Chapter 1 Forms of Business Ownership
企业产权形式

Businesses can be classified according to different criteria, such as value, number of employees, ownership, etc. In this chapter, we will give you a basic idea of forms of business ownership.

When people decide to go into business, they must first choose the type of business ownership they want to enter. They may form their own businesses, start partnerships,

or work in other people's businesses. Throughout this chapter, we not only present the basic forms of business ownership, but also discuss the advantages and disadvantages of each form. We begin with sole proprietorships, followed by partnerships (general, limited) and joint ventures. We then discuss corporations, limited liability companies and mergers and acquisitions. We conclude by examining franchises.

If you are planning to go into business, you need to review these pros and cons and determine which form of ownership meets your needs, style, and talents.

LEAD-IN ACTIVITIES

How many Chinese and foreign companies can you name? What is your most admired corporation? What company do you wish to work for? The following are some of China's power brands. Do you know what form of ownership they are? Then sort them out.

Gome Electrical Appliances 国美电器有限公司
Haier Group 海尔集团
Hangzhou Wahaha Group Co. 杭州娃哈哈集团公司
TCL Corp. TCL 集团
Lenovo Group Ltd. 联想集团有限公司

Li-Ning Co. Ltd. 李宁有限公司

Galanz Group Co. Ltd. of Guangdong 广东格兰仕集团有限公司

Tsingtao Beer 青岛啤酒

Bird 波导

YongHe King Co., Ltd. 永和大王

Panda Electronics Group Company, Ltd. 熊猫电子集团有限公司

Hisense Electric Co. 海信电器公司

Geely Auto 吉利汽车

Huawei Technologies Co. 华为技术公司

Tiger 老虎打火机

Guangdong Kelon Electrical Holdings Co. 广东科龙电器股份有限公司

Colgate-Sanxiao 高露洁三笑有限公司

Shanghai GM 上海通用

The People's Insurance Company of China (PICC) 中国人民保险公司

Amoisonic Electronic Company Limited 夏新电子股份有限公司

Guangzhou-Honda 广州本田

Shanghai-Volkswagen 上海大众

Sole Proprietorships 个人企业

个人企业即独资经营企业，是由一名出资者单独出资并从事经营管理的企业。

Many people desire to be their own boss. A sole proprietorship accomplishes this goal. You can begin a word processing service out of your home, open a car repair center, start a restaurant, or go about meeting other wants and needs of your community. An organization that is owned, and usually managed, by one person is called a **sole proprietorship**. There are an increasing number of sole proprietorships in China. The sole owner, often aided by one or two employees, operates a small shop that frequently caters to a group of regular customers. The owner through personal wealth or borrowed money normally provides the capital needed to start and operate the business.

The sole proprietor is usually an active manager, working in the shop every day. He or she controls the operation of the business, supervises the employees, and makes the decisions. The managerial ability of the owner usually accounts for the success or failure of the business. The sole proprietor owns all the assets of the business and the profits generated by it. He or she also assumes complete responsibility for any of its liabilities or debts.

Owning a sole proprietorship has several advantages and disadvantages.

Advantages

One of the advantages of being a sole proprietor is that you can be your own boss. “Working for others simply does not have the same excitement as working for yourself.” That’s the way sole proprietors feel. You can make business decisions without having to ask anyone else. You also get to keep the profits from the business and have the freedom to wind up your business whenever you want. A sole proprietorship is the easiest form of business to start. All you have to do to start a sole proprietorship is to buy or lease the

needed equipment and put up some announcements saying you are in business. You may have to get a permit or license from the local government. There is nothing like the pleasure of knowing that you can earn as much as possible and do not have to share that money with anyone else.

Disadvantages

Owning a sole proprietorship also has disadvantages. It is often difficult for the owner to raise capital. The owner is personally responsible for all aspects of the business. He/She has *unlimited liability* (无限责任). If the business is being sued, so is the business owner. If the business owes money, the business owner is responsible for the debts, and the owner may have to use personal assets to pay. If the owner cannot pay the debts of the business, he or she may have to claim personal bankruptcy. Another disadvantage is that the owner must spend long hours working. The owner of a store, for example, may put in 12 hours a day, seven days a week, almost twice the hours worked by a salaried labourer. The only way to transfer ownership of a sole proprietorship is to sell the entire business to someone else. Otherwise, the life of the business ends when the sole proprietor dies. It is also difficult to hire and keep high-achievement employees. If you are your own boss, you lose the *fringe benefits* (附加福利) that come from working for others. You have no automatic health insurance, no disability insurance, no sick leave, no vacation pay, and so on.

Questions for Discussion

1. Why would unlimited liability be considered as one of the biggest drawbacks to sole proprietorships?
2. Why is the sole proprietorship the most popular form of business ownership?

Partnerships 合伙企业

合伙企业是由二人以上组成，各合伙人之间订立合伙协议，共同出资、合伙经营、共享收益、共担风险，并对合伙企业债务承担无限连带责任的赢利性组织。

Many people do not have the money, time, or desire to run a business on their own. They prefer to have someone else or some group of people get together to form the business. **A partnership** is a legal relationship between persons carrying on a profit-motivated business. It may be a partnership between two people, or among thirty; the law doesn't set a limit on how many partners may be involved. The three key elements of any general partnership are (1) common ownership, (2) shared profits and losses, and (3) the right to participate in managing the operations of the business.

