

## Lesson C4-2

# Identify the Advantages and Disadvantages of Partnerships

**Unit C.** Entrepreneur Skills and Business Concepts

**Problem Area 4.** Identify Various Types of Business Ownerships

**Lesson 2.** Identify the Advantages and Disadvantages of Partnerships

**Illinois State Goal and Learning Standard.** This lesson is correlated with the following State Goal and Learning Standard:

**State Goal 4:** Listen and speak effectively in a variety of situations.

**Learning Standard B:** Speak effectively using language appropriate to the situation and audience.

**English Language Arts Performance Descriptor J/4:** Speak clearly and confidently (e.g., use good volume, eye contact, and body language).

**National Standards for Business Education.** III. Business Organization. Business students will analyze the organization of a business. Level 3: Identify variations of basic ownership forms.

**Workplace Skills E/4:** Interpret the Economics of Work. Investigate opportunities and options for business ownership.

**Occupational Skill Standards:** (1) Administrative Support Cluster (IL96.BAI.AS.82); (2) Administrative Support Cluster (IL.96.BAI.AS.84); (3) Legal Office Cluster (IL.97.BAI.LGL.141); (4) Legal Office Cluster (IL.97.BAI.LGL.143)



- **Student Learning Objectives.** Instruction in this lesson should result in students achieving the following objectives:

- 1 Explain the partnership legal form.**
- 2 Identify the advantages and disadvantages of a partnership.**
- 3 Examine the similarities and differences between a sole proprietorship and a partnership.**
- 4 Discuss how to make a partnership work.**

- **List of Resources.** The following sources were used in preparing this lesson:

Allen, Kathleen R., and Meyer, Earl C. (2006). *Entrepreneurship & Small Business Management*. Woodland Hills, CA: McGraw-Hill.

Brown, Betty J., and Clow, John E. (2006). *Introduction to Business*. Woodland Hills, CA: McGraw-Hill.

Greene, Cynthia L. (2006). *Entrepreneurship: Ideas in Action 3E*. Mason, OH: South-Western.

- **List of Equipment, Tools, Supplies, and Facilities**

- ✓ Overhead or PowerPoint projector
- ✓ Visual(s) from accompanying master(s)
- ✓ Copies of test, lab sheet(s), and/or other items designed for duplication
- ✓ Materials listed on duplicated items
- ✓ Computers with Internet access
- ✓ Classroom resource and reference materials

- **Terms.** The following terms are presented in this lesson (shown in bold italics):

- ▶ general partner
- ▶ limited partner
- ▶ partnership agreement
- ▶ partnership

- **Interest Approach.** Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situation. A possible approach is included here.

Ask students: “What kind of person would be your ideal business partner?” After students have had an opportunity to respond, tell the students that a partner with a lot of experience does not necessarily guarantee a good partner. Ask them what they think is the most important characteristic of a good partner. After students have had an opportunity to respond, tell them that the most

important characteristic of a good partner is the dynamics between the two individuals.

## SUMMARY OF CONTENT AND TEACHING STRATEGIES

**Objective 1:** Explain the partnership legal form.

**Anticipated Problem:** What is the legal form of a partnership?

- I. A **partnership** is an unincorporated business with two or more owners.
  - A. A partnership may be set up so all of the partners are general partners.
    - 1. A **general partner** has unlimited personal liability and takes full responsibility for managing the business. The law requires that all partnerships have at least one general partner.
  - B. A partnership may be set up so that partners are limited partners.
    - 1. A **limited partner** is a partner whose liability is limited to his or her investment. Limited partners cannot be actively involved in managing the business.

Many techniques can be used to help students master this objective. As an example, students could use Chapter 6 in *Introduction to Business* or Chapter 7 in *Entrepreneurship & Small Business Management*. Use VM-A to illustrate the legal form of a partnership, VM-B to illustrate the concept of a general partner, and VM-C to illustrate the concept of a limited partner.

**Objective 2:** Identify the advantages and disadvantages of a partnership.

**Anticipated Problem:** What are the advantages and disadvantages of a partnership?

- II. Advantages of a partnership
  - A. Partnerships are easy to start.
    - 1. You might only need a license or permit and a partnership agreement.
    - 2. Partnerships have limited government regulation.
    - 3. Initial costs are relatively low compared to other types of ownership, and the costs can be shared with partner(s). Banks are more willing to loan money to partnerships.
  - B. General partners have complete control.
    - 1. They share ideas and bring different skills and experiences.

