

# Small Business Management <sup>19e</sup>

LAUNCHING AND GROWING ENTREPRENEURIAL VENTURES

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## CHAPTER

# 8

The Organizational Plan: Teams, Legal Structures, Alliances, and Directors

# Quick Paper

**Please write a 3 minute paper on:**

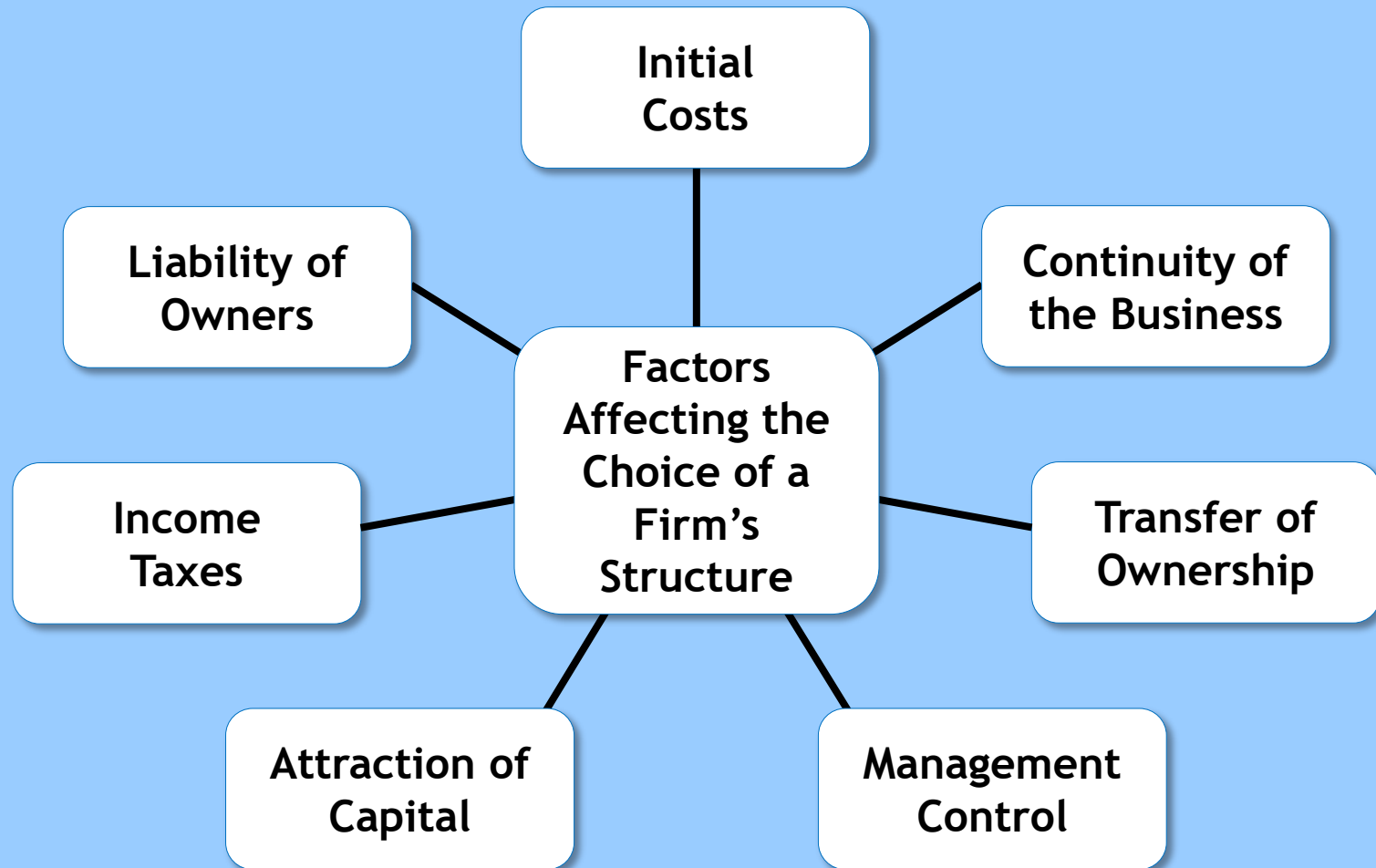
**Describe what you currently know about each of these legal forms? What are the pros or cons?**

