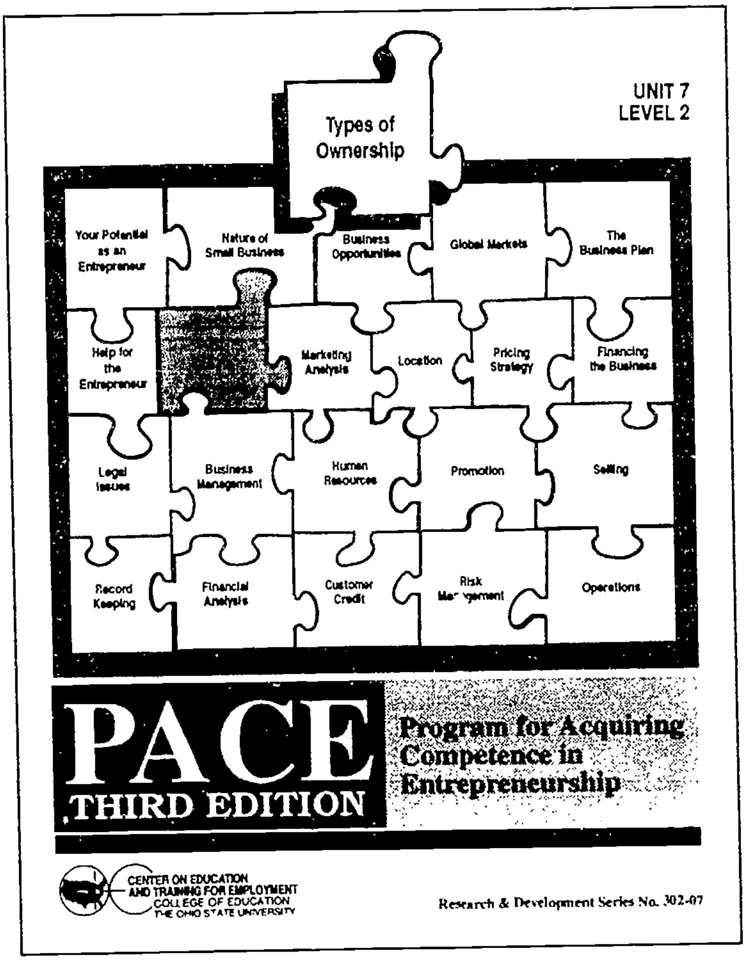
DOCUMENT RESUME

ED 373 223 CE 067 057

TITLE	Types of Ownership. Unit 7. Level 2. Instructor Guide. PACE: Program for Acquiring Competence in Entrepreneurship. Third Edition. Research & Development Series No. 302-07.
INSTITUTION	Ohio State Univ., Columbus. Center on Education and Training for Employment.
PUB DATE	94
NOTE	24p.; For the complete set, i.e., 21 units, each done at three level , 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. RD302-07 IG, instructor guide $4.50; RD302-07 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, $175).
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 Administration; *Business Education; Business Skills; *Competency Based Education; Corporations; *Entrepreneurship; Learning Activities; *Ownership; Postsecondary Education; Secondary Education; Small Businesses; 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 2 of learning--planning for a business in one's future. 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. Among the topics discussed in the unit are the following: sole proprietorships, partnerships, and corporations; factors influencing choice of ownership type, and sources of assistance for choosing ownership type. (KC)



INSTRUCTOR GUIDE

Unit 7

Types of Ownership

Level 2

Objectives:

- Explain the basic principles of a sole proprietorship, a partnership, and a corporation.
- Identify the factors that influence the choice of ownership type.
- Investigate sources of assistance in choosing ownership type.

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 delive 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. EXPLAIN THE BASIC PRINCIPLES OF A SOLE PROPRIETORSHIP, A PARTNERSHIP, AND A CORPORATION	
What is the first step in choosing a type of ownership?	The instructor introduces the basic idea of making decisions based on available options. Have the students generate examples from their own experiences. Next, gear the discussion toward decisions related to choice of ownership.
What is a sole proprietorship?	Have students list small businesses in your community known to be sole proprietorships. Next, highlight important aspects of sole proprietorships.
What are the advantages of a sole proprietorship?	The instructor should divide the class into two groups. One group is to list advantages of owning sole proprietorships, and the other group will list disadvantages. At this point, the instructor should not expect from students more than a basic understanding of aspects related to sole proprietorships.
What are the disadvantages of a sole proprietorship?	Refer to the above suggestions. Ask additional questions to facilitate the discussion.
What is a partnership?	Invite an entrepreneur from your community who is a partner in a small business. The entrepreneur should highlight characteristics of partnerships as they relate to his/her experience.
What are different types of partnerships?	Have the entrepreneur explain the differences between general and limited partnerships.
What are the advantages of a partnership?	Use a chart listing the advantages and disadvantages of partnerships.
What are the disadvantages of a partnership?	Lead students in a discussion on the disadvantages of partnerships. Conclude the discussion by asking the students to try and think of some disadvantages of partnerships that have not been mentioned.
What is a corporation?	Ask students to visit the library and consult the local newspaper or magazines such as Business Week, Fortune, Times, Inc., etc. Have students read articles about corporations. Have students identify different issues that concern corporations. Use these issues to expand the discussion on corporations.
What are the advantages of a corporation?	The instructor should outline advantages of corporations. Ask students to refer to the articles they read in the magazines.
What are the disadvantages of a corporation?	Refer to above suggestion.

