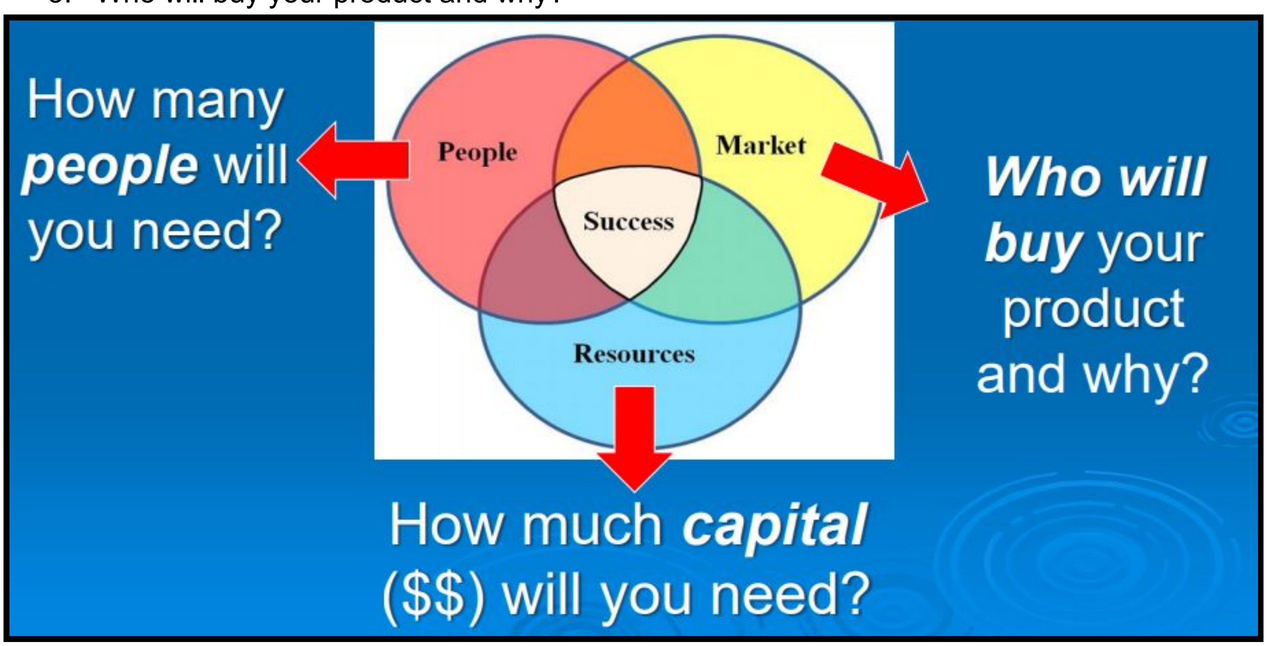
Lecture Notes:

- Recall that in Canada, anyone can start a business anytime. However, if you don't plan before starting your business, you're being foolish. Entrepreneurs are risk tolerant, not foolish or careless.
- Entrepreneurs who write a plan are 6 times more likely to start a business than those who don't.
- Would-be entrepreneurs are encouraged to write a **business plan**.
- A business plan is a document that lays out the following:
    - Everything that you need to do.
    - Everything that has to happen.
    - How much money you will need.
- Entrepreneurs write a plan before starting because:
    - They have internal locus.
      They believe that if they plan and work hard, they'll succeed.
    - They need to achieve. Entrepreneurs don't like to fail.
    - They are risk tolerant, not risk seeking.
- An entrepreneur should write a plan for him/herself (audience 1) to prove that their idea could work. Furthermore, the entrepreneur should write the business plan for investors, lenders or anyone who can help them succeed (audience 2). The business will need capital, which can be received from investors and lenders. A written plan is evidence that the entrepreneur is serious, has done the research, and is willing to work.
- There are many business plan templates online. Even the federal government has sample business plan templates. Remember that governments want full employment and growing GDP and that small enterprises create the most new jobs.
- All templates suggest a business plan address these 3 key issues:
    1. How many people will you need?
    2. How much capital will you need?
    3. Who will buy your product and why?



Note: The answers to the first two questions determine the most appropriate way to organise the business.

As you write your plan, you will discover the most appropriate way to organise the business.

