Learning Objectives (1 of 2)

Define **sole proprietorship** 'and explain the six advantages and six disadvantages of this ownership model.

Define **partnership** 'and explain the six advantages and three disadvantages of this ownership model.

Define **corporation** 'and explain the four advantages and six disadvantages of this ownership model.

Explain the concept of **corporate governance** 'and identify the three groups responsible for ensuring good governance.

Identify the potential advantages of pursuing mergers and acquisitions as a growth strategy' along with the potential difficulties and risks.

Define **strategic alliance** and **joint venture** 'and explain why a company would choose these options over a merger or an acquisition.

Explain how companies can use big data and analytics to create value and find competitive

Exhibit 5.1 Forms of Business Ownership (1 of 2)

Sole Proprietorships

- **Sole proprietorship**
  - A business owned by a single person
- **Unlimited liability**
  - A legal condition under which any damages or debts incurred by a business are the owner’s personal responsibility

Advantages of Sole Proprietorships

Simplicity

Single layer of taxation

Privacy

Flexibility and control

Fewer limitations on personal income

Personal satisfaction

Financial liability

Demands on the owner

Limited managerial perspective

Resource limitations

No employee benefits for the owner

Finite life span

    - 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
- **General partnership**
    - A partnership in which all partners have joint authority to make decisions for the firm and joint liability for thefirm’s financial obligations
- **Limited partnership**
    - A partnership in which one or more persons act as **general partners'** run the business' and have the same unlimited liability as sole proprietors
- **Master limited partnership .M L P.**
    - A partnership that is allowed to raise money by selling units of ownership to general public partnerships and can bring together business professionals with diverse skill sets and perspectives

Advantages of Partnerships

Simplicity

Single layer of taxation

More resources

Cost sharing

Broader skill and experience base

Longevity

Disadvantages of Partnerships

Unlimited liability

Potential for conflict

Expansion' succession' and termination issues

Keeping It Together: 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' criteria for admitting new partners' and dispute.resolution procedures.

Corporations (1 of 2)

- **Corporation**
  - A legal entity' distinct from any individual persons' that has the power to own property and conduct business
- **Shareholders**
  - Investors who purchase shares of stock in a 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

Advantages of Corporations

- Ability to raise capital
- **Liquidity**
  - A measure of how easily and quickly an asset such as corporate stock can be converted into cash by selling it
- Longevity
- Limited liability

Disadvantages of Corporations

Cost and complexity

Reporting requirements

Managerial demands

Possible loss of control

Double taxation

Short.term orientation of the stock market

Special Types of Corporations (1 of 3)