There are two types of partnership. The most common type is the general partnership. A **general partnership** (普通合伙) is a business with at least one general partner who has unlimited liability for the debts of the business. Regardless of the percentage of the business they own, general partners have authority to act and to make *binding* (有约束力的，附有义务的) decisions as owners of the business. The general partner may be liable for all the debts of the business. Partners generally share profits and losses according to a plan specified by agreement between them. With the authority of acting as an owner, each general partner can engage the partnership in binding agreements. Unless a partnership agreement prevents a general partner from making such agreements, the partnership is responsible for all actions of each owner.

A **limited partnership** (有限合伙) is an arrangement where a person can contribute to a business without being involved in the affairs of the partnership. A limited partnership includes one or more general partners and one or more limited partners. The general partners arrange and run the business, while the limited partners are investors only. The limited partners take no part in the management of the firm or act on behalf of the company. A limited partner's

liability to the firm or its *creditors* (债权人) is limited to the amount he/she invests in the firm. For example, if a limited partner invests $30,000 in the business, he/she is liable for only that amount. However, it is a good idea to put a partnership agreement in place because it will outline issues such as how the profits or losses will be divided among the partners, and it will describe any limits to the legal responsibility of the partners.

Being a partner in a partnership has several advantages and disadvantages.

Advantages

There are two main advantages to forming a partnership. Firstly, a partnership allows two or more people to work together and bring different skills and resources to the business. For example, one partner may be good at marketing; the other may be expert at accounting and financial matters. Combining these skills could provide a greater chance of success. Secondly, when two or more people pool their money and credit, it is easier to pay the rent, utilities, and other bills incurred by a business. A limited partnership is specially designed to help raise capital. Some of the people who are enjoying the advantages of partnerships today are doctors, lawyers, dentists, and other professionals. Some people find that the best partner is a spouse. That is why you see so many husband-and-wife teams managing restaurants, service shops, and other businesses.

Disadvantages

There are four main disadvantages to forming a partnership. Firstly, because the partnership is not considered to be separate from its owners, the partners are personally responsible for liabilities of the partnership. If the business fails, the partners will be personally responsible to pay all of the debts and obligations of the partnership. That means if you are a partner in a partnership you are liable for your partners' mistakes as well as your own. Like

a sole proprietor, general partners can lose their homes, cars, and everything else they own if the business were to be sued by someone or to go bankrupt.

Secondly, there exists division of profits. Sharing the risk means sharing the profit, and that can cause conflicts. For example, two people form a partnership; one puts in more money and the other puts in more hours. Each may feel justified in asking for a bigger share of the profits. Imagine the resulting conflicts.

Thirdly, there may be disagreements among partners. Disagreements over money are just one example of potential conflicts in a partnership. Who has final authority over employees? Who hires and fires employees? Who works what hours? What if one partner disagrees? Potential conflicts are many. Because of such problems, all terms of partnership should be *spelled out* (清楚地说明) in writing to protect all parties and to minimize misunderstandings.

Fourthly, it is usually difficult to terminate. Once you have committed yourself to a partnership, it is not easy to get out of it. Of course you can end a partnership by just saying "I quit". However, questions about who gets what and what happens next are often very difficult to solve when the business is closed.

Questions for Discussion

1. What is the difference between a general partner and a limited partner?
2. How would you decide whether to team up with someone in a partnership form of business?

Joint Ventures 合资企业

合资企业是指由两个或两个以上属于不同国家（或地区）的公司、企业或其他经济组织以合资方式组成的经济实体。

Sometimes a number of individuals and businesses join together in order

to accomplish a specific purpose or objective or to complete a single transaction. A **joint venture** is the pooling of resources and expertise by two or more businesses, typically from different areas or countries to achieve a particular goal. The risks and rewards of the enterprise are also shared. Partnerships occur when two or more entities decide to work together in a business. For example, Hewlett-Packard[1] (US) and Samsung (Korea) have initiated a joint venture. Under the agreement, Samsung will manufacture both microprocessor chips and computer workstations, using Hewlett-Packard's technology and software.

The reasons behind the formation of a joint venture often include business expansion, development of new products or moving into new markets, particularly overseas.

Advantages

If successful, a joint venture can offer:

- access to new markets and distribution networks.
- increased capacity.
- the sharing of risks with a partner.
- access to specialised staff and technology.

Another advantage of a joint venture is that it isn't as final as a merger or takeover. For example, depending on the terms of the agreement the venture may have a limited life span and partners can eventually sell or transfer their share.

Joint ventures are particularly popular where co-operation between businesses in different countries is an advantage, for example, transport, tourism and hotels.

Disadvantages

About half of all joint ventures experience problems of some kind.

- If the objectives of the venture are not 100 per cent clear, or not communicated to all the staff involved, problems are likely to arise.
- There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners.
- Different cultures and management styles result in poor integration and co-operation between the partners.
- The parent businesses don't provide sufficient leadership and support in the early stages.

Success in a joint venture depends on thorough research and analysis of aims and objectives. This should be followed up with effective communication of the business plan to everyone involved.

Note:

1. Hewlett-Packard Company (HP) (惠普公司) provides IT products and solutions covering infrastructure, personal computing and access devices, imaging and printing. Headquartered in California, the company has presence in 170 countries worldwide. It employs 142,000 people.

