Learning Objectives

Upon completion of this unit, students should be able to:

1. Describe the different types of ownership.
2. Indicate the advantages and disadvantages of the different types of ownership.
3. Explain the different types of corporations.
4. Discuss the advantages and disadvantages of the different types of corporations.
5. Identify two types of franchises.
6. Discuss the advantages and disadvantages of franchising.
7. Summarize the benefits of establishing a small business.
8. Analyze the traits that are consistent with entrepreneurs.
9. Interpret the techniques that will increase the odds for a successful business.

Written Lecture

Chapter 6 discusses the different types of business ownership and the advantages and disadvantages for each type. Chapter 7 examines entrepreneurship; the reasons people start their own small businesses, the opportunities for business ownership, and the pros and cons of starting one’s own business.

Chapter 6: Business Formation: Choosing the Form that Fits

One means to start a business is to form a corporation. There are different types of corporations, and this unit discusses the advantages and disadvantages of each type. Franchising is another source used to start a small business. The advantages and disadvantages of franchising are also discussed in this unit.

Chapter 7 assesses why people want to start a small business and identifies the benefits they will gain. There are many successful entrepreneurs, such as Bill Gates, Michael Dell, and the late Steve Jobs. The textbook illustrates certain traits and characteristics they have in common.

There are opportunities and advantages to starting a small business. This unit identifies and discusses which opportunity works best based on the economic environment. In order for a business to be successful, there are strategies that can aid and guide it in the right direction. First to be established is what type of business fits a new entrepreneur’s business model. One type of business is a sole proprietorship, which is a business that is owned by a single individual. There are advantages to this type of ownership: It is a simple and the least expensive form of ownership. It allows for the most control, the profits do not need to be shared, and it avoids double taxation. Sole proprietorship also has some disadvantages: All the liability falls on the owner, obtaining finance is not easy, and the ownership ceases when the owner dies or retires.

Key Terms

1. Acquisition
2. Angel investors
3. Board of directors
4. Business plan
A partnership is another type of business. There are three types of partnerships: (1) general partnerships, (2) limited partnerships, and (3) limited liability partnerships.

1. In a general partnership, each partner shares the profits and liabilities and plays an active role in the business. There are advantages to more partners investing in the business. A general partnership provides for a stronger financial base, provides a stronger skilled workforce, is easy to form, and avoids double taxation. The disadvantages to general partnership include unlimited liability, the potential for conflict, and the difficulty for withdrawal.

2. A limited partnership has a general partner and a limited partner who, in most cases, is the financial backing and shares in the profits.

3. The limited liability partnership allows all partners to share in managing the business and to retain some of the liability.

Another way to start a business is by forming a corporation. This type of structure is more complex and is required to be driven by state laws. There are different types of corporations that can be formed. The most common type of corporation is a “C” corporation. Ownership of the corporation is with the stockholders. A board of directors is used to oversee the operation and protect the interest of all shareholders. One advantage of this type of structure is limited liability. Shareholders are not responsible for the liability of the company. It is designed for permanence, it provides ease for transfer of ownership, and the ability to raise capital is much greater than with partnerships. The use of human resources is also an advantage. There are disadvantages that corporations have when compared to partnerships. The most common is double taxation. There are also more regulations and paperwork, and there can be a conflict of interest with management.

There are also nonprofit corporations, which does not seek to make a profit. Earnings are exempt from federal and state income tax, and the directors have limited liability. Corporations and individuals who contribute to these organizations can deduct their contributions from their taxes. An example would be the American Cancer Society.

Another type of corporation is a closed corporation. This type of corporation is also known as a private corporation. The shares of stock are not on the open market. This type of formation operates under simpler and less formal rules than a C corporation. UPS was a private corporation up until 1999. After 92 years of private ownership, UPS made the move to be a C corporation and presently has its stock traded on the open stock market.

Franchising is another way to start a small business. This type of structure is an ongoing contractual relationship with an established organization. It allows another business to use its resources in exchange for payment and other considerations. An advantage to franchising is that there is less risk. Also, new business owners receive training, support, and financing. The disadvantages of franchising include limited control, a negative brand image possibly occurring through no fault of the business owner, possible limited growth factors, and a business owner needing the approval of the franchisor.

