2.1 Forms of Business Ownership

If you have ever had a job working for someone else, did you know who owned that business? Was your boss also the owner? Who was the boss of your boss? Could you have become a part owner in that business? Forms of business ownership and types of businesses help describe how businesses are organized and run. This chapter explores why a person might choose to establish one type of business rather than another, examines online business opportunities, and briefly describes the structures of **international business** ventures.

There are four main forms of business ownership: sole proprietorships, partnerships, corporations, and co-operatives. (For a quick summary of these forms of business ownership, see the diagram on page 8 in Chapter 1.) Franchises are sometimes labelled as a form of business ownership. However, franchises generally are better described as a hybrid, meaning that franchises combine several features of some of the other forms of ownership. Let's examine these forms of business ownership, including franchising, in more detail.

Keep in Mind

1. sole proprietorships
2. partnerships
3. corporations
4. co-operatives
5. franchises

Before You Begin

With a partner, speculate about the types of decisions businesspeople must make before opening a business. Record your ideas so that you can compare them with your answers to the questions you will complete at the end of the chapter.

Sole Proprietorships

A **sole proprietorship** is a business owned by one person, normally referred to as a proprietor. The proprietor has many different responsibilities within the business. For example, the owner of a bicycle store usually buys the merchandise, sells to customers, does the accounting, arranges displays, and cleans the store. The owner owns all the equipment in the store and might own the building. Money to run the business usually comes from the owner's **savings**, friends, or family or from a bank loan. If the business does well, the owner enjoys all the profits. If the business does poorly, the owner is responsible for all the losses. The owner may even lose his or her home and other personal belongings. This is called **unlimited liability,** and it is the biggest disadvantage of organizing in this way.

The advantage of setting up your business as a sole proprietorship is that starting and administering the business is easier and less expensive than other forms of business. For example, if you choose the sole proprietor form of business and operate it under your own name, you don't even have to register your business with the government. And as a sole proprietor, you declare your business income on your personal income tax form, rather than filing a separate business tax form. Hundreds of examples of sole proprietorships can be found in the Yellow Pages with names such as Debbie's Party Time Outlet, Rashid's Rentals, JJ Express, Millie's Messenger Service, and Longo's Plumbing.

Partnerships

A **partnership** is a business that's usually operated by two or more individuals who want to share the costs and responsibilities of running a business. For example, lawyers who specialize in different areas of law, such as civil, divorce, **real estate**, corporate, family, and wills and power of attorney, will form partnerships so that they can serve a wider client base. They record the terms of their partnership in a **partnership agreement**. Examples of some famous business partnerships that became well-known corporations are A&W, Baskin-Robbins, Black & Decker, M&M's, and Proctor & Gamble. Can you name any others?

There are different kinds of partnerships. A **general partnership** is the most common form. In a general partnership, all partners have unlimited liability for the firm's debts. Unlimited liability means that each partner could be held

Sole proprietors sell their wares from individual booths at this farmers' market.

responsible for the other partner's business-related debts. In a **limited partnership**, on the other hand, partners have **limited liability**, which means they are responsible for paying back only the amount that they invested in the partnership. Even if the business fails, their personal savings and other assets cannot be used to pay the partnership's debts.

The main advantage of the partnership is the working relationship between the partners, rather than in the legal structure of the company. One partner could be the sales expert, while the other partner could handle the books and order inventory. The most successful partnerships are those where the partners have complementary talents and are comfortable sharing the decision making.

Stretch Your Thinking

John D. Rockefeller once said, "It's better to have a friendship based on a business partnership than a business partnership based on a friendship." Do you agree? Explain the position that you take.

Corporations

A **corporation** is a business that has been granted legal status with rights, privileges, and liabilities that are distinct from those of the people who work for the business. Corporations can be as small as one person or as large as a **multinational**, also known as a transnational. While many people believe that all corporations are enormous, most corporations are owned entirely by individuals, families, and small groups.

However, large corporations usually cannot be managed well if they are owned and funded by only one or two people. For this reason, the ownership of these corporations is divided into many small parts, called **shares** or **stock**, which the original owners sell through a **stock exchange** (such as the Toronto Stock Exchange, or TSX). Once shares have sold, the corporation becomes a publicly traded (or publicly owned)

Business Fact

Where can you find information on over 50 000 Canadian businesses? Check out the Industry Canada website.

