

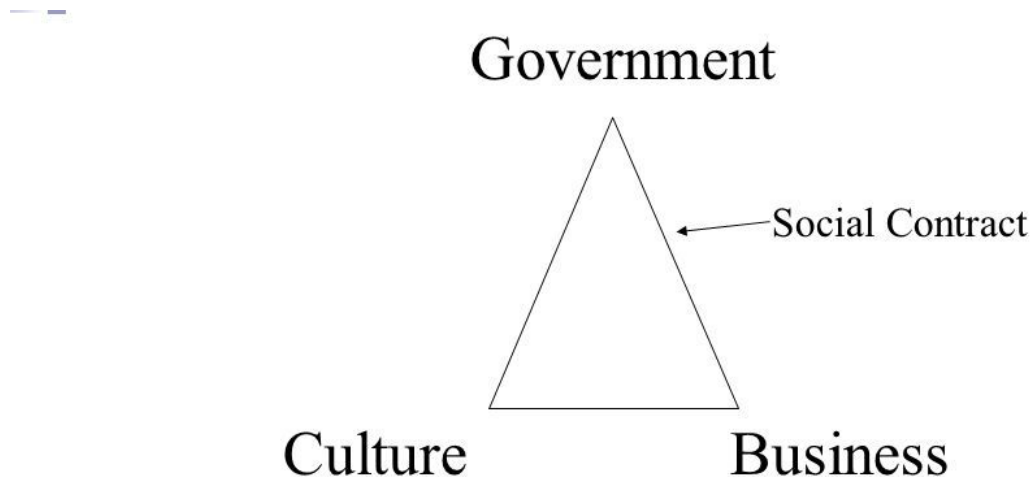
Lecture 3 - 24/09/2019

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Quick notes from last class

Quebec has collective rights vs The rest of Canada has individual rights.
A province has the right to succeed and Canada has no right to stop that.

Bolde Triangle



Social Contract: Underlying agreement between business and society [the institutions of society] on the basic duties and responsibilities business [each of the institutions] must carry out... reflected in laws and regulations [and tacit understandings] p.9.

Only until recently, partners did not be required to be a part of the corporation.
On the first half a million you only pay 20% of income tax as a business.

Forms of business ownership

Partnership

- Two or more people share ownership of a single business
- Provincial laws require that a partnership must legally register its name and give information about the partners (Except Newfoundland and Labrador)

Questions you need to ask:

1. What is the financial contribution of each partner?
2. Division of work between partners.
3. What constitutes income in the partnership
4. What property will be included in the partnership and how is it defined?
5. How will/can partnership property be used by individual partnership?
6. How will bank accounts be set up and how will accounting and tax matters be handled?
7. How will disputes related to the partnership be resolved?
8. What happens if one partner dies or becomes disabled or incapacitated?
9. What happens if one partner wants to leave the partnership?
10. How will the sale of the business be handled?

General Partnership

- Partners are not only liable in equal share for the debts of the partnership (jointly liable) but in addition each partner is liable for the full amount (jointly and severally liable)
- Each member can bind the partnership without the consent of the other partners

Limited Partnership

- Composed of one or more general partners who conduct the business, and one or more persons who contribute an amount in actual cash (special or limited partners)
- The special partner's liability is normally limited only to the amount of cash s/he contributed to the partnership

Limited Partners

- Silent partners
 - Don't wanna be part of management
- Secret Partners
 - Don't wanna be known to the general public
- Nominal Partners
 - Lend their names for public relations, but are not involved.
- Dormant Partners
 - Neither known to the public nor active in management

Advantages

- Ease of organization
- More financial resources
- Shared management
- Combined knowledge and skills
- Faster decision making
- Fewer regulatory controls

Disadvantages

- Unlimited liability
- Partners are responsible for the business activities of all others
- Division of profits
- Disagreements among partners
- Life of a partnership.

Corporation

- A corporation is recognized as a separate legal entity under the law
- A corporation can be incorporated federally or provincially
- Protects the owner or investors but can be a 'killer' to the general public.
- An artificial person under the law
- Owned by shareholders

A corporation incorporated under the laws of Canada (a federally incorporated business) can carry on business in all parts of Canada.

A private corporation

- The right to transfer shares is restricted
- Number of shareholders limited to 50
- May not sell shares, bonds, or debt instruments to the public

A public corporation

- Sells shares to the public on a stock exchange
- Is subject to stricter regulations for filing financial reports, must follow certain audit procedures
- Must file a prospectus if shares are being sold to the investing public.

Advantages

- More money for investment
- Limited liability
 - Only liable for the money you put in
- Separation of ownership from management
- Ease of ownership change
- Perpetual life
- Size
- Perceived legitimacy

Disadvantages

- Initial cost
- Paperwork
- Two tax returns
- Termination difficult
- Double taxation
- Greater expectations for social responsibility

Co-Operatives

A legally incorporates corporation that is owned by an association of persons seeking to satisfy common needs such as access to products or services, sale of their products or services, or employment.

Franchises

Top 10 franchises in Canada by 2017

1. Timmies
2. Subway
3. McDonald's Restaurants of Canada
4. JAN-PRO
5. A&W Food Services
6. RE/MAX Canada
7. Pizza Pizza
8. KFC Canada
9. Dairy Queen
10. Country Style

Franchises in Canada

- Canada has the 2nd largest franchise industry in the world
- There are 1200-1300 franchise companies operating approx 76k franchised outlets

Corporate Governance

A set of contracts and relationships between the company, its directors, its officers, and its stakeholders that ensures accountability, enhances the reliability and quality of public financial information, enhances the integrity and efficiency of the capital market and improves investor confidence.

According to the OECD [good] corporate governance

Helps to build an environment of trust, transparency, and accountability necessary for fostering long-term investment, financial stability, business integrity, thereby supporting stronger growth and more inclusive societies.

Key Players

1. Shareholders
 - a. Have the first power of authority
2. Board of directors
 - a. Make the calls, have the major decisions
 - b. Deal with governance
 - c. Elected by shareholders
 - d. Fiduciary duty
 - i. They have the duty to act in the best interest of the company
 - ii. Duties are given in trust to act in good faith.
 - iii. Equal consideration to *all* stakeholders
 - e. Duty of care
3. Officers/Senior Employees
 - a. Execute the calls.
 - b. President
 - c. COO
 - d. Management Team

Governance Failures

Governance Failures Effect

- Shareholders
- Employees
- Suppliers
- Pension funds
- Communities
- Government
- Civil society

Examples of Governance Failures

- Enron
- Worldcom
- Tyco

Moral Responsibility

Corps DO have moral responsibility

- Corporations have an organized framework of decision-making that transcends an individual's framework of responsibility
- Corporations manifest a set of beliefs and values - an organizational culture than, among other things prescribed what is right or wrong.

Case for Social Responsibility

- Businesses must satisfy society's needs
- CSR prevents public criticism and government regulation
- Business and society are interdependent
- CSR is good for the bottom line.
- Investors and consumers support CSR.
- Addressing social problems can financial opportunities (e.g. pollution abatement).

Case Against for Social Responsibility

- Profit max is the primary purpose of business
- Business is responsible to shareholders
- Social policy is the role of the government
- Business lacks training in social issues
- CSR would give too much power to business

Paper Grading

Management Case analysis

Find the roles of the Three key constituents

- People
 - The organization's human resources
- Stakeholders
 - Individuals formal and informal groups with a stake in the company
- Money
 - Follow the flow of money

State the Complicating factors

- Ethics
 - Ethical dilemmas
- Social responsibility
 - The correct amount?
- Globalization
 - The convergence of markets, organizations and ideas into an interrelated interdependent business, government and civil society landscape

Why case studies

- Case studies require
 - The application of theoretical constructs to actual scenarios - it's not about reproducing memorized concepts in the form of a "data dump"
 - Cite the knowledge from the class
- The consideration of a range of theories, concepts, subject matters and ideas
- Students to operate outside their comfort zone

What Case Studies are

1. Case studies contain information that sets a real life possible scenario
2. there is typically no clear starting point or magical footpath leading to the optimal out
3. The initial perception of the focus of the case is frequently unclear

Common errors

1. Fail to understand requirements
2. Not reading the case with precision to determine what's actually relevant
3. Misunderstanding the key issue and the supplementary issues that underlie the key issues
4. Making assumptions that are incorrect, unrelated, illogical or over-complication.
Three tests for assumptions to pass:
 - a. Given the information in the case is the assumption reasonable
 - b. Would a casual reader agree with the assumption
 - c. Would an informed reader agree with the assumption
5. Arriving at a recommendation that is not supported by the analysis
6. Misinterpreting quantitative data and/or emphasizing quantitative data while minimizing the qualitative data and/or failing to use an appropriate balance of both
7. Over-using graphics (including illustrations, tables, charts): a "Picture" is not a substitute for a well-written thoughtful explanation - "as is evident from the table above, my position is correct" - sorry, but you must analyze the 'table above' and indicate why your answer is correct!
8. Writing too much, or not enough
9. Over-emphasizing a particular component of the case
10. Not working effectively as a group (If the case study has been assigned to a group)

Typical styles

- Cases requiring responses to specific questions
- Cases that are comparatively "open-ended"