Objectives	Teaching Suggestions
2. IDENTIFY THE FACTORS THAT INFLUENCE THE CHOICE OF OWNERSHIP TYPE	
What factors influence the choice of ownership?	Lead students in a discussion on factors that influence the choice of ownership. Use a chalkboard or overhead to list factors identified by students.
What factors influence the sole proprietorship/corporation decision?	Divide the class into two groups. Coordinate a contest between the groups to encourage students to identify additional factors that influence the choice of ownership.
What factors influence the partnership/corporation decision?	Refer to above suggestion.
3. INVESTIGATE SOURCES OF ASSISTANCE IN CHOOSING OWNERSHIP TYPE	
What sources are available to help choose the best form of ownership?	The instructor should stress the importance of knowing what resources are available to help entrepreneurs choose the best type of ownership.

MODEL ASSESSMENT RESPONSES

1. A sole proprietorship is owned by only one person, and it is not incorporated. A sole proprietorship is the easiest and least expensive type of business to start, operate and terminate. Legal requirements of forming a sole proprietorship include only obtaining a business license. The owner has total control in the decision-making process and acquires all profits. For tax purposes, profits are considered the owner's personal income. Also, there is less government regulations and paperwork involved with operating a sole proprietorship. However, the owner has unlimited personal liability if the business defaults in paying its debts. In addition, it is often difficult for the sole owner to raise capital. The limited amount of management expertise and lack of continuity are additional disadvantages of sole proprietorships.

   A partnership is owned by two or more individuals. Partnerships have the advantage of bringing more capital and expertise to the business. Even though not legally required, partnership agreements are a good way to clarify the partners' rights and obligations for the duration of the business operation. Although not as simple to operate as sole proprietorship, partnerships are simpler and less expensive to form and operate than are corporations. There are less government regulations and less paperwork. Profits are considered the partners' personal income for tax purposes. Partners acquire all profits, but they have unlimited liability. Partnerships make it difficult to transfer ownership and one partner's decisions bind all partners.

   A corporation is the most complicated and expensive form of business to start, operate, and terminate. In order to start a corporation, a lawyer must be hired to file the necessary papers. Annual reports and other complicated paperwork have to be filed with federal agencies. Corporations are highly regulated by the federal and local governments. A corporation has its own rights, privileges, and responsibilities. The corporation is a separate legal entity from its owners. The owners of the corporation are the shareholders and their stake of ownership is represented by stock issued by the company. The shareholders elect a board of directors who in turn appoint the mangers of the business. Therefore, the business is separated from its owners and can benefit from management with expertise. The shareholders have limited liability which extends only to the amount which they invested. Ownership can easily be transferred through the sale of stock shares. A corporation's profits are double taxed—once as the business' income and once as the owners' personal income.

2. Sources of assistance available to help choose the most suitable type of ownership include: personal attorney and accountant, the Small Business Administration, the local chamber of commerce, or business law courses offered by the local community college.

3. Limited partnerships have two kinds of partners—general and limited partners. The general partners manage the business and have unlimited personal liability for all debts of the business. Limited partners need only to invest money and are liable only for the amount they have invested in the business. Limited partnerships are used when an entrepreneur needs to raise more capital but does not want to share managerial responsibilities with other investors.

   General partnerships have only general partners. They can actively participate in managing the business and have unlimited liability if the business defaults on paying its debts. General partnerships are chosen when all owners want a stake in managing the operations of the business.

4. Five factors that might influence an entrepreneur's decision to choose a particular type of ownership are: (1) start-up costs, (2) the amount of control and risk he/she desires, (3) need for assistance in particular areas, (4) need for continuity, and (5) need for flexibility.