In the News

In one corner, there was golfer Tiger Woods, Tour de France master Lance Armstrong, and women's tennis star Serena Williams. In the opposite corner, there was hockey superstar Sidney Crosby, pitching ace Curt Schilling, and soccer idol David Beckham. What was this fight all about? Team Nike versus Team Adidas-Reebok. Until Adidas decided to buy Reebok International Ltd., Nike had a far greater share of the market. But when Adidas teamed up with Reebok in 2005, Adidas-Reebok's market share of athletic footwear rose to 28 percent, almost catching up to Nike's 31 percent.

There are many ways to market big-name brands, and competition at this level is ruthless. That is why companies spend millions of dollars acquiring celebrity endorsements to sell and market their brands (although choosing the right celebrity is crucial). In competitive marketing, the name of the game is the *name* of the product. Adidas decided that partnering with another competitor was a good strategy for competing with Nike. Do you think that Adidas made a wise move? Explain.

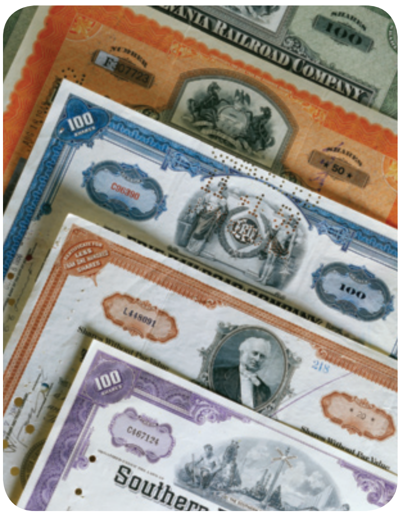
Business Fact

When Google Incorporated went public in August 2004, each share was worth $85. The stock price surpassed $500 for the first time in November 2006. By February 2011, the stock price had risen to $618.38.

Literacy Link

Finding the meaning of an unfamiliar word

If a word is unfamiliar, read the entire paragraph and look for clues that help you define the word. These clues can be synonyms (words that mean the same thing) or antonyms (opposites).



Stockholder's share certificates

corporation. Individuals who buy shares become owners of the company and are called **shareholders**. The more shares a shareholder owns, the greater the control he or she has. Because there are so many owners, a **board of directors** is put into place to run the corporation.

Shareholders have limited liability, which means they cannot be held legally responsible for the debts of the corporation. This limited liability is an advantage because it encourages people to buy shares. If the corporation fails, the owners or shareholders lose only the amount that they've invested in shares. If the business earns a profit, some of it may be used to expand the company. A publicly traded corporation may pay out the rest to shareholders in the form of a **dividend**. The amount of the dividend paid for each share is calculated by dividing the total profit paid out by the total number of shares owned by shareholders. For example, if you held 100 shares in Canadian Tire Corporation (CTC), and if CTC declared a $2.00 dividend at the end of the year, you would receive a dividend cheque for $200.00.

Types of Corporations

There are different types of corporations. In a **private corporation** (e.g., Krispy Kernels), only a few people control all the shares, or stock, and, therefore, the business. Shares in the company are not listed for sale on a stock exchange, a trading market where shares are bought and sold. On the other hand, a **public corporation** (e.g., Research In Motion) raises money by making shares available to thousands of people through selling shares on the stock exchange. These individuals become the owners of the business. People with only a few shares of a stock have little influence on a company's policies. Major shareholders, on the other hand, can have a considerable impact because each share gives them one vote. Often, the founders, presidents, and major shareholders in large public corporations become very wealthy (see list on page 45).

A **Crown corporation** is a business operated by the provincial or federal government. Some examples of Crown corporations are the Business Development Bank of Canada (BDC), VIA Rail, Atomic Energy of Canada Limited, Canada Post, and the Canadian Broadcasting Corporation (CBC). Towns and cities can also be incorporated. They are organized as businesses, or as **municipal corporations** (e.g., the City of Yellowknife), to provide services to the local citizens.

Nalcor Energy is a provincial Crown corporation.

