

PACE

Fourth Edition

Program for Acquiring Competence in Entrepreneurship



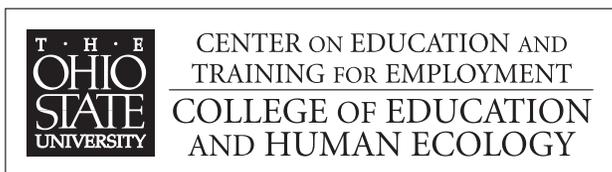
PACE

Fourth Edition

Program for Acquiring Competence in Entrepreneurship



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Foreword

I am pleased to introduce you to the Fourth Edition of the Program for Acquiring Competence in Entrepreneurship (PACE). PACE represents our continuing effort to respond to the needs of the education and business communities. At no other time in history has understanding entrepreneurship been as important. For one thing, promoting entrepreneurship carries the societal imperative as small businesses as a whole contribute much to the growth and renewal of regional and national economies.

When first published in the late 1980s, PACE properly emphasized that entrepreneurship was based as much on sound planning as having products and services that were responsive to the marketplace. Through its various revisions, PACE continued to focus on the general importance of planning and managing the startup of a small business.

The current PACE edition represents a necessary break from past versions in both its format and some content. For one thing, the text format has been substantially changed from paragraphs to a series of related sections with subheadings. This change allows readers to have greater accessibility to the information, whether it is delivered via a printed booklet or a technology-based approach. And the format allows the instructor/facilitator to have greater flexibility in selecting content to accommodate the needs of various audiences and settings.

In terms of the content, PACE continues to emphasize the importance of planning and managing of a small business. But it now includes a renewed emphasis on meeting customer expectations. Any business cannot exist without a comprehensive understanding of who receives its products or services. In this sense, PACE introduces the topic of conducting e-commerce. Until recently, the entrepreneurial horizon may have been limited to serving local customers only. The advent of the Internet offers the promise of serving many more customers, but not without the accompanying challenges.

This edition was supported in part by a grant from OSU Extension and in partnership with OSU South Centers – Piketon. We hope that PACE will provide you with the understandings necessary to help you to achieve your entrepreneurship goals.

Ronald L. Jacobs
Director
Center on Education and Training for Employment

Overview

Introduction

During the planning phase of entrepreneurship, you must decide which type of ownership would be best suited for the specifics of your business. The three major types of business ownership, each with distinct advantages and disadvantages, are:

- sole proprietorship
 - partnership
 - corporation.
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Overview, Continued

Rationale A small company doesn't need the same form of business organization as a large firm. Choosing the most appropriate structure for your business will ensure that you have a solid structural foundation on which to build your future.

Objectives By the conclusion of this module, you will be able to:

- State the three types of ownership.
- Compare and contrast the three types of ownership.
- Describe the advantages and disadvantages of each.
- Identify the type of ownership that is best suited to your situation.

Relevant NCSEE standards This module aligns with the following National Contents Standards for Entrepreneurship Education (NCSEE):

C.03 Explain types of businesses.

More information on the NCSEE is available at: http://www.entre-ed.org/Standards_Toolkit.

Topics The topics in this module are:

Topic	See Page
What Are the Various Types of Ownership?	3
Sole Proprietorships	6
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Corporations	13
How Do I Choose the Right Type of Ownership?	19

Exhibits There are no exhibits in this module.

Before you begin After reviewing the above objectives for this module, determine whether you can already meet those objectives and consult your instructor if you can.

What Are the Various Types of Ownership?

Introduction

In today's competitive business environment, starting a new business is more challenging than ever. Deciding which type of ownership will best suit your business is important and should be done early in the planning process. You will choose from the following organizational structures:

- sole proprietorship
- partnership
- corporation.

Note: As the situation changes, you should review your choice of ownership in order to determine whether a different form of ownership would be more advantageous.

Sole proprietorship

The most common form of business organization is the sole proprietorship (sometimes called individual proprietorship). This type of business has the following characteristics:

- There is usually just one owner, and that person usually operates the business.
- A few employees may help run the business, and they are often family members.
- Sole proprietorships exist in a vast range of businesses.
- Minimal capital resources are required for operation.
- Sole proprietorships are the least complicated of businesses, the easiest to enter into and to terminate.

