

Business Ownership and Operations

Chapter Objectives

After completing this chapter, you will be able to:

▶ Section 6.1 Types of Business Ownership

- **Describe** the advantages and disadvantages of the three major forms of business organizations.
- **Describe** how cooperatives and nonprofits are like and unlike corporations and franchises.

▶ Section 6.2 Types and Functions of Businesses

- **Differentiate** the six types of businesses.
- **Describe** the five functions of business.
- **Discuss** how the five functions of business relate to each other.

Ask

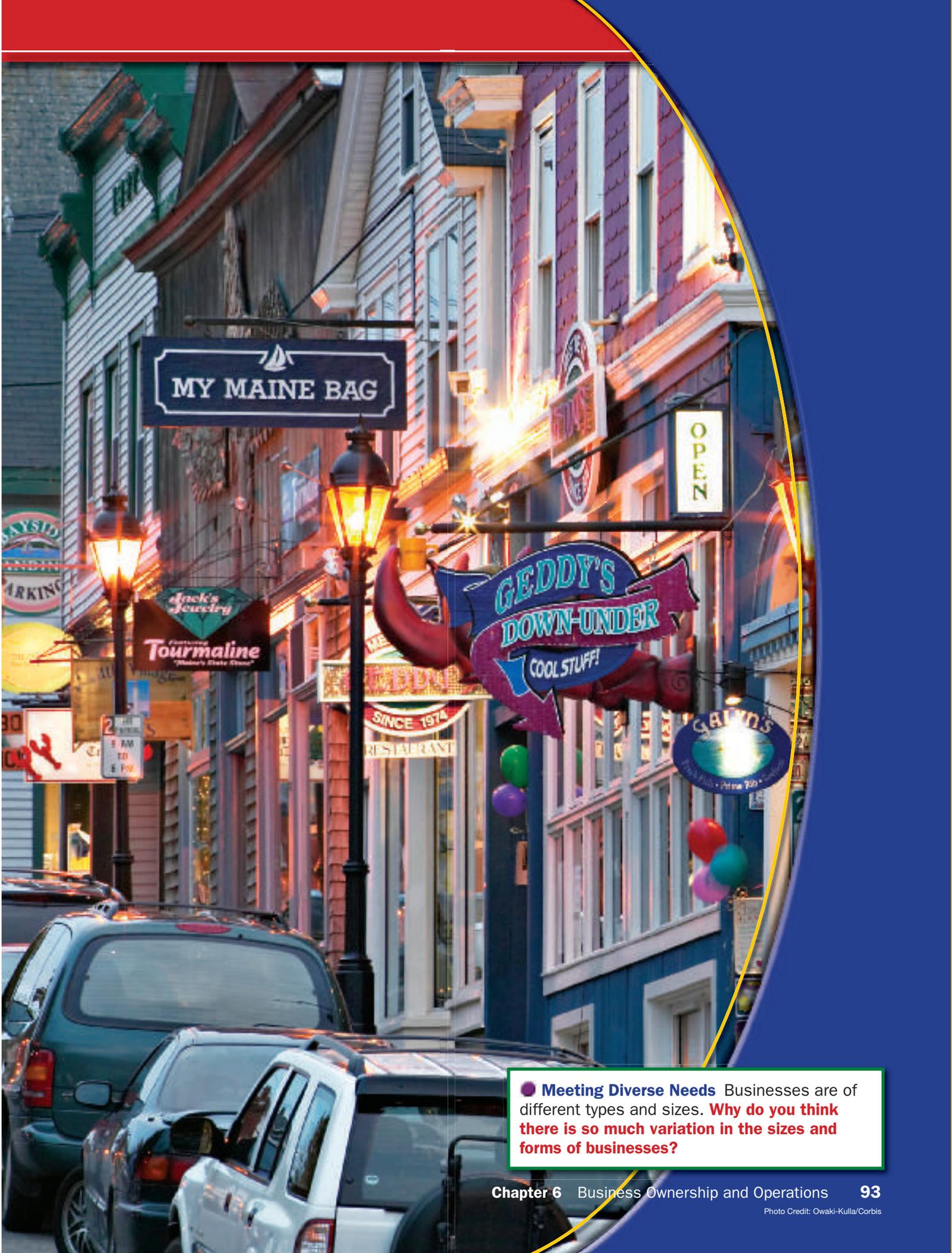
STANDARD **The First Steps in Investing: Diversification** & POOR'S

Q: What is “portfolio diversification,” and how can it help me achieve my investment goals?

