strong marketing background. Delia feels that by combining forces with Maria the business would be stronger. Maria could do the marketing to bring the customers into the shop and Delia could focus on doing the repair work.

Delia is in the process of deciding whether to ask Maria to be a co-owner of the business. Before making a decision, she needs to review the various forms of ownership available, and the advantages and disadvantages of each.

DISCUSSION QUESTIONS

1. Which forms of ownership could Delia use if she decides to open the business by herself?
2. What are the advantages of the forms of ownership you listed in your answer to question number 1?
3. Which form(s) of ownership could Delia use if she decides to start the business with a co-owner?
4. What are the advantages of the form(s) of ownership you identified in your answer to the second question? What are the disadvantages?

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Explain the differences between the three types of ownership discussed in this unit.

2. Identify at least two advantages of each type of ownership.

3. Identify at least two disadvantages of each type of ownership.

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PACE

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business