Note: Entry requires a location, expertise in a specific area, a source of capital, the ability to handle contracts, sometimes a license, and the desire to run a business. Termination requires only paying your debts and closing the doors.

Examples: restaurant, beauty salon, landscaping

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What Are the Various Types of Ownership? Continued

Partnerships

The next simplest form of business is the partnership. This type of business has the following characteristics:

- A partnership has two or more co-owners.
- Often it is formed when the sole proprietor takes on additional owners to help with a specialized skill or to provide an additional source of capital for expansion.
- Partnerships exist in a vast range of businesses.
- Forming a partnership may be a good choice for many businesses, especially ones that require more skills or capital than one person can provide.
- Partnerships may involve either general or limited partners.

Examples: auto repair shop, law firm

Corporation

A corporation is the most complex form of business. This type of business has the following characteristics:

- The corporation is an entity created by state law for the purpose of doing business.
- There may be more than one owner.
- The law treats the corporation like a separate legal entity, completely separate from its owners.
- It has the power to transact business in its own name, such as enter into contracts and sue or be sued.
- The corporation acts on its own through the corporate officers.
- Officers have the authority to make contracts and carry out business for the corporation.

Examples: fast food chain, automobile manufacturer, coffee brewer

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What Are the Various Types of Ownership? Continued

Factors to consider

Evaluate each type of ownership in terms of your own business needs and desires as the owner/operator. Weigh factors such as:

- startup costs
 - the degree of control you want to have
 - the level of personal risk you're willing to assume
 - your need for assistance in particular areas of the business
 - the amount of regulation that you're willing to undertake.
-

Sole Proprietorships

Introduction

Sole proprietorships are the most common form of business ownership in the United States. Most small business owners choose to be sole proprietors because it's the easiest arrangement to form and operate. But it also carries with it the highest level of personal liability.

Advantages

The main advantage of sole proprietorship is obvious. People often say, "If I ran this business . . ." or "I'd like to be my own boss." That is exactly what would happen if you had a sole proprietorship. You would be the boss and make all the decisions, for better or worse. As long as you follow the law, you can run your own business any way that you choose.

Key point: The sole proprietor is free to enjoy his or her own success but is also responsible for making the mistakes.

Other advantages of sole proprietorship include:

- The cost of starting the business is minimal – no legal fees.
 - This form of business organization has few legal requirements, only business licenses and registering the name (if different than the owner's name).
 - You have greater freedom from government regulations and paperwork.
 - All profits go to the sole proprietor.
 - Taxes are simplified since the business owner handles business profits and losses as part of his or her personal income.
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Sole Proprietorships, Continued

Disadvantages The main disadvantage of being a sole proprietor is that you have unlimited liability. Any business venture carries a risk, but in a sole proprietorship there's no one to share the risk with you.

Personal liability – Creditors can force the business to close if its debts remain unpaid. But in a sole proprietorship, the creditors can also claim the business owner's personal property if the business debts remain unpaid.

Consequence – In a sole partnership, business failure can lead to the loss of not only the business but also your personal assets such as house, car, and other possessions as well.

Other disadvantages – Other disadvantages of sole proprietorship include:

- This form of business organization can make it difficult to raise capital.
- You have no assistance operating the business. As sole proprietor, you need much expertise and energy.
- The life of the business can be limited. If the sole proprietor gets sick or dies, the business may either temporarily close or shut its doors for good.

Paying taxes Taxes are a definite advantage to the sole proprietor. The tax rate for personal income is often lower than the corporate tax rate. And the sole proprietor can offset some losses against other sources of personal income, whereas corporate losses may not be offset against the personal income of its owners.

Note: The income earned by a corporation may be subject to double taxation. First it's taxed at the corporate rate, and then it's taxed again when it's distributed to the owners as dividends.

Forming a sole proprietorship A sole proprietorship is the easiest type of ownership to form. If a single-owner business is started without the owner choosing an organizational structure, it becomes a sole proprietorship by default.