A: Diversification is spreading your money throughout a number of investments in order to reduce risk. You can diversify through asset allocation, investing in more than one type of investment, such as stocks, bonds, or cash. You can also diversify your holdings within an asset category. With stocks, for example, you might own 20 stocks scattered across different industries. In addition, you might consider owning stocks from countries outside the United States. Economies and markets are cyclical, and diversification helps you avoid the pitfalls of those cycles.

Mathematics Linda is investing for retirement 30 years from now. She wants 70% of her money in stocks, 20% in bonds, and the remaining 10% in a money market fund. Stocks now comprise 80% of her portfolio, so she needs to rebalance her portfolio. If her portfolio is worth \$100,000, what percent of her stock holdings should she sell in order to rebalance?

CONCEPT **Finding Percents** Percent means “per hundred.” To figure out what percent of a number, a , another number, b , is, divide b by a .



● **Meeting Diverse Needs** Businesses are of different types and sizes. **Why do you think there is so much variation in the sizes and forms of businesses?**

Types of Business Ownership

Reading Guide

Before You Read



Think about a business you would like to start, the form of organization you would use, and the type of business it would be.

Read to Learn

- Describe the advantages and disadvantages of the three major forms of business organizations.
- Describe how cooperatives and nonprofits are like and unlike corporations and franchises.

The Main Idea

Sole proprietorships, partnerships, and corporations are the most common forms of business organization. Cooperatives and nonprofits are other forms.

Key Concepts

- Organizing a Business
- Other Ways to Organize a Business

Vocabulary

Key Terms

sole proprietorship	limited liability
unlimited liability	cooperative
partnership	nonprofit organization
corporation	franchise

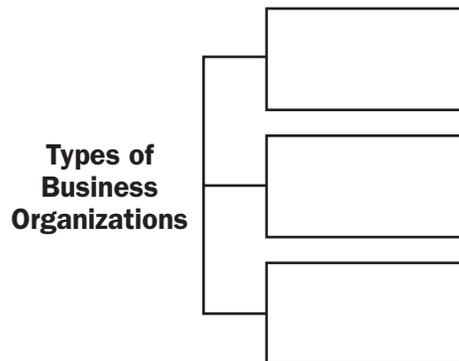
Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

sole	partners
income	regulates

Graphic Organizer

In boxes like the ones below, list the types of business organizations.



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information

NCTE 9 Develop an understanding of diversity in language use across cultures

Mathematics

Data Analysis and Probability Formulate questions that can be addressed with data and collect, organize, and display relevant data to answer them

Organizing a Business

There are three main types of business organizations: sole proprietorships, partnerships, and corporations. As part of a business plan, entrepreneurs must decide which type best fits their situation and describe their choice and the reasons for it. During the life of a business, its form can change. These changes often occur when a business is growing.

Sole Proprietorships

About three-quarters of all businesses in the United States are sole proprietorships. A **sole proprietorship** is a business owned by one person. **Figure 6.1** includes the percentage of U.S. sole proprietorships, partnerships, and corporations.

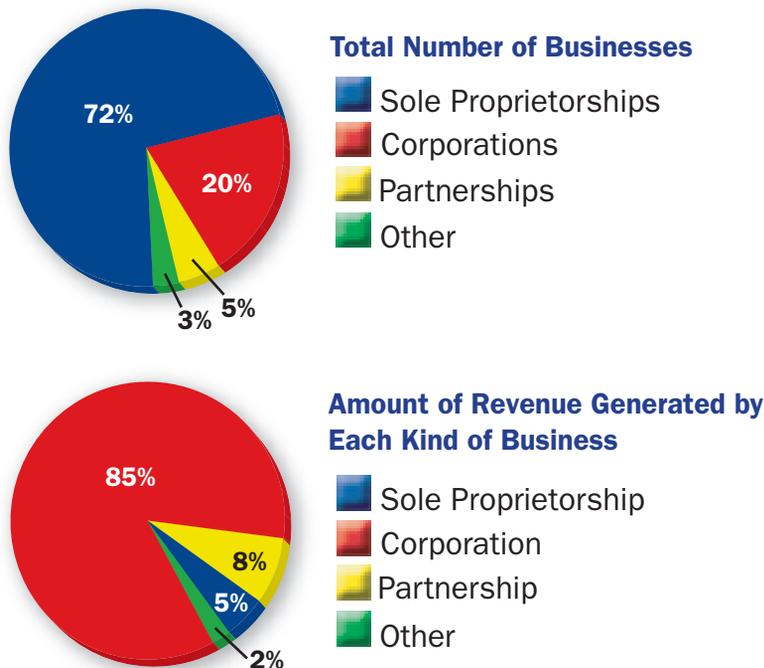
Advantages of Owning a Sole Proprietorship Starting a sole proprietorship is easy to do. Depending on local laws, the sole proprietor might need only a license or a permit to start. Sole proprietors are in charge of their businesses. They can make all the decisions and run the companies as they see fit. As the **sole** owner, they can also keep all the profits. Finally, their income taxes are usually lower than a corporation's. Income from a sole proprietorship is taxed once. However, income from corporations can be taxed twice. A corporation pays taxes on the income it receives. Then a corporation's stockholders pay taxes on the income they receive as dividends on stock. A sole proprietor's personal tax rate is often lower than the corporate tax rate.