Support for **PACE, Third Edition** provided in whole or in part by:

International Consortium for Entrepreneurship Education
and
International Enterprise Academy
Center on Education and Training for Employment
The Ohio State University

The Coleman Foundation

Center for Entrepreneurial Leadership Inc.
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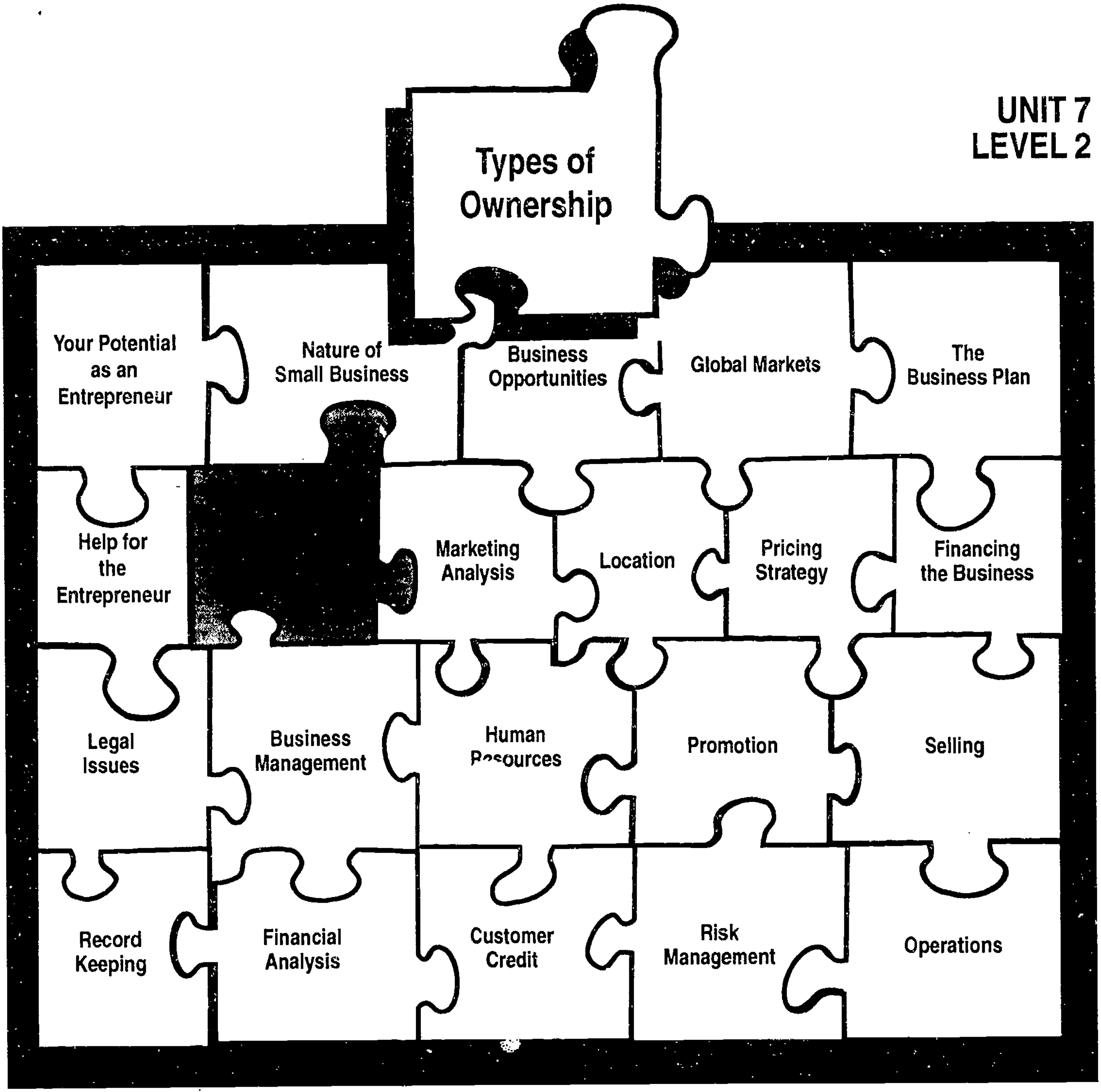
UNIT 7
LEVEL 2



PACE

THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

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

Research & Development Series No. 302-07

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. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Level 1:

   - Describe sole proprietorships, partnerships, and corporations.

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

4. 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.*

   Legal Entity
   Partnership agreement
   Share (certificate) of stock
   Start-up costs

TYPES OF OWNERSHIP

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- explain the basic principles of a sole proprietorship, a partnership, and a corporation,
- identify the factors that influence the choice of ownership type, and
- investigate sources of assistance in choosing ownership type.

WHAT IS THIS UNIT ABOUT?

One of the first decisions you will face when you start your business is the form of ownership. The three basic choices are sole proprietorship, partnership, and corporation. There are also different types of partnerships and corporations to consider when making your decision.

Choosing the type of ownership requires careful thought. The form that best suits your business depends on many factors including your personal feeling about risk, your financial situation, tax laws, and your particular business situation. There is not one best form of ownership because each individual's circumstances are different.

The purpose of this unit is to examine the types of ownership and the factors that influence the type of ownership you choose. The unit concludes with a discussion about the assistance that is available to help you choose the type of ownership that is best for you and your business.

WHAT IS THE FIRST STEP IN CHOOSING A TYPE OF OWNERSHIP?