2. They share investment capital more easily and in greater amounts.
  3. Taxes are low.
- C. Some people experience the disadvantages of a partnership.
1. Partnerships are difficult to dissolve.
  2. Personality conflicts may occur.
  3. Partners share risks and profits.
  4. Partners have unlimited legal and financial liability.

*Many techniques can be used to help students master this objective. As an example, students could use Chapter 6 in Introduction to Business or Chapter 7 in Entrepreneurship & Small Business Management. Use VM–D to illustrate the advantages and disadvantages of a partnership.*

**Objective 3:** Examine the similarities and differences between a sole proprietorship and a partnership.

**Anticipated Problem:** What are the similarities and differences between a sole proprietorship and a partnership?

III. Similarities between a sole proprietorship and a partnership

- A. Start-up costs are relatively low.
- B. Both have unlimited liability. Sole proprietors are liable for all claims against the business. General partners are liable for all claims against the business; limited partners are liable only for the amount of their investment.
- C. Taxation: The profits or losses pass through to the owner to be taxed at his or her individual tax rate.
- D. Management control: A sole proprietor has full control; general partners have full control.
- E. Differences exist between a sole proprietorship and a partnership.
  1. Number of owners: A sole proprietorship has one owner; partnerships have two or more owners.
  2. Profits: A sole proprietor keeps all the profits; partners share the profits.
  3. Decisions: A sole proprietor makes all the decisions; partners share the responsibility of making decisions.

*Many techniques can be used to help students master this objective. As an example, students could use Chapter 6 in Introduction to Business or Chapter 7 in Entrepreneurship & Small Business Management. Use VM–C to illustrate the similarities and differences between a sole proprietorship and a partnership.*

## **Objective 4:** Discuss how to make a partnership work.

**Anticipated Problem:** How can the probability of survival in a partnership be improved?

- IV. A partnership has the greatest chance of survival when partners share business responsibilities, record everything in writing, and communicate openly and honestly about how the business is doing.
- A. Partners should establish a partnership agreement in advance. The law does not require a partnership to be based on a written agreement; however, a well-constructed partnership agreement can alleviate many problems.
- B. The purpose of a **partnership agreement** is to establish, in writing, the rights and responsibilities of each of the owners. It identifies the following:
1. Name of the business or partnership
  2. Filing of an application for a Certificate of Doing Business Under an Assumed (DBA) name when using a name other than the name of the owner(s)
  3. Names of the partners
  4. Type and value of the investment each partner contributes
  5. Managerial responsibilities to be handled by each partner
  6. Accounting methods to be used
  7. Rights of each partner to review and/or audit accounting documents
  8. Division of profits and losses among the partners
  9. Salaries to be withdrawn by the partners
  10. Duration of the partnership
  11. Conditions under which the partnership can be dissolved
  12. Distribution of assets upon dissolution of the partnership
  13. Procedure for dealing with the death of a partner

*Many techniques can be used to help students master this objective. As an example, students could use Chapter 6 in Introduction to Business or Chapter 7 in Entrepreneurship & Small Business Management. Use VM-D to illustrate how to make a partnership work. Use VM-E and VM-F to illustrate the components of a partnership agreement.*

■ **Review/Summary.** Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different angle. Questions at the ends of chapters in the textbook may also be used in the review/summary.

■ **Application.** Application can involve one or more of the following student activities:

- ◆ Ask students to locate an example of a general partnership agreement on the Internet or provide students with an example of a general partnership agreement.

(NOTE: The Entrepreneurship Ideas in Action textbook by Greene has an example of a general partnership agreement on page 94. Also, a sample general partnership agreement form can be found at <http://www.medlawplus.com/legalforms/instruct/sample-partnershipagreement.pdf>).