As You Read

Suppose you decide to make and sell jewelry as a business. Why might you want to be the sole owner of the business?

Figure 6.1

U.S. Sole Proprietorships, Partnerships, and Corporations



Source: BizStats.com

Businesses and the Revenues They Create Various types of businesses have effects on the economy. **Which kind is most prevalent? Which kind generates the most revenue?**

Understanding Cultural Differences

The first time you travel for business internationally, you'll probably need help with things such as booking hotels, renting a car, managing the effects of jet lag, and understanding the cultural differences of the people at your destination. A whole information industry has developed around helping the international business traveler. Now, books, magazines, and Web sites are devoted to helping unravel the mysteries of other countries and cultures so that commerce can flourish.

Examples of Languages Across Cultures

Q: In Russian, how do you say: "Do you understand?"

A: Вам понятно? (pronounced: Văm pǎ-nyăt-nǎ?)

What kinds of information do you think a first-time international business traveler needs?

As You Read

Say you had a partner who made a bad business decision that caused your business to lose money. What steps could you take to correct the situation?

Disadvantages of Owning a Sole Proprietorship A major disadvantage of owning a sole proprietorship is that the owner has unlimited liability. **Unlimited liability** means the owner is responsible for the company's debts. If the owner has more debt than she or he receives in **income**, then the owner has to make up the difference.

Limited access to credit is another disadvantage. If the potential owner does not have much experience or money saved, lenders will be reluctant to offer credit. Many proprietorships fail because they run out of money. A third disadvantage is that the person in charge may not have all of the skills needed to run the business. For instance, the owner of a bakery might know everything about making cakes, but nothing about record keeping. A fourth disadvantage is that the sole proprietorship ends when the owner dies.

Reading Check **Identify** What are four disadvantages of owning a sole proprietorship?

Partnerships

A **partnership** is a business owned by two or more people who share its risks and rewards. To start a partnership, you need a partnership agreement. This agreement is a contract that outlines the rights and responsibilities of each partner.

Advantages of Owning a Partnership There are several advantages of owning a partnership. As with a sole proprietorship, partnerships are easy to start. Potential **partners** might need only to obtain a license. Unlike a sole proprietorship, it is easier for partnerships to obtain capital. Also, each partner usually contributes money to start the business. Another advantage is that banks are often more willing to lend money to partnerships than to sole proprietorships. Partnerships are not dependent on a sole person. As with a sole proprietorship, the income of a partnership is taxed only once. Lastly, each partner brings different skills and talents to the business.

Disadvantages of Owning a Partnership One disadvantage is that all the partners share the business risks. Problems occur when partners do not get along or one of them decides to leave. In that case, the other owners must end the partnership and reorganize the business since the original partnership no longer exists. Partners also share unlimited legal and financial liability. If one partner makes a bad decision, all partners are responsible.

Corporations

A **corporation** is a company that is registered by a state and operates apart from its owners. To form a corporation, the owners must get a corporate charter from the state where their main office will be located. A corporate charter is a license to run a corporation. To raise money, the owners can sell stock, or shares in the company. The company also must have a board of directors, who will govern the corporation.

Advantages of Forming a Corporation A major advantage of a corporation is limited liability. **Limited liability** holds a firm's owners responsible for no more than the capital that they have invested in it. Another advantage is its ability to raise money when people buy stock. A third advantage is that the corporation does not end if an owner dies. If that happens, the deceased owner's shares are sold, and the business continues.

