

CHAPTER 2: OWNERSHIP STRUCTURES

1.1 Answer: A

Rationale: Choice A (Sole Proprietorship) is correct because a sport facility under this form of ownership has only one individual who owns the facility, and hence that individual is responsible for the overall administration of the sport facility. In addition, the sole proprietor is accountable for all business operations, including the management of all assets, and having personal responsibility for all debt and liabilities incurred by the sport facility. The other choices are incorrect because while Choice B (General Partnership) is the most basic form of partnership, it is more complex than the sole proprietorship because it is an ownership structure where two or more partners are responsible for all business operations and management responsibilities for a business; a limited partnership (Choice C) is more complex because owners provide financial backing for a business, but do not take an active role in the day-to-day operation and management of the business; and a corporation (Choice D) is complex as it is created under the laws and regulations of governmental authority made up of a group of individuals who obtain a charter authorizing them as a legal body where the powers, rights, authority, and liabilities of the entity are distinct from the individuals making up the group.

1.2 Answer: D

Rationale: Choices A, B, and C are advantages of a general partnership. Choice D is not because the statement is the definition of how to start a corporation.

1.3 Answer: C

Rationale: Choice C is the correct answer because the limited partner provides financial backing, but does not take an active role in the day-to-day operation and management of the sport facility (this responsibility reverts solely to the general partner(s) in the limited partnership). This is why this ownership structure is an especially attractive financial investment for an individual who does not have the expertise or time to run the sport facility. The other three choices are the same for both general and limited partners.

1.4 Answer: C

Rationale: All of the choices listed are steps in the incorporation process except for Choice C. There is no requirement to trademark a logo representing the business as part of the incorporation process.

1.5 Answer: D

Rationale: As defined in the chapter, a corporation that is prevalent in sport business, but not as widely seen in the ownership structure of sport facilities is the non-profit corporation.

1.6 Answer: B

Rationale: While all of these options are an important part of a municipality providing public facilities, the main reason is to offer high-quality facilities for the use of the population based on their needs. Public, governmental agencies act on the needs of their constituents, and the funding usually comes from the tax dollars paid by those individuals.

1.7 Answer: D

Rationale: All of the above (Choice D) is correct because as defined in the chapter, the owners of privately-managed sport facilities have the ability to exercise their own power and authority over the entire governance structure of the sport facility, including development of the mission and vision, determining who the users of the facility are, and are the regulatory power for anything that happens within the sport facility.

1.8 Answer: B

Rationale: As defined in the chapter, non-profit and voluntary governance organizations are an integral part of the sport business landscape, especially as related to sport facilities that are part of educational, charitable, and religious sport entities. Involvement of individuals in the day-to-day operation of these sport facilities is usually voluntary in nature, although there may be some compensated employees within the organization. However, the governance of the sport facility is usually voluntary.

1.9 Answer: A

Rationale: Benefactors, trust managers, and beneficiaries are integral parts of a trust. Governmental authority (Choice C) is not, as trust governance is for organizations that are specifically set up to run local authority leisure services independently, and for public good rather than individual gain.

1.10 Answer: A

Rationale: While Choices B, C, and D have some validity, the most correct choice is Choice A. Sport facility managers and owners need to acknowledge a contingency approach to organizational effectiveness, as there is no best model. Therefore, sport facilities owners and managers should always take a situational approach to organizational effectiveness to attain an optimum solution for a specific set of circumstances that arise.

1.11 Answer:

The most basic form of business ownership is a sole proprietorship. A sport facility under this form of ownership has only one individual who owns the facility, and hence that individual is responsible for the overall administration of the sport facility. In addition, the sole proprietor is accountable for all business operations, including the management of all assets, and having personal responsibility for all debt and liabilities incurred by the sport facility. This includes the tax liability, which is incurred by the owner as part of their personal income tax. Sole proprietors will often pass their business down to their heirs, as in the case of most family-owned sport facilities. In addition to having complete control over the decision-making and management processes of the sport facility, there are a number of additional advantages of a sole proprietorship. There are relatively minimal legal costs and few formal business requirements to create a sole proprietorship, and should the owner choose to sell the facility, they can do so without consultation from others. Sole proprietorship businesses can usually open their doors fairly easily; however it is important to recognize the unique licensing, legal, and zoning regulations that are present in different jurisdictions. A further advantage of sole proprietorships, and arguably a disadvantage for other ownership types, is the degree of scrutiny that outside bodies can have on the financial performance of a sole proprietor. In practice the financial affairs of a sole proprietor are confidential between him or her and the tax authorities. Disadvantages to sole proprietorship for sport facilities over and above the personal liability of the sport facility from business operations include the owner being personally liable for the actions of their employees – hence any acts of negligence or other illegal conduct related to the sport facility will become the legal responsibility of the sole proprietor; and investors and venture capitalists usually will not invest in sole proprietorships making it difficult for businesses of this type to raise additional funding (or capital) for expansion and development.