The most important step in choosing a type of ownership is learning about the options. It is very difficult to make a good decision without a thorough understanding of the various types of ownership. Once you understand the basic principles of sole proprietorships, partnerships, and corporations, you can analyze your situation to determine which is best for your business.

WHAT IS A SOLE PROPRIETORSHIP?

A sole proprietorship is a business that is owned by one person and is not incorporated. Any size or type of business could be run as a sole proprietorship. Sole proprietorships can be anything from a small TV repair shop to a large manufacturer of computers. The key factor to remember is that sole proprietorships are businesses that have only one owner and are not incorporated.

Sole proprietorships are the most common form of business in the United States. The main reason for this is that most new small business owners choose to be sole proprietors. They do so because sole proprietorships are the easiest type of ownership to form and operate. Generally, the only legal requirements involved in forming a sole proprietorship are that the necessary business licenses be obtained and the business name, if it is a name other than that of the owner, be registered before the business is in operation.

Once started, sole proprietorships face less government regulations and require less paper work than partnerships and corporations. The owner makes all the decisions and reaps all the rewards. Taxes are simplified because the owner treats business profits and losses as part of his or her personal finances. This is less complicated than the tax report rules for either a partnership or corporation.

WHAT ARE THE ADVANTAGES OF A SOLE PROPRIETORSHIP?

The chief advantage of a sole proprietorship is that it is easier and less expensive to start and operate than either a partnership or corporation. There are less government regulations, less paperwork, and less complicated tax rules. This enables the owner to focus his or her time and financial resources on developing the business instead of dealing with regulations and paperwork.

A second feature of a sole proprietorship that is often attractive to entrepreneurs is the freedom and control enjoyed by an individual owner. Sole proprietors call all the shots for their business and answer to no one about their decisions. They make the business work and get to enjoy all the fruits of their labor. Of course, they also bear the responsibility for any losses.

WHAT ARE THE DISADVANTAGES OF A SOLE PROPRIETORSHIP?

The biggest disadvantage of a sole proprietorship is having *unlimited personal liability* for business debts. This means the sole proprietor must pay his or her business debts, even if the business does not generate enough money to pay the bills. Business creditors can force the sole proprietor to pay business debts with funds from personal savings and investments or from the sale of personal possessions such as a home, cars, and jewelry. In the worst case, the failure of a sole proprietorship can result in personal bankruptcy.

Another disadvantage is that it is usually harder for an individual to raise capital than for a group of people. Sole proprietors have less funds and less borrowing power than they would if they teamed up with others to start a business. This is why many sole proprietors find it necessary to take on additional owners to make their business grow. See Figure 1 for a summary of the advantages and disadvantages of a sole proprietorship.

Often partnerships are created when a sole proprietor decides he or she needs more capital or management expertise to run the business properly. A partnership is formed to bring the necessary money or skill to the business so that it can grow. The partners then split the profits from the growing business.

WHAT IS A PARTNERSHIP?

Partnerships are very similar to sole proprietorships except that they involve more than one owner. Any business that has more than one owner and is not incorporated is a partnership.

There is no legal requirement that forces partners to have a written partnership agreement. However, it is strongly recommended that partners discuss the details of their business relationship and put them in writing. Most partners find that clarifying their agreements up front and putting the details in writing helps to avoid problems that commonly occur as the business grows.

Partnerships, like many pursuits, do not always last. Partners can help make their relationship stronger by working through the process of developing a written partnership agreement. Usually an attorney helps the

ADVANTAGES	DISADVANTAGES
• Easy to form and terminate • Start up costs are low • Owner makes all decisions. • Relatively little regulation and paper work • All profits go to owner • Possible tax benefits	• Unlimited liability for owner • Harder to raise capital • Limited amount of management expertise • Lack of continuity

Figure 1. Summary of the Advantages and Disadvantages of a Sole Proprietorship

partners by identifying potential problem areas and proposing ways to handle these problems. A well-drafted partnership agreement can help the partners avoid unnecessary disputes that could ruin their business relationship.

Some of the topics covered in a typical partnership agreement are listed below. This list is only a sample of the topics which could be covered. The actual topics covered in a partnership agreement will depend on the agreements the partners make, and the partners particular circumstances. Partnership agreements usually include:

The duration of the partnership. The partners should discuss how long the partnership will last. Will it last for a limited time period such as one or two years? Will it last until a certain business event occurs, such as a hotel is built and sold? Will it continue indefinitely?

The authority and duties of the partners. Very often partners come together to combine unique talents in a partnership. When this occurs the partners' authority and duties are generally divided according to their specialties, that is one partner may be responsible for finance, one for marketing, and a third for operations.

The amount invested by each partner. Partners bring time, money, and property to a partnership. The agreement should clearly put a value on each partner's initial contributions. For example, one partner may contribute a $150,000 warehouse, another $150,000 in cash and a third partner might contribute $50,000 worth of organizational work for the partnership and an additional $100,000 in cash.

