

TOPIC 1.2 – CHOOSING A BUSINESS OWNERSHIP MODEL

TOPIC INTRODUCTION

Prospective entrepreneurs are well advised to research the types of business structure that suit the kind of entity they intend to establish. Entrepreneurs should clearly understand the economic and market conditions of the environment within which they want to establish a business.

After considering these issues, it is important to understand the types of business ownership structures that are available within the country or jurisdiction as well as the legal requirements applicable to business operations.

This topic will explain the factors considered by entrepreneurs when establishing a suitable business ownership model.

One of the first decisions an entrepreneur faces when starting a new business venture is selecting an appropriate form of ownership. In most cases entrepreneurs do not give much attention to choosing a proper form of ownership, instead they prefer a choice that is most commonly used by other entrepreneurs without due regard to their capabilities. Such preferences may lead to business failures in the long term. Changing from one form of business that is already running to another is possible but may not be cost effective and tends to be very difficult to convert. That is why it is important for an entrepreneur to make informed decisions right from the beginning. The right approach for the entrepreneur is to take his/her time and learn more about the various forms of business ownerships. IA choice of the appropriate form of business ownership can then be made at this stage.

TOPIC OBJECTIVE

Upon completion of this topic you will be able to:

1. Describe the factors that need to be considered when choosing a business ownership model.

FACTORS TO CONSIDER WHEN CHOOSING A BUSINESS OWNERSHIP MODEL

There are a number of considerations that an entrepreneur should consider before making a decision on a business model for a new venture. These are:

- **Legal requirements** for establishing a business and complying with regulations e.g. tax requirements.
- The **expected ability** of the enterprise to exist independently of its owners.
- **Liability exposure** of the owners of the enterprise for the debts, and their share of the profits. Entrepreneurs must decide the extent to which they are willing to assume personal responsibility for their businesses' obligation

- The **continuity** of the enterprise, including the extent of direct control.
- The **start-up capital requirements** as each kind differ in the ability to raise start-up capital
- **Business goals.** How big and profitable the entity will be. This will influence the form of ownership chosen
- **Management succession plan.** Business owners must look ahead to the time when they pass on a business to the next generation
- **Cost of formation.** Some are more expensive than others, a point to be considered

TOPIC SUMMARY

You have now completed this topic on factors to consider when choosing a business ownership model. 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

Now that you understand some of the considerations business owners must review before making a final decision on the choice of a business entity, state other factors that you think are also important to consider when choosing a business type in your vicinity and why?

Write your answers in your personal journal.

Now, let's move on to the next topic in this course on forms of business ownership.