Questions for Discussion

1. What ownership is a joint venture similar to? Why?
2. What are the advantages of a joint venture?

Corporations 公司

公司是依公司法的规定设立的法人组织，具有独立的法人资格，有权以自己的名义拥有财产、享有权利和承担义务。

Some industries, such as automobile manufacturing, computer manufacturing, oil refining, and natural gas production, require millions of dollars to operate a business. Typically such vast sums of money are put together by attracting numerous investors. The **corporation** is a *legal entity* (法人实体), allowed by legislation, which permits a group of people, as

shareholders (for-profit companies) or members (non-profit companies), to create an organization, which can then focus on pursuing set objectives, and *empowered* (授权与) with legal rights which are usually only reserved for individuals, such as to sue and be sued, own property, hire employees or loan and borrow money. The primary advantage of a for-profit corporation is that it provides its shareholders with a right to participate in the profits (by dividends) without any personal liability because the company absorbs the entire liability of the organization.

Types of Corporations

When we think about business corporations, our attention usually centers on the giants listed annually in *Fortune*'s "Directory of the 500 Largest World Industrial Corporations" such as Procter & Gamble, Exxon, AT&T, IBM, Boeing, Samsung, Hyundai, Nokia. In China, there are also some large industrial corporations such as Gome Electrical Appliances, Haier Group, Lenevo Group Ltd., etc.

In reality, corporations come in many sizes and types (see Table 1.1). Many corporations are not conducted for profit and do not have private owners or shareholders. Many universities and religious organizations are **non-profit corporations**; that is, they are not profit-seeking enterprises. The not-for-profit sector includes universities and other schools, charities, volunteer associations, government organizations, and a number of other kinds of organizations. The not-for-profit enterprise is prohibited, by law, from distributing any earnings to owners. It exists because the founders believe that the firm provides something (e.g. help to the homeless, education) of value that is not being provided well or at all by other enterprises. Not-for-profit firms provide jobs for millions of employees. Donations, collections, and the sale of goods or services provide the funds to pay employees and finance operations.

Table 1.1 Types of Corporations

Type	Description
Private	Attempts to earn a satisfactory profit
Public	Owned and run by the government
Closed	Stock held by only a few owners and not actively sold on the stock market
Open	Stock held by numerous people and actively sold on the stock market
Municipal	Cities and townships that carry out business
Domestic	Incorporated in one province or country and doing business within that province or country
Foreign	Incorporated in one province or country and doing business in another province or country
Alien	Incorporated in one nation and operating in another nation
Nonprofit	Service organization incorporated for limited-liability status

Corporations are owned by shareholders, each of whom own a percentage of the entire corporation through their shares. Shares can generally be bought and sold fairly easily, unless restrictions have been placed on the transfer of shares.

Advantages

There are many advantages to incorporating a business.

Limited liability: A major advantage of corporations is the limited liability of owners. Corporations in some countries have letters *Ltd*. after their name, as in Lenovo Group Ltd. The Ltd. stands for limited liability and is probably the most significant advantage of corporations. Remember, limited

liability means that the owners of a business are responsible for losses only up to the amount they invest.

Skilled management team: The board of directors has the duty of hiring professional managers, and the owners delegate their power of operating the business to these managers. Professional managers are trained and experienced career executives. They may own shares of stock in the business but usually not enough to control the corporation.

Transfer of ownership: Shareholders have the right to sell their shares of a corporation's stock to whomever they please, *barring* (除……外，不包括) a legal restriction on some closed corporations. These shares of ownership can be sold whenever the shareholder desires and at the price the buyer is willing to pay. Thus, shareholders can freely buy and sell shares of stock.

Greater capital base: The corporate form of business makes it easier for a business to grow and expand. Through the *issuance* (发行) of shares, corporations may be able to access the money they will need for expansion. If a company sold 10 million shares for $10 each, it would have $100 million available to build plants, buy materials, hire people, manufacture products, and so on. Such a large amount of money would be difficult to raise any other way. Corporations may also find it easier to obtain loans since lenders find it easier to place a value on the company when they can review how the stock is trading.

Stability: A corporation has an unlimited life. Because the corporation is a separate legal entity, the corporation will continue to exist even if the shareholders die or leave the business, or if the ownership of the business changes.

Disadvantages

There are also disadvantages to incorporating a business.

Multiple taxation: The corporation has to pay taxes on its profits. The

shareholders must also pay income tax on the dividends they receive through ownership. This practice of taxing corporate income and dividends is referred to as *double taxation* (双重课税).

Difficulty and expense of starting: The registration and set up fees for a corporation are higher than the set up fees for a sole proprietorship or a partnership. Incorporating a business is also a more complicated process than starting a sole proprietorship or partnership.

Government involvement: Provincial and state governments have the right by law to exercise certain controls on, and to require corporations to maintain proper corporate records, called a *minute book* (记录簿). A minute book contains the corporate *bylaws* (规章制度) and *minutes* (会议记录) from annual meetings.

Lack of secrecy: A corporation must provide each shareholder with an annual report. In a closed corporation, the few reports circulated usually won't get into the hands of non-owners. But when a large number of reports are issued, the reports become public knowledge. These reports present data on sales volume, profit, total assets, and other financial matters. Public disclosure of such data enables competitors and other outsiders to see the corporation's financial condition.

Lack of personal interest: In most corporations except the smaller ones, management and ownership are separate. This separation can result in a lack of personal interest in the success of the corporation. If the managers are also shareholders, the lack of personal interest is often minimized. It is assumed that employees who are also owners will work harder for the success of the business, but the accuracy of this assumption is an individual matter. Most managers have pride in their work and want any business they are involved with to succeed.

Credit limitations: Banks and other lenders have to consider the limited liability of corporations. If a corporation fails, its creditors can look only to the

assets of the business to satisfy claims. For partnerships, the creditors can rely on personal assets of the partners to pay off business debts.

Questions for Discussion

1. What's the difference between an open and a closed corporation?
2. Why do most young people prefer to work for a large corporation?

