

1.2 Ownership and governance

Name: _____ Class: _____ Date: _____

Total: 22 marks

KEY WORDS sole trader • partnership • company
 • limited liability • governance • agency problems

Objective

Distinguish the main ownership forms on liability, finance and control, explain what limited liability buys and what governance costs, and read an agency problem when you see one.

1 Key knowledge and worked examples

■ Three forms, three axes

Form	Liability	Finance	Control
Sole trader	unlimited – personal assets at risk	own savings, loans	one person
Partnership	joint and several (usually)	partners' capital	partners agree
Company	limited to investment	shares can be sold	shareholders elect directors

The axes trade against each other: limited liability and shareable finance arrive together – and both require giving control to a governance system.

■ What limited liability buys, what governance costs

Limited liability means investors can lose only what they invested – the invention that made large-scale risk capital possible: strangers will fund a ship (or a startup) they do not captain, because the downside is capped.

The price is **governance** : a board elected by shareholders, disclosure, voting rules – machinery that runs the company on the owners' behalf. **Agency problems** appear wherever managers (the agents) hold different interests from owners (the principals): expense accounts, empire-building, short-termism. Governance is the standing answer to a permanent tension, not a one-time setup.

■ Worked example: choosing a form

Nimbus is a sole trader today: the owner wants fast decisions and full control, and accepts unlimited liability for it. A second founder joining would force the partnership question (who binds whom – joint and several liability means one partner’s contract can reach the other’s pocket); a bank loan of 40,000 for two new shops would force the company question (capped downside makes the loan and the expansion financeable, at the cost of incorporation, accounts and a board).

The form follows the financing and the risk appetite – never “a company is more professional”.

2 Practice

2.1 For each form (sole trader, partnership, company), state who bears the loss if the business fails owing 50,000. [3]

2.2 State the two axes on which limited liability changes the game, and the one system it makes necessary. [3]

2.3 A manager books first-class travel when economy is policy. Name the problem in one term, name the two parties, and state one governance mechanism that answers it. [3]

3 Exam-style questions

3.1 Nimbus has grown to four shops and needs 300,000. The options: a bank loan (personal guarantee demanded), a business angel taking 30% of shares, or staying at two shops funded from retained profit.

For each option, state the ownership-form consequences (liability, control, and what the funder gains), then recommend one with a reason tied to the owner's stated goals of growth with control. List one assumption your recommendation rests on. [7]

3.2 “Partnerships are just small companies with worse paperwork.”

Assess this claim: give one real similarity and two real differences (any axes), with a sentence each. Then give one situation where the partnership form is the better choice and why its weaknesses matter less there. [6]
