



Business Structure: Questions to consider when starting up or restructuring an existing business.

**Jude Barry, Extension Associate and
Brian Henehan, Senior Extension Associate
Department of Applied Economics and Management, Cornell University**

The face of agriculture is changing at a fast pace. In order to meet that change, agricultural businesses are starting up, exiting or resizing. Any organized emerging or growing business entity should carefully consider the components of business structure to ensure the organization meets the needs of the individuals or groups involved. Establishing sound business structure provides the opportunity to build a profitable framework for business planning and operation.

Here are some questions that businesses should be asking in choosing a sound structure for their business entity.

1. The current structure of the business
 - Why do you need to consider a new business structure?
 - What are the components of the current business structure that need changing?
 - What options/alternatives have you already considered?
2. The people in the business entity
 - Who are the stakeholders in the business?
 - How many are interested in buying into the business?
 - How much time and expense can stakeholders commit to setting up the structure of the business entity?
 - What do stakeholders expect in return for their investment? For example do they require profit, access to markets, opportunity to procure goods and services?
 - Who are the third parties involved within the business (for example your customers, suppliers, employees)
 - What are the legal rights of the third parties involved?
 - Are there existing legal agreements with third parties that will apply to the business entity?
3. The Personal Liability of those involved
 - What are the liability risks within the business?
 - Who is prepared to be personally liable?
 - How much personal liability are stakeholders prepared to take on?
 - Are there liability risk management strategies currently in place for parties involved in the business?
4. The management
 - Who is overseeing the management of the business?
 - Who are the decision-makers in the business?

- How will the decisions be made?
 - Are stakeholders prepared to transfer managerial decisions to a manager or board of directors?
 - How will decisions be communicated to the stakeholders?
5. Financial considerations
- How much equity is required to structure this business?
 - Where are the assets and cash for the business coming from? How is the equity to be raised?
 - Will the sources of capital be sufficient to keep the business viable in the long-term? If not, what are the other opportunities for raising capital?
6. Tax considerations
- What are the tax implications of individuals considering being part of the business structure?
7. How will the business withstand change?
- How will the business tackle a departure from ownership?
 - How will the business withstand a change in operational staffing?
 - How will the business handle supplier or employee change?
8. Accountability
- How will the business report to its investors?
 - Are business operations accountable to anyone other than investors?
 - How will the business operations ensure reporting and accountability is met?
9. Who will be the team to set up this business structure?
- Accountant?
 - Financial Advisor/ Banker?
 - Tax advisor?
 - Attorney?
 - Business Planning advisor?
 - Board of Directors?
 - Owners?
 - Supply chain?

Summary

Addressing different areas of business development during the planning phase can help the organization meet the needs of groups and individuals involved. Careful consideration of the long term objectives of the business and its investors, together with consideration of the day to day running of the operation, can build a framework for a viable business structure.

For more information on Business Structure Assistance Contact:
J. Barry, Department of Applied Economics and Management,
Cornell University, 255, Warren Hall
Ithaca NY 14850
Tel : 607-254-4741; Email: jab267@cornell.edu
Website : <http://agviability.cornell.edu/bustruc.htm>

B. Henehan, Department of Applied Economics and Management,
Cornell University, 202, Warren Hall
Ithaca NY 14850
Tel : 607-255-8800; Email: bmh5@cornell.edu
Website : <http://agviability.cornell.edu/bustruc.htm>