### THE SOLE PROPRIETORSHIP

Let's first define what is meant by a sole proprietorship. It is a business company that is owned and managed by one person and has no partners or co-owners. The owner can hire people to work for the company. The sole owner **p**rovides all of the capital (i.e. money and other assets) to run the company, makes all company decisions alone, manages the enterprise, and accepts total responsibility for the profits and debts.

There are a number of other factors associated with a sole proprietorship. For example, the lifetime of the enterprise is linked to that of the owner and there is no difference between private and business property. This often has tax implications. Also, if the enterprise fails and there are debts, creditors can pursue the owner's personal assets.

At the same time, if the owner of a sole proprietorship business decides to discontinue operations, a business can be terminated quickly. The owner will still be personally liable for all the outstanding debts that a business cannot pay.

**Table 1: Advantages and Disadvantages of a Sole Proprietorship**

| Advantages | Disadvantages |
|---|---|
| From a legal point of view it is easy to start and to close down a sole proprietorship. | The credit worthiness of the enterprise is limited to the assets of the owner. |
| All income belongs to the owner. | The owner is fully responsible for losses and can lose her/his private possessions if the enterprise should fail. |
| The functioning of the enterprise is simple and can be easily adapted to changing circumstances. | If the owner dies, the enterprise may cease to exist. |
| Being your own boss: sole proprietors always think working for a company is not so appealing than when one runs one's business. Making mistakes in your business becomes your responsibility but so are your successes! | If it is sold or taken over, the enterprise no longer exits, must be legally constituted from beginning |
| No special taxes paid as taxes are based on personal tax rate. | The future of the enterprise is limited not only in terms of its establishment, but also in terms of expansion. |
| There are no special legal restrictions as it is the least regulated form of ownership. | A sole proprietorship can develop to a level where it exceeds the owner's capital means. If more capital is to be secured, then the form of the enterprise may have to be changed. |
| Once all expenses are paid what remain as profit after tax belongs to the owner. | Feeling of isolation: Running a business alone allows maximum flexibility but also creates a feelings of isolation because no other new business ideas come other than his own |

| Advantages | Disadvantages |
|---|---|
| | The future of the enterprise is limited not only in terms of its establishment, but also in terms of expansion. A sole proprietorship can develop to a level where it exceeds the owner's capital means. If more capital is to be secured, then the form of the enterprise may have to be changed. |

### PARTNERSHIPS

A partnership is formed when a group of people agree to combine their capital, labour, know-how and experience with the aim of making a profit. At least two and not more than 20 people conclude an agreement preferably drawn up by an attorney and should contains names of the partners, name and nature of the enterprise, and establishes the contribution, salaries of the partners, division of profits and other aspects of the partnership.

**Table 2: Advantages and Disadvantages of a Partnership**

| Advantages | Disadvantages |
|---|---|
| Opportunities of obtaining capital are usually favourable and each partner can contribute to the capital of the enterprise. | It is not always easy to find suitable partners. Partners are jointly liable for the debt incurred by the other partners. |
| The legal requirements, such as a partnership agreement, can be dealt with easily. | Each partner is a principal and an agent of the enterprise and can commit his partners by his actions, for an example, by accumulating debts. |
| Pools management techniques, judgment and special characteristics of a number of people | The partnership is dissolved if there is any change in its composition thus the life expectancy of the partnership is uncertain. |
| Partners are taxed in their personal capacity, profits are shared and taxed separately | It is sometimes difficult for a partner to withdraw from an agreement. |

### PRIVATELY-HELD CORPORATION (PRIVATE COMPANY)

There are several differences between a private company and a business ownership structures discussed previously in this part of the course. Technically a company is a legal person in its own right. It has a 'life' independent of its shareholders. There are various kinds of companies, like the private company, the public company, and the company limited by guarantee (such a company does not issue shares and is not profit-orientated). In general, a private company is the most suitable type for a small businessperson. In many countries, a private company is limited to a maximum number of shareholders (e.g. 50), must be registered with the Registrar of Companies and is identified by the words '(Proprietary) Limited', '(Pty) Ltd', or Limited Liability Company (LLC) after its name.

Since most entrepreneurs will either begin with or migrate to a private company structure over time, let's take a look at the advantages and disadvantages this kind of business ownership model.

**Table 3: Advantages and Disadvantages of a Private Company**

| Advantages | Disadvantages |
|---|---|
| The company is a legal person in its own right therefore exists independently from its shareholders. This status overcomes some of the disadvantages of a sole proprietorship and a partnership. | A private company must meet various extra costs, such as founding costs, annual subscriptions and the cost of issuing shares. |
| A company's shareholders have limited liability for the debts incurred by the company. | There are extensive prescriptions for establishing and managing the company. |
| Shares and therefore ownership can be transferred. | Owing to the compulsory publication of its statements, constitution, etc., the company's business is known to everyone, including its competitors. |
| The private company is free of many formalities required of a public company. | |
| The company and its members are taxed separately | |

### TOPIC SUMMARY

You have now completed this topic on the legal forms of business ownership. You should now be able to describe the common legal forms of business ownership generally used by small businesses, their advantages and disadvantages. In addition you now have a better understanding of a business ownership factors to be considered by entrepreneurs before setting up a business. Before you move on to the next topic, take a moment to reflect on what you have learned by answering the following questions.

***Self-Reflection Questions***

*Does the concept of limited liability apply to a sole proprietorship? Why or why not? Forming a corporation is more complex than forming a partnership. Why do you think that is the case? Explain and support your answer with examples. Why would investors tend to favour a new business led by management team over one owned and managed by a lone entrepreneur? Is this justified?*

***Write your answers in your personal journal.***