

4. How to Form a Business

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Outline of the chapter

- Compare the advantages and disadvantages of **sole proprietorships**
- Differences between **general and limited partners**
- **Corporations: C corporation, S corporations and Llcs**
- **Fanchises**
- **The role of cooperatives**



All business **owners must decide** for themselves **which form of business is best** for them.

*Starting a business for yourself,
going into a business with a partner,
forming a corporation,
or someday being a leading franchisor,*
it's **important to know** that each of ownership has
advantages and disadvantages.

Basic forms of business ownerships

- More than 600.000 new businesses are started in the US in each year.
- **the three major forms:**

1. sole proprietorships

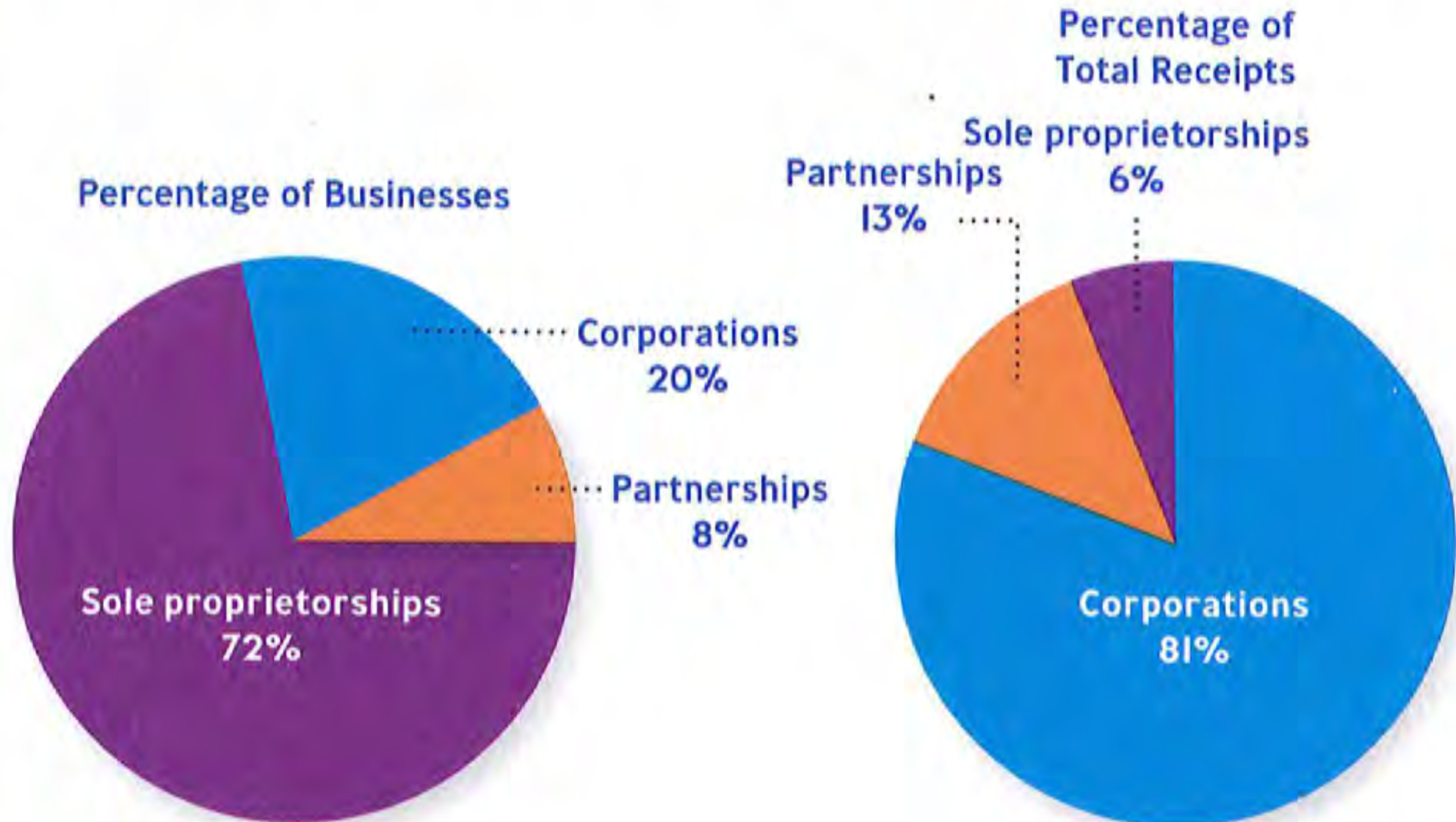
2. partnerships

3. corporations

Basic forms of business ownerships

- 1. sole proprietorships:** a business that is owned, and usually managed, by one person.
- 2. partnerships:** a legal form of business with two or more owners.
- 3. corporations:** a legal entity with authority to act and have liability apart from its owners.