Salaries of the partners. Partners can pay themselves salaries or receive no salary and just share in the profits. In order to avoid problems, it is best to agree in advance about whether the partners will get a salary for their efforts or only a share in the profits.

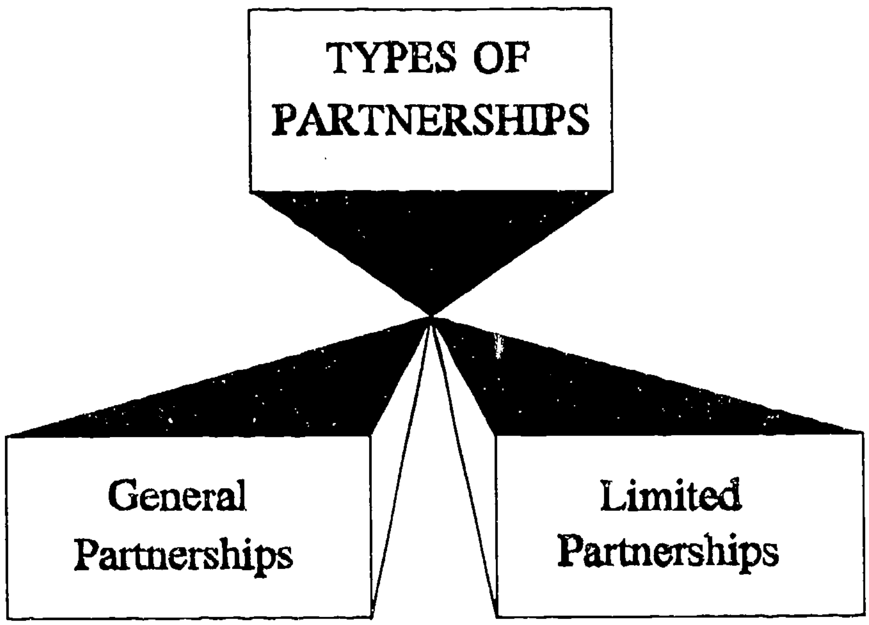
How profits are to be shared. Partners can share profits any way they choose. Many partners share profits based on initial contributions. Two partners each contributing equally would share 50-50. Perhaps one partner does more work or had the original idea and gets 75 percent of the profit compared to 25 percent for the other partner.

Provisions for adding partners and selling partnership interests. As the business and its partners change, the partnership may need more partners and/or existing partners may want to leave. A good agreement anticipates these situations and makes provisions for partners coming and going. This helps the partnership operate smoothly during times of changing ownership.

How the partnership may be terminated. The partners should consider different options for dissolving the partnership. This helps in avoiding fights over who gets what when the partners decide to dissolve the partnership. It is best to agree on this in the beginning because many times there are hard feelings when it comes to dissolving the partnership. At that time it may be difficult to get an agreement.

WHAT ARE THE DIFFERENT TYPES OF PARTNERSHIPS?

There are two types of partnerships, *general partnerships* and *limited partnerships*. The difference between the two centers around whether or not all the partners participate in the management of the business. In a *general partnership* there is only one class of partners—general partners. All the general partners can actively participate in managing the business. Because all partners in a general partnership have a say in how it is managed, they are held personally liable for all debts of the business. The personal liability of general partners is the same as that of sole proprietors.



Limited partnerships have two classes of partners—general partners and limited partners. The *general partners* manage the business and have unlimited personal liability for all debts of the business. There must be at least one general partner in every limited partnership. On the other hand, limited partners only invest money in the business. They do not participate in the management of the business. Because they do not have a say in managing the business, they are not held personally liable for the debts of the business. The *limited partners'* financial liability is limited to the amount they have invested in the business. Their personal assets can not be taken to pay the debts of the business.

Limited partnerships are used when an entrepreneur needs more capital but does not want to share management responsibilities. The entrepreneur becomes a general partner and seeks investors to become limited partners. The limited partners provide the needed capital and earn a return on their investment. They do not participate in management decisions and are not held personally liable for the debts of the business.

WHAT ARE THE ADVANTAGES OF A PARTNERSHIP?

The principle advantage of a partnership over a sole proprietorship is that a group of owners offers a larger pool of expertise and money than a single owner. Bringing in partners enables the business owner to secure the money and skills needed to support the growth of the business.

A partnership has two advantages over a corporation. First, partnerships are much easier to form than a corporation. There is much less paper work and government regulation to deal with in starting a partnership. Generally, due to the ease of formation, starting a partnership is less costly than starting a corporation.