A general partnership is where two or more partners are responsible for all business operations and management responsibilities for a sport facility. The structure is similar to that of a sole proprietorship in that there is personal responsibility for all debt and liabilities incurred by the sport facility including tax liability, but where it differs is that the liabilities are shared by the partners based on the percent of ownership each partner has in the sport facility. In addition to the shared financial commitment and the relative ease of creation, a partnership allows for a stronger top management structure, as multiple owners bring multiple strengths to the business, and often one partner's strength is another partner's weakness. This allows for more effective and efficient management of the sport facility, a stronger business plan, and the potential for acquiring additional resources and investors. However, if the partners have different personalities, especially as it comes to how each view the management and administration of the sport facility, problems can occur. This is especially true if the goals and vision of the partners differs, and consensus cannot be reached. Another disadvantage of a partnership, which is the same as a sole proprietorship, is that the partners are personally liable for the negligence or illegal conduct of their employees when acting as an agent of the sport facility. This disadvantage is elaborated in a partnership because each partner is liable for all decisions made and actions taken by the other partner(s), including any debts they incur in the name of the partnership.

1.12 Answer:

The six major sport facility corporate structures covered in the chapter are as follows:

- C-Corporation: a business ownership structure created under the laws and regulations of governmental authority made up of a group of individuals who obtain a charter authorizing them

as a legal body where the powers, rights, authority, and liabilities of the entity are distinct from the individuals making up the group.

- Close Corporation: similar to a C-Corporation, however it is designed for businesses that have a corporate structure with as few as one owner (a sole proprietor that chooses to use a corporation structure) to a maximum of usually no more than 50 owners/shareholders.
- S-Corporation: a corporate structure formed in a similar manner to C-Corporations, however its tax structure is similar to a sole proprietorship or partnership – with the income from the S-Corporation passed on to the shareholders and they pay the taxes on the profit (or take the deduction in case of a loss) rather than the corporation.
- Limited Liability Corporation: hybrid corporate structure with characteristics of both a partnership and a corporation, it is formed by members of the organization, not shareholders.
- Publicly-Traded Corporation: refers to a business entity that has registered securities such as stocks and/or bonds that can be sold to the general population through stock offerings.
- Non-Profit Corporation: a business whose purpose is not to make a profit, but rather to offer services that are beneficial to the general public; most are tax-exempt.

The choice of corporate structure should be defended by identifying the advantages of the structure over the others, and how the disadvantages would not impair the successful operation and management of the sport facility.

1.13 Answer:

The individual reasoning for outsourcing management or keeping it in-house will differ. However, the advantages and disadvantages should center on the following: in public governance, the facility manager usually reports directly to these government officials, and must work within the operational efficiency constraints, regulations and procedures evident in bureaucratic management. This often has a direct effect on many of the operational functions of a sport facility manager, including purchasing processes, contract approvals, and human resource management. There are also challenges when the governmental officials/bodies who are overseeing the public facilities are politicians who truly do not understand the managerial processes of a sport facility. As a result of this, many publicly governed sport facilities have commissioned independent boards to oversee the facilities – made up of individuals who understand facility management, but still report back to the governmental agencies. In other cases, public bodies have hired private management groups to manage the day-to-day operations of the sport facility, and provide reports back to the governmental agency.

1.14 Answer:

Student answers will vary based on their choice of model, however since a contingency approach is most appropriate in organizational effectiveness, and situational approaches are often necessary, the response should have more than one model included. In addition, their response should also address that in order to effectively achieve its goals and objectives, the ownership and the governance structures must be able to successfully respond to changes in its environment. Changes in the environment may be internal to the sport facility organization/management/ operation, or external (examples include customer's needs, the economy, politics, legal issues, and the media). In addition, the response should demonstrate an understanding of the relationship of the attributes of flexibility in correlation to control. Flexibility allows faster change, whereas control allows a firmer grasp on current operations. How these two concerns work in congruency in both the internal and external environments is a significant measure of organizational effectiveness.