- In Canada, three most common forms to organize a business:

1. Sole Proprietorship:

- A business owned by 1 person, the **sole proprietor**. However, a sole proprietor can have many employees. The key is that there's only 1 boss/owner.
- The sole proprietor supplies the capital, makes all the decisions, keeps all profits and is responsible for paying the bills.
  I.e. The sole proprietor does everything.
- Sole proprietorship is the easiest way to form a business and hence is the most common form of ownership.
- **Note:** A sole proprietor doesn't consciously set up a sole proprietorship. Sole proprietorship is just the name we academics give to a business with one owner.
- Advantages:
  - Easy to start up. No paperwork required.
  - Free to start up.
  - Ownership is clear.
- Disadvantages:
  - Limited to 1 person's skills.
  - Limited to 1 person's resources.
  - Limited to 1 person's contacts.
  - Hard to get finance.
  - Owner has **personal liability** and **unlimited liability**.
    Liability is the legal and financial responsibility to make things right, if things go wrong.
    A sole proprietor is personally responsible to pay all bills, settle any lawsuits, and pick up all the pieces if things go wrong.
    Furthermore, if you harm anyone, while conducting your business, they can take you to court and sue you.
    E.g. You set up a business, doing odd jobs. A woman hires you to replace the shingles on her roof. She will pay you $2,000. One afternoon, while performing the job, you cause an accident. If a customer sues you, the damages they seek is not limited to your investment or the value of the job or to the potential profit.

2. General Partnership:

- A business that is directly owned by 2 or more people acting together.
- **Partner:** An individual who shares ownership and management of a business.
- It's easy and simple to start a partnership. Just like sole proprietorship, there's no required paperwork.
- In law, a general partnership exists when two or more people agree to operate a business acting together.
- Advantages:
  - More human and financial resources.
  - More credibility.
  - More contacts.

- Disadvantages:
    - Conflict between the partners.
      To avoid later conflict, at the outset, partners in a business should record:
        - How much money each partner invested.
        - What each partner must do.
        - How each gets paid.
        - How profits are to be split.

      Note: It's not compulsory to record the information, but it is a good idea.
    - Like sole proprietors, general partners are personally liable and unlimitedly liable.
    - Also, general partners face **joint and several liability**. This means that each partner is responsible for debts and liabilities of the partnership, even when caused by another partner. A mistake by one of your partners means you can be sued.

      E.g. Sam and Bob start a home renovation company together. They are both partners. One day, Alice hires them to renovate her house. While working, Bob causes a fire that burns down Alice's house. Even though Bob caused the fire, Sam can still be sued.

      E.g. You set up a business, with a friend. A woman hires the 2 of you to replace the shingles on her roof. She will pay you $2,000. One day, while doing the job, your partner causes an accident. The woman will sue both of you.

      Be sure you know and trust your partners.
      Most partnerships tend to be small.
- A **partnership agreement** is an agreement between the partners. It is intended to anticipate future conflict.
- Sole proprietorships and general partnerships are appropriate for businesses that don't need a lot of capital, don't need a lot of owners and are low risk, meaning that they are unlikely to be sued.
  Examples include: Math tutors, Web developers, photographers

3. Corporation:

- The means by which backers who support the idea of a business can provide the capital without day-to-day involvement and without personal liability.
- Creating a corporation does require some paperwork, some interaction with the government and some fees.
- Formally, a corporation is an artificial being, created by an act of law, to own and operate a business.
  I.e. It is something which exists, and is recognized in the courts, because the law says so.
- Creating a corporation does require some paperwork. The founders, also known as **incorporators**, must complete some legal documents. A corporation is created by a legal authority, such as the province of Ontario.

- To create a corporation:
    - You must first complete a 4-page government form called the **Articles of Incorporation**. This includes:
        - Inventing a name.
        - Providing an address for tax purposes.
        - Identifying the **directors/founders**.
        - Indicating the number of **shares** you might sell.
        - Submit the the Articles of Incorporation + $360 to the province
    - Then, the province issues a **Certificate of Incorporation**.
      The Certificate creates the legal entity which is the corporation.
      Each province has the legal authority to create a corporation in its jurisdiction.
- A corporation can sell shares to anyone who wants to invest.
- People who buy shares are called **shareholders**. They own the corporation.
- A **share** is a piece of paper. Shares evidence ownership. 1 share = 1 vote.
  Investors will pay money for ownership.
- **Share:** An ownership stake in a corporation. The owner gets a “share” of the corporation’s profits.
- **Shareholder:** An individual who owns one or more shares in a corporation.
- **Limited Liability:** A shareholder can not be personally sued. The corporation can be sued, and the shareholder will lose the value of their investment.
- **Private Corporation/Private Company:** A corporation owned by a small group of closely connected shareholders which is not intending to sell shares to the public.
- Most corporations have just a few shareholders.
  I.e. They are family businesses.
- Family businesses incorporate for two main reasons:
    1. Limit liability: If the business is involved in activities that are dangerous or risky, the founders don’t want to be personally liable.
    2. Distribute wealth: Shares can be given to children and grandchildren.
- **Public corporations** sell their shares on stock exchanges.
- The name of a corporation must include one of:

in English	in French
Limited, Ltd.	Limitée, Ltée.
Incorporated, Inc.	Incorporée, Inc.
Corporation, Corp.	Corporation, Corp.
Company, Co.	Compagnie, Cie.

  This signifies that the business is a corporation and hence, the owners’ liability is limited.

- Advantages of incorporating:
    - Business can sell shares to interested and willing buyers.
    - Buyers can provide capital without exposing themselves to personal liability/unlimited liability.
    - Shareholders can sell/give away shares as long as the corporation continues to exist.

Note: There are several other ways to organize such as limited partnerships and co-operatives but they are much less common.

Textbook Notes (Chapter 8):

- **Writing a Business Plan:**
- A **business plan** is a written document that lays out, in black and white and in a structured fashion, all of the things that you need to do, and have to happen, if the business you are planning is to succeed.
- Entrepreneurs write business plans to test various assumptions, build models, and identify areas where more expertise and research needs to be done.
- Business plans are typically written with two audiences in mind:
    1. An entrepreneur should write the plan for themself. Its purpose is to articulate all of the known facts, assumptions, the list of tasks and resources needed, the timelines and all of the necessary forecasts so that, in proposing to open the business, the entrepreneur is not taking a leap into the dark.
    2. Next, when writing a business plan, an entrepreneur should bear in mind all of the other groups and individuals who can help them make a business a success. These include suppliers, customers, lenders, etc.
- Business plans are proof that you did research, thought about it and are serious and organized.
- Business plans should help all other interested parties, in your business, to understand what you are trying to do, why you're doing it, what you have done and not done yet, and how they can assist you.
- You can find business plan templates online, even on the Canadian government website.
- In order for a business to succeed, it need to demonstrate three key elements:
    1. The right combination of people (People)
    2. An attractive market opportunity (Market)
    3. Sufficient financial capital (Resource)
- A business plan must demonstrate that the proposed enterprise has, or can obtain, the necessary quantities of each of these.
- **The People:**
- Most investors and lenders will tell you that, when reading a business plan, they place the greatest emphasis on the people.
- When writing a business plan, one must demonstrate that they are willing to work hard, and are highly motivated. Furthermore, it is equally important that you have support and the resource of family, friends and contacts.
- A decision to land, invest or supply a new business depends entirely on the competence, credibility, and character of the people who own and control the business.
- The image of the lone entrepreneur working in isolation may be romantic, but it is a false image. Research shows that a business idea that springs from a solitary entrepreneur planning on working alone is less likely to obtain the capital that it will need than a business that is being planned by a team of people who are working together.

- **The Market:**
- All businesses begin with an idea. An entrepreneur perceives a gap in a market and believes that there is an opportunity to exploit.
- The idea can only be turned into a reality if the business can find a market. In other words, a business must identify people who need and want what it proposes to offer, and who are willing and able to buy. The business function concerned with interacting with customers and potential customers is called **marketing**.
- Businesses exist to try to satisfy customer needs and wants.
- A business plan must show that there is a market for the proposed business product.
- Desirable qualities in a market include:
    - A large number of potential buyers
    - Growing number of potential buyers
    - Potential buyers have the money to spend
    - There are no existing suppliers or existing suppliers are unsatisfactory in some way
- **Target Market - Identifying the Customers:**
- There are about 8 billion people on the earth. No business can reasonably hope to sell to every one of them.
- When entering into a market businesses must recognise that the vast majority of people will have some reason not to buy a product.
- The entrepreneur's job is to identify the people who have similar needs and wants, and are likely to buy a product. These people are known as the **target market**.
- **The Resources:**
- A business needs capital. It needs money to rent office, retail or industrial space. It needs money to pay the wages of its employees. It needs money to purchase equipment.
- Business plans should address the amount of money that it will need to start and the revenues as well as the profit it is likely to make, in order to ensure its survival.
- **Sole Proprietorship:**
- If a single individual has enough expertise, energy and capital to start and run a business without the assistance of anyone else then they may run the business on their own. In legal and business jargon, we refer to that individual as the **sole proprietor**. Sole proprietor is just another way of saying only owner.
- A business that is directly owned by one person is called a **sole proprietorship**. I.e. The name given to a business owned by a sole proprietor is sole proprietorship.
- Sole proprietorship is the simplest form of business organization in Canada and hence, is the most common form of ownership.
- A sole proprietor:
    - Supplies all of the capital to get the business started.
    - Gets to keep all profits.
    - Is responsible for all business costs and any taxes.
    - Is responsible for settling all of the business' debts and obligations.
- Sole proprietorship is the appropriate way to create a business if it doesn't need a lot of capital and the business itself is relatively simple.
- In Ontario, a sole proprietor does not need to register the business name.
- If a sole proprietor believes he has found a uniquely clever name for a business, he can choose to register the name with the Government of Ontario. For a small fee of