The second advantage involves the way partnerships and corporations are taxed. Profits and losses of partnerships flow through to the personal tax returns of the partners. Profits and losses of corporations are taxed on the tax returns of the corporation. Corporate profits are taxed again on the personal tax return of the owners when the profits are distributed. Corporate losses do not pass through to the owners. More precisely, for tax purposes, losses can be used by corporations to benefit from tax breaks. However, the owners cannot benefit from these tax advantages. In times of business losses in a partnership, partners can use the losses to get a tax advantage by offsetting the loss against other sources of income. This results in a lower taxable income and a tax savings to the partners. Since corporate losses do not flow through to the owners, this tax advantage is not available with the corporate form of ownership.

WHAT ARE THE DISADVANTAGES OF A PARTNERSHIP?

The biggest disadvantage of a partnership is unlimited liability for the general partners. The general partners in a limited partnership and all the partners in a general partnership are personally held liable for all the debts of the business. This includes debts that other partners incur on behalf of the partnership even if those debts are unknown to the partners who are being asked to pay it. The large risk associated with being a general partner has caused many entrepreneurs to avoid forming a partnership.

Another major disadvantage of a partnership is the difficulty involved in controlling what happens when partners either want to leave the partnership or are forced to leave due to illness, disability, or death. Generally, when a general partner leaves the partnership, it comes to an end and the remaining partners must form a new partnership. If the partners have a written partnership agreement, they can avoid this problem if they include a provision that covers the buyout of a partner's interest who leaves the business. Dealing with owners who leave the business is more complicated than in a corporation. Corporate ownership interests and stocks can be transferred, whereas partnership interests are not. See Figure 2 for a summary of the advantages and disadvantages of a partnership.

ADVANTAGES	DISADVANTAGES
• Ease of formation • Greater availability of management skills and capital • All profits go to owners • Possible tax benefits • Less regulated than a corporation	• Unlimited liability • Difficult to terminate • Unstable business life • Difficult to transfer partnership interest • Acts of one partner binds all partners

Figure 2. Summary of the Advantages and Disadvantages of a Partnership

The owners of a corporation are *shareholders* who own stock issued by the company. The shareholders elect a board of directors who, in return, select a management team to run the company. In a small business setting, the principal owner and his or her family may own all the stock, serve on the board of directors, and manage the business.

WHAT IS A CORPORATION?

A corporation is a very special form of ownership. Once created, a corporation has rights, privileges, and responsibilities similar to a person. In legal terms, the corporation is considered to be a separate legal entity from its owners. As a separate legal entity, the corporation can do almost any act a person can do. It can enter into contracts, sue, be sued, own property, and conduct business in its own name. For example, when the Exxon Valdez spilled oil into the ocean near Alaska, criminal charges were brought against Exxon the corporation, not its owners.

Corporations are the most complicated way to start and run a business. Each state has laws that require corporations to hold shareholder meetings and board of directors meetings, maintain minutes of the meetings, and file various reports with state agencies. These requirements must be met and corporations must pay fees to the state in order to have the right to continue to do business as a corporation.

WHAT ARE THE ADVANTAGES OF A CORPORATION?

Corporations offer several possible advantages. The owners (shareholders) have limited liability for the debts of the business. Typically, shareholders are only at risk to lose the amount they invest in the business. Their personal assets are not at risk. This is a great advantage over having unlimited personal liability, as is the case for the sole proprietors and general partners.

Another advantage is that the corporation exists as a separate entity from its owners. This makes the corporation stable because the death or disability of an owner does not automatically terminate the business as it does with the other forms of business ownership.

Using the corporate form also makes it easier to transfer ownership interests. The ownership interests are represented by *shares of stock*. Ownership interest in a corporation is transferred by selling stock to the new owner. Existing owners can transfer all or part of their stock interest to each other or to outsiders by selling them their stock.

Finally, corporations can raise capital easier than partnerships or sole proprietorships. The advantage is greatest for larger more established companies that can sell stock on major stock exchanges. Smaller start-up corporations often find that raising capital is very difficult. It is hard to find investors that are willing to buy stock in a small company with little operating history. See Figure 3 for a summary of the advantages and disadvantages of a corporation.

WHAT ARE THE DISADVANTAGES OF A CORPORATION?

A major disadvantage of the corporate form of ownership is that it is the most regulated type of ownership. Even if a corporation has only one owner, reports must be completed and federal, state, and local regulations, similar to many ones required of IBM or other large corporations must be complied with. This requires small business owners to divert time and money from their regular business to paper work.

The process of incorporating is more complicated and expensive. Usually an attorney must be hired to prepare and file the necessary papers. There are usually special fees for the right to carry on business as a corporation. The initial costs of starting a corporation can be significantly higher than those of other types of ownership.

Profits of corporations can be double-taxed if the owners do not actively manage their tax situations. Because a corporation is a separate entity, it must pay taxes on its income. Corporate profits are first taxed before they are paid out to shareholders. Shareholders must also pay taxes on profits the corporation pays them. This is referred to as *double taxation of corporate profits*. With proper tax planning, this can be avoided. Tax planning, like paper work, diverts the owners time and money from the main business.

