

Forms of Ownership

BA291



Learning Objectives

1. Define *sole proprietorship* and explain the advantages and disadvantages of this ownership model
2. Define *partnership* and explain the advantages and disadvantages of this ownership model
3. Define *corporation* and explain the advantages and disadvantages of this ownership model
4. Explain the concept of *corporate governance* and identify the three groups responsible for ensuring good governance
5. Identify the potential advantages of pursuing *mergers and acquisitions* as a growth strategy, along with the potential difficulties and risks.
6. Define *strategic alliance and joint venture*, and explain why a company would choose these options over a merger or an acquisition.

Selecting Form of Organization

- One of the first decisions that the business owner will have to make is how the business should be structured. All businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure.
- Vision regarding the size and nature of the business.
- The level of control
- The level of "structure".
- The business's vulnerability to lawsuits.
- Tax implications of the different organizational structures.
- Expected profit (or loss) of the business.
- Ability to raise fund

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Forms of Business Ownership

Structure	Control	Profits and Taxation	Liability Exposure	Ease of Establishment
Sole proprietorship	One owner has complete control	Profits and losses flow directly to the owners and are taxed at individual rates	Owner has unlimited personal liability for the business's financial obligations	Easy to set up; typically requires just a business license and a form to register the company name
General partnership	Two or more owners; each partner is entitled to equal control unless agreement specifies otherwise	Profits and losses flow directly to the partners and are taxed at individual rates; partners share income and losses equally unless the partnership agreement specifies otherwise	All partners have unlimited liability, meaning their personal assets are at risk for mistakes made by others partners	Easy to set up; partnership agreement not required but strongly recommended
Limited partnership	Two or more owners; one or more general partners manage the business; limited partners don't participate in the management	Same as for general partnership	Limited partners have limited liability (making them liable only for the amount of their investment); general partners have unlimited liability	Same as for general partnership
Corporation	Unlimited number of shareholders; no limits on stock classes or voting arrangements; ownership and management of the business are separate (shareholders in public corporations are not involved in management decisions; in private or closely held corporations, owners are more likely to participate in managing the business)	Profits are taxed at corporate rates; profits are taxed again at individual rates when (or if) they are distributed to investors as dividends	Investor's liability is limited to the amount of his or her investment	More complicated and expensive to establish than a sole proprietorship; requirements vary from state to state

Important Terms

- **Unlimited liability**
 - A legal condition under which any damages or debts incurred by a business are the owner's personal responsibility
- **Limited liability**
 - A legal condition in which the maximum amount each owner is liable for is equal to whatever amount each invested in the business
- **Double taxation**
 - Income taxes paid twice on the same source of earned income e.g. when income is taxed at both the corporate level and personal level.
- **Limited life**
 - End upon the withdrawal or death of an owner(s)
- **Liquidity**
 - A measure of how easily and quickly an asset such as corporate stock can be converted into cash by selling it

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Sole Proprietorships

A business owned by a single person

- Consists of one individual doing business
- The simplest and most common structure chosen to start a business
- The most numerous form of business organization worldwide
- Owner is entitled to all profits and responsible for all business's debts, losses and liabilities



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Partnerships

A company that is owned by two or more people but is not a corporation

- Appropriate for firms that need more resources and leadership talent than a sole proprietorship but don't need the fundraising capabilities

- **Partnership**

- An unincorporated company owned by two or more people

- **Limited liability**

- A legal condition in which the maximum amount each owner is liable for is equal to whatever amount each invested in the business

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Partnerships (cont.)

1. General partnership

All of the partners have the ability to actively manage or control the business. This means that every owner has authority to make decisions about how the business is run as well as the authority to make legally binding decisions.

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Partnerships (cont.)

2. Limited partnership

- A type of partnership that consists of at least one general partner and at least one limited partner
- General partners can be personally liable for all the partnerships' debts
- Limited partners are not liable for the partnership's debts beyond the funds they contribute to the partnership and does not participate in making managerial decisions for the business
- Limited partners receive proceeds from the business after the general partners have received their share of company profits

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Partnerships (cont.)