Limited Liability Companies 有限责任公司

有限责任公司是新型的企业组织，它集合了公司的一些特征和合伙企业的组织结构，股东以其出资额为限对公司承担责任，公司以其全部资产对公司的债务承担责任。

A limited liability company is the newest form of business organization, gaining popularity in recent years. A **Limited Liability Company (LLC)** is a type of business ownership combining several features of corporation and partnership structures. But it is not a corporation or a partnership. It may be called a limited liability corporation, while the correct *terminology* (术语) is limited liability company. Its owners are called members not shareholders or partners. The number of members are unlimited and may be individuals, corporations, or other LLC's.

Advantages

Limited liability: Owners of an LLC have the liability protection of a corporation. An LLC exists as a separate entity much like a corporation. Members cannot be held personally liable for debts unless they have signed a personal guarantee.

Flexible profit distribution: Limited liability companies can select varying forms of distribution of profits. Unlike a common partnership where the split is 50-50, LLC have much more flexibility.

No minutes: Corporations are required to keep formal minutes, have meetings, and record resolutions. The LLC business structure requires no corporate minutes or resolutions and is easier to operate.

Flow through taxation: All the business losses, profits, and expenses flow through the company to the individual members. People avoid the double taxation of paying corporate tax and individual tax. Generally, this will be a tax advantage, but circumstances can favor a corporate tax structure.

Disadvantages

Limited life: Corporations can live forever, whereas an LLC is dissolved when a member dies or undergoes bankruptcy.

Going public (上市): Business owners with plans to take their company public, or issuing employee shares in the future, may be best served by choosing a corporate business structure.

Added complexity: Running a sole-proprietorship or partnership will have less paperwork and complexity. An LLC may be classified as a sole-proprietorship, partnership, or corporation for tax purposes. Classification can be selected or a *default* (违约) may apply.

Mergers & Acquisitions 企业兼并和收购

企业兼并是指企业间的吸收合并，也就是在两个或两个以上企业合并，企业因吸收了其他企业而成为存续企业的合并形式。收购是指一个企业购买另一个企业的资产和债务。企业兼并有三种主要形式。

横向兼并是指同一经营环节上的相关企业的兼并。横向兼并的主要经济目的是消除或减少竞争，并因此增加兼并企业的市场份额。

纵向兼并是指同一生产过程中的相关环节的企业兼并。纵向兼并的经济目的是为了保证供应和销路，同时也能保证产品的质量控制。

混合兼并是指跨行业、跨产品的综合性的企业兼并，又称为一体化兼并，目的是经营多样化。

A **Merger** is the result of the combination of two companies (or corporations) to form a new company. An **Acquisition** is one company buying the property and obligations of another company. There are three major types of corporate mergers: horizontal, vertical and conglomerate.

A **horizontal merger** joins firms in the same industry and allows them to diversify or expand their products. In a horizontal merger, the acquisition of a competitor could increase market share. An example of a horizontal merger could be the merger of a bicycle company and a tricycle company. The business can now supply a variety of cycling products.

A real life example is the path adopted by TCL Corp., a $3.4 billion revenue company, powerful in TVs and other electronics. In 2003 it reached a deal to merge its television business with that of France's Thomson (TMS) and in 2004 took control of Alcatel's cell-phone business.

A **vertical merger** is the joining of two firms involved in different stages of related businesses—a manufacturer merging with a supplier of component products, or a manufacturer merging with a distributor of its products. Think of a merger between a bicycle company and a company that produces wheels. Such a merger would ensure a constant supply of wheels needed by the bicycle company. It could also help ensure quality control of the bicycle company's product.

A **potential competition merger (conglomerate)** unites firms in completely unrelated industries. The primary purpose of a conglomerate merger is to diversify business operations and investments. The acquisition of a restaurant chain by a bicycle company would be an example of a conglomerate merger. Figure 1.1 illustrates the differences in the three types of mergers.

Most mergers actually benefit both competition and consumers by allowing firms to operate more efficiently. But some are likely to lessen competition. That, in turn, can lead to higher prices, reduced availability of goods or services, lower quality of products, and less *innovation* (创新). Indeed, some