- ◆ Students could be asked to work in pairs and identify the components of a partnership agreement as listed above. There are 13 items. Students could be given one point for each item that is highlighted on the sample general partnership agreement form.
- ◆ Use LS–A; ask students to work in groups and identify 10 questions to ask local business owners conducting business as a partnership. Students will then prepare a profile worksheet to take to the interview. After the interview, the students will prepare a three- to five-minute speech, using the proper format, to present the findings of the interview. The rubric in the assessment can be used to assess the speech.
- ◆ Invite a local business owner conducting business as a partnership to be a guest speaker. Have students use LS–A to brainstorm and identify relevant questions to ask the local business owner(s).

■ **Evaluation.** Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is provided.

## ■ **Answers to Sample Test:**

### **Part One: Partnership**

	Partnership
Simple to start	X
Decisions made by one person	
Low initial cost	X
Limited liability	
Limited government regulation	X
Raise capital by selling stocks	
Double taxation of profits	
Profits go to owners	X

### **Part Two: True or False**

1. F
2. T

3. T
4. F
5. F

### Part Three: Short Answer

1. (Any two similarities and any two differences from the list below)  
Similarities between a sole proprietorship and a partnership
  - a. Start-up costs are relatively low.
  - b. Unlimited liability: Sole proprietors are liable for all claims against the business; general partners are liable for all claims against the business while limited partners are liable only for the amount of their investment.
  - c. Taxation: The profits or losses pass through to the owner to be taxed at his or her individual tax rate.
  - d. Management control: A sole proprietor has full control; general partners have full control.Differences between a sole proprietorship and a partnership
  - a. Number of owners: A sole proprietorship has one owner; partnerships have two or more owners.
  - b. Profits: A sole proprietor keeps all the profits; partners share the profits.
  - c. Decisions: A sole proprietor makes all the decisions; partners share the responsibility of making decisions.
2. The partnership agreement establishes, in writing, the rights and responsibilities of each of the owners.



# Identify the Advantages and Disadvantages of Partnerships

## ► Part One: Partnership

**Instructions:** Place an "X" in the box next to the item(s) pertaining to a partnership.

	Partnership
Simple to start	
Decisions made by one person	
Low initial cost	
Limited liability	
Limited government regulation	
Raise capital by selling stocks	
Double taxation of profits	
Profits go to owners	

## ► Part Two: True or False

**Instructions:** Write T for true or F for false.

- \_\_\_\_\_ 1. A partnership is a business owned by only one person.
- \_\_\_\_\_ 2. A general partner has unlimited personal liability and takes full responsibility for managing the business.
- \_\_\_\_\_ 3. The law requires that all partnerships have at least one general partner.





- \_\_\_\_\_ 4. Limited partners are actively involved in managing the business.
- \_\_\_\_\_ 5. The law requires a partnership to be based on a written agreement.

### ► Part Three: Short Answer

**Instructions:** Complete the following.

1. List two similarities and two differences of a sole proprietorship and a partnership.
2. How can a partnership agreement improve the probability of success in a partnership?

# Let Me Tell You about a Partnership

---

## Performance Standard 4B.J

Each student will research a partnership and prepare a three- to five-minute speech and will deliver the speech using proper public speaking technique accordingly:

- ◆ *Deliver the Speech:* Focus on the fundamentals of speech delivery (e.g., introduction, clarity of purpose, language, bodily action / posture, eye contact / gestures, use of voice, enthusiasm/vigor, confidence/self-control, organization of material, and conclusion).

## Procedures

1. ***In order to speak effectively using language appropriate to the situation and audience (4B)***, students should experience sufficient learning opportunities to develop the following skill:

- ◆ Speak clearly and confidently (e.g., use good volume, eye contact, and body language).

Students employed in various business careers must use and improve their speaking and organization skills while demonstrating their knowledge of careers. These skills will be very critical as they enter the business world. This assessment aligns with the National Standards for Business Education III, Business Organization, A/3, (Identify variations of basic ownership forms) and Workplace Skills E/4 (Interpreting the Economics of Work).

2. Business Education students will review and discuss the assessment task and how the rubric will be used to evaluate their work.
3. Provide opportunities for students to observe models of good public speaking.
4. Each student will select a partnership for the speech.
5. Each student will research and develop an outline of the speech (e.g., introduction, main points, first- and second-level support, and conclusion). The outline must be formatted using a word processing program and using appropriate outline format.
6. Each student will develop a visual aid to enhance the presentation of the speech.
7. Each student will practice the delivery of the speech before the assessment.
8. Each student will deliver a three- to five-minute speech on the topic agreed upon with the teacher.