3. Limited Liability Partnership (LLP)

- A partnership in which each partner has unlimited liability only for his or her own actions and at least some degree of limited liability for the partnership as a whole
- LLP does not have a general partner, since every partner in an LLP is given the ability to take part in the management of the company
- Partners in an LLP have limited liability protection against malpractice suits that stem from another partner's negligent acts thus become popular in certain professions such as law, medicine and accounting
- All partners have limited liability protection against company obligations and debts
- Each partner receives profits and losses from the company according to her ownership interest in the company.

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The Partnership Agreement

- A **partnership agreement** should address investment percentages, profit-sharing percentages, management responsibilities and other expectations of each owner, decision-making strategies, succession and exit strategies, and dispute-resolution procedures.



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Partnership in Thailand

1. General Partnership

- Only one type of partnership, unlimited liabilities
- All partners can manage the business
- Investment could be cash, assets, and labors
- Can be either registered or not registered
- Debtors can claim for partner's personal assets
- If one partner is dead, quit or bankrupt, the partnership must be dissolved

2. Limited Partnership

- There are two types of partnership, limited and unlimited liabilities
- Limited partners cannot manage the business
- Limited partners cannot invest with labors
- Must register and hold a juristic person status
- Debtors cannot claim for limited partner's personal assets
- If one partner is dead, quit or bankrupt, the partnership can still in operation

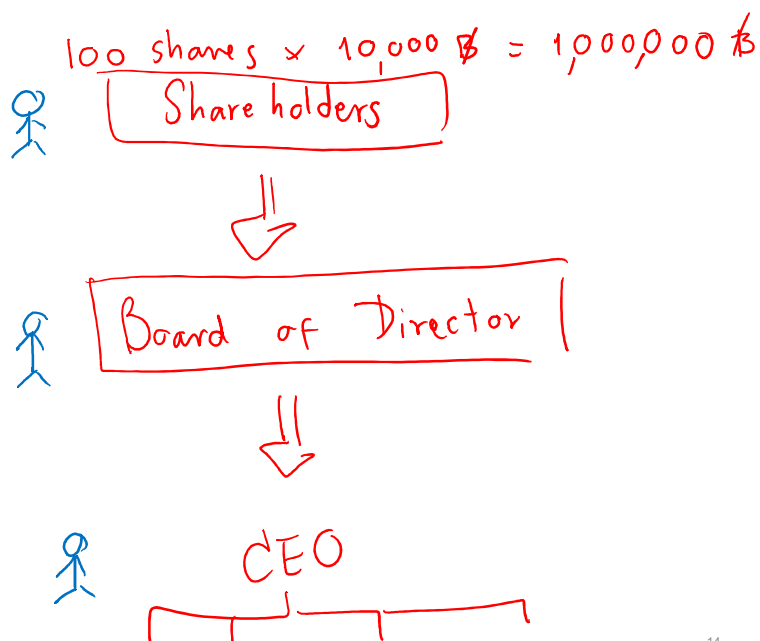
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Corporations

- A **legal entity**, *distinct from any individual persons*, that has the power to own property and conduct business
- An independent legal entity owned by shareholders (investors who purchase shares of stock in a corporation)
- Corporation itself, not the shareholders that own it, is held legally liable for the actions and debts the business incurs
- Unlimited number of shareholders
- Private vs. Public



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Private vs. Public Corporation

- **Private corporation**

 - A corporation in which all the stock is owned by only a few individuals or companies and is not made available for purchase by the public
- **Public corporation**

 - A corporation in which stock is sold to anyone who has the means to buy it

“Privately Held”



“Publicly Traded”



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Other Corporate Structures 1 (in the USA)

Structure	Characteristics
Public corporation (also known as publicly held or publicly traded)	Corporation whose stock is sold to the general public
Private corporation (also known as closely held)	Corporation whose stock is held by a small number of owners and is not available for sale to the public
S corporation (also known as subchapter S corporation)	Corporation allowed to sell stock to a limited number of investors while enjoying the pass-through taxation of a partnership
Limited liability company (LLC)	Corporate structure with benefits similar to those of an S corporation, without the limitation on the number of investors
Benefit corporation	Profit-seeking corporation whose charter also requires it to pursue a stated social or environmental goal

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Other Corporate Structures 2 (in the USA)