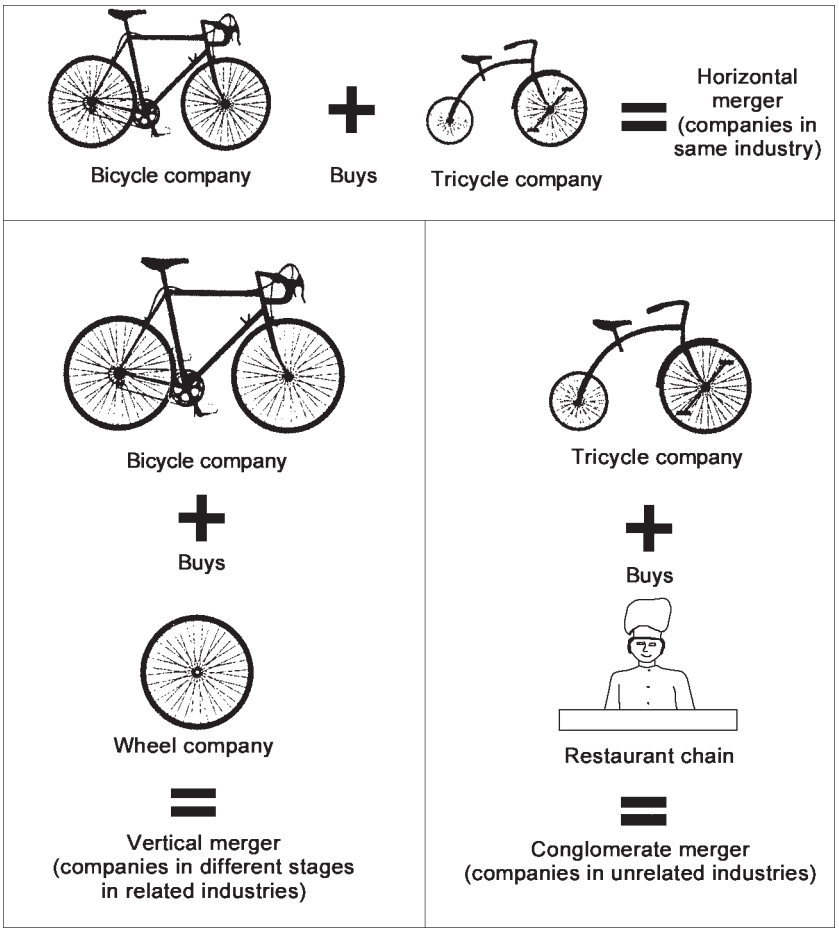

Figure 1.1 Types of mergers

mergers create a concentrated market, while others enable a single firm to raise prices.

Questions for Discussion

1. What is the difference between mergers and acquisitions?
2. Give more examples to explain horizontal mergers, vertical mergers and conglomerate mergers.

Franchises 特许经营

特许经营是指特许者将自己所拥有的商标、商号、产品、专利和专有技术、经营模式等以特许经营合同的形式授予被特许者使用，被特许者按合同规定，在特许者统一的业务模式下从事经营活动，并向特许者支付相应的费用。由于特许企业的存在形式具有连锁经营、统一形象、统一管理等基本特征，因此也称之为特许连锁。

An attractive business opportunity for many people is to obtain a franchise and become the owner of a restaurant, motel, fast foods, drugstore, dry-cleaning services, training programs, service station, beauty salon, or other businesses. A **franchise** is the right to use a business name and sell products or services, usually in a specific geographical territory.

Some people are more comfortable not starting their own business from scratch. They would rather join a business with a proven track record through a franchise agreement. A franchise can be formed as a sole proprietorship, partnership, or corporation. In the United States, a new franchised business opens every 15 minutes. Numerous American franchises are also opening around the world. Franchised businesses also grow quickly in China. Some of the best-known franchises are McDonald's and KFC.

The franchiser has developed a system for reproducing his/her business (often right down to the last detail). As a franchisee (the person who buys a franchise), you rent the franchiser's trademark and method of doing business. The method of doing business involves a standardized approach to delivering a product or service.

Advantages

Buying a franchise is a popular choice for starting a business. It is a way to reduce risk and receive support from a large network. The preliminary work has been done with an infrastructure well established, a product line in place, and the marketing strategy developed. The customer base may be set,

sometimes with good name recognition. The franchiser usually provides management assistance and training and may offer financial support. Historically, the failure rate for franchises has been lower than that of other business ventures.

Disadvantages

On the other hand, a franchise offers less freedom than an independent business. There are likely to be lots of rules and regulations in place. The franchisee may lose the spirit and incentive of being their own boss with their own business. The owner cannot change products and services. Initial franchise fees may be expensive. Start-up costs for a KFC's restaurant is about $5 million to $6 million in China. You need to take into consideration start-up and operational costs. The franchiser often demands a large share of the profits, referred to as *royalty payments* (专利权税). The reputation of one franchisee could be adversely affected by the failings of others. Many franchisees face restrictions in the reselling of their franchises with transfer of ownership possibly requiring approval of the franchiser.

Questions for Discussion

1. What are some of the factors to consider before buying a franchise?
2. Go to visit a local franchise and find how it operates, then share your findings with your partner.

GROUP ACTIVITIES

1. Carefully examine the following partnership agreement and decide if it is sound, complete, and accurate. Then discuss with your classmates and present your ideas to the class.

Agreement

This partnership agreement is entered into on January 8, 2001, between Mary Richards and Niki Stutzman.

We agree that:

One: We will become equal general partners in the women's cosmetics business.

Two: We will use the name "Yellow Rose" of 1818 Milam Street, Houston Texas 77001.

Three: Each general partner will contribute $20,000 to the partnership on January 8, 2001.

Four: All profits earned from selling "Yellow Rose" cosmetics will be divided equally by the general partners, and all losses incurred by the business will be equally shared by them.

Five: Proper accounting books will be kept by the business; a public accounting audit will be conducted each year by a firm mutually agreed upon. Profits, inventories, and losses will be accurately accounted for each year.

Six: Each partner will earn no more than $1500 per month, if earnings permit this amount to be taken out of the business. No more than $18,000 per partner per year will be drawn out during the first four years of the partnership.

Seven: No new partners can be added without the full written consent of both partners.

Eight: If *grievances* (不满，抱怨) between partners cannot be resolved, an *arbitrator* (仲裁人) will be hired that is acceptable to both partners. The decision reached after arbitration is binding.

Nine: In the event of the death or retirement of a partner, the remaining partner will pay the estate or retiring partner the full amount of the original investment ($20,000), plus 1.5 times the most recent year's gross sales for all "Yellow Rose" products. The payment will be made within one year of the death or retirement of the partner.

Ten: At the termination of the partnership, a full inventory and *balance sheet* (资产负债表) will be prepared by an accounting firm. All debts will be paid, and all property will be divided between the partners.

The parties have carefully reviewed the contract and have freely signed, in the presence of a witness, this document.