9. Evaluate each student's performance using the rubric. Add each student's scores to determine the performance level.

### **Time Requirements**

One to two class periods

### **Resources**

- ◆ Materials for visual aids
- ◆ Research resources, print and electronic as available
- ◆ Let Me Tell You about a Partnership student worksheet
- ◆ Let Me Tell You about a Partnership rubric

# Let Me Tell You about a Partnership

The assessment of a speech covers 10 major categories of good public speaking. Each of the categories will be evaluated on a six-point scale, with one to three points being weak and four to six points being strong. Your task is to listen carefully to the speech and evaluate it on each of the 10 categories. While you are listening, you should also write (on the bottom of the evaluation page) the outline of the major points the speaker covers in the organization of the speech. Here is the explanation of the six-point scale and the 10 categories you are to assess.

## Six-Point Scale:

1. Poor: The item is inferior in quality. The item is not present or is barely detectable.
2. Weak: The item is deficient of required criteria. Some attempt is made to use this in the speech, but that attempt does not impact the audience.
3. Fair: The item meets most criteria but is lacking at least one. The effect on the audience is detectable but minimal.
4. Adequate: The item meets minimum acceptable standards for the speaking assignment. All criteria are present but may not be well developed.
5. Good: The criteria for the assignment are fulfilled with greater detail and a level of development in places above the required minimum. Development of criteria may not be consistent throughout the speech.
6. Excellent: Consistent development of the criteria for an item throughout the speech is present. The attention to development of the item is clearly planned and carefully executed.



## Evaluation Criteria for the 10 Categories:

1. **Introduction:** The speaker should identify clearly the subject of the speech and his or her purpose for speaking (persuade, inform, demonstrate, etc.). The introduction should be developed using one of the accepted patterns discussed in class (e.g., tell a story, unusual fact, anecdote, or personal experience). The speaker should establish his or her credibility (give proof that the speaker knows the topic well enough to speak about it as an authority of sorts).
2. **Clarity of Purpose:** The identified purpose for speaking should be evident throughout the body of the speech. The speaker should not deviate from the intended purpose for speaking. Transition devices and word choice should be selected with the purpose in mind and should link the elements of the speech together to achieve the purpose. Any comments that detract from the purpose should be absent; such comments will result in a lower score in this category of the evaluation.
3. **Language:** The choice of words and structure of sentences should be appropriate to the audience and occasion. An occasional slang term is okay, but the recurring use of inappropriate slang will lower the score in this category. Excessive use of slang without the proper motivation (necessary to achieve the particular purpose for speaking and appropriate to the audience) will result in an unsatisfactory rating (1–3).
4. **Bodily Action / Posture:** The speaker stands erect and comfortable with both feet a comfortable distance apart for good support. The speaker should appear alert but at ease and confident. Distracting movements should not be present. At no time should the speaker slouch, lean on furniture, move unnecessarily, or fidget.
5. **Eye Contact and Gestures:** Eye contact should be nearly constant with the audience and should move frequently across all parts of the audience. No “locking on” to note cards or one particular part of the audience. Gestures should be smooth and integrated with the points being made in the speech. Gestures should not detract attention from the message or communicate excessive nervousness to the audience. Note cards should be read only momentarily to gain information and keep track of the speaker’s next point. More frequent references to note cards will detract from the link to the audience and lower the score in this category.
6. **Use of Voice:** Voice should accent the points being made. Inflection, volume, speaking rate, accents, etc., should be chosen carefully to reinforce the message and blend smoothly with the speaker’s appearance and gestures. Any elements of voice that detract from the effective communication of ideas (monotone, unvarying speaking rate, weak volume, etc.) will lower the evaluation in this category.
7. **Enthusiasm and Vigor:** The speaker should demonstrate interest in the topic through the use of gestures, posture, voice, and word choice. A high degree of perceived interest and enthusiasm for the topic will result in a “6” evaluation. Very brief speeches lacking in detail and delivered in a monotone will indicate a lack of enthusiasm and will be rated 1 or 2 accordingly.