Following is an assessment of the current composition for businesses in the United States. It is very interesting to know that 71.5% of businesses are sole proprietorships, 18.9% are corporations, and 9.6% are partnerships. The total
net income by form of ownership is 68% for corporations, 22% for partnerships, and 10% for sole proprietorships. It is obvious that sole proprietorship is the most common type of ownership. However, corporations made $1.933 billion in profits compared to $278 billion in profits for sole proprietorships. The point is that most small businesses are sole proprietorships, and two-thirds have an annual income less than $25,000 (Kelly & McGowen, 2012, p. 74).

Chapter 7: Small Business and Entrepreneurship: Economic Rocket Fuel

Chapter 7 examines entrepreneurship; the reasons people start their own small business, the opportunities for business ownership, and the pros and cons of starting one’s own business. It is the American dream to have your own business. There is more opportunity for great wealth. A person who is his/her own boss has more flexibility, which improves quality of life. The opportunities for a small business include finding the market niche, personal customer service, lower overhead cost, and technology. Many people are apprehensive in starting their own small business. Statistically, most small businesses fail. This creates a high risk. The lack of business knowledge and the shortage of capital are big concerns when starting a business. Successful entrepreneurs have qualities that define their success, such as vision. Entrepreneurs also stay excited and determined. A good example is Fred Smith, the founder of FedEx. In college, Smith received a C on a term paper. The paper was about Smith’s idea for a new service that provided next day delivery to any destination in the U.S. This service was new because UPS and the Postal Service only had a certain range from one point to another where this service was provided, usually a 150 mile radius around the original address. After a short period of time (38 years), FedEx now offers that same service worldwide.

The other qualities that entrepreneur’s demonstrate include self-reliance, energy, confidence, and a good tolerance level. Self-reliance is saying, “The buck stops here.” They feel responsible for their actions. Energy is a must for working all the hours necessary to make it happen. Confidence is important, but too much confidence can work against a person. A tolerant entrepreneur braces uncertainty and knows how to make it a “win.” When identifying successful entrepreneurs like Bill Gates (Microsoft), Fred Smith (FedEx), and Michael Dell (Dell Computers), it is clear to see how these qualities stand out.

In the U.S., our capitalistic society allows each of us the opportunity to be an entrepreneur and start our own business. There are many considerations that come into play when a person wants to start his/her own business, including bringing a new product to market, obtaining financing, and taking risk. Having the knowledge available to make these hard decisions is a necessity for starting a business. If business ownership proves successful, the end result can be rewarding and lead to a higher quality of life and independence.

Reference


Learning Activity (Non-Graded)

Article Review

For this activity, choose two peer-reviewed/scholarly articles to review, one related to Chapter 6, “Business Formation,” and the other related to Chapter 7,
“Small Business and Entrepreneurship.” Use the databases within the CSU Online Library or another source that contains peer-reviewed/scholarly articles. The purpose of this activity is for you to practice reviewing articles that contribute to the industry. The authors of these articles are researchers and professionals that have shared or experimented with ideas that demonstrate potential to improve the industry. As a professional in the industry, it is in your best interest to review the literature and trends within it. Doing so provides you with the opportunity to read about what has been successful and how. Plus, it allows you to analyze the ideas that were unsuccessful, how you can improve them, or at least avoid repeating the mistakes of others. Use these skills to contribute to research papers and other scholarly writing in the future.

As you read the articles, consider the following questions: How could the topic of this article apply to your personal or professional life? How could it apply to an organization you have observed?

Use these guidelines to select articles:

- Are in reliable sources/journals
- Related to Business Formation and/or Small Business and Entrepreneurship
- At least ten pages for each article

Use these guidelines to prepare each of your article reviews:

- At least two pages
- Identify the main topic/question
- Who is the author’s intended audience?
- Summarize the article for page one
- Think critically about the article and how it applies to this course for page two

Format your article review using APA Style. Use your own words and include citations for other articles as needed to avoid plagiarism. This is a non-graded activity, so you do not have to submit it.