

Thesis

Plan of action for graduation assignment

Switching from a sole proprietorship
to a private company: a strategic analysis

Name:

Student number:

Education: Business Administration

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Reason for the research

Quality Cleaning (Qcleaning, 2022), a leading company known for its expertise in daily cleaning maintenance, specialized cleaning and window cleaning throughout the Netherlands, is at a crucial turning point with regard to the legal form of the company.

This dynamic company, consisting of a dedicated team of 17 professionals, is on the verge of significant growth and expansion. The current team includes 13 experienced cleaning employees, 2 of whom are also managers. In addition, 2 account managers play a key role in maintaining customer relationships, while 2 employees are responsible for HR matters and administrative tasks. The owner, who bears ultimate responsibility, plays a central role in daily management and makes strategic decisions to ensure the success of Quality Cleaning.

With the expectation of a prosperous future, the owner of Quality Cleaning is seriously considering transforming the current legal form, a sole proprietorship, into a private limited company (BV). This consideration arises from several social and economic considerations, such as enhancing employee benefits, improving the management structure, capitalizing on financial benefits (particularly the availability of financing), and facilitating the planned expansion of the workforce and the addition of office space. Furthermore, the decision arises from the need to align the firm's strategic objectives, especially the business's expansion plans and the pursuit of a more robust legal structure.

Moreover, the research focuses on determining the reasons for changing the enterprise's legal form. Several factors necessitate the study of the motivations for the business owners to transition from a sole proprietorship to a private limited company: legal compliance, liability protection and financial implications. Various legal structures place distinct legal and compliance requirements on business owners and managers. The understanding of the owner's motivations can inform whether the chosen legal form is the most appropriate, and it can help to determine whether they are assuming the appropriate liability protection. Furthermore, the comprehension of the reasons for changing the legal form will enable business owners and managers to evaluate the influence of the firm's financial obligations, helping firms to plan finances and comply with finance laws.

Understanding these reasons is critical given expected growth, increased revenue and potential expansion of workforce and office space. The owner lacks the necessary insights to determine whether the switch to a BV is actually the most strategic and beneficial choice for the future of Quality Cleaning. Addressing this fundamental issue requires in-depth advice that maps out the legal, financial and operational aspects of the potential change in legal form, including the planned expansion. This consideration requires a well-considered decision, because it will determine the future course of Quality Cleaning.

Target Group

The research is intended for business owners and management as the target group. By investigating issues

related to the transition from a sole proprietorship to a private limited company, the study offer vital information about the advantages and drawbacks of the change. Therefore, the information will guide managers and business owners to make informed choices according to their understanding of the implications. Besides, the transition concerns the navigation of regulatory and legal requirements, and the study guarantees that managers and business owners understand challenges to create contingency and risk mitigation plans. Lastly, the study is situated within the prevailing social and economic conditions in the Netherlands. Knowledge of the social context, particularly the effect on employees, aids in managing this transition. The intention is to ensure effective communication and proper management of employee concerns to achieve positive relations.

Issue:

The primary purpose of this research is to provide the owner of Quality Cleaning with expert advice regarding the possible change of legal form of the company, specifically the transition from a sole proprietorship to a private limited company. The researcher's intention is to provide the owner with information to make the decision and, in case the owner chooses to proceed with the transition, the steps to be followed. The approach used follows a specific process that commences with an exploration of the differences between sole proprietorship and BV from a liability and governance structure perspective. Figure 1 below shows the current governance structure, where the business is still considered a sole proprietorship. The third question aims to understand the tax implications of the shift to a private company. The next step is to consider the benefits and drawbacks that impact this decision, and it will be followed by the examination of the principal legal consequences of this transition. The analysis of the financial benefits and implications of the change is another crucial subject requiring particular focus. Finally, the study considers the formal steps needed to accomplish the transition in legal form. Following this approach will provide adequate evidence to provide the owner of the business with expert advice concerning the intended change in legal form.