Table 2.1

Top 10 Most Wealthy Canadian Individuals and Families in 2009

1. The Thomson Family: $21.99 billion. Thomson Reuters is a world leader in information services.
2. James (J.K.), Arthur, and John (Jack) Irving: $7.28 billion. Irving Oil owns Canada's largest oil refinery.
3. Galen Weston: $6.47 billion. The Weston family owns or controls over 200 companies, including George Weston Bakeries, as well as stores such as Loblaws and Holt Renfrew.
4. James (Jim) Pattison: $5.07 billion. Jim Pattison Group is involved in transportation, communications, food products, packaging, and financial services.
5. Edward (Ted) Rogers, Jr.: $4.7 billion. Rogers Communications is a telecommunications giant.
6. Paul Desmarais, Sr.: $4.28 billion. Power Corporation of Canada has holdings in media, pulp and paper, and financial services.
7. Bernard (Barry) Sherman: $3.85 billion. Barr Laboratories and Apotex are generic drug makers.
8. David Azrieli: $3.73 billion. Canpro Investments Ltd. is a designer and developer of skyscrapers and office towers.
9. Jeff Skoll: $3.59 billion. First employee and first president of eBay.
10. Fred and Ron Mannix: $2.98 billion. The Mancal Group is involved in private equity investments in oil and gas exploration, real estate, coal, and private portfolio management.

Co-operatives

A **co-operative** is a business owned by the workers or by members who buy the products or use the services that the business offers. The motive for operating a co-operative is service, not profit.

Like a corporation, boards of directors, who are members of the co-operative, own shares and run the co-operative. Unlike a corporation, however, each member has only one vote, regardless of the number of shares owned. Another major difference is that the profits of a co-operative are distributed according to how much each member spends at the co-operative. For example, a member who buys $5000 worth of goods or services will receive a dividend five times as large as someone who buys $1000 worth of goods or services.

The co-operative model has been adapted to almost every form of business in Canada. Consumer co-operatives, retail co-operatives, and worker co-operatives are three such adaptations. A local credit union where members pool their savings so that they can provide themselves with financial services at a reasonable cost is an example of a consumer co-operative. Retail co-operatives, such as IGA (Independent Grocers Alliance) and I.D.A. (Independent Druggists' Association), act as buying organizations for individual members. A worker co-operative is created to provide work for its members. Neechi Foods in Winnipeg, Manitoba, is an example of a worker co-operative.

Ethical, Moral & Legal Considerations

How does a mining corporation convince government officials to allow it to set up operations in their country? One way is to promise work for 85 percent of a town's population! During the late 1990s, a Canadian mining company set up operations in Chile. Since Canada and Chile had signed a trade agreement in 1997, this type of partnership seemed to make sense, partially because that trade agreement had a section dealing with environmental regulations. However, even those regulations failed to safeguard the community surrounding the town in Chile from having its environment contaminated. Not long after getting operations underway, the work at the mine generated acid rain and suspended dust, which contaminated the air, destroyed the plant life in the region, and had a negative effect on livestock in the area. Because the mining company had convinced the authorities that the best regulation was self-regulation, it was almost impossible to point fingers at the guilty party. Were the mining company's promises worth the price that was paid?

In Canada, many co-operatives in the health care (Saskatchewan is the best provincial example), child-care (The Canadian Child Care Federation), and housing (Co-operative Housing Federation of Canada) sectors are not-for-profit co-operatives.

Business Fact

As of November 2010, Newfoundland and Labrador had over 90 community-based co-operatives, providing business and social services to the region.

Franchises

In a franchise operation, one business, the **franchiser**, licenses the rights to its name, operating procedure, designs, and business expertise to another business, the **franchisee**. In this way, a franchisee buys a licence to operate a ready-made business and is often provided with a fully operational facility. The franchiser and the franchisee are independent businesses affiliated for this agreement only. This is why franchises can be thought of as a hybrid form of business ownership.

Franchise businesses are very popular in the business community. They offer brand recognition that consumers find more and more appealing. Hotels, motels, fast-food restaurants, and automobile dealerships are a few examples of franchise operations.

McDonald's is the number one company when it comes to having the greatest number of franchises worldwide. There are over 31 000 McDonald's franchises in more than 119 countries around the world. Approximately 6100 of those franchises are company owned.

E-ACTIVITY

Visit www.nelson.com/WOB and follow the links to learn more about franchises.

Table 2.2

Top 10 Franchises for 2011 (as listed in *Entrepreneur* magazine)	
1. Hampton Hotels	6. Days Inn
2. ampm	7. Vanguard Cleaning Systems
3. McDonald's	8. Servpro
4. 7-Eleven Inc.	9. Subway
5. Supercuts	10. Denny's Inc.

Note: Judging was based on such things as financial strength and stability, growth rate and size, number of years in business, and start-up costs, but not on franchisee satisfaction.

