Factors Influencing Choice of Legal Structure

FINANCES NEEDED

When a business expands it requires injections of finance. Because sole traders and partnerships have unlimited liability, they can find it difficult to obtain finance, especially for R&D, as banks perceive this type of finance request to be high risk. One possible source of finance is **venture capital**. Alternatively, a business owner may decide to sell shares in the business, thereby becoming either a proprietary or public company.

SIZE OF BUSINESS

Many businesses begin their life as small or micro businesses and generally, a sole trader or partnership would be the most appropriate legal structure.

As a business grows, there is greater need to purchase new plant and equipment which requires the injection of finance. Therefore a partnership or private company may be formed and the new partners or private shareholders contribute more finance, skills and expertise.

To finance rapid/international expansion, a business may raise money from a share market **float**: selling shares to the public. A **prospectus** is issued and the business is listed in the ASX, thereby becoming a public company.

OWNERSHIP & CONTROL

If a business owner wishes to have complete ownership and control of the business, then being a sole trader is the only realistic option. In the case of a partnership and private company, there are multiple owners but still a high degree of control over who can become a shareholder of the business. Once a company floats, ownership is divided among thousands of small, individual shareholders and a few institutional shareholders. If the original owner(s) wanted to retain control they would need to hold more than 50% of all the shares sold.