approximately $70 the Ontario Ministry of Consumer and Commercial Relations will search its database for matches against the proposed name. If there are no matches, the owner will be assigned his chosen name and a business identification number for a period of 5 years. Name registration is not compulsory,

- A business that is a sole proprietorship is an extension of the sole proprietor's identity. The sole proprietor pays all of the business' costs out of pocket. If, at the end of the year, the business has been a success, the sole proprietor counts the profits as personal income and pays personal income tax.
- Simplicity is sole proprietorship's principal advantage.
- The disadvantage is the fact that all costs, expenses and liabilities are the owner's, and the owner's alone. In law, **liability** is the legal and financial responsibility for something.
- A sole proprietor is **personally liable** to pay all of the business' costs and settle all of its obligations. The sole proprietor must pay all employee wages, suppliers' invoices and any taxes owing, even if the business is no longer operating. If the business' activities lead to a dispute with a supplier or a customer, the sole proprietor may even find themself in court. **Personal liability** is the sole proprietor's personal responsibility to pay all of the business' costs and settle its obligations.
- Furthermore, if the business' activities lead to a dispute with a supplier or a customer, the sole proprietor may even find himself in court. Because of personal liability, an entrepreneur who is considering a business that involves any chance of risk or danger should consider carefully before organising the business as a sole proprietorship.
- **Unlimited liability** means that there is no limit to the amount that a sole proprietor might have to pay in compensation or damages. A sole proprietor's liability is not limited by the size of his investment in the business.
  Not only is the liability not limited by the size of the investment, it is also not limited to the profit or the value of the job.
- Other disadvantages of a sole proprietorship are:
  1. The owner might get sued or that the business fails, leaving a large number of legal and financial obligations which will need to be settled.
  2. A single individual has a limited supply of capital.
  3. If all the skill and expertise in the business resides in one individual, if that individual passes away, there will be nobody to continue the business.
- **General Partnership:**
- A **general partnership** is a business that is directly owned by two or more individuals who agree to act together.
- Just like a sole proprietorship, no particular legal or accounting procedure is required to create a partnership.
- A **partner** is an individual who shares in the ownership and management of a business enterprise, and who shares liability for the business' debts and obligations.
- If an entrepreneur lacks the talent, energy or capital to operate a business as a sole proprietor, this where a general partnership comes in handy.
- While it is not necessary, most business experts advise individuals who are forming a general partnership to draw up a **partnership agreement**. A **partnership agreement** is a document that spells out their obligation to the business and to each other.
- The purpose of a partnership agreement is to record key facts and agreements between the partners and to forestall any misunderstandings or disputes at a later date.
- Here are some things to address in a partnership agreement:
  1. How much capital each partner invested in the business.

2. How the partners will divide decision making and voting power.
3. Each partner's responsibilities.
4. How much each partner will be paid.
5. How the profit, if any is made, will be divided.
6. The procedures for breaking partnership.
7. The mechanism for how disputes should be resolved.