Forms of business ownerships

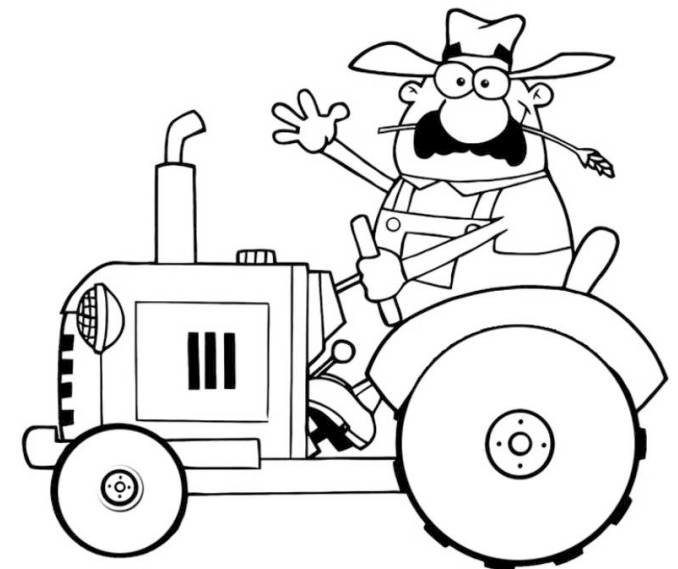


1. Sole Proprietorships

- the easiest kind of businesses
- joys and frustrations of being in business on their own

Advantages:

1. Ease of starting and ending the business
2. Being your own boss
3. Pride of ownership
4. Leaving a legacy
5. Retention of company profits
6. No special taxes



1. Sole Proprietorships

- Often difficult to save enough money to start and keep it going
- The costs of supplies, insurance, advertising, rent and so on may be too much cover alone

Disadvantages:

1. Unlimited liability - the risk of personal losses
2. Limited financial resources
3. Management difficulties
4. Overwhelming time commitment
5. Few fringe benefits
6. Limited growth
7. Limited life span



2. Partnerships

Before plunging into a partnership, you should ask yourself these questions:

1. Do you share the **same goals**?
2. Do you share the **same vision** for the company's future?
3. What **skills** does the person have?
4. Are those skills the same as yours or do they **complement your skills**?
5. What contract, resources will the person **bring to the business**?
6. What **type of decision maker** is the person?
7. Is this someone with whom you could happily **share authority** for all major business decision?
8. Do you **trust** each other?

2. Partnerships

A partnership is a legal form of business with 2 or more owners.



Types:

- 1. general partnerships:** in which all owners share in operating the business and in assuming liability for the business's debts.
- 2. limited partnerships:** a partnership with one or more **general partners** and one or more **limited partners**.
- 3. master limited partnerships (MLP):** looks much like a corporation (acts like a corp., and traded on a stock exchange) but is taxed like a partnership and thus avoids the corporate income tax.

2. Partnerships

- much easier to own and manage business with partners
- he may be skilled in accounting, while you do selling or servicing

Advantages:

1. More financial resources
2. Shared management and complementary skills and knowledge
3. Longer survival
4. No special taxes



2. Partnerships

- Any time 2 people must agree, conflict and tension are possible.
- partnerships can cause splits between relatives, friends and spouses

Disadvantages:

1. Unlimited liability
2. Division of profits
3. Disagreement among partners
4. Difficulty of termination



**Check the elements of the
written partnership agreement!!!**

(page: 122, figure 5.2)

	Partnerships			Corporations		
	SOLE PROPRIETORSHIP	GENERAL PARTNERSHIP	LIMITED PARTNERSHIP	CONVENTIONAL CORPORATION	S CORPORATION	LIMITED LIABILITY COMPANY
Documents Needed to Start Business	None; may need permit or license	Partnership agreement (oral or written)	Written agreement; must file certificate of limited partnership	Articles of incorporation, bylaws	Articles of incorporation, bylaws, must meet criteria	Articles of organization and operating agreement; no eligibility requirements
Ease of Termination	Easy to terminate: just pay debts and quit	May be hard to terminate, depending on the partnership agreement	Same as general partnership	Hard and expensive to terminate	Same as conventional corporation	May be difficult, depending upon operating agreement
Length of Life	Terminates on the death of owner	Terminates on the death or withdrawal of partner	Same as general partnership	Perpetual life	Same as conventional corporation	Varies according to dissolution dates in articles of organization
Transfer of Ownership	Business can be sold to qualified buyer	Must have other partner(s)' agreement	Same as general partnership	Easy to change owners; just sell stock	Can sell stock, but with restrictions	Can't sell stock
Financial Resources	Limited to owner's capital and loans	Limited to partners' capital and loans	Same as general partnership	More money to start and operate; may sell stocks and bonds	Same as conventional corporation	Same as partnership
Risk of Losses	Unlimited liability	Unlimited liability	Limited liability	Limited liability	Limited liability	Limited liability