Structure	Characteristics
Subsidiary	Corporation primarily or wholly owned by another company
Parent company	Corporation that owns one or more subsidiaries
Holding company	Special type of parent company that owns other companies for investment reasons and usually exercises little operating control over those subsidiaries
Alien corporation	Corporation that operates in the United States but is incorporated in another country
Foreign corporation (sometimes called an out-of-state corporation)	Company that is incorporated in one state (frequently the state of Delaware, where incorporation laws are more lenient) but that does business in several other states where it is registered
Domestic corporation	Corporation that does business only in the state where it is chartered (incorporated)

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Advantages vs. disadvantages

	Advantages	Disadvantages
Sole Proprietorship	▲ Ease of formation / dissolution ▲ Low start-up cost ▲ In complete control of the business ▲ Owner receives 100% of profit ▲ Fewer regulations ▲ No corporate income tax (single layer of taxation)	▼ Unlimited liability ▼ Limited life (owner dies, the business dies) ▼ Limited access to capital ▼ Limited managerial perspective
Partnership	▲ Ease of formation ▲ Fewer regulations than corporation ▲ Access to capital ▲ Benefit from partners skills ▲ No corporate income tax	▼ Unlimited liability (except for Liability Limited Partnership) ▼ Limited life (owner dies, the business dies) ▼ Share control and profit
Corporation	▲ Limited liability ▲ Unlimited life ▲ Transfer of ownership ▲ Access to capital ▲ Liquidity (public company)	▼ Regulatory restrictions ▼ Double taxation ▼ More expensive to create than partnership or sole proprietorship

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Practice

- Which one between sole proprietorship and partnership is treated as a separate legal entity? How do sole proprietor and partnership pay taxes?

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Practice

- Which one between sole proprietorship and partnership is treated as a separate legal entity? How do sole proprietor and partnership pay taxes?

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Practice

- A and B agree to form a partnership. One day B died and John, B's son, told A that from now he will be a new general partner of this partnership. Do you agree with John? Will he be able to take B's role as a general partner to this partnership? Why?

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Practice

- A and B, investing \$500,000 each equally, started a corporation called AB Corp. After 6 months of its operation, TU Corp sued AB Corp for breach of contract and the court ordered AB Corp to pay TU Corp \$5MM for damages. How much does A owe TU Corp?

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Practice

- A, B, and C agree to form a partnership, in which A will be general partner while B and C will be limited partners. The partnership borrowed \$1MM from Bangkok bank. The business did not perform well, so they decided to shut it down. Bangkok bank asked the partnership to pay back its loan of \$1MM. Who will be liable for the debt of \$1MM and why?

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Discussion question (answer in Moodle; due on Midterm date)

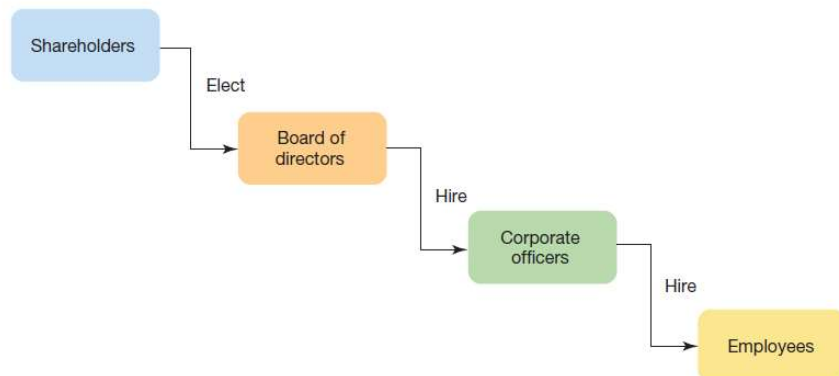
- Suppose you and some friends want to start a business that offers business culture training to foreign business representatives in your country. You all think the business will work but worry about being left with debts at such a young age if it fails. What form of ownership should you choose for your start-up and why?