- Some advantages of general partnerships are:
  1. **They are simple and inexpensive to create.** Many partnerships are created through the simple act of a verbal agreement or a handshake. As a consequence, a partnership can be formed at little or no cost. In theory, the cost of creating the partnership itself could be nil.
  2. **There are more sources of capital.** The bringing together of two or more partners can bring more money into the business in absolute terms. In addition, the business will benefit from the fact that the physical capital is being pooled and shared.
  3. **There is more management talent.**
  4. **It is a way to reward valuable employees.**
- While these advantages are apparent, a partnership's main disadvantage and the main reason that partnerships go out of business is equally apparent. The partners fall out as a result of disagreements as to how to run the business.
- Another disadvantage of general partnerships is **joint and several liability**. This means that an undertaking or an obligation made by one partner in a business is binding upon all of the other partners.
- Just like sole proprietors, partners are personally liable for the obligations of the business. Just like sole proprietors, this personal liability is unlimited.
- There is no legal limit to the number of partners that can share ownership in a business. However, the issue of joint and several liability, to some extent, puts a practical limit on the number of partners who choose to collaborate. Partners who share the financial and legal responsibility for a business will want to know each other, trust each other, and work together well.
- This does not prevent a few partnerships from becoming very large. While each of the partners might not be personally acquainted, the effect of having many hundreds of people sharing and dividing liability would mean that the chance of any one partner being financially wiped out would be limited.

Textbook Definitions:

- **Business plan:** The written document that lays out, in black and white and in a structured fashion, all of the things that you need to do, and have to happen, if the business you are planning is to succeed.
- **General partnership:** A business that is directly owned by two or more individuals who agree to act together.
- **Joint and several liability:** An undertaking or an obligation made by one partner in a business is binding upon all of the other partners.
- **Liability:** The legal and financial responsibility for something.
- **Marketing:** The business function concerned with interacting with customers and potential customers.
- **Partner:** An individual who shares in the ownership and management of a business enterprise, and who shares liability for the business' debts and obligations.

- **Partnership agreement:** A document that spells out their obligation to the business and to each other.
- **Personal liability:** The sole proprietor's personal responsibility to pay all of the business' costs and settle its obligations.
- **Sole proprietor:** Someone who starts and runs a business on their own.
- **Sole proprietorship:** A business which is directly owned by one person.
- **Target market:** The people who have similar needs and wants, and are most likely to buy a product.
- **Unlimited liability:** There is no limit to the amount that an injured party may seek in damages. A sole proprietor's liability is not limited by the size of his investment in the business.

Textbook Notes (Chapter 9):

- **Business Structures That Allow for Many Owners:**
- Societies need ways of organizing enterprises that require more capital than a single individual, or even 2, 3 or 4 partners acting together, could reasonably raise.
- In addition to the many small businesses people need, they also need the goods and services of large and capital intensive businesses.
- **Limited Partnerships:**
- A **limited partnership** is a form of partnership that allows for two classes of partners: general and limited.
- A limited partnership must have at least one **general partner**, but there can be more. A general partner in a limited partnership is in the same legal position as in a general partnership. The general partner participates in running the business on a day-to-day basis, directs the partnership's employees and resources and makes decisions on behalf of the business.
- The cost of having decision making authority is that general partners have joint and several liability for the debts and obligation of the partnership. That means they can be personally sued.
- In limited partnerships, a general partner is sometimes referred to as the **principal**. The **principal** is an individual who has the authority to hire and instruct others to act on behalf of a business, and who bears the liability and responsibility.
- In contrast to a general partner, a **limited partner** is an individual who puts capital into a business and shares in the profit, but who takes no role in the day-to-day management or decision making. They usually receive a stated return from their investment, normally a share of the profits, as spelled out in a partnership agreement.
- The limited partners, who are explicitly barred from having any decision making authority have **limited liability**. **Limited liability** is an individual's responsibility or obligation relating to a business is limited to the amount of the capital that they provided. If the business is sued, someone with limited liability can lose only the value of his or her capital.
- A limited partnership is an appropriate way to organize a business if one or more of the general partners has the skills and contacts to successfully run a business, but lacks sufficient capital to do so.
- To create a limited partnership in Ontario, the general partner(s) must comply with the Limited Partnership Act.
- Limited partnerships are often used when the business is focused on a single or limited duration project.