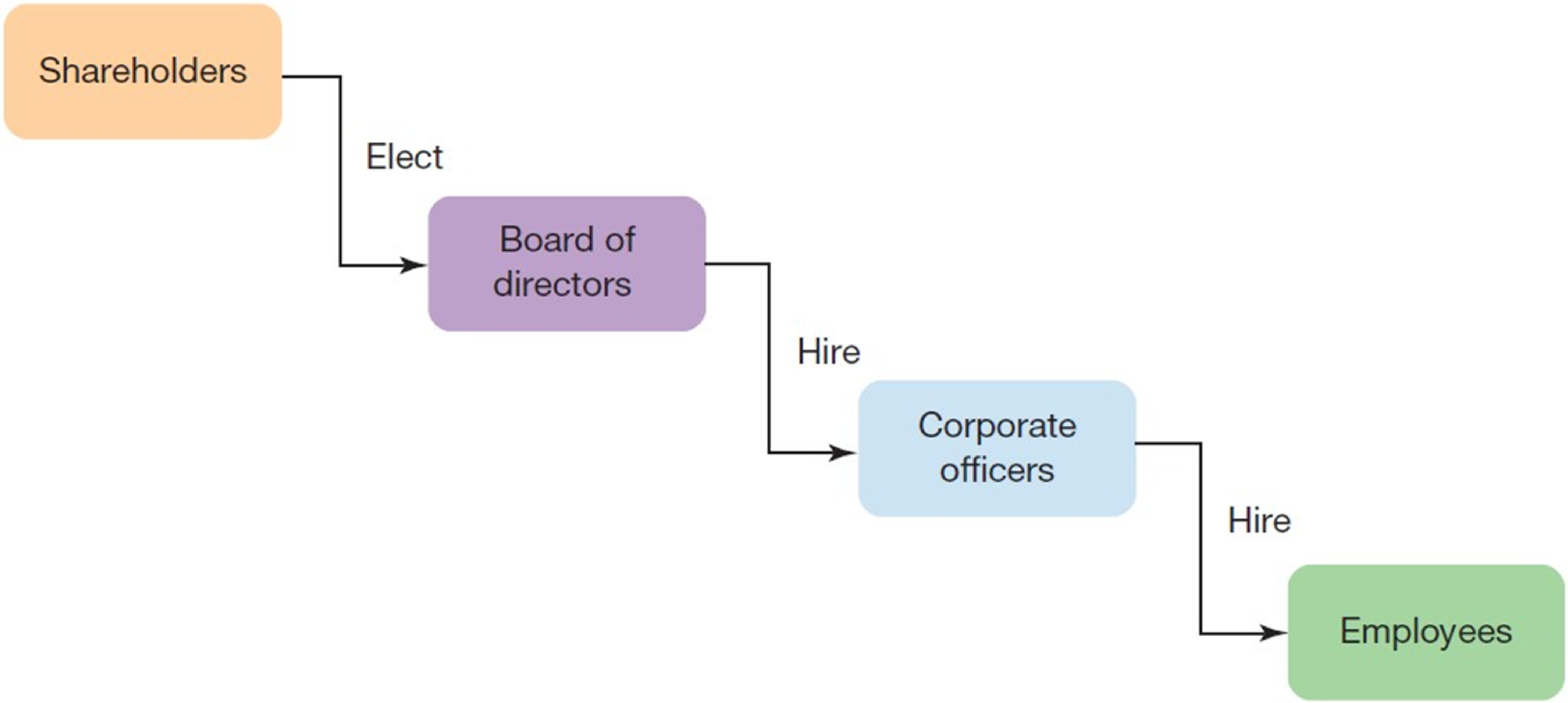
- **S corporation**
  - A type of corporation that combines the capital.raising options and limited liability of a corporation with the federal taxation advantages of a partnership
- **Limited liability company .L L C.**
  - A structure that combines limited liability with the pass.through taxation benefits of a partnership
  - The number of shareholders is not restricted' nor is members’participation in management
- **Benefit corporation**
  - A profit.seeking corporation whose charter specifies a social or environmental goal that the company must pursue in addition to profit

Exhibit 5.2 Corporate Structures (1 of 2)

Corporate Governance (1 of 2)

- **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
- **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

Exhibit 5.3 Corporate Governance



Shareholders

- **Proxy**
  - A document that authorizes another person to vote on behalf of a shareholder in a corporation
- **Shareholder activism**
  - Activities undertaken by shareholders to influence executive decision making in areas ranging from strategic planning to social responsibility

Corporate Officers

- **Corporate officers**
  - The top executives who run a corporation
- **Chief executive officer .C E O.**
  - The highest.ranking officer of a corporation

Mergers and Acquisitions (1 of 2)

- **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
- **Hostile takeover**
  - Acquisition of another company against the wishes of management
- **Leveraged buyout .L B O.**
  - 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