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Corporate Governance

- Describes all the policies, procedures, relationships, and systems in place to oversee the successful and legal operation of the enterprise
- Also refers to the responsibilities and performance of the board of directors specifically



Corporate Governance

Board of directors

A group of professionals elected by shareholders as their representatives, with responsibility for the overall direction of the company and the selection of top executives

Mergers and Acquisitions

Merger

An action taken by two companies to combine and perform as a single entity

Acquisition

An action taken by one company to buy a controlling interest in the voting stock of another company

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Bangkok Post
THAILAND
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BUSINESS

BDMS makes takeover offer for BH

Bid's total value may rise to B102.74bn

PUBLISHED: 28 FEB 2020 AT 04:01

NEWSPAPER SECTION: BUSINESS
WRITER: LAMONPHET APISITNIRAN & PHUSADEE ARUNMAS

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f t w p

Bumrungrad Hospital says it was surprised by the tender offer because the two groups have operated separately.

Bangkok Dusit Medical Services Plc (BDMS) has launched a voluntary tender offer for all shares of Bumrungrad Hospital Plc (BH) at 125 baht each, with the price not exceeding 20% of the offering price.

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M&A

- **Hostile takeover**
- Acquisition of another company against the wishes of management
- **Leveraged buyout (LBO)**
- Acquisition of a company's publicly traded stock, using funds that are primarily borrowed, usually with the intent of using some of the acquired assets to pay back the loans used to acquire the company



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Advantages of Mergers and Acquisitions

- Increase their buying power as a result of their larger size
- Increase revenue by cross-selling products to each other's customers
- Increase market share by combining product lines
- Gain access to new expertise, systems, and teams of employees

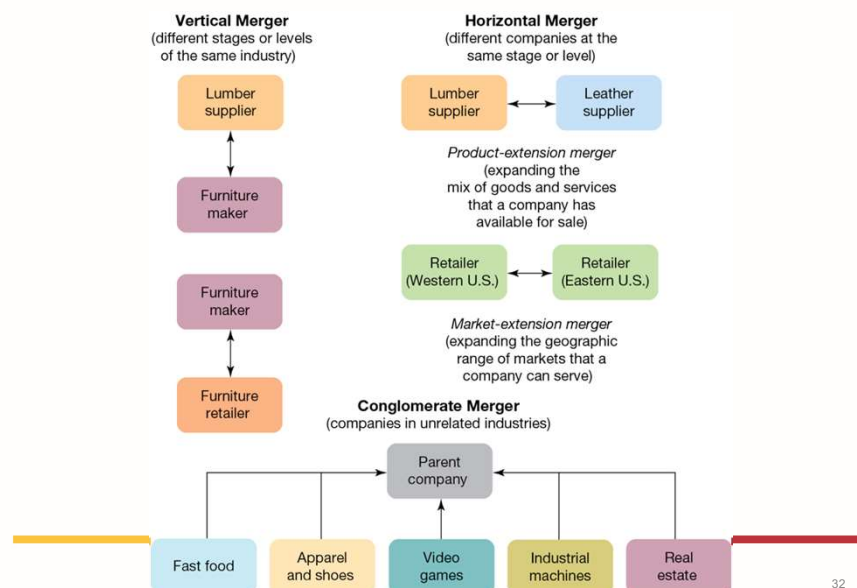
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Disadvantages of Mergers and Acquisitions

- Executives have to agree on how the merger will be financed.
- Managers need to decide who will be in charge after they join forces.
- Marketing departments need to figure out how to blend product lines, branding strategies, and advertising and sales efforts.
- Companies must often deal with layoffs.

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Types of Mergers



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Mergers and Acquisitions (US Airlines)



FILE PHOTO: The logo of Spanish NH Hoteles chain is seen on the roof of one of its hotel in central Madrid REUTERS

Minor buys stake in Spanish hotel group for \$ 226 million

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Disney and Pixar

Mickey and Nemo. Pinocchio and "Toy Story." Cinderella and "Cars." The merger of legendary Walt Disney and everything-we-create-kids-adore Pixar was a match made in cartoon heaven. Disney had released all of Pixar's movies before, but with their contract about to run out after the release of "Cars," the merger made perfect sense. With the merger, the two companies could collaborate freely and easily. Did the merger work? Well, take a look at the successful movies that Disney and Pixar have put out.