- The general partner remains in operational control of the project and bears unlimited personal liability.
- **Corporations Explained:**
- Corporations are often referred to as “artificial beings”.
- This means that a corporation is an entity that is created on paper, by an act of law, which has many of the same rights and responsibilities as a human being.
- The US Supreme Court ruled that corporations are “people”.
- In London, UK, corporations can vote.
- A **corporation** is a legal entity created to own and operate a business, which has the most of the same rights and responsibilities as a human being.
- **How Corporations are created:**
- Corporations come into existence when one or more individuals conceives of a business enterprise, and then looks for the most appropriate way to create it.
- Some enterprises may be too costly or too risky for any one individual to create, manage, and supply all the capital themselves. This is why the law makes provision for people to come together and make an application to the government for the creation of a corporation. This corporation will raise all of the capital, hire all of the labour, purchase all necessary resources, etc.
- Individuals who want to create a corporation are known as **incorporators**.
- Incorporators can apply to create a corporation in any of the Canadian provinces or territories, or it can be created as a federal corporation. Typically, corporations are usually created in the province in which the incorporators live and intend to operate the business.
- Provincial corporations can carry on business only in the province or territory of incorporation while federal corporations have the ability to carry on business anywhere in Canada.

  I.e. An Ontario corporation can only operate in Ontario. If the business wants to expand into Quebec, additional paperwork is needed.
- The essential steps to creating a corporation are:
  1. **Choose a name for the corporation.** There are a few restrictions on the name that may be given to a corporation. One cannot use words that imply the business is connected with the Crown, the Government of Canada or any provincial or territorial government.
  2. **Conduct a name search.** This search confirms that no one else is already using the same or a similar name that you want to use. The government must be provided with evidence that a name search was conducted. In Ontario, this is done using a database, the NUANS(New Upgraded Automated Name Search).
  3. **Complete the articles of incorporation.** In most Canadian jurisdictions, corporations are created by completing a document called the **Articles of Incorporation**. The articles of incorporation cover a few basic issues such as:
     a. The location of the corporation’s registered office.
     b. Any restrictions on the types of activities that the corporation can conduct.
     c. The number of shares to be sold to investors once the corporation is created.
  4. **Submit the paperwork and pay the fee.** In Ontario, the fee is currently $360.
  5. **The province issues the Certificate of Incorporation.** The **Certificate of Incorporation** is, in effect, the birth certificate of the Corporation. The

government's authorization that a legal organization has been created, which conducts a business under its own name.

- **Ownership of a Corporation - Shares and Shareholders:**
- Once created, the corporation can begin to sell **shares**. In form, a **share** is just a piece of paper. What it represents is evidence that someone has an ownership stake in a corporation and is therefore entitled to a share of the corporation's profits.
- Typically, one acquires shares by contributing capital to a corporation. However, the founders and employees of a corporation may receive shares as reward or compensation for services.
- The person who owns this share certificate owns a part of the corporation.
- The name given to any individual or organization who owns shares in a corporation is **shareholder**.
- Shareholders have **limited liability**. Limited liability is the term that signifies that an individual's financial responsibility for the business is limited to the amount of capital that they have provided. If the business is sued, a shareholder in a corporation can lose only the value of his or her capital. The corporation itself, which is a separate legal entity, remains unlimitedly liable.
- **Corporations - Permanent Existence:**
- An important feature of the corporation is that, if the original entrepreneurs or investors depart, whether to pursue other opportunities or through death, the corporation, as a distinct legal entity, can continue.
- Canada's oldest corporation remains one of its best known businesses. The Hudson's Bay Corporation was created in 1670 to run a fur trading empire. Today, it continues to provide Canadians with the things that they need and want as the country's largest chain of department stores: Hudson's Bay.
- **Organizing the Corporation - Directors and Officers:**
- While a corporation is a legal entity unto itself, both the tax authorities and the shareholders themselves need to have human beings to turn to, for information. Therefore, the shareholders, as the owners of the corporation, elect **directors**.
- **Directors** are individuals elected by the shareholders of a corporation to represent their interests, and to administer the affairs of the corporation.
- The **board of directors** is the collective group elected by the shareholders of a corporation to represent their interests, and to administer the affairs of the corporation. It is commonly known as "The Board".
- Any corporation in Canada, in no matter whichever province, must have a majority of directors who are residents in Canada.
- Finally the directors need to appoint the corporation's **officers**. **Officers** are the people who hold the senior management positions within the corporations.
- In Canada, in all jurisdictions, a corporation must have two officers, a president and a secretary.
- Here is a summary of the last few pages:
    - The corporation is a legal entity, created by the province.
    - The corporation is owned by one or more people who have purchased, or been given, shares.
    - Not all shareholders have the interest or expertise to run the corporation on a daily basis.
    - Hence, the shareholders elect directors to represent them.
    - Finally, the corporation has officers to perform high-level managerial work.

