

# Forms of Business Ownership




# The 3 main forms

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- What are the three main forms of business organization, and what factors should a company's owner(s) consider when selecting a form?

Sole proprietor • Partnership • Ltd liability coy

- Choose a form of organization by evaluating:
  - Owner's liability for firm's debts
  - The ease and cost of forming the business
  - The ability to raise funds
  - The taxes

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- The degree of operating control the owner can retain
  - The ability to attract employees
  - The aims and objectives of the various business
  - The desire of how to/not to share profits





# Sole proprietorship

# Sole proprietorship (contd.)

- What are the advantages and disadvantages

## Advantages of sole proprietorships?

- Ease and low cost of formation
- Owner's rights to all profits
- Owner's absolute control of the business
- Relative freedom from government regulation
- Absence of special taxes
- Ease of dissolution

## Disadvantages

- Unlimited liability of the owner for debts
- Difficulty in raising capital
- Limited managerial expertise
- Large personal time commitment
- Unstable business life
- Difficulty in attracting qualified employees
- Owner's personal absorption of all losses



# Partnerships



# Partnerships (contd)

- Why would a new business venture choose to operate as a partnership, and what challenges would the partners face?
- **General Partnerships**
  - Partners co-own assets and share profits
  - Each partner is individually liable for all debts and contracts of the partnership
- **Limited Partnerships**
  - Controlled by one or more general partners who have unlimited liability
  - Dormant partners' liability is limited to their investment
  - Dormant partners do not participate actively in the firm's operations

# Partnerships (contd)

- Why would a new business venture choose to operate as a partnership, and what challenges would the partners face?
- **Advantages of Partnerships**
  - Ease of formation
  - Availability of capital
  - Diversity of managerial expertise
  - Flexibility to respond to changing business conditions
  - Relative freedom from government control
- **Disadvantages of Partnerships**
  - Unlimited liability for general partners
  - Potential for conflict between partners
  - Limited life
  - Sharing of profits
  - Difficulty in leaving a partnership



# Topics to Cover in a Partnership Agreement


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- Purpose & duration of partnership
- Roles, responsibilities, compensation
- Contributions
- Procedures for adding/removing partners
- Buy-out procedures
- Dispute resolution
- Financial/financing arrangements
- Dissolving the partnership
- Valuation


# The partnership agreement


- The name of the business
- The names and addresses of all partners
- Purpose and nature of the business, the location of the principal offices, and any other locations where the business will be conducted
- Date of commencement of the partnership and how long it will last. Will it exist for a specific period of time, or will it end when one of the partners dies or when the partners agree to discontinue?



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- The contributions made by each partner. Will some partners contribute money, while others provide real estate, personal property, expertise or labour? When are the contributions due?
  - The management responsibilities. Will all partners have equal voices in management, or will there be senior and junior partners?
  - The duties of each partner
  - The salaries and drawing accounts of each partner



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- Provision for sharing profits and losses
  - Provision for accounting procedures. Who'll keep the accounts? What bookkeeping and accounting methods will be used? Where will the books be kept?
  - The requirements for taking in new partners
  - Any special restrictions, rights, or duties of any partner

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- Provision for retiring partner
  - Provision for the purchase of a deceased or retiring partner's share of the business
  - Provision for grievance handling
  - Provision for how to dissolve and distribute the assets to the partners



## *Limited liability company:*

A legal entity with an existence and life separate from its owners, who therefore are not personally liable for its debts; it can own property, enter into contracts, sue and be sued, and operate under the terms of its national laws.



# *Limited liability company(cont'd)*

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- What are advantages and disadvantages to a limited liability company?

- **Advantages**

- Limited liability
- Ease of transferring ownership
- Stable business life
- Ability to attract financing

- **Disadvantages**

- Double taxation of profits
- Cost and complexity of formation
- Government restrictions
- Government regulations

# *Limited liability company(cont'd)*

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- What is the basic structure of a limited liability company?
  - **Stockholders/shareholders**
    - Own the company
    - Can sell or transfer shares at any time
    - Entitled to receive profits in the form of dividends
  - **Board of Directors**
    - Elected by stockholders/shareholders
    - Govern the firm, ie formulate policies
  - **Officers (management)**
    - Carry out the goals and policies set by the board (implement policies of the Board)



# Steps in forming a limited liability company

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1. Select company's name
2. Write and file *Articles of Incorporation* paperwork
3. Pay fees and taxes
4. Hold organizational meeting
5. Adopt bylaws, elect directors, pass operating resolutions



# Specialized Forms of Business Organization

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1. Cooperatives
2. Joint ventures
3. Franchises

# Cooperatives

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- Formed by people with similar interests, such as customers and suppliers
  - lower costs
  - increased economic power
  - share in profits
- Members/owners pay annual fees
- Common in:
  - agriculture
  - hardware/lumber
  - grocery

## *Joint Venture:*

2 or more companies form an alliance to pursue a specific project, usually for a specific time period





## *Franchising:*

business organization in which a franchisor supplies the ***product concept*** to the franchisee, who sells the goods or services

# Franchises

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## *Advantages*

- increased opportunity to expand (franchisor)
- recognized name, product, and operating concept (franchisee)
- management training and assistance (franchisee)
- financial assistance (franchisee)

## *Disadvantages*

- loss of control (franchisor)
- costs of franchising
- restricted operating freedom (franchisee)



# Growth Through Mergers & Acquisitions

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## *Merger:*

The combination of 2 or more firms to form a new company, which often takes a new corporate identity

## *Acquisition:*

The purchase of a corporation by another corporation or investment group



# Mergers & Acquisitions (contd)

- Why would a company use mergers and acquisitions to grow?
  - Companies use mergers and acquisitions for strategic reasons such as
    - Growth or diversification of product lines
    - Increased market share
    - Economies of scale
    - Financial restructuring to increase company value to stockholders/shareholders

# Mergers & Acquisitions (contd)

- To increase the capital base of the new firm
- To use complementary resources
- To spread risk
- To expand production
- To avoid the failure of the firms
- To increase the power or strength of the market
- For more profit



# Types of Mergers

## 1. Horizontal mergers

- same industry, same stage of production

## 2. Vertical mergers

- same industry, different stages of production

## 3. Conglomerate mergers

- different industries

## 4. Leveraged buyouts

- corporate takeovers with borrowed money



# Benefits of Mergers

## *Reduced:*

- ↓ costs
- ↓ overlap in operations
- ↓ competition

## *Increased:*

- ↑ purchasing power
- ↑ market share

# Business trends of the future

- What trends will affect business organization in the future?
  - Service sector is growing to meet demand for convenience from working women and two-income families
    - Providing service for children and senior citizens
    - Resale shops and other specialty markets
  - Established franchisors are remaining competitive by
    - Offering multiple concepts
    - New types of outlets and expanded products