Disadvantages of Forming a Corporation Corporations face several disadvantages. They pay taxes on their income, and stockholders pay taxes on profits issued to them. That is called double taxation. There are some special types of corporations, such as S corporations and limited liability companies, which do not have double taxation. However, they have other restrictions. The government **regulates** corporations more than other types of businesses. Corporations are also difficult and costly to start.

Corporations and Big Business Many corporations are big businesses, with more than 500 employees.

Which advantage allows corporations to raise funds for expansion?



Car Sharing Car sharing is a popular European process in which many households share vehicles. Mobility Car-Sharing cooperative in Switzerland has over 50,000 clients. *Do you think car sharing could become popular in the United States?*

Other Ways to Organize a Business

There are other ways to organize a business venture.

A **cooperative** is an organization that is owned and operated by its members. When groups of businesses, such as small farms, pool their resources, they form a cooperative. The purpose is to save money on the purchase of certain goods and services. A cooperative can make marketing of goods and services more efficient and profitable. Juice maker Ocean Spray is a cooperative of cranberry growers.

A **nonprofit organization**, or nonprofit, is a type of organization that focuses on providing a service, but not to make a profit. Nonprofits must also register with the government. Because they do not make a profit, they do not pay taxes.

A **franchise** is a contractual agreement to use the name and sell the products or services of a company in a designated geographic area. Fast-food restaurant Taco Bell and cleaning service Merry Maids are two common franchises. To run a franchise, you have to invest money and pay franchise fees or a share of the profits. In return, the franchiser offers a well-known name and a business plan.

Section 6.1

● After You Read



Review Key Concepts

1. What is the difference between a sole proprietorship and a partnership?
2. If a partner makes a bad decision, what responsibility do the other partners have?
3. Why are cooperatives formed?

Academic Skills

4. **Mathematics** Approximately 22% of businesses are corporations, 7% are partnerships, and the rest are sole proprietorships. In a sentence or two, describe how to construct a circle graph about the various forms of business ownership using this information.

CONCEPT

Data Analysis and Probability:

Circle Graphs A circle graph, also called a pie chart, uses wedge-shaped pieces to represent all the parts of the whole. If a part is 20% of the whole, then the wedge takes up 20% of the circle. In other words, the angle of the wedge is 20% of 360° .



For math help, go to the Math Appendix.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Types and Functions of Businesses

Reading Guide

Before You Read

Think about the tasks that are performed by businesses to get goods and services to consumers.

Read to Learn

- Differentiate the six types of businesses.
- Describe the five functions of business.
- Discuss how the five functions of business relate to each other.

The Main Idea

There are many different types of businesses. The five functions of business are involved in every type of business.

Key Concepts

- Types of Businesses
- Functions of Business
- How the Functions of Business Are Interdependent

Vocabulary

Key Terms

producer	production
processor	procurement
manufacturer	marketing
intermediary	management
wholesaler	finance
retailer	accounting

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

distributes
tasks

functions
involves

Graphic Organizer

In a box like the one below, arrange the six types of businesses in the order in which their tasks would be performed.

1.	wholesaler
2.	processor
3.	manufacturer
4.	retailer
5.	producer
6.	intermediary



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 4 Use written language to communicate effectively

NCTE 5 Use different writing process elements to communicate effectively

Science

Content Standard G Students should develop understanding of science as a human endeavor, nature of scientific knowledge, historical perspectives

Types of Businesses

As previously discussed, the business environment consists of many forms of organizations. There are many different types of businesses and various ways to classify them. One way is to group them by the kinds of activities they perform.

As You Read

Think of a product you own. What kind of business made the product?

Producers

A **producer** is a business that gathers raw goods. Raw goods are materials gathered in their original state from natural resources such as land or water. Agriculture, mining, fishing, and forestry are some of the industries that produce raw goods.

Processors

A **processor** changes raw materials into more finished products. Processed goods are made from raw goods that require further processing. For example, sugar cane is turned into sugar, crude oil into gasoline, and iron ore into steel.

Manufacturers

A **manufacturer** is a business that makes finished products out of processed goods. Manufacturers turn raw or processed goods into finished goods. Goods are material products such as cars, CDs, and computers.



BusinessWeek Reader and Case Study

For the