- 1. Sole proprietorship**
- 2. Partnership**
- 3. Corporation**
- 4. Limited Liability Company**

**When time is up, please keep your paper, for now...**

**03:00**

# Criteria for Choosing an Organizational Form



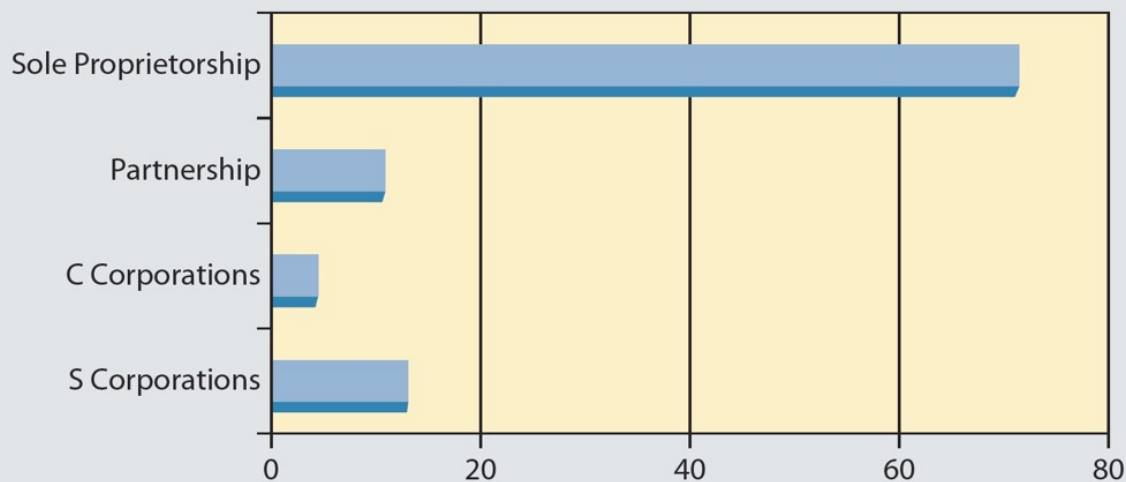
# The Solo Startup Is Still an Option

The *Wall Street Journal* reported:

**Research shows that 44 percent of successfully funded startups are run by a single entrepreneur.**

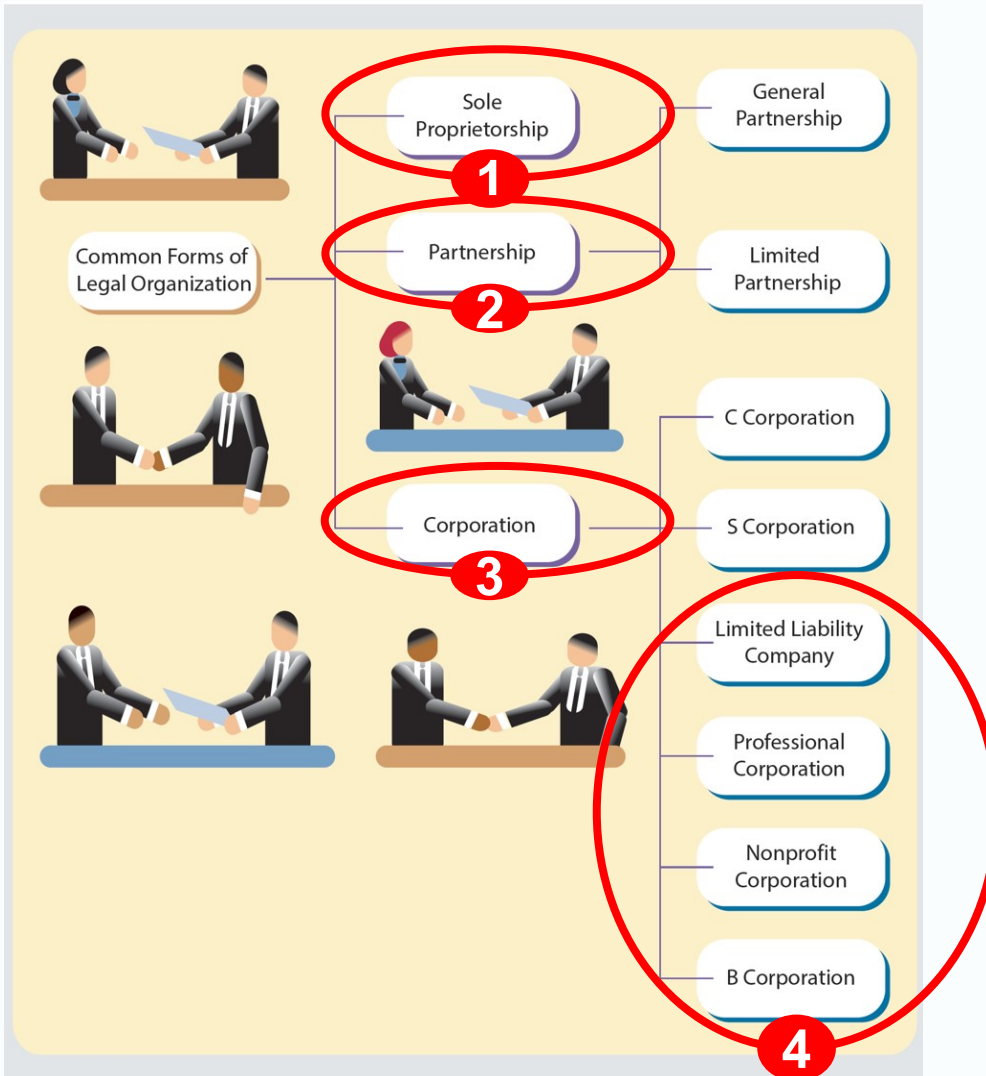
Emerging technologies make this option increasingly manageable today.

## 8.2 Percentage of Small Businesses by Legal Form of Organization



Sources: Internal Revenue Service, "Table 1A: Calendar Year Projections [for 2019] of Individual Returns by Major Processing Categories for the United States," <https://www.irs.gov/pub/irs-pdf/p6187.pdf>, accessed February 14, 2018; and Internal Revenue Service, "Table 1: Fiscal Year Projections [for 2019] of the Number of Returns to Be Filed with the IRS, 2017–2024" <https://www.irs.gov/pub/irs-soi/p6292.pdf>, accessed February 14, 2018.