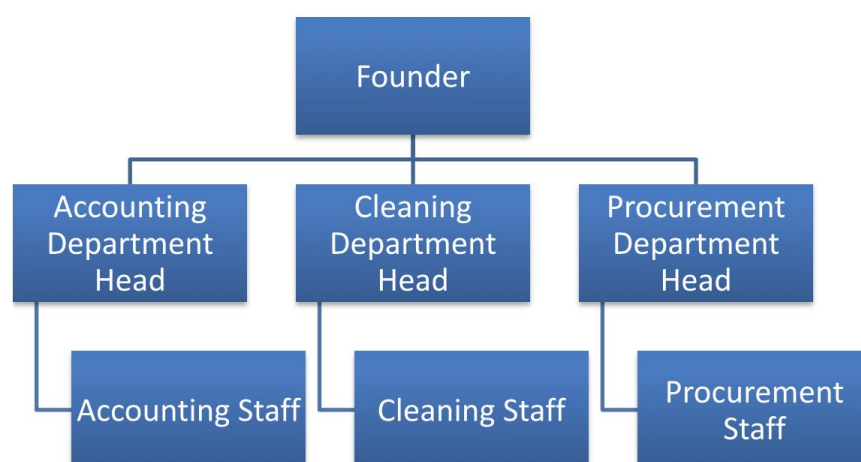


Figure 1: Quality Cleaning Current Governance Structure

The following main question has been formulated:

What are the advantages and disadvantages for Quality Cleaning to switch from a sole proprietorship as a legal form to a private company, taking into account legal, financial and operational aspects?

By answering the main question, the owner of Quality Cleaning is looking for practical advice about possible changes in legal form and their impact on both the company and his personal situation. By formulating specific sub-questions, the research aims to clarify important aspects of the change in legal form, resulting in an in-depth understanding of the legal, financial and operational consequences. This creates a basis for the owner to make informed decisions about the future of Quality Cleaning.

Sub-questions:

1. How does a sole proprietorship as a legal form differ from a private company from a liability and governance structure perspective?
2. What reasons may the owner of Quality Cleaning have for switching from a sole proprietorship as a legal form to a private company?
3. What are the most important tax implications of transitioning from a sole proprietorship as a legal form to a private company?
4. What are the most important legal implications of transitioning from a sole proprietorship as a legal form to a private company?
5. What are the financial benefits and consequences of the transition from a sole proprietorship as a legal form to a private company?
6. What are the operational aspects that could be affected by the transition from sole proprietorship as a legal form to a private company?

By answering the sub-questions, the main question is ultimately answered, facilitating the provision of expert advice to the owner. The answers to the sub-questions serve as a basis for drawing conclusions, resulting in clear and well-founded advice with regard to the change in legal form for Quality Cleaning.

Relevant literature:

To answer the main question, I consult various sources. The aim of the literature used is to provide answers to the sub-questions and thus to the main question. Below you will find a selection of the literature that will be used.

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Cazander, Mr. AW, Ganzeveld, Dr. J., Heithuis, Prof. Dr. EJW, Kesteren, Prof. Dr. HWM van, Röben, Mr. JBH (2023). Tax laws 2023. Deventer: Kluwer.

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Van Der Burg, B. (2023, August 17). The private limited company (BV) advantages and disadvantages: structure, liability and tax | The case. The case. https://www.dezaak.nl/juridisch/rechtsvorm/de-bespelenvennootschap-bv/#pp-toc__heading-anchor-11

Research design:

The research method chosen for this study will be a qualitative technique. Qualitative research methods will include external desk research, literature study, in-depth interviews, consultations and comparative research. The choice of a qualitative research approach is guided by the need to obtain an in-depth

understanding of the research problem. The study focuses on a single business (Quality Cleaning), and it is vital to acquire as much understanding of the reasons for and implications of transitioning from a sole proprietorship to a private limited company. The qualitative research method provides multiple benefits for this study, for example, its exploratory nature, contextual understanding and in-depth analysis.

Accordingly, the qualitative research method is useful in providing in-depth understanding of the problem by exceeding the capabilities of a quantitative approach, examining the meanings and social dynamics that influence human behaviors and experiences.

