**CHOICE OF OWNERSHIP**

Once an entrepreneur makes the decision to launch a business, one of the first issues is choose of form of ownership. Too often, entrepreneurs invest insufficient time and effort evaluating the impact that the various forms of ownership will have on them and on their businesses. There is no one “best” form of ownership. Choosing the “right” form of ownership means that entrepreneurs must understand the characteristics of each form and how well those characteristics match their business and personal circumstances. The following are some of the most important issues entrepreneurs should consider when they are evaluating the various forms of ownership: Tax considerations, liability exposure, start-up and future capital requirement, control, managerial ability and cost of formation etc.

Major form of business:

* Sole Proprietorship
* Partnership
* Corporation
* The **Sole Proprietorship** The simplest and most popular form of ownership remains the sole proprietorship. The sole proprietorship, as its name implies, is a business owned and managed by one individual. The Advantages of a Proprietorship
* **SIMPLE TO CREATE** One of the most attractive features of a proprietorship is how fast and simple it is to begin.
* **LEAST COSTLY FORM OF OWNERSHIP TO BEGIN** In addition the proprietorship is generally the least expensive form of ownership to establish.
* **PROFIT INCENTIVE** One major advantage of proprietorships is that once owners pay all of their companies’ expenses, they can keep the remaining profits (less taxes, of course).
* **TOTAL DECISION-MAKING AUTHORITY** Because the sole proprietor is in total control of operations, he or she can respond quickly to changes, which is an asset in a rapidly shifting market. The freedom to set the company’s course of action is a major motivational force.
* **NO SPECIAL LEGAL RESTRICTIONS** The proprietorship is the least-regulated form of business ownership.
* **EASY TO DISCONTINUE** If an entrepreneur decides to discontinue operations, he or she can terminate the business quickly even though he or she will still be personally liable for any outstanding debts and obligations the business cannot pay.

The disadvantages of sole proprietorship are:

* **UNLIMITED PERSONAL LIABILITY** Probably the greatest disadvantage of a sole proprietorship is the unlimited personal liability of the owner, meaning that the sole proprietor is personally liable for all of the business’s debts.
* **LIMITED SKILLS AND CAPABILITIES** A sole proprietor has total decision-making authority, but that does not mean that he or she has the range of skills that running a successful business requires.
* **FEELINGS OF ISOLATION** Running a business alone allows an entrepreneur maximum flexibility, but it also creates feelings of isolation; there is no one else to turn to for help when solving problems or getting feedback on a new idea.
* **LIMITED ACCESS TO CAPITAL** If a business is to grow and expand, a sole proprietor often needs additional financial resources.
* **LACK OF CONTINUITY OF THE BUSINESS** Lack of continuity is inherent in a sole proprietorship. If the proprietor dies, retires, or becomes incapacitated, the business automatically terminates.

**THE PARTNERSHIP**

A partnership is an association of two or more people who co-own a business for the purpose of making a profit. In a partnership, the co-owners (partners) share the business’s assets, liabilities, and profits according to the terms of a previously established partnership agreement.

**ELEMENTS OF AGREEMENT**

* How will bank accounts be set up and how will accounting and tax matters be handled?
* How will disputes related to the partnership be resolved?
* What happens if one partner dies or becomes disabled or incapacitated?
* What happens if one partner wants to leave the partnership?
* How will sale of the business be handled?

**THE ADVANTAGES OF THE PARTNERSHIP**

* **EASY TO ESTABLISH:** Like the proprietorship, the partnership is easy and inexpensive to establish.
* **COMPLEMENTARY SKILLS:** In successful partnerships, the parties’ skills and abilities usually complement one another, strengthening the company’s managerial foundation.
* **DIVISION OF PROFITS:** The partnership agreement should articulate each partner’s contribution to the business and his or her share of the profits.
* **LARGER POOL OF CAPITAL** The partnership form of ownership can significantly broaden the pool of capital available to a business.
* **ABILITY TO ATTRACT LIMITED PARTNERS** When partners share in owning, operating, and managing a business, they are general partners.
* **Type of partners:**

**General partners:**

Partners who have unlimited liability for the partnership’s debts and usually take an active role in managing the business.

**Limited partners:**

Partners, who are financial investors in a partnership, cannot participate in the day-to-day management of a company, and have limited liability for the partnership’s debts.

**THE DISADVANTAGES OF THE PARTNERSHIP**

Before entering into a partnership, every entrepreneur should double-check the decision to be sure that the prospective business partner will add value to the business..

* **UNLIMITED LIABILITY OF AT LEAST ONE PARTNER**: The general partner has unlimited personal liability for any debts that remain after the partnership’s assets are exhausted.
* **CAPITAL ACCUMULATION** Although the partnership form of ownership is superior to the proprietorship in its ability to attract capital, it is generally not as effective as the corporate form of ownership, which can raise capital by selling shares of ownership to outside investors.
* **DIFFICULTY IN DISPOSING OF PARTNERSHIP INTEREST** Most partnership agreements restrict how partners can dispose of their shares of the business. A similar problem arises when a partner die. The deceased partner’s interest in the partnership passes to his or her heirs, in which case the partnership is dissolved and the heirs receive the value of the deceased partner’s share of the business.
* **POTENTIAL FOR PERSONALITY AND AUTHORITY CONFLICTS:** Making sure that partners’ work habits, goals, ethics, and general business philosophy are compatible is an important step in avoiding a nasty business divorce.

**CORPORATIONS**

The corporation is the most complex of the three major forms of business ownership. It is a separate entity apart from its owners and may engage in business, make contracts, sue and be sued, own property, and pay taxes. Because the life of the corporation is independent of its owners, the shareholders can sell their interests in the business without affecting its continuation.

Corporations have the power to raise large amounts of capital by selling shares of ownership to outside investors, but many corporations have only a handful of shareholders.

**Types of Corporation:**

* **A PUBLICLY HELD:** Corporation has a large number of shareholders, and its stock usually is traded on one of the large stock exchanges. These financial reports become public record.
* **Closely held** – a corporation in which shares are controlled by a relatively small number of people, often family members, relatives, or friends.

**ADVANTAGES OF COOPERATION:**

* Limited liability of stockholders
* Ability to attract capital
* Ability to continue indefinitely
* Transferable ownership

**DISADVANTAGES:**

* Cost and time of incorporating
* Double taxation
* Potential for diminished managerial incentives
* Legal requirements and regulatory “red tape”
* Potential loss of control by founder(s)