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

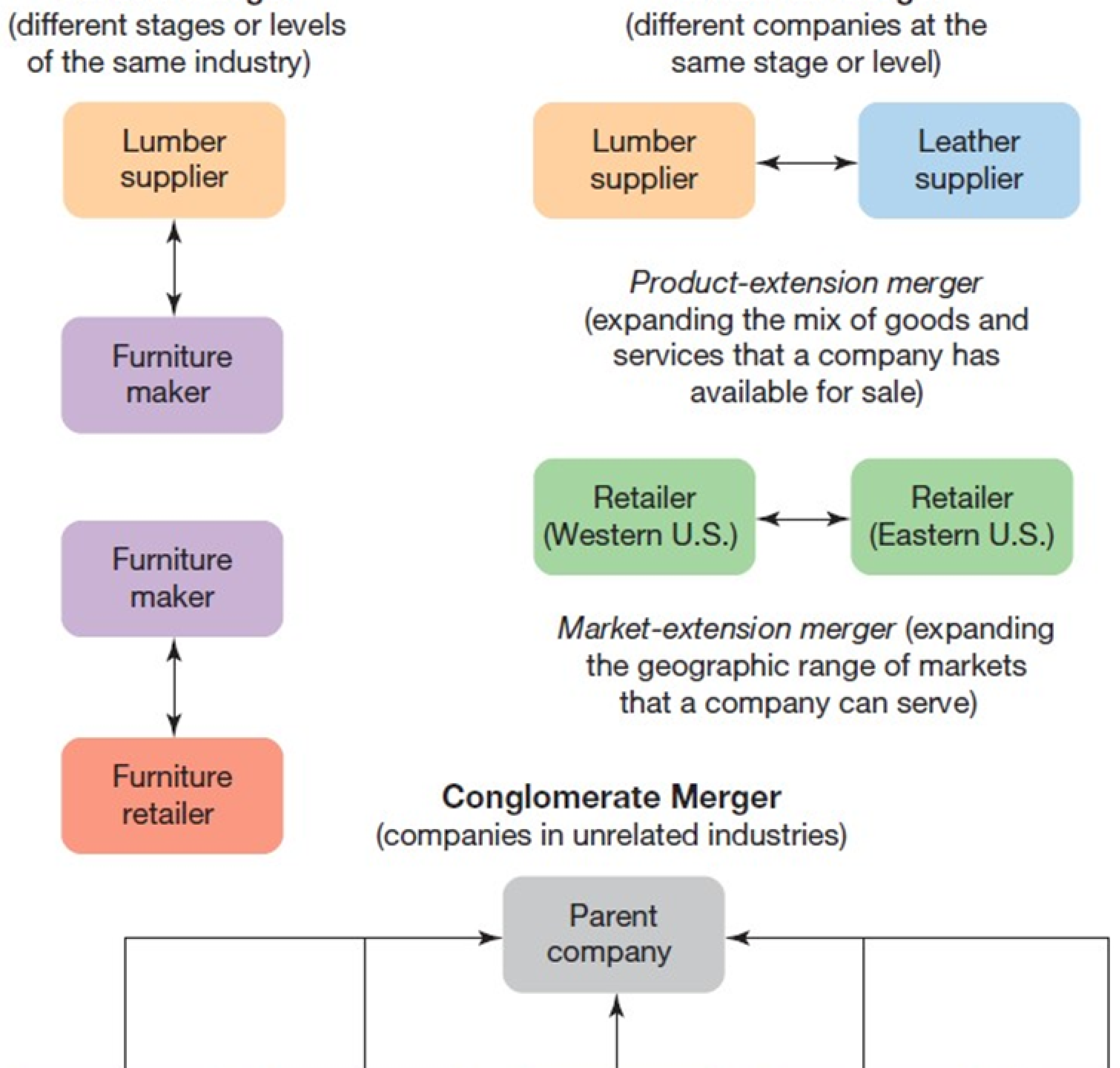
Gain access to new expertise' systems' and teams of employees