ADVANTAGES	DISADVANTAGES
• Owners liability limited to amount invested • Easy to transfer ownership • Business entity is separate from owners • Greater availability of management talent • Possible tax advantages	• Expensive to form • Highly regulated • Most complicated paper work required on a day to day basis • Double taxation possible

Figure 3. Summary of the Advantages and Disadvantages of a Corporation

WHAT FACTORS INFLUENCE THE CHOICE OF A TYPE OF OWNERSHIP?

The goal of choosing a type of ownership is to select the one that best suits your needs. In order to do this you must review your situation so that you can define your current needs and anticipate your future needs. A thorough examination of your circumstances is the necessary foundation for making a good choice.

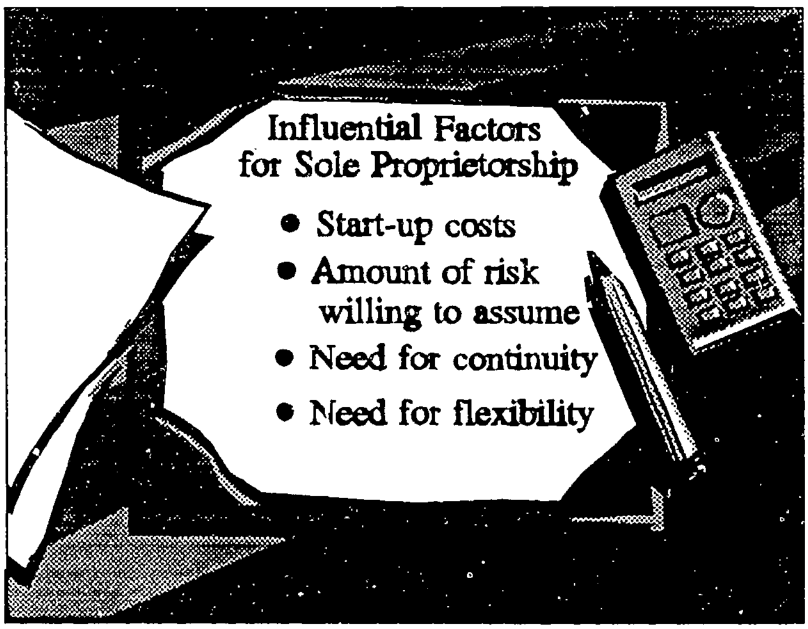
The single biggest factor affecting which type of ownership best suits your needs is whether you will be in business by yourself or with co-owners. A single-owned business can only be a sole proprietorship or a corporation, whereas a multiple-owned business can only be a partnership or a corporation. Deciding whether you will have co-owners helps eliminate one form of ownership from consideration. The comparison process is much easier with only two choices to consider. Several factors influence whether to go it alone or to have co-owners. The *amount of control* you desire is a key factor. If your primary reason for starting a business is to be your own boss, you may not want to have to answer to co-owners. A single-owned business might suit you best. Even if you want to be your own boss, you might find that you need assistance in certain areas which co-owners can provide. Entrepreneurs have to have expertise in many areas, for example, marketing, finance, law, and production. They must also have enough money to run their businesses. Co-owners can supply the needed skills and/or capital.

Expertise and capital can always be bought if you have enough money. However, sometimes giving some control of the business to a co-owner is the only feasible way to get the expertise or capital needed to run the business.

After deciding whether or not to have co-owners, you still must choose the type of ownership to use. Several factors influence this choice. Some of the more important factors are—

- start-up cost,
- the amount of personal risk you are willing to assume,
- need for continuity, and
- need for flexibility.

The other major factor influencing the choice is *the amount of risk you are willing to assume*. Sole proprietorships are usually more risky than corporations due to the owner having unlimited personal liability for the debts of the business. Unlimited personal liability is a bigger concern for owners who own assets outside the business. A wealthy person with a house, car, and a $100,000 bank account usually wants to form a corporation to avoid the risk of losing his or her personal assets. On the other hand, an owner that has all of his or her assets invested in the business will lose everything if the business fails regardless of whether he or she chooses a corporation or a sole proprietorship.



WHAT FACTORS INFLUENCE THE SOLE PROPRIETORSHIP/ CORPORATION DECISION?

Start-up costs are often a major factor. During the start-up phase there usually is not enough money to go around. Due to the lack of money, the choice of ownership is often dictated by cost. Since it is cheaper to form a sole proprietorship than a corporation, many single-owner small businesses are formed as sole proprietorships.

Two additional factors that influence the decision are *the need for continuity* and *the need for flexibility*. A corporation offers greater continuity than a sole proprietorship. This is important when the owner is concerned with passing on the business to an heir.