Note: Although not required to form a sole proprietorship, there are a few things you can do. You should obtain required business licenses and register the company name if different from your own. Also, a business plan should be developed.

Partnerships

Introduction Partnerships are similar to sole proprietorships; however, they involve more than one owner. A business is a partnership if it has more than one owner and is not incorporated.

Rationale When a sole proprietor decides that he or she needs more capital or expertise to run the business properly, the sole proprietor could look for a partner to fill the void. A partnership is often formed to bring that additional resource into the business.

Key point: Partnerships require the multiple owners to split the profits.

Partnership agreements Although there is no legal requirement that forces business partners to have a written partnership agreement, it's strongly recommended that they discuss the details of their business relationship and put them down in writing.

Purpose – Most partners find that formally clarifying their arrangement up front helps to avoid problems that commonly occur as the business grows. Since partnerships don't always last, you can strengthen this relationship by working through the details when developing a written partnership agreement.

Process – Usually an attorney helps the partners by identifying potential problems and proposing ways to handle them. A well-drafted partnership agreement can help you avoid unnecessary disputes that could ruin the business relationship.

Parts of the agreement The exact topics included in the agreement depend on what the partners decide about the specific conditions of the arrangement. The table below presents some of the common elements of a partnership agreement:

Part	Function
Duration	Discuss how long the partnership will last. Consider whether it might last: <ul style="list-style-type: none">• for limited period of time (a year or two)• until a particular event occurs (a hotel is built)• indefinitely.

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Partnerships, Continued

Parts of the agreement (continued)

The table below presents some of the common elements of a partnership agreement:

Part	Function
Authority and duties	<p>Define the authority and duties of each partner. Since partners often enter the relationship with unique talents, authority and duties are assigned accordingly.</p> <p><u>Example:</u> One partner may be responsible for finance while the other handles marketing.</p>
Amount invested	<p>Clearly state the value of each partner's contributions to the enterprise. This investment could be money, time, or property.</p> <p><u>Example:</u> One partner puts in \$150,000 in cash. A second contributes a warehouse worth \$150,000 and a third invests \$50,000 in organizational work for the partnership and an additional \$100,000 in cash.</p>
Salaries	<p>Partners can either pay themselves salaries or receive no salary and share in the profits. To avoid problems, agree in advance on which payment method to adopt.</p>
Profits	<p>Partners can share the profits any way they choose. Most partners share profits based on initial contributions.</p> <p><u>Example:</u> If each partner contributed equal sums of money in the beginning, they would share the profits 50-50. If one does more work or had the original concept, that partner might get 75% of the profits and the other partner would receive the other 25%.</p>
Adding partners or selling partnerships	<p>As the business changes, you might add partners or partners might want to leave. Agree on how to handle the coming and going of partners in order to keep the business running smoothly.</p>
Termination	<p>Consider the alternative for dissolving the partnership. Agree on this point in the beginning to avoid problems in the end when it might be harder to come to an agreement.</p>

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Partnerships, Continued

Two types of partnerships

The two types of partnerships are general and limited. The difference centers on whether all partners participate in managing the business.

General partnerships – When all the partners want to play a role in actively managing the business, choose a general partnership. The characteristics of a general partnership are:

- All owners are general partners.
- As general partners, each partner has the right to participate in managing the business as well as to benefit from its profits.
- General partners are personally liable for all business debts.

Limited partnerships – On the other hand, limited partnerships have two classes of partners – general and limited. This arrangement is usually made when the entrepreneur needs more capital or expertise but doesn't want to share management duties. So the entrepreneur becomes the general partner and seeks investors as limited partners. The characteristics of general and limited partnerships are:

Partner	Characteristics
General	<p>General partners in a limited partnership have the same rights and liabilities as they would in a general partnership. General partners can be held personally liable for business debts.</p> <p><u>Note:</u> Every partnership must have at least one general partner.</p>
Limited	<p>Limited partners have very different rights and liabilities.</p> <ul style="list-style-type: none"> • Limited partners are not allowed to participate in the management of the business at all. • Since limited partners don't manage the business, they're not personally liable for business debts. • If the business fails, the most the limited partner can lose is the amount he or she has invested in the business. <p><u>Key point:</u> None of the limited partner's personal assets may be used to pay business debts.</p>

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Partnerships, Continued

Advantages

Each partner contributes his or her specific skills to the enterprise, and no one individual has to be an expert in all areas. Each partner has the freedom to concentrate on his or her specific area of expertise and interest.