Executives have to agree on how the merger will be financed

Managers need to decide who will be in charge after they join forces

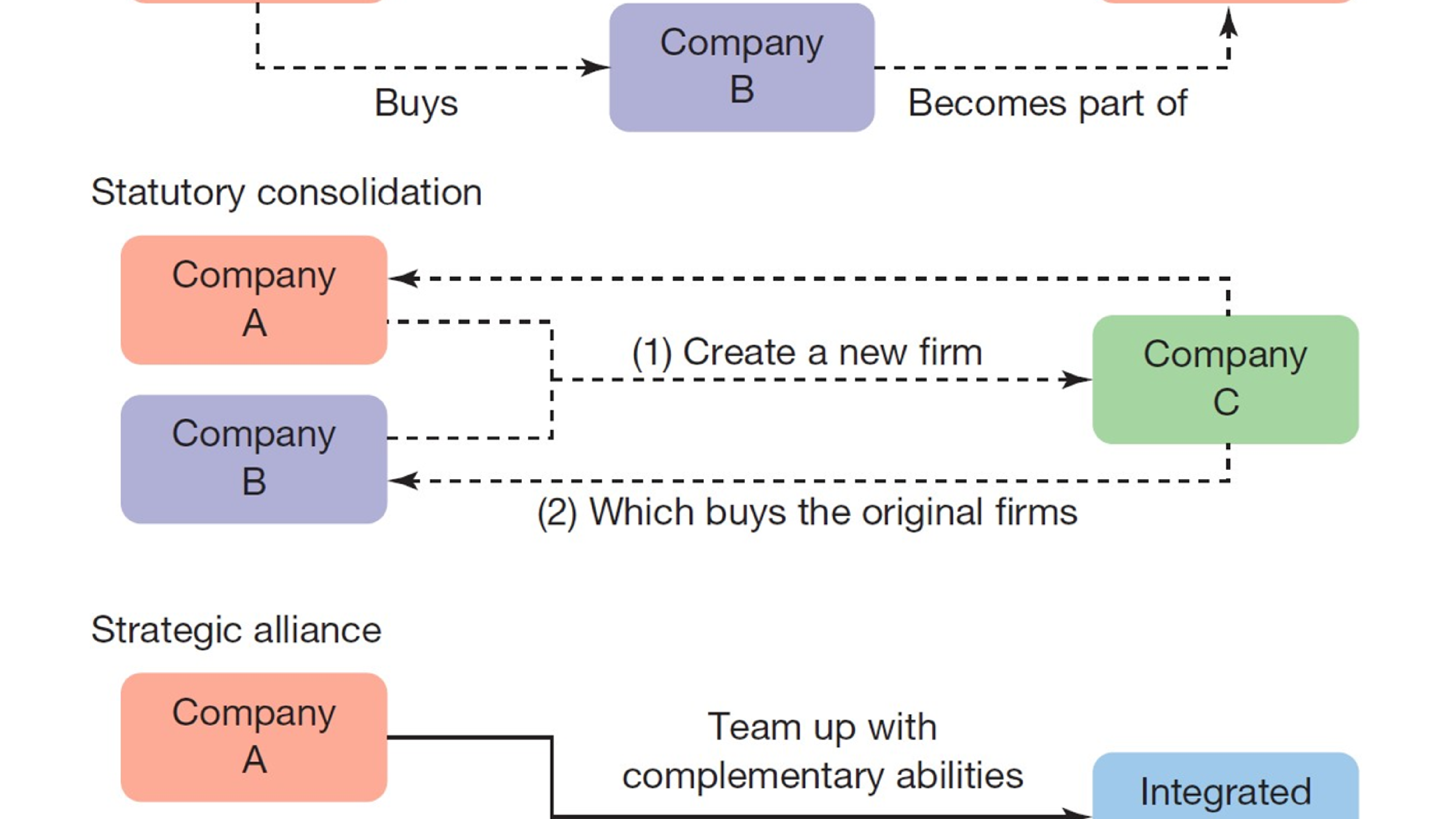
Marketing departments need to figure out how to blend product lines' branding strategies' and advertising and sales efforts

Companies must often deal with layoffs


(different stages or levels of the same industry)
(different companies at the same stage or level)
Lumber supplier
Furniture maker
Lumber supplier
Leather supplier
Product-extension merger (expanding the mix of goods and services that a company has available for sale)
Furniture maker
Furniture retailer
Retailer (Western U.S.)
Retailer (Eastern U.S.)
Market-extension merger (expanding the geographic range of markets that a company can serve)
Conglomerate Merger
(companies in unrelated industries)
Parent company