- **Buying and Selling Shares:**
- Anyone can buy shares in a corporation, as long as they are for sale.
- A corporation does need not sell shares if it still has all the capital that it needs to undertake its operations.
- Corporate form of an organization is intended to allow the entrepreneurial team to raise capital by selling shares, but they are not compelled to do so.
- **Dilution** is a decline in the proportion of shares owned by existing shareholders, as a result of new shareholders injecting new capital into a corporation. Dilution should not be viewed as something negative.
  E.g. In 1986, Bill Gates owned 49% of Microsoft. Today, he owns just under 4%.
- **Private VS Public Corporations:**
- Most corporations are created with little intention of selling shares to outside investors. They are created with the other advantages of corporations in mind. Principal among these is the limitation of liability. A corporation provides investors, even if there are only one or two of them, with limited liability.
- When a business incorporates, the law stipulates that it must contain one of the following words or abbreviations in its name: “corporation”, “incorporated”, “limited”, “company”, “Inc.”, “ltd” and “co.” These words communicate the fact that the owners and managers have limited liability and may not be personally sued for accidents, obligations or offences caused or incurred by the corporation.
- Some reasons that small business incorporate are:
  1. The owners cannot be personally sued.
  2. A corporation's permanence. This is often the case with family businesses. When the head of the family business dies or retires, some or all of their shares can be left to survivors or successors.
  3. In small businesses, shares can be given to particularly valuable employees, or loyal lieutenants.
- A **company** is a synonym for corporation, which denotes an organization that has been incorporated.
- A **private corporation/private company** is a corporation that is owned by a small group of closely connected shareholders (e.g. family members) and which does to intend to offer shares to the wider public.
  An example of a private corporation is a family business.
- Corporations that do make their shares available to the general public are called **public corporations/public companies**.
- In order to become a public company a business must go to additional effort and expense.
- **Corporations - Costs and Disadvantages:**
- While the procedures for creating a corporation are not intended to be either complex or expensive, it does require most paperwork and more paperwork and more costs than creating other forms of business organization.
- Since the corporation is a legal entity distinct from its shareholders, the law stipulates that corporations must have a minimum level of specified supervision and oversight. A corporation must have elected directors. Furthermore, the law stipulates that the majority of the directors be Canadian citizens. Lastly, the corporation must appoint certain officers whose responsibilities are mandated by law.
- Corporations must file their own taxes, separate from any taxes that must be paid by the shareholders.

- If the corporation makes a profit, it must pay income tax.
- If after paying tax, the corporation returns any profit to the shareholders, the shareholders must pay tax on their personal income.
- This is the cost of owning a business indirectly, as opposed to sole proprietors or partners, who own a business directly.
- **Co-operative Societies:**
- The criticism most commonly made about corporations is the same criticism made about capitalism in general: corporations are business structures designed by the rich, to protect the interests of the rich and intended to make the rich even richer.
- The corporate form of organization allows the owners with the most shares to act in their own interests, even if those interests are counter to the interests of their employees or customers.
- A **co-operative** is a business owned by the people who use its services and whose benefits are derived and distributed equitably on the basis of use.
- A co-operative is frequently put forward as the solution to this perceived weakness of the shareholder-owned corporation.
- In many ways, co-operatives resemble many other businesses. They have many similar physical facilities, perform similar functions and must follow sound business practices. They are also usually incorporated under provincial law. In Ontario, co-operatives are created by following the procedures laid down under the Ontario Co-operative Corporations Act.
- Co-operatives are different from other businesses in purpose, in the distribution of ownership and in the way that profits are allocated.
- All co-operatives have 3 guiding principles. The first of which is that a business should be owned by the people it serves.
- **You Must Use the Co-operative in Order to Become an Owner:**
- You must use the co-operative before you can become one of its co-owners, and you must be a co-owner in order to be a customer. Therefore, a co-operative is designed to balance the interests of customers with the interests of the business' owners.
- The user-owners of a co-operative are called **members**. A **member** is an individual who has purchased part ownership in a cooperative, and has the right to use its services.
- As owners, a co-operative's members control its activities. This control is exercised through voting at an annual and other membership meetings, and by electing the co-operative's Board of Directors.
- **Democratic Control of the Business:**
- The second principle of co-operative organization is democratic control. Each member gets one vote regardless of the amount of money they may have contributed or how much they patronize the organization.
- Unlike corporations, no one owner can become the majority owner of a co-operative.
- This principle is intended to ensure that the business benefits the entire community of member-users in equal measure.
- **The User Benefits Principle:**
- The third principle of a co-operative business is that the people who use the co-operative the most, benefit the most.
- The members of a co-operative share any profits on the basis of each member's participation with or contribution to the business. This is in contrast with corporations where profit is generally divided according to the shareholder's capacity to provide the business with capital.