Witness _____ Partner _____

Date _____ Date _____

Partner _____

Date _____

2. Let's assume you want to open one of the following new businesses. What form of business ownership would you choose for each business? Why?
   A. Video game rental store.
   B. Wedding planning service.
   C. Software development firm.
   D. Computer hardware manufacturing company.

EXERCISES

I. Define the following terms and then translate them into Chinese.

Sole Proprietorship	General Partnership	Partnership
Limited Partnership	Limited Partner	General Partner
Corporation	Limited Liability Company	Franchise
Joint Venture	Non-profit Corporation	Mergers
Potential Competition Mergers		Horizontal Mergers
Vertical Mergers	Double Taxation	Acquisitions

II. Fill in the following table to make a summary of the different forms of business ownership.

Type of Organization	Description of Organization
Sole Proprietorships	
General Partnerships	
Limited Partnerships	
Joint Ventures	
Corporations	
Limited Liability Companies (LLC)	
Franchises	

III. Choose the best answer to each of the following questions according to what you've learned in this chapter.

1. The easiest way to become your own boss is to set up _____.
   A. a sole proprietorship
   B. a partnership
   C. a corporation

2. In which of the following forms of organization can you deduct health insurance *premiums* (保险费) as a business expense?
   A. A sole proprietorship.
   B. A partnership.
   C. A corporation.
3. If I set up my business as an LLC, I will need to file my tax return as _____.
   A. an individual
   B. a corporation
   C. a partnership
4. My brother-in-law and I want to start a small vacuum cleaner repair shop as partners. We want to keep our investment cost down. We should organize _____.
   A. through an informal handshake
   B. a corporation
   C. a partnership
5. A good reason to consider starting a business with a partner is _____.
   A. your partner will take one-half the responsibility for all liabilities
   B. partners with complementary skills can enhance the success of a business
   C. partners can take part in the management of the firm or act on behalf of the company
6. Marie Wang recently invested $4,000 that her aunt had left her in stock in XXX Corp. Marie has become a (n) _____ of XXX Corp.
   A. partner
   B. shareholder
   C. creditor
7. What type of business finds it much easier to raise money?
   A. A sole proprietorship.
   B. A partnership.
   C. A corporation.

8. That Lucky Electric and Golden Star merged to form LG is _____.
   A. a horizontal merger
   B. a vertical merger
   C. a conglomerate merger
9. A _____ merger unites firms in completely unrelated industries.
   A. horizontal
   B. vertical
   C. conglomerate
10. All of the following statements about corporations are true except _____.
   A. corporations are generally more expensive to form than sole proprietorships
   B. the death of an owner of a corporation does not terminate the company
   C. legally, corporations must have at least one owner with unlimited liability

IV. Decide whether the following statements are TRUE (T) or FALSE (F) according to what you've learned in this chapter.

1. A sole proprietor is not personally liable for the obligations of his business.
2. The liabilities of the parties to a joint venture are similar to the liabilities of the partnership.
3. Closed corporations mean that stock is held by only a few owners and not actively sold on the stock market.
4. A franchisee has the right to change products and services of the franchise company.
5. The franchiser can provide training, guidance, and other forms of support to the franchisee.
6. If a sole proprietorship fails, the business is lost, but the personal assets of the owner are secure.
7. Ralph Xu wants to invest his money in business and share in its profits, but has no desire to actively manage the company. He also wants to limit his risk of loss. One type of ownership that would allow Ralph to meet his

objectives is the general partnership.

8. Wizbang Computers Inc., a major producer of personal computers, is considering a merger with Outtel, a leading producer of microprocessors and other computer chips. Wizbang believes such a merger would give them a guaranteed source of needed components, and would enable them to have better control over quality. If this merger occurs, it would be an example of a horizontal merger.

CASE STUDY 1

Esprit[1] is No Longer "Little Utopia"
Esprit 不再是小小的"乌托邦"

Esprit had been a very profitable, upbeat San Francisco sportswear company. Employees referred to the firm as "Little Utopia" or "Camp Esprit". They credited this good life to Doug and Susie Tompkins, the owners and soul of the company. The two had met in 1963 and then married. They became the inspiration and reason for the formation of Esprit. Doug and Susie introduced bright colours and *chic* (别致的) style in a line of sport clothes and provided employees with unconventional benefits such as rafting vacations, foreign-language lessons, on-site *aerobics* (健身操) classes, and tennis on the company courts.

Everything in "Utopia" was running smoothly, and business was great, until the relationship between Doug and Susie *fractured* (破裂). When their marriage began to split, the partnership began to *sag* (松弛), and business suffered. As the split between the owners widened Esprit started to lose markets and profits. The normally productive Esprit management meeting became tense and filled with arguments and political manoeuvering. The

managers and employees began to choose sides—a "Doug" group and a "Susie" group.

Esprit's husband-and-wife partnership had run smoothly for almost two decades. Doug had always wanted to be in a business that had high standards and was very competitive. He was the business operations side of Esprit. In the period 1979-1986, sales around the world soared from $120 million to $800 million. The Esprit line of clothes was sold in carefully selected shops, department stores, and catalogs.

In 1987 Esprit's earnings and sales went flat. The reasons cited included too much corporate spending, a declining dollar on the world market, and lack of management control over costs. The Tompkins's began to argue in public about business. Susie believed that Esprit's image was too youthful and had to change. She wanted to appeal to slightly older, stylish career women. Doug disagreed, and promoted his idea to keep Esprit pointed toward the younger market. According to market experts, Doug's insistence cost the firm dearly. Esprit's customers were growing up, as Susie had suggested, and the firm didn't keep pace.