Research model: Figure 1 below highlights the research model used for this study based on Verschuren and Doorewaard (2007) research model. The research comprises four stages that should be covered to obtain information to answer the sub-questions and eventually the research question. In the literature research phase, relevant legal, financial, operational and business literature will be assessed to answer the questions. The empirical research phase seeks to gather data from interviews, focusing on four individuals: Quality Cleaning's owner, a business law professional, a finance expert and a business operations professional. The analysis stage is the examination of the data gathered to draw conclusions and present findings. The analysis culminates in the conclusion stage where the researcher will write a report for this study.

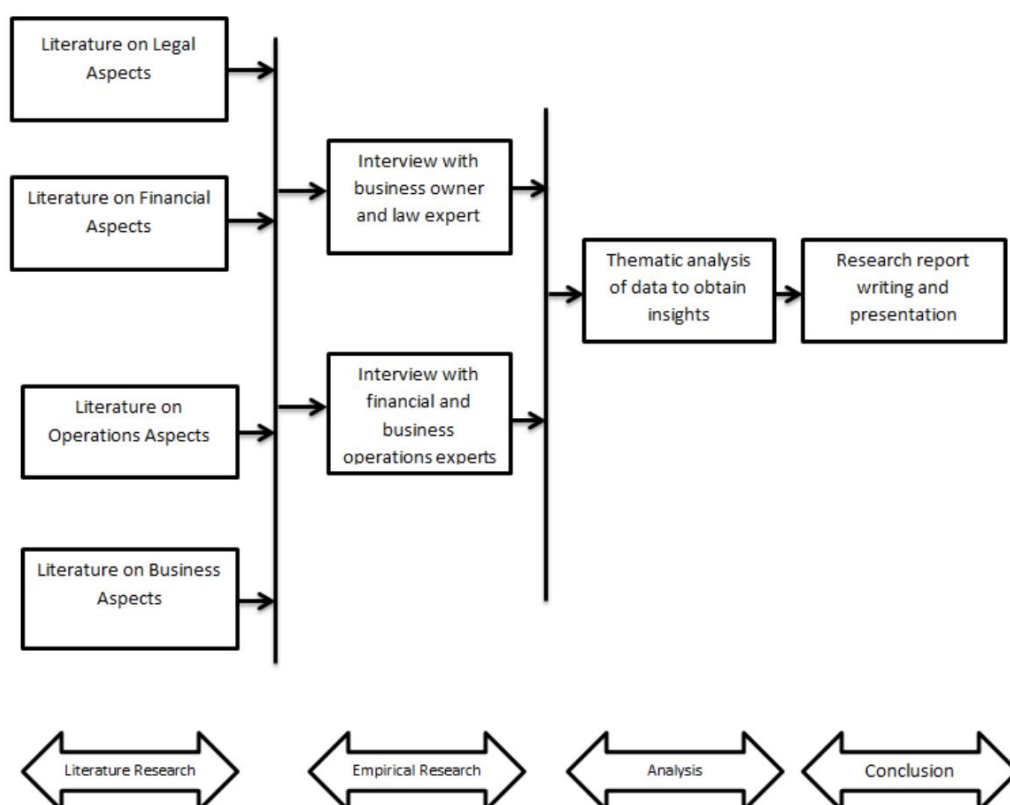


Figure 2: Research Model

1. **How does a sole proprietorship as a legal form differ from a private company from a liability and governance structure perspective?**

Research method:

- Literature review: analysis of legal and business literature to identify fundamental differences between sole proprietorships and private limited companies.
- Comparative research: conducting a structured, comparative literature review to identify studies evaluating sole proprietorships and BV, particularly differences in liability and governance structure

Data collection:

- Information from legal and finance manuals, legislation and books relevant sources.
- Results of peer-reviewed journal articles to facilitate a comparative analysis of the implications of BV and sole proprietorship from a liability and governance structure perspective

Data Analysis:

- Systematic collection and storage of information for easy retrieval
- Examination of textual information to understand legal, governance and liability differences between sole proprietorship and BV.

2. **What reasons may the owner of Quality Cleaning have for switching from a sole proprietorship as a legal form to a private company?**

Research method:

- In-depth interviews: Conduct in-depth interview with the owner of Quality Cleaning to gain insights into the possible reasons influencing the owner's decision.
- External desk research: examine businesses that have undergone similar transitions to determine the experiences of owners and compare their alignment to the expectations of the owner of Quality Cleaning.