Before a franchise is awarded, the franchisee must meet many requirements. The most basic of these is payment of the franchise fee to the franchiser. These fees can range from thousands to millions of dollars. The more successful the franchise—the higher the franchise fee. Imagine having to pay $450 000 for a well-known coffee franchise before you even sell your first cup of coffee!

In addition to the initial franchise fee, the franchisee pays a monthly fee for being part of the franchise family. This franchise fee might be 5 percent of total monthly sales. The franchisee also has to pay the franchiser for national and local advertising (roughly 1 percent of monthly sales). Moreover, all supplies for the business often have to be purchased centrally through the franchiser. This type of quantity buying should work to the benefit of the franchisee by reducing the cost of supplies and providing uniform quality.

Some franchisers require the franchisee to go through a training period to learn how to do business according to their standards. In this way, brand recognition and quality are guaranteed. For example, a visit to Canadian Tire anywhere in Canada means an opportunity to save using Canadian Tire "money" while experiencing friendly service. Despite high franchise fees and monthly costs, franchise operations are often very successful.

The World of Business DVD

"Life in the Fast Food Lane"
from *The World of Business DVD*

In the News

Did you know that since Tim Hortons began, it has been a sole proprietorship, a partnership, a corporation, and a franchise operation? Tim Horton opened his first doughnut shop, originally called Tim Horton Donut Shop, in 1964. The store struggled for survival, and in 1965, Ronald V. Joyce took it over. Since it was the first one opened, that meant that Ron Joyce became the original franchisee of Store #1, located in Hamilton, Ontario. Ron Joyce subsequently opened two more stores, and by 1967, Ron and Tim Horton became full partners in the company. After Tim's tragic death in a car accident in February of 1974, Ron Joyce became the sole owner. Tim Hortons then started selling franchises operating in Canada and later in the United States. In 1995, Tim Hortons merged with Wendy's International, Inc., so that it could expand further into the U.S. market. In 2006, Tim Hortons became a publicly traded company, selling 17.25 percent of the company as shares. Wendy's still owned the other 82.75 percent of the company. In late 2006, Wendy's sold the remaining interest that it had in Tim Hortons to generate funds for other parts of its operations. Why has the Tim Hortons franchise been so popular in Canada? Will it succeed in the United States?

Some familiar Canadian franchises!

Table 2.3

Comparing Forms of Business Ownership

	Sole Proprietorship	Partnership	Corporation	Co-operative	Franchise
Features	• one owner	• two or more owners • written partnership agreement	• many shareholders • one vote per share • board of directors	• owned by members • each member has only one vote regardless of number of shares • board of directors	• hybrid type of ownership
Advantages	• be your own boss • easy to start and end • profits to owner	• more capital and financing • shared responsibilities	• limited liability • transfer of ownership is simple	• less expensive goods/services • easily set up	• brand recognition • shared marketing • corporate training and support
Disadvantages	• unlimited liability • financing may be difficult • owner may not be familiar with all aspects of business	• unlimited liability in general partnerships • partner disagreements	• timely and costly startup • people who own only a few shares don't have a lot of influence on how the company is run	• decision-making process could be difficult	• franchise fee • monthly fee • requirement to buy from franchiser

Review Questions

1. What are some sources of start-up money for a single proprietor?
2. Why is unlimited liability considered to be a disadvantage for a single proprietorship?
3. Identify the main advantage of a partnership.
4. Identify the four types of corporations.
5. What role does a board of directors serve in a corporation?
6. Which forms of business ownership attempt to provide dividends to their owners/members?
7. What is the primary motive for establishing a co-operative?
8. Why might a business choose to change its type of ownership?
9. Why are franchises thought of as a hybrid form of ownership?

Keep in Mind

1. Why start your own business?
2. What different types of businesses are there?
3. What are your skills and interests?
4. Where can you find information about a business?
5. What are the start-up costs?
6. What level of risk can you expect?
7. What steps are involved in running this business?
8. What resources will you need?

2.2 Going into Business

Starting and running a business takes motivation, commitment, and talent. Before deciding to go into business, you have to do a lot of research and planning. What types of businesses are most likely to succeed for your business idea? Should you start an e-business or a traditional "bricks and mortar" business? Because the business environment is so complex, everything that you need to know before starting a business can't be explained here. As you do your research and planning, you can locate many other sources that provide useful information. Chapters 10 and 11, which focus on entrepreneurship, will also help you.

Frank and Ernest