Other advantages of a partnership include:

- There are more sources of capital. New partners might bring it when they join the business, and two people can borrow more money than one.
- It's easier to enter and terminate a partnership than a corporation.
- Startup costs are similar to those of a sole proprietorship (with the additional cost of drawing up the partnership agreement).
- There are fewer government regulations and less paperwork.
- Profits and losses flow through the personal tax returns of the partners.
- If one of the partners is ill or on vacation, it is likely the business will go on.

Disadvantages

The main disadvantage of a partnership is that general partners have unlimited liability. Therefore, the general partner's personal property can be seized to settle business debts.

Coming and going – It can be difficult to control what happens when partners either want to leave or are forced to leave due to disability, illness, or death. Generally when the general partner leaves, the partnership is dissolved and the remaining partners form a new one.

Note: Partnership interests do not automatically transfer. If the partners have a written agreement, they can avoid this problem by including a provision to address the buyout of a partner's interest when he or she leaves the business.

Other disadvantages – Other disadvantages of a partnership include:

- One partner may not contribute as much time and effort as another.
- Profits have to be split evenly regardless of time and effort expended.
- The life of the business can be limited. If one of the partners gets sick or dies, the other partner must continue alone, hire other employees, or face shutting down.
- It may be difficult to find suitable partners. Those with the required skills may be incompatible, untrustworthy, or unwilling to share business responsibilities.

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Partnerships, Continued

Paying taxes

Taxes are commonly a big advantage to the partnership. Taxes are handled as personal income and the tax rate is often lower than the corporate tax rate.

Process – The partner reports his or her share of the profits earned during the specified tax period, whether the profits are actually distributed then or not.

Offsetting losses – Partners can offset some losses against other sources of personal income, whereas corporate losses may not be offset against the personal income of its owners.

Note: This can be very important in the first few years of business when losses are likely. Tax savings from deducting partnership losses from other personal income can be a useful source of cash in the startup phase or during a down turn.

Developing a tax plan – Consult a tax expert when developing a tax plan. Not only will a tax expert help you comply with tax laws, he or she can clarify the tax ramifications of the various types of ownership so you can choose the one with the lowest taxes. These questions will help assess your tax situation:

- Am I anticipating a profit or a loss?
- How big a profit do I anticipate?
- Do I have income from sources outside the business?
- Will I have any capital gains or losses?
- Will I make any large charitable contributions?
- Are there any alternative minimum tax issues?
- Do I use cash or accrual accounting methods?

Advantage over corporations – The income earned by a corporation may be subject to double taxation. First it's taxed at the corporate rate, and then it's taxed again when it's distributed to the owners as dividends.

Forming a partnership

You can form a partnership with very little formality. It's as simple as two people getting together to start a business – a partnership is formed. However, it's recommended that the individuals create a formal partnership agreement listing the details of the arrangement in writing and providing for handling any problems that may arise.

Corporations

Introduction Although there are more American businesses classified as sole proprietorships than corporations, the corporation is the largest form of business organization in the country as far as dollars earned and people employed.

Its own entity In legal terms, the corporation is considered a separate entity from its owners. A corporation can do almost anything that a real person can – enter into contracts, sue or be sued, own property, commit crimes, and conduct business in its own name.

Example: When the Exxon Valdez spilled oil into the ocean near Alaska, criminal charges were brought against Exxon, the corporation, and not its owners.

Stockholders The owners of a corporation are its stockholders. The number of stock certificates that the individual purchases determines the extent of his or her ownership in the business.

Managing the business After the corporation has been chartered, stockholders elect a board of directors. The board of directors appoints the officers who actually manage the business.

Note: In a small business, the principal owner and his or her family might own all of the stock, serve on the board of directors, and manage the business.