8. **Confidence and Self-Control:** The speech continues smoothly and without noticeable breaks from beginning to end. The speaker's use of eye contact, gestures, and posture indicate clear command of the situation. Nervousness that appears uncontrolled, stuttering pauses, and other signs of lack of preparation will result in a lowered score in this category.
9. **Organization:** The speaker should utilize clearly developed introduction, body, and conclusion sections of the speech. Visual aids should be integrated smoothly into the presentation. If the evaluator cannot construct a clear outline of the speech just by listening to the transitions and pauses, watching movements, and picking up the verbal clues to shifts in emphasis that signal new sections of the outline, the score will be lowered according to the degree of difficulty experienced in the attempt to outline the speech's content.
10. **Conclusion:** The speech should be summarized clearly. All main points covered in the organization of the speech should be touched upon one final time to remind the audience of the main ideas. The speech should make a smooth exit with no sense that we have been "dropped" by the speaker at the last moment. Clear evidence of a plan conclusion should be observed here.

# Let Me Tell You about a Partnership

- ◆ Exceeds standard 55–60 total points
- ◆ Meets standard 40–54 total points
- ◆ Approaches standard 26–39 total points
- ◆ Begins standard 10–25 total points

Point Values	1	2	3	4	5	6	Totals
<b>Introduction</b>							
<b>Clarity of Purpose</b>							
<b>Language</b>							
<b>Bodily Action and Posture</b>							
<b>Eye Contact and Gestures</b>							
<b>Use of Voice</b>							
<b>Enthusiasm and Vigor</b>							
<b>Confidence and Self-Control</b>							
<b>Organization of Material</b>							
<b>Conclusion</b>							
<b>Total Points</b>							

Speech Outline:

(List main points presented in the speech)

(Adapted from Washington Community High School, District 308, Speaking and Listening In-House Assessment.)



# PARTNERSHIP

- ◆ A partnership is an unincorporated business with two or more owners.



# GENERAL PARTNERS

- ◆ A partnership may be set up so all of the partners are general partners.
- ◆ A general partner has unlimited personal liability and takes full responsibility for managing the business.
- ◆ The law requires that all partnerships have at least one general partner.



# LIMITED PARTNERS

- ◆ A partnership may be set up so that partners are limited partners.
- ◆ A limited partner is a partner whose liability is limited to his or her investment.
- ◆ Limited partners cannot be actively involved in managing the business.



# PARTNERSHIP

Advantages	Disadvantages
Easy to start	Difficult to dissolve
Limited government regulation	Personality conflicts
Relatively low initial costs	Share risks and profits
General partners with complete control	Unlimited legal and financial liability
Shared ideas; different skills and experiences	
Share investment capital more easily and in greater amounts	
Taxes are low	



# SIMILARITIES

Similarities	Sole Proprietorship	Partnership
Simple to start	X	X
Low initial cost	X	X
Limited government regulation	X	X
Profits go to owner(s)	X	X
Taxes are low	X	X



# DIFFERENCES

Differences	Sole Proprietorship	Partnership
Number of owners	One	Two or more
Profits	Owner keeps all profits	Partners share the profits
Decisions	Owner makes all decisions	Partners share the responsibility of making decisions



# Profile Worksheet

---

## Purpose

The purpose of this lab sheet is to generate questions students can ask during an interview with a local business owner operating a business as a partnership. Students can work individually or in groups of two, three, or four.

## Objective

1. Identify the advantages and disadvantages of operating a business as a partnership.

## Materials

- ◆ lab sheet
- ◆ writing utensil or computer

## Procedure

In groups, have students brainstorm interview questions for a business owner operating a business as a partnership. Groups will then share their 10 questions with the class. Students will then type a Profile Worksheet with 10 questions to ask at the interview.



# Profile Worksheet

Name of Business Owners: \_\_\_\_\_

Name of Business Owners: \_\_\_\_\_

Name of Business: \_\_\_\_\_

Type of Business: \_\_\_\_\_

(Questions must be typed.)

Question 1	
Question 2	
Question 3	
Question 4	
Question 5	
Question 6	
Question 7	
Question 8	
Question 9	
Question 10	

