

RUAHA CATHOLIC UNIVERSITY  
RMS 121  
SMALL BUSINESS AND ENTREPRENEURSHIP

---

**Types/Forms of Businesses**

---

**A: TOPIC INTRODUCTION**

Basically, there are three main forms of business ownership. These are: Sole proprietorship (or sole trader or simply a proprietorship), Partnership and Corporation.

Proprietorships and partnerships are, in most respects, similar to each other but very different from corporations.

**1. Sole proprietorships**

- A sole proprietorship is a business that is owned (and usually operated) by one person.
- It is the simplest form of business ownership, and it is the easiest to start.

**2. Partnerships**

- A partnership is a voluntary association of two or more persons who act as co-owners of a business for profit.
- There are two types of Partners: General Partners and Limited Partners.
- The Partnership Agreement: Articles of partnership are a written agreement listing and explaining the terms of the partnership.

**3. Corporations**

- A Corporation "is an artificial being, invisible, intangible, and existing only in contemplation of the law." Hence a corporation is an artificial person created by law, with most of the legal rights of a real person.
- Corporate Ownership: The shares of ownership of a corporation are called its stock, and those who own the shares are called stockholders, or sometimes shareholders.
  - A **close corporation** is a corporation whose stock is owned by relatively few people and is not traded openly.
  - An **open corporation** is a corporation whose stock is traded openly in stock markets and can be purchased by any individual.
- Forming a Corporation: The process of forming a corporation is called incorporation.
  - **Where to Incorporate.** A business is allowed to incorporate in any state it chooses. An incorporated business is called a domestic corporation in the state in which it is incorporated. In all other states where it does business, it is called a foreign corporation.
  - **The Corporate Charter.** A corporate charter is a contract between the corporation and the state, in which the state recognizes the formation of the artificial person that is the corporation.
  - **Stockholders' Rights.** There are two basic kinds of stock: common stock and preferred stock. Each type entitles the owner to a different set of rights and privileges. The common stockholders may vote on corporate matters; preferred stockholders usually have no voting rights. Perhaps the most important right of owners of both common and preferred stock is the right to share in the profit earned by the corporation through the payment of dividends. A dividend is a distribution of earnings to the stockholders of a corporation. Other rights include being offered additional stock in advance of a public offering (pre-emptive rights), examining corporate records, voting on the corporate charter, and attending the corporation's annual stockholders' meeting.

**Other types of business ownership**

Various types of businesses are organized for special purposes. Among these are S-corporations, limited liability companies, government-owned corporations, not-for-profit corporations, cooperatives, joint ventures, and syndicates.

**B: STUDY QUESTIONS**

1. What are the advantages and disadvantages of each of the three main forms of business (i.e. Sole proprietorships, Partnerships and Corporations)?
2. Corporations are said to be suffering from Double Taxation. What does this statement mean?
3. How do general partners differ from limited partners?
4. Discuss the potential components of a partnership agreement.
5. Mention any three open corporations operating in Tanzania.