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Corporations, Continued

Advantages

The formation of a corporation has many advantages. A major advantage is the limited liability of the business owners. Creditors can seize only corporate assets to pay debts, not the owner's personal assets. But if the corporation is unable to pay its creditors, the stock becomes valueless.

Key point: The owners of the failed corporation will not lose more than the value of their own stock.

Other advantages of a corporation include:

- It's easier to raise capital and get credit with multiple owners.
 - Once the corporation becomes successful, its owners can raise capital by issuing new stock and selling it to the public. (It's harder for startups to find investors willing to take a risk on a new venture.)
 - More than one owner means a more diverse body of competencies to draw upon for running the business.
 - Ownership responsibilities can be transferred simply by selling stock.
 - The corporation can continue to function despite changes in ownership.
-

Disadvantages

The corporation is more complex and expensive to start and operate than sole proprietorships and partnerships.

Documentation – Owners must obtain a charter and have a certificate of partnership drawn up by an attorney. The corporation can engage in only the activities stated in this charter.

Regulation – Besides adhering to the stipulations in the above documentation, the corporation must file reports regularly with the government. It may be necessary to hire expert and expensive associates in order to comply with all the regulations demanded of the corporation.

State law – Each state has laws that require the corporation to:

- hold shareholder meetings
 - hold board of directors meetings
 - record meeting minutes
 - file various reports.
-

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Corporations, Continued

Disadvantages (continued)

Other disadvantages – Other disadvantages of a corporation include:

- Profits have to be shared amongst the multiple business owners.
- Corporations are subject to double taxation. The government taxes the profits as both corporate income and income that stockholders earn.
- Corporations are subject to a higher rate of taxation than the other forms of business organization.

Exception: A corporation might be able to avoid these tax disadvantages 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.

Note: Tax laws change frequently, so consult your accountant or attorney to find out whether this option will help your new business.

Paying taxes

Two categories of incorporation for taxation purposes exist – C corporations and S corporations.

C corporations – Any business can choose to be taxed as a C corporation. Large corporations with millions of stockholders are always taxed as this type of entity. Since 1986, individuals have paid a lower top tax rate than C corporations.

Example: General Motors is a C corporation.

S corporations – Congress created the S corporation tax status in 1986 to encourage small business development by eliminating double taxation of their profits. S corporations (S corps) are not treated as separate taxpayers; they are taxed like a partnership.

How it works

The S corp tax arrangement works as follows:

- S corp profits flow through the corporation to shareholders.
 - Shareholders are then taxed at the individual rate.
 - No corporate income tax is paid on the profits.
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Corporations, Continued

Paying taxes (continued)

Requirements

Ultimately, many small business owners adopt S corp status in order to avoid double taxation of earnings. But a business must meet several requirements to qualify for S corp status. The most significant requirements include:

- The firm must have 35 or fewer shareholders.
- The corporation must be domestic.
- Shareholders cannot be nonresident aliens.
- Shareholders must be individuals, trusts, or estates.
- Only one class of stock can be outstanding.

Change in tax structure

The merits of S corp status came under scrutiny in the early 1990s with the increase of individual federal income tax. This increase resulted in the top individual rates being higher than corporate rates.

Challenges

The benefits of avoiding double taxation do not come without a price. The laws governing S corps are fairly complicated and subject to change from year to year. S corps may still be appropriate in some situations, but it's strongly recommended that you seek advice from a tax attorney before making a decision about whether to become an S corp.

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Corporations, Continued

Paying taxes (continued)

Cooperatives - A cooperative is also a corporation and therefore has perpetual life and limited liability of investors, and it is controlled by a board of directors elected by members. However, certain structural characteristics and a guiding body of principles set it apart from other corporations.

Like all corporations, cooperatives need to generate profits in order to survive and grow. However, cooperatives distribute all or most of the profits back to the member-users on the basis of use as patronage refunds –not based on level of investment.

This creates a different set of objectives for the cooperative corporation – the cooperative must be member-oriented rather than investor-oriented; this is the biggest distinction between cooperatives and other corporations. Cooperative members may or may not believe that profit maximization is the best goal for their cooperative. A cooperative will provide goods and services demanded by its members that a C corporation might not because of profitability concerns.