- The **user benefits principle** states that the members of a co-operative share any profits on the basis of each member's participation with or contribution to the business.
- **The Earliest Modern Co-operative:**
- The first successful co-operative was the Rochdale Society of Equitable Pioneers, founded in 1844 in Rochdale, England.
- **Consumer Co-operatives and Producer Co-operatives:**
- There are two principal forms of co-operative society:
    1. **Consumers' Co-operative:** Consumers' co-operative run retail stores. By purchasing merchandise directly from wholesalers or distributors, consumers' co-operatives can charge their members less than a profit-driven store.
    2. Producer Co-operative: These produce and sell goods using machinery and equipment purchased by the co-operative. Producer co-operatives are common in the agriculture sector.
- The purpose of both consumer and producer co-operatives is to give members access to products or services that would otherwise not be available or affordable. Acting together gives members the advantage of economies of size and bargaining power.
- **The Patronage Refund System:**
- Although a key aim of co-operatives is to provide goods and services more cheaply than profit driven businesses, this is not done on a transaction-by-transaction basis. Co-operatives usually charge the market price for the goods and services furnished to members. This is intended to allow the co-operative to put capital back into the business for its growth and continued improvement.
- **Patronage refunds** are the profits earned by a co-operative business which are returned to the co-operatives members, in proportion to the business that each member represents of the co-operatives total revenues.
- **Limitations of Co-operative Societies:**
- The success of a co-operative depends on the loyalty and commitment of its members, something that is neither assured nor can be enforced.
- Co-operatives tend to have limited capital because membership is generally confined to a particular locality or section of the society. This puts limits on the co-operatives ability to grow, to develop new products and services, or improve existing products or services.
- **Modern Day Examples of Co-operatives:**
- Mountain Equipment Co-op (MEC)
- Home Hardware
- Real Madrid
- FC Barcelona

Textbook Definitions:

- **Articles of incorporation:** The document that provides basic information that must be submitted to the relevant jurisdiction, in order to create a corporation.
- **Board of directors:** The collective group elected by the shareholders of a corporation to represent their interests, and to administer the affairs of the corporation.
- **Certificate of incorporation:** In effect, the birth certificate of the Corporation. The government's authorization that a legal organization has been created, which conducts a business under its own name.
- **Company:** A synonym for corporation, which denotes an organization that has been incorporated.
- **Co-operative:** A business owned by the people who use its services and whose benefits are derived and distributed equitably on the basis of use.

- **Corporation:** A legal entity created to own and operate a business, which has the most of the same rights and responsibilities as a human being.
- **Dilution:** A decline in the proportion of shares owned by existing shareholders, as a result of new shareholders injecting new capital into a corporation.
- **Directors:** Individuals elected by the shareholders of a corporation to represent their interests, and to administer the affairs of the corporation.
- **Incorporators:** The individuals who create a corporation.
- **Limited liability:** An individual's responsibility or obligation relating to a business is limited to the amount of the capital that they provided. If the business is sued, someone with limited liability can lose only the value of his or her capital.
- **Limited partner:** An individual who puts capital into a business, and shares in the profit, but takes no role in management or decision-making.
- **Limited partnership:** A form of partnership that allows for two classes of partners: general and limited.
- **Member:** An individual who has purchased part ownership in a cooperative, and has the right to use its services.
- **Officer:** The people who hold the senior management positions within the corporations.
- **Patronage refunds:** The profits earned by a co-operative business which are returned to the co-operatives members, in proportion to the business that each member represents of the co-operatives total revenues.
- **Principal:** An individual who has the authority to hire and instruct others to act on behalf of a business, and who bears the liability and responsibility.
- **Private corporation/private company:** A corporation that is owned by a small group of closely connected shareholders (e.g. family members) and which does to intend to offer shares to the wider public.
- **Public corporation/public company:** Corporations that do make their shares available to the general public.
- **Share:** An ownership stake in a corporation. The owner is entitled to a share of the corporation's profits.
- **Shareholder:** Any individual or organization who owns shares in a corporation.
- **User benefits principle:** The members of a co-operative share any profits on the basis of each member's participation with or contribution to the business.