The setback in sales and marketing resulted in some drastic cost-cutting measures. Doug closed the company's San Francisco *warehouse* (批发店), laid off 700 employees, and even ended the employees' free telephone privileges. Doug and Susie also went public with their criticism of each other. Susie *decried* (诋毁) the company's image, and Doug found fault with the designs Susie was approving. Doug also started to take an active role in the design department—Susie's territory since the start of Esprit. Doug replaced the Esprit Kids' design team (which had won several awards) with a group from Japan. The Japanese team was a failure. Their designs *clashed with* (不调和) American tastes.

The *bickering* (争吵), open criticisms, and tensions resulted in the design people backing Susie, while the graphics and advertising people supported

Doug. The shouting matches between Doug and Susie at management meeting even included personal insults that had nothing to do with business. The lost sales, arguments, personal insults, and choosing of sides increased employee anxiety; they resulted in an increased number of resignations from key people and delays in making important decisions. Doug and Susie also started spending more time away from Esprit. Finally they agreed to increase the number of members on the board of directors and give up operating control of the company.

Note:

1. Esprit: Esprit Holdings Limited is a retail and wholesale distributor of lifestyle products designed under its ESPRIT brand name. For the fiscal year 2003, it generated revenues of $1,594 million (HK$12.38 billion). The company also distributes cosmetic products under its RED EARTH brand name. It operates around 580 directly managed retail stores and has more than 6,000 wholesale outlets worldwide. Esprit is headquartered in Hong Kong. Its products or services are: apparel, footwear, accessories, timewear, eyewear, jewellery, fragrances, bedding, other home products.

Questions for Discussion

1. What advantages of the partnership between Doug and Susie helped Esprit grow to become a large business?
2. One of the disadvantages of a partnership is instability. Can personal problems ever be predicted and avoided in the kind of partnership that Doug and Susie had at Esprit?
3. If you were chairperson of the board of directors of Esprit, what course of action would you recommend to other members and to Susie and Doug?

CASE STUDY 2

McDonald's: Franchising and Entrepreneurship 麦当劳：特许经营与企业家精神

Introduction

When the McDonald brothers, Dick and Mac opened their first restaurant in 1940 in San Bernardino, California, they could never have imagined the *phenomenal* (显著的) growth that their company would enjoy. From extremely modest beginnings, they *hit on* (偶然发现) a winning formula selling a high quality product cheaply and quickly. However, it was not until Ray Kroc, a Chicago based salesman with a *flair* (本领) for marketing, became involved that the business really started to grow. Ray realized that the same successful McDonald's formula could be exploited throughout the United States and beyond.

There are now more than 30,000 McDonald's Restaurants in over 119 countries. In 2002, they served over 16 billion customers, equivalent to a lunch and dinner for every man, woman and child in the world! McDonald's global sales were over $41bn, making it by far the largest food service company in the world.

In 1955, Ray Kroc realized that the key to success was rapid expansion. The best way to achieve this was through offering franchises. Today, over 70 percent of McDonald's restaurants are run on this basis. In the UK, the first franchised restaurant opened in 1986—there are now over 1,200 restaurants, employing more than 70,000 people, of which 36 percent are operated by franchisees.

This case study examines the success of franchising and investigates the special three-way relationship that exists between the franchisee, the franchiser and the suppliers.

What is franchising?

McDonald's is an example of brand franchising. McDonald's, the franchiser, grants the right to sell McDonald's branded goods to someone wishing to set up their own business, the franchisee. The license agreement allows McDonald's to insist on manufacturing or operating methods and the quality of the product. This is an arrangement that can suit both parties very well.

Under a McDonald's franchise, McDonald's owns or leases the site and the restaurant building. The franchisee buys the fittings, the equipment and the right to operate the franchise for twenty years. To ensure uniformity throughout the world, all franchisees must use standardized McDonald's branding, menus, design layouts and administration systems.

Advantages for the franchisee

a. Being their own boss

In return, the franchisee agrees to operate the restaurant in accordance with McDonald's standards of quality, service, cleanliness and value. McDonald's regularly checks the quality of the franchisee's output and failure to maintain standards could threaten the license. The franchisee is also expected to become involved in local events and charities. Ray Kroc believed strongly that a business must be prepared to put something back into the community in which it operates.

The franchisee, for all the training and support McDonald's offers, is running his or her own business. They fund the franchise themselves and therefore have much to lose as well as gain. This makes them highly motivated and determined to succeed.

b. Selling a well established, high quality product

In this case, the product is recognized all over the world. A large proportion of new businesses and new products fail, often due to costs of the

research and development needed. The McDonald's formula, however, has been successfully tried and tested. Ray Kroc's insistence that all McDonald's outlets sold the same products and achieved the same quality has led to a standardization of the process and great attention to detail.

The cooking processes in McDonald's restaurants are broken down into small, repetitive tasks, enabling the staff to become highly efficient and adept in all tasks.

This division of labour[1] and the high volume *turnover* (营业额) of a limited menu allows for considerable *economies of scale* (规模经济). For the franchisee, this can considerably reduce the risk of setting up their own business. There is no need to develop the product or do expensive market research. Nor will they have sleepless nights wondering if the product will appeal to the consumer. McDonald's carries out regular market research.

c. Intensive initial training

Every franchisee has to complete a full-time training programme, lasting about nine months, which they have to fund themselves. This training is absolutely essential. It begins with working in a restaurant, wearing the staff uniform and learning everything from cooking and preparing food to serving customers and cleaning.