Forming a corporation

State law governs the requirements for incorporating, and the law varies from state to state. However, one element common to all states is the corporate charter. Some of the information called for in the charter includes:

Information	Details
Name	The specific name of the corporation cannot be the same as one already in use in that state at the time the charter is issued.
Purpose	The purpose of the corporation may be as general as any lawful purpose.
Names and addresses of directors and incorporators	Depending on the state, one to five incorporators must reside in the state in which the application is made.
Location	The location is where the main office is established.
Duration	The duration is often stated as “perpetuity” since corporations don’t normally have a specific ending date.
Capital stock data	This information includes the amount and kinds of capital stock authorized at the onset of operations.
Voting rights	This information includes a full description of the voting rights of the stockholders.

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Corporations, Continued

Forming a corporation (continued)

Bylaws – The corporation’s original owners must draw up a set of bylaws, the internal rules and regulations of the corporation. Bylaws protect all the owners, present and future, from unwise or selfish decisions by the board of directors.

Process – A corporation is formed as follows:

- After paying a charter fee, the state issues a certificate of incorporation. The charter fee varies from state to state and can be quite expensive.
- All agreements are made in the name of the company, not the names of its owners.
- The corporation is authorized to conduct business only in the state where the certificate is issued.
- If the corporation wants do business in other states, it must register as a foreign corporation in each state where it intends to do business as well as pay the appropriate fees for that state. However, cooperatives are not subject to this requirement.

Technical assistance – Since the conditions for obtaining a corporate charter are very technical and different for each state, you should consult an attorney experienced in the laws in the state where you want to incorporate in order to determine if and how you should incorporate your business.

How Do I Choose the Right Type of Ownership?

Introduction

After gaining a working knowledge of the different types of ownership, identify the factors specific to you and the advantages and disadvantages of each type of ownership in your particular situation. The considerations are your:

- financial situation
 - personal characteristics
 - tolerance for risk taking
 - plans for the future.
-

Financial situation

Your financial situation is an important factor in the type of ownership that you choose. Two financial considerations are personal liability and taxes.

Personal liability – The more personal assets you have, the more protection you need. Decide which type of ownership best protects your personal assets.

Example A: You've worked hard for 40 years and retired with a hefty nest egg. Still possessing a lot of energy and with plenty of free time, you open a small corner market. Since you don't want to incur any personal liability for a new business and possibly lose your savings, you avoid forming a sole proprietorship or partnership in favor of a corporation. The extra expense and paperwork of incorporating is well compensated by the protection to your personal assets.

Example B: You're just starting out in the business world and have very little personal savings that you have to use to open your doors. You determine that a sole proprietorship or partnership is more appropriate than incorporating at this point. These types of ownership cost less, require less paperwork, and are easier to run than a corporation. Having no personal liability means little to you at this stage so a sole proprietorship or partnership is much more attractive.

Taxes – The greater your tax liability, the more closely you should examine the various types of ownership in order to choose the one that will lessen your tax burden the most. This varies from situation to situation. And it can also vary from year to year as tax laws change.

Key point: Review you situation with a tax expert to identify the type of ownership that will give you the best tax advantage.

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How Do I Choose the Right Type of Ownership? Continued

Personal characteristics

Evaluate your own personal traits before choosing a type of ownership. The organizational structure has to be compatible with you personally, or the situation will not be healthy on any front.

Key factors – Ask yourself whether you like to take risks or play it safe. And can you tolerate a high degree of regulation and accompanying paperwork?

Reality check – Knowing yourself well helps you decide which type of ownership is most suitable for the type of person you are. Consider these realities of owning a business:

- Corporations are considered less risky than sole proprietorships or partnerships. Corporate accounts are maintained totally separate from your personal ones.
- To own a corporation, you have to be detail-oriented and self-disciplined because the government requires you to keep extensive records and file forms by stated deadlines.
- Sole proprietorships allow you to make all the decisions affecting your business yourself. Nobody else is present to tell you what to do.
- Partnerships involve more than one owner, so teamwork is an important element in running this type of ownership. You can collaborate with another person who has a vested interest in the success of the endeavor.