Data collection:

- Interview with the owner of Quality Cleaning.
- Exploration of case studies of companies that have undergone similar transitions
- Thematic analysis to identify key themes and patterns in the responses of Quality Cleaning's owner
- Extract themes and patterns across case studies of organizations that underwent similar transitions

3. **What are the most important tax implications of transitioning from a sole proprietorship as a legal form to a private company?**

Research method:

- In-depth interviews: conduct in-depth interview with a tax expert to determine tax implications of the transition
- External desk research: explore previous research of the tax implications of businesses altering their legal form

Data collection:

- Interview with a tax expert
- Analysis of previous studies on the tax consequences of changing legal form

Data Analysis:

- Thematic analysis of the tax implications of transitioning to a BV for Quality Cleaning
- Extract themes and patterns across previous research into the tax implications of changing legal form

4. **What are the most important legal implications of transitioning from a sole proprietorship as a legal form to a private company?**

Research method:

- In-depth interviews: conduct in-depth interview with a business law expert to determine legal implications of the transition
- Internal desk research: explore previous research of the legal implications of businesses altering their legal form

Data collection:

- Interview with a business law expert
- Analysis of previous studies on the legal consequences of changing legal form

Data Analysis:

- Thematic analysis of the legal implications of transitioning to a BV for Quality Cleaning
- Extract themes and patterns across previous research into the legal implications of changing legal form

5. **What are the financial benefits and consequences of the transition from a sole proprietorship as a legal form to a private company?**

Research method:

- In-depth interviews: conduct in-depth interview with a finance expert to understand the financial benefits and consequences of the transition
- External desk research: carrying out a detailed analysis of finance documentation and legislation to identify specific finance aspects.

Data collection:

- Interview with a financial expert
- Analysis of financial documentation.

Data Analysis

- Thematic analysis of the finance benefits and implications of transitioning to a BV for Quality Cleaning
- Extract themes and patterns from finance documentation on financial implications of changing legal form

6. **What are the operational aspects that could be affected by the transition from sole proprietorship as a legal form to a private company?**

Research method:

- In-depth interview: conduct in-depth interview with a business operations expert to understand operational areas to be affected by the transition.
- External desk research: studying business documentation to understand the operational areas that could be affected by the transition

Data collection:

- Interview with a business operations professional
- Analysis of business documents

Data Analysis:

- Thematic analysis of the influence of this transition on business operations
- Extract themes and patterns from business and government publications on the implications of the change on enterprise operations

This research model integrates various methods and data collection sources to gain an in-depth

understanding of the legal, financial and operational aspects of the transition to a private limited company for Quality Cleaning.

Schedule:

The research planning has been developed to closely match the research model outlined. The activities are carefully planned with sufficient time between activities to accommodate potential risks. Risks, such as insufficient input from stakeholders or limited involvement of external parties, are proactively managed by adapting the research plan to any changes. This allows the research to remain flexible and risks are minimized.

Research planning for Quality Cleaning:

Week	Dates	Activity	Sub-activities	Hours	Milestone	Risks
50-51-52	1-12-24/ 15-12-23	Preparation	Create project definition, objectives and planning	70	Project definition and planning approved	
1-2	16-1-24/ 23/1/24	Literature study	Analysis of legal and finance literature	50	Literature search completed	Limited access to relevant literature
3-4-5	25-1-24/ 2-2-24	Comparative research	Comparative analysis of sole proprietorship and e.g.	80	Comparative research completed	Limited availability of comparison data
6-7-8	5-2-24/ 13/2/24	In-depth interviews and internal desk research	Conduct interviews and collect internal data	80	Collection of interview data and internal data completed	Difficulties in scheduling interviews
9-10-11	14-2-24/ 14-3-24	External desk research and comparative research	Collecting external data and analyzing legal and financial implications	100	Collection of external data and comparative research completed	Complex legal and financial issues
12-13-14- 15-16-17	15-3-24/ 26-4-24	Report	Preparing recommendations and reporting	180	Final report submitted	Lack of time due to unforeseen circumstances

Total Estimated Time: 560 hours



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