Photo: Getty ImagesSource: Rasmussen College School of Business/ Rasmussen College Online

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Exxon and Mobil



Big oil got even bigger in 1999, when Exxon and Mobil signed an \$81 billion agreement to merge and form ExxonMobil. Not only did Exxon Mobil become the largest company in the world, it reunited its 19th Century former selves — John D. Rockefeller's Standard Oil Company of New Jersey (Exxon) and Standard Oil Company of New York (Mobil). The merger was so big, in fact, that the FTC required a massive restructuring of many of Exxon and Mobil's gas stations, in order to avoid outright monopolization

Photo: Henry Ray Abrams | AFP | Getty Images Source: Rasmussen College School of Business/ Rasmussen College Online

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Daimler Benz and Chrysler



In 1998, Mercedes-Benz manufacturer Daimler Benz merged with US auto maker Chrysler to create Daimler Chrysler for \$37 billion. The logic was obvious: create a trans-Atlantic car-making powerhouse that would dominate the markets. But by 2007, Daimler Benz sold Chrysler to the Cerberus Capital Management firm, which specializes in restructuring troubled companies, for a mere \$7 billion.

Photo: Johnny Eggitt | AFP | Getty Images Source: Rasmussen College School of Business/ Rasmussen College Online

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Sprint and Nextel



In 2005, another major communication merger occurred, this time between Sprint and Nextel Communications. These two companies believed that merging opposite ends of a market's spectrum — personal cell phones and home service from Sprint, and business/infrastructure/transportation market from Nextel — would create one big happy communication family (for only \$35 billion). But the family did not stay together long; soon after the merger, Nextel executives and managers left the new company in droves

Photo: AP GraphicsSource: Rasmussen College School of Business/Rasmussen College Online

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Strategic Alliances and Joint Ventures

• Strategic alliance

- A long-term partnership between companies to jointly develop, produce, or sell products

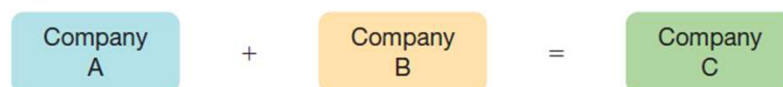
• Joint venture

- A separate legal entity established by two or more companies to pursue shared business objectives

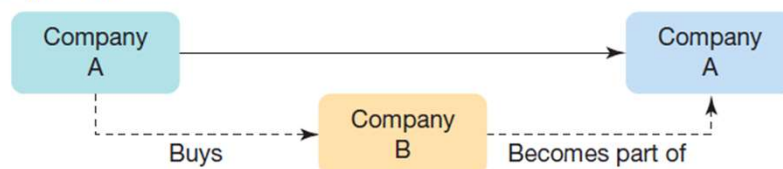
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Options for Joining Forces

Merger



Acquisition

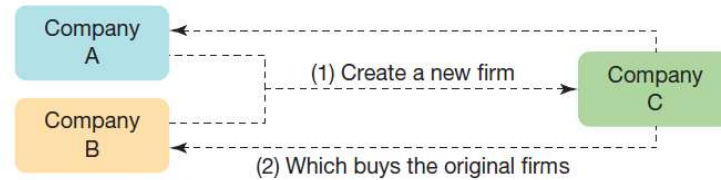


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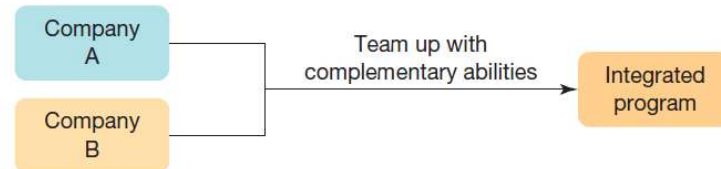
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Options for Joining Forces (cont.)

Consolidation



Strategic alliance

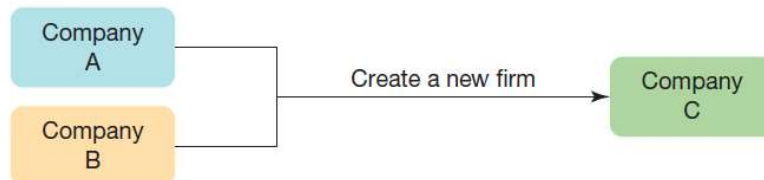


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Options for Joining Forces (cont.)

Joint venture



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