Forms of Business Ownership

Sole Proprietorship

Unlimited Liability

All the risk • All the Reward

- One person owns the business and makes all decisions.
- Owner takes all the financial risk but also gets all of the reward
- Unlimited liability – if the business loses money, creditors can go after personal assets

Corporation

Shares • Dividends

- Can be private, public, crown, or non-profit.
- Owners hold shares of the company and decisions are made by voting. The person with the most shares has the most power.
- Dividends are sometimes paid to shareholders
- Operated by a board of directors.

Co-Operative

Equal

- Members of a co-operative pool their resources to have greater bargaining power than they would on their own.
- The share of ownership is determined by how much equity a member contributes.
- Each member has equal voting rights on decisions.

Partnership

Shared responsibilities

- Two or more people own the business and make decisions jointly, which can lead to conflict.
- Risk and reward are shared
- Usually unlimited liability, though a limited liability partnership is possible.

Franchise

Royalties

- A parent company (franchisor) sells the rights to run one of its stores to an entrepreneur (franchisee)
- The franchisee must pay royalties (a percentage of their revenue) to the parent company.
- The parent company takes care of advertising, access to suppliers, and brand recognition.

Forms of Business Ownership

A business can be structured in a variety of ways and can change over the life of the business. As a company grows, the structure of the business may need to change to protect its owners, as well as to allow continued growth.

Sole Proprietorship

A *sole proprietorship* is a business that is owned and operated by **one** person. This person is responsible for the entire business and takes all the risk. Sole proprietorships are the most common type of business ownership.

Advantages of a Sole Proprietorship

- The owner enjoys all the profits the business earns
- This is the easiest and least expensive form of business to start
    - If the business is operated under the owner's name, registration with government is not necessary
    - Business income can be declared on personal income tax, rather than filing a separate return

Disadvantages of a Sole Proprietorship

- The owner manages all the risk and potential financial losses
- **Unlimited liability** means that an owner can lose personal assets (such as their home) to repay business debts
- May have difficulty finding financing for the business

Partnership

A *partnership* involves two or more people that own and operate the business together. It is important to have a written agreement when starting the business to protect both people in case of any disputes. It is also important for a lawyer to draft the contract to avoid problems later on.

Two types of partnership are possible:

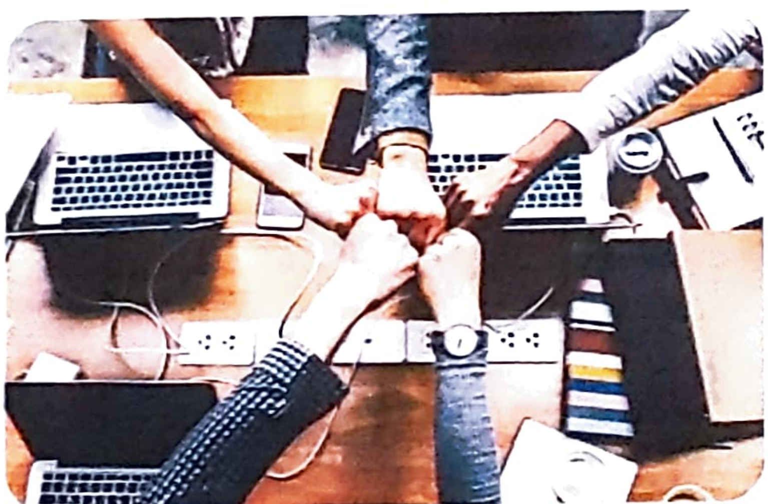
- A general partnership agreement means that all partners have equal responsibility for the business, including the risks involved. This arrangement involves unlimited liability for all partners and is the most common arrangement for a partnership.
- A limited partnership agreement means that each partner is responsible for up to the amount they invest in the business.