Further training at regional training centres focuses on areas such as business management, leadership skills, team building and handling customer enquiries. The franchisees will have to recruit, train and motivate their own workforce, so they must learn all the skills of human resources management. During the final period, the trainee learns about stock control and ordering, profit and loss accounts and the legal side of hiring and employing staff. Consequently, no McDonald's franchisee would have to ask a member of his or her staff to do something that they couldn't do themselves. Knowing this can also be a powerful motivator for the staff.

d. Continuous support

McDonald's commitment to its franchisees does not end with the training. It recognizes that the success and profitability of McDonald's is *inextricably* (无法摆脱地) linked to the success of the franchises. A highly qualified team of professional consultants offer continuous support on everything from human resources to accounting and computers. The field consultant can become a valued business partner and a *sounding board* (宣传媒介) for ideas.

e. Benefit from national marketing carried out by McDonald's

A brand is a name, term, sign, symbol or design, (or a combination of these) which identifies one organization's products from those of its competitors. The phenomenal growth of McDonald's is largely attributed to the creation of its strong brand identity. McDonald's trademark, the Golden Arches, and its brand name has become amongst the most instantly recognized symbol in the world.

In the UK, McDonald's recognized the need for a coordinated marketing policy. In order to be successful, an organization must find out what the customers want, develop products to satisfy them, charge them the right price and make the existence of the products known through promotion. Cinema and television advertising have played a major part in McDonald's marketing mix. McDonald's is now the biggest single brand advertiser on British television.

Radio and press advertisements are used to get specific messages across emphasizing the quality of product ingredients. Promotional activities, especially within the restaurant, have a tactical role to play in getting people to return to the restaurants regularly. All franchisees benefit from any national marketing and contribute to its cost, currently a fee of 4.5 percent of sales.

The franchisees additionally benefit from the extensive national market research programmes that *assess* (评定) consumer attitudes and perceptions. What products do they want to buy and at what price? How are they

performing compared to their competitors?

Any new products are given *rigorous* (严格的) market testing so that the franchisee will have a reasonable idea of its potential before it is added to the menu. The introduction of new products, which have already been researched and tested, considerably reduces the risk for the franchisee.

Massive investment in *sponsorship* (赞助) is also a central part of the image building process, such as Football World Cup, Olympic Games, all of which increases awareness of McDonald's brand.

f. Forecasting

Another major problem for a new business is predicting how much business it might enjoy, running the risk of either cashflow problems or the difficulties associated with overtrading[2]. The turnover and profit from any outlet will vary, depending on a wide range of internal and external variables. Each franchisee is expected to take a positive approach to building up sales, although an average rate of return of over 20 percent is generally expected over the lifetime of the franchise.

Advantages for the franchiser

McDonald's recognizes the benefits of a franchised operation. Franchises bring entrepreneurs, full of determination and ideas, into the organization. Franchising enables McDonald's to enjoy considerably faster growth and the creation of a truly global brand identity. The more restaurants there are, the more McDonald's can benefit from economies of scale.

On the financial side, McDonald's receives a monthly rent, which is calculated on a sliding scale based on the restaurant's sales, i.e. the higher the sales, the higher the percentage and vice versa. There is also a service fee of 5 percent of sales in addition to the contribution to marketing. The purchase price of a restaurant is based on cashflow and is generally about £150,000 upwards. The new franchisee is expected to fund a minimum of 25 percent of

this from their own *unencumbered* (没有债务负担的) funds.

Whilst the franchisees have to agree to operate their restaurants in the McDonald's way, there still remains some scope for innovation. Many ideas for new items on the menu come from the franchisees responding to customer demand. Developing new products is crucial to any business, even one which has successfully relied on a limited menu for many years. Consumer tastes change over time and a company needs to respond to these changes. Innovation injects *dynamism* (活力) and allows the firm to exploit markets previously overlooked or ignored. The introduction of the Egg McMuffin in 1971, for example, enabled McDonald's to cater initially for the breakfast trade. Filet-o-Fish, Drive-thru's and Playlands were all products or concepts developed by franchisees.

The three-legged stool—the suppliers

A third group of stakeholders[3], critical to the success of the franchise operation, is the suppliers. As McDonald's considers the quality of its products to be of absolute importance, it sets standards for suppliers that are amongst the highest in the food industry. McDonald's believes in developing close relationships with suppliers—everything is done on an open accounting, handshake trust basis.

The suppliers work closely with McDonald's to develop and improve products and production techniques. This close interdependency is described as a three-legged stool principle, and involves McDonald's, the franchisees and the suppliers. Suppliers that are able to meet the quality standards set down by McDonald's have been able to share in the growth and success of McDonald's.

Conclusion

McDonald's views the relationship between franchiser, franchisee and supplier to be of *paramount* (极为重要的) importance to the success of the business. Ray Kroc recognized the need very early on for franchisees that would dedicate themselves to their restaurants. He wanted people who had to give up another job to take on the franchise venture, relying on their franchise as their sole source of income and who would therefore be highly motivated and dedicated. Consequently, McDonald's will not offer franchises to partnerships, *consortia* (合作，大财团) or absentee investors. The initial capital has to come from the franchisee as a guarantee of their commitment. The selection process is rigorous to ensure that McDonald's only recruits the right people.

Notes:

1. division of labour: breaking a job down into specific roles or parts
2. overtrading: expansion that damages cash flow 过度贸易
3. stakeholders: any individual or organization that has an interest in decisions made by a particular business

Questions for Discussion

1. What is franchising?
2. What are the advantages for the franchisee?
3. What are the advantages for the franchiser?