# 8.1 Forms of Legal Organization for Small Businesses



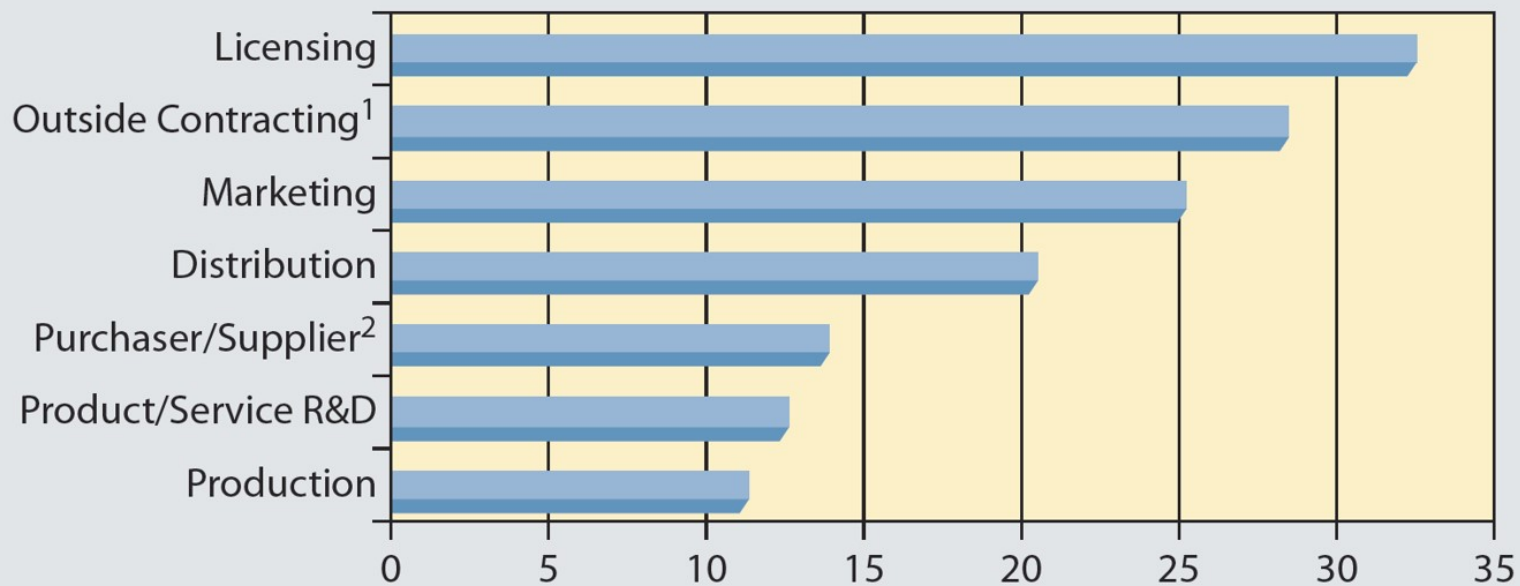
1. How would you start one? What would you do for license, permits, name, taxes, liability, etc?
2. Why use partnership? Pros and cons. What is a limited partnership and why use one? How to pay taxes and types of liability?
3. What is a C Corporation? How to pay taxes? S Corp? Liability, financing (equity, debt), etc?
4. What is an LLC? Taxes, liability, etc? What is a Nonprofit? B Corporation?

# Key Points

- Lack of Limits on Liability (Unlimited Liability)
  - sole proprietors and general partners
- Joint and Several Liability (Agency Power)
  - The ability of any one partner to legally bind (e.g., borrow money) the other partners
  - Partner selection is vital
- Debts
  - corporation responsible for its own debts (own entity)
- Taxation
  - C corporations have “double taxation”, but no self-employment tax (except salaries)



## 8.4 Most Popular Small Business Alliances by Type



<sup>1</sup> These alliances include only relationships that are long-term in nature.

<sup>2</sup> These alliances include agreements relating to programs, such as just-in-time supply or total quality management that are relatively long-term in nature.

Source: Data developed and provided by the National Federation of Independent Business and sponsored by the American Express Travel Related Services Company, Inc.



# Forming Strategic Alliances

- Seek Complement Businesses
  - Example: Erasers . . . and . . .
- Strategic Alliances
  - Organizational relationship that links two or more independent business entities in a common endeavor
    - Book sales combined with coffee sales
    - Your business combined with ???
      - Common referral networks, coupon exchange. Etc.
      - Piggyback marketing – Swap Meet
  - Risk - Difficulty establishing and maintaining alliances

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# Help is Closer Than You Think

1. Nolo Press

<http://www.nolo.com/legal-encyclopedia/llc-corporations-partnerships>

2. Legal Zoom

<http://www.legalzoom.com/incorporation-guide/corporation-llc-comparison.html>