Advantages of a Partnership

- Responsibility of running the business and managing costs is shared
- Each partner can bring a different area of expertise to the business
- Financing costs for starting the business are shared

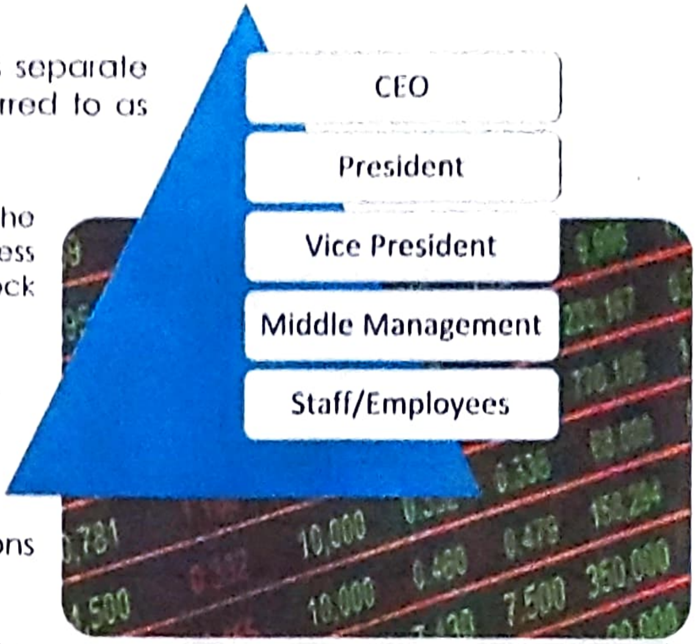
Disadvantages of a Partnership

- Decision making can be challenging because of potential disagreements between partners
- In a general partnership, one partner is equally responsible for the business debts of the other partner



Corporation

A corporation exists as an entity on its own and is separate from its owners. Owners of a corporation are referred to as shareholders. There are four types of corporations:



- **Private Corporation →** A few people control all of the shares (stocks) of the business. Shares of the business not available to purchase by the public on the stock market.
- **Public Corporation** → A business that sells shares to public on the stock market in order to raise money. Buyers of shares become owners of the company, and the amount of influence they have on company decisions depends on the number of shares they own.
- **Crown Corporation** → A business owned by the government though operated as if it were a business to offer services to citizens.
- **Non-profit Corporation** → A business that has the primary goal of addressing or improving a social issue rather than making profit. Any additional money earned is put toward addressing the social need rather than distributing to shareholders.

Important terms to know related to corporations include: *board of directors, officers, managers, articles of incorporation, merger, acquisition, and annual report*.

Advantages of a Corporation	Disadvantages of a Corporation
• The company is considered to be a legal person in the eyes of the government • Limited liability applies since the owner's personal assets are not at risk • Money can be raised by the sale of shares in the case of public corporations • Buying and selling shares makes transferring ownership easier	• Decision making can be heavily influenced by only a few people • Can be expensive to start

Co-operatives

Co-operatives (co-ops) are owned and operated by members involved in the co-operative. Co-ops are usually found in the agricultural and financial (specifically insurance) industries. Each member contributes resources to the co-op with the idea that the group will be stronger than the individuals.

Advantages of a Co-Operative

- Decision making is equal as no member has more influence than another regardless of number of shares
- Each member receives a share of profits proportionate to how much they contribute to the co-op
- Costs are shared among members

Disadvantages of a Co-Operative

- Decision making in the business can be challenging if disagreements between members arise
- Prices are set by the members resulting loss of individual control

Franchise

Franchising is one of the fastest growing forms of business ownership. In this structure, a franchisor sells the rights to use the business' name to a franchisee. The agreement between the two is called a *franchise agreement* and includes products and packaging. The franchisor will usually indicate how the business must be operated.

A franchise is sometimes considered to be a hybrid since it includes elements of other business ownership structures.

Advantages of a Franchise
• The business (including operations, branding, and structure) is already established • Advertising costs are shared among all franchisees • Training and support is usually provided by the franchisor • Customers immediately recognize the business rather than having to build a reputation
Disadvantages of a Franchise
• Each franchisee has little control over how the business is run • Franchisee have limited creativity and cannot test new ideas • It can be quite expensive to afford the franchise fee (prices vary depending on popularity of franchise) • Franchisee must pay a monthly royalty

Characteristics of Business Ownership

In the table below, place an (x) in the appropriate column that matches the business ownership characteristic listed.

Characteristic	Sole Proprietorship	Partnership	Corporation	Co-Operative	Franchise
The owner keeps all profit but is responsible to cover all losses.					
The parent company offers an established brand to operators, and takes care of advertising along with other business activities.					
When making decisions, one vote is given per share owned.					
The owners are also members who contribute resources to the business.					
The business is run by two or more people who share profits, losses, and responsibilities.					
The easiest type of business to start and operate.					
The operator must pay a royalty to the parent company.					
A board of directors is put in place to manage the company.					
The type of agreement between owners can provide limited or unlimited liability.					