Sole proprietorships are generally a more flexible form of ownership than corporations. This is due to the relative lack of regulation of the sole proprietorships compared to corporations. No one likes to deal with regulations and paperwork.

With a sole proprietorship entrepreneurs have less regulation and more flexibility in how they run their business.

WHAT FACTORS INFLUENCE THE PARTNERSHIP/ CORPORATION DECISION?

The decision for a multiple-owner business is harder to make. The circumstances are much more complicated because people with different interests are involved.

The amount of personal risk the owners are willing to assume is a key factor. Partnerships, like sole proprietorships, involve unlimited liability. The desire to avoid unlimited liability results in many more multiple-owned businesses being corporations than partnerships. Usually one or more of the owners has personal assets and does not want to put them at risk in a partnership.

The need for continuity has a big impact in the decision. Partnerships offer very little continuity, whereas corporations offer a great deal of continuity. If owners anticipate that there will be a great deal of changes in who owns a business, forming a corporation would give them the continuity they need. If, on the other hand, two brothers are starting a business and would not consider working with anyone else, continuity would not be as big a concern.

Start-up costs are usually high for either a corporation or a partnership. However, in uncomplicated situations, partnerships have fewer legal requirements and are less costly to form. In more complicated situations, it is necessary to obtain extensive legal advice to form either a partnership or a corporation.

WHAT SOURCES ARE AVAILABLE TO HELP CHOOSE THE BEST FORM OF OWNERSHIP?

After completing this unit, you should be familiar with the various forms of ownership and their advantages and disadvantages. This is a good starting point to analyze your particular situation and to identify the factors you think are important to your decision.

Make a list of the factors you think are important. Once you have identified these factors, you should investigate the sources of assistance available to help you choose the best type of ownership. There are many sources available. Using them often saves costly mistakes at the very start of your business start up.

Two very valuable sources of assistance are your attorney and your accountant. Both of these professionals are experts at helping people analyze their business situation and choose the ownership best suited to their situations.

The Small Business Administration (SBA) is also a very valuable source of information. The *Resource Guide* contains a list of SBA field offices. These offices offer a wide variety of services from classes to publications that can help you make your choice.

Learning from the experiences of others can be of great assistance as well. Many industries have trade groups or clubs that you can join. The members of these groups are usually willing to help new entrepreneurs. Often there are mentor programs that have experienced people help with all aspects of starting a business. The local chamber of commerce and the SBA also have mentor programs.

Finally, you may wish to consider taking a business law course from your local community college. Such a course will not only help you learn more about various types of ownership, it will also help you learn about legal issues that you may encounter as an entrepreneur.

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. Analyze your personal circumstances and those associated with the business to determine what type of ownership you would choose. First determine whether you will go into business alone or with co-owners. What factors influenced your choice? Why? What type of ownership will you choose? What factors influenced your decision? Why?

B.

Contact a small business owner in your community. Ask him or her what factors influenced his/her choice of ownership. Ask them to share with you information on what type of ownership he/she chose. Also, what advice would they give you on choosing a type of ownership for a small business.

GROUP ACTIVITIES

A.

Work in teams of six to eight. Each team discusses why the majority of small businesses are sole proprietorships. What factors influence small business owners the most in choosing to form sole proprietorships? Why? Each team uses flip charts to record their ideas. Ideas from all are shared and a comprehensive list of ideas is made.

B.

Work in teams of four to six. Each team will discuss different sources of assistance to use in deciding the type of ownership. Each team contacts at least three potential sources of assistance and asks what type of resources they recommend, the names of any low-cost guides that can be obtained, and about mentor programs in the area. Each team reports its findings to the other teams.

CASE STUDY

Jill and Paul have each inherited $1 million dollars. They are interested in joining forces to start a nuclear waste disposal business. They have been told that disposing of nuclear waste from power plants can be very profitable. However, handling nuclear waste is a very dangerous business. A mistake can be very costly to correct.

Paul thinks he will stay with the new business for a long time. However, Jill thinks she will be ready to move on to other interests in four or five years. She would like to sell her ownership interest to her father when she leaves the business and wants to be sure the type of ownership she and Paul choose will allow that to occur.

Paul and Jill are reviewing the various types of ownership to determine which is the best for their new business. They have come to you for information and advice.

DISCUSSION QUESTIONS

1. Which of the forms of ownership discussed in this unit could Paul and Jill use in their business?
2. What are the advantages of the types of ownership that they can use?
3. What are the disadvantages of the types of ownership that they can use?
4. Which form of ownership would you recommend? Explain your recommendation to Jill and Paul.

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. List the main characteristics of a sole proprietorship, a partnership, and a corporation.
2. Identify five sources of assistance you c ` se to get help making your decision on which form of ownership to use.
3. Explain the difference between a general partnership and a limited partnership.
4. Identify five factors that might influence the choice of ownership type.

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PACE

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Resource Guide	
Instructor's Guide	

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