Tolerance for risk taking

The risk or lack of risk involved with each type of ownership influences your decision. The riskier your business, the more you should consider the corporate structure. It protects you from personal liability.

Note: Using the right combination of insurance and the protection of a corporation shields your personal assets from creditors in the event of a problem with the business.

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How Do I Choose the Right Type of Ownership? Continued

Plans for the future

How you intend to grow your business affects the type of ownership most beneficial to you. The table below presents three main scenarios for working future plans into your decision about which type of ownership to choose.

If you plan to...	Then choose a...
implement a great idea that requires a lot of capital	partnership or corporation, since it's easier to raise capital with more than one owner.
take on co-owners or sell part of the business	corporation, since it's easier to transfer ownership.
fly solo and run the business exactly how you want to	sole proprietorship, since there's nobody else to answer to.

Self assessment

Identify how the four factors listed below relate to you and your situation. With this information in hand, list both the advantages and disadvantages of each type of ownership. Consider which one is most likely to help you achieve your explicit objectives.

- Financial situation
 - Personal characteristics
 - Tolerance for risk taking
 - Plans for the future
-

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How Do I Choose the Right Type of Ownership? Continued

Outside assistance

You might find outside assistance very useful when choosing the type of ownership that's right for you. Professionals keep current on the ever-changing laws and know how they will impact your business.

Rationale – Professionals possess knowledge and skills accumulated from experience in many different situations that they can apply to your own situation. This experience gives them a unique perspective that they can share with you.

Objectivity – When you start a business, you're enthusiastic and optimistic. This positive focus is good, but it can lead to overlooking problems in favor of getting things off the ground. Hire an objective third party to advise you on important business matters and increase your likelihood of success.

Key point: Somebody functioning outside of your business views your situation more objectively than you can.

Example: When you and a partner start your business, you don't even think about what might happen if you decide to dissolve the partnership later on. Your attorney points out that most business ventures eventually come to an end and advises you to write up a partnership agreement spelling out what will happen in the future. After many years when your partner retires and moves away, you terminate the partnership with minimal difficulty because there was a partnership agreement in place.

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How Do I Choose the Right Type of Ownership? Continued

Outside assistance (continued)

Available resources – The resources available to you include:

Resource	Help Available
Attorneys	Attorneys know business law, including taxes. They keep current on laws that change and the impact they have on you.
Accountants	Accountants specialize in areas like taxation and financing. They know the best financial solutions for your business.
Mentors	Learning from the experience of other small business owners is invaluable. Check whether your industry has trade groups or clubs that you can join or a mentorship program with experienced business owners who will help you along the way.
Small Business Administration	This U.S. government agency offers many forms of assistance such as a resource guide listing field offices and the classes, publications, and programs that they offer. More information is available at www.sba.gov .
Chamber of commerce	This local organization can also provide a great deal of assistance to the small business owner in the form of networking, publications, and mentorship programs.
Local community college or university	Lifelong learning is essential to the small business owner. Courses from which you might benefit include business law, marketing, human resource management, etc.

PACE

Program for Acquiring Competence in Entrepreneurship Fourth Edition

Cluster A – Exploring Entrepreneurship

Module A-1 Evaluating Your Potential as an Entrepreneur
Module A-2 Understanding the Nature of Small Business
Module A-3 Making the Most of Marketplace Opportunity
Module A-4 Investigating Global Markets

Cluster B – Planning for Business Success

Module B-1 Developing Your Business Plan
Module B-2 Finding Help for Your Small Business
Module B-3 Choosing the Right Type of Ownership
Module B-4 Developing a Marketing Strategy
Module B-5 Finding the Best Location
Module B-6 Developing a Pricing Strategy
Module B-7 Financing Your Business
Module B-8 Addressing Legal Issues

Cluster C – Business Management for the Entrepreneur

Module C-1 Managing Basic Business Functions
Module C-2 Managing Your Human Resources
Module C-3 Promoting Your Business
Module C-4 Maximizing Sales
Module C-5 Maintaining Accurate Records
Module C-6 Managing Your Finances
Module C-7 Extending Customer Credit
Module C-8 Minimizing Risk
Module C-9 Maintaining Operations
Module C-10 Conducting E-Commerce



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