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

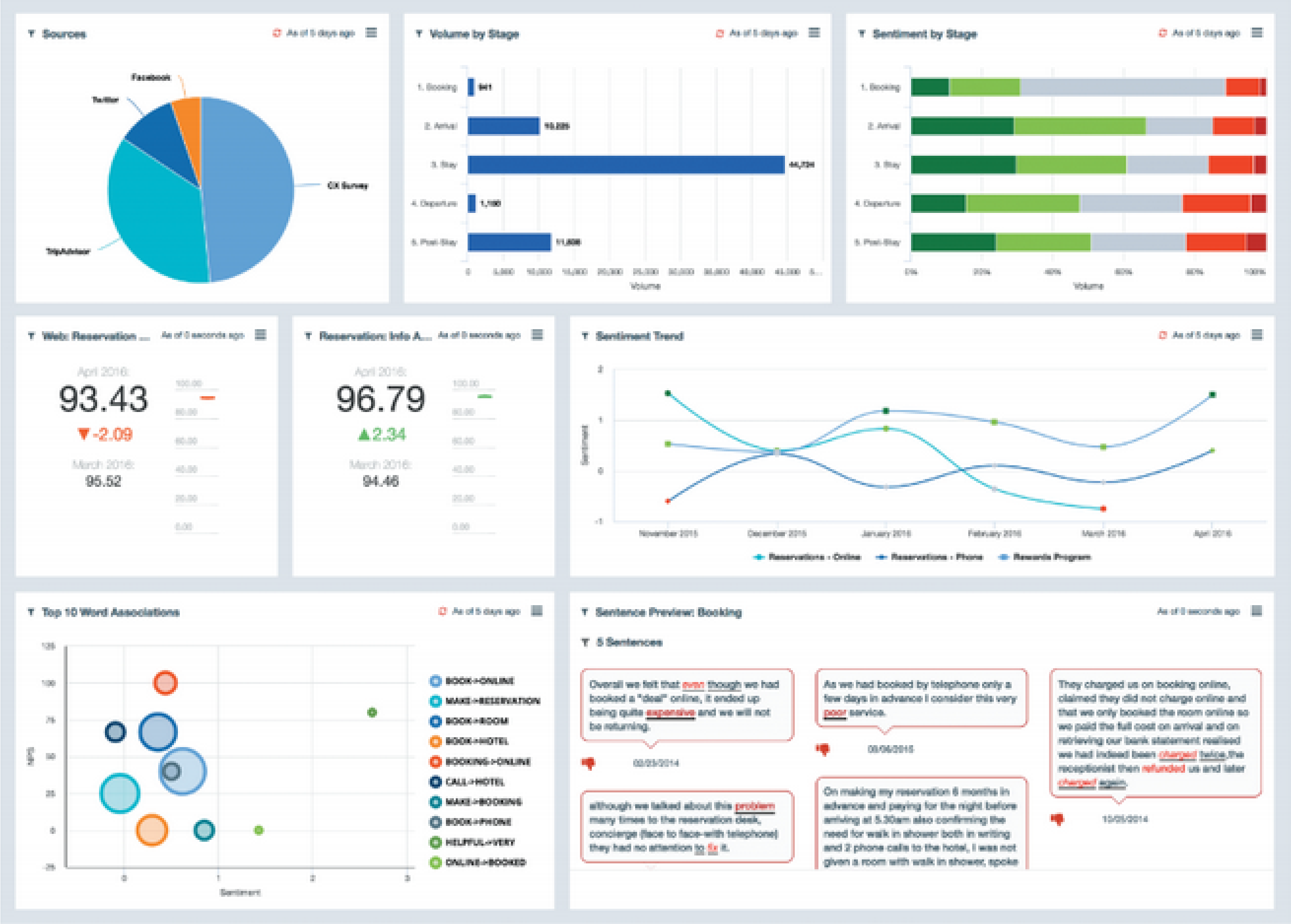


Company
B
Buys
Becomes part of
Statutory consolidation
Company
A
Company
B
(1) Create a new firm
Company
C
(2) Which buys the original firms
Strategic alliance
Company
A
Team up with
complementary abilities
Integrated

Thriving in the Digital Enterprise: Big Data and Analytics

- **Big data**
  - The massive data sets that companies collect and analyze to find important trends and insights
- **Analytics**
  - Computing tools and techniques used to analyze big data; major types include data mining' text mining' and predictive analytics

Exhibit 5.6 Big Data and Analytics



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Applying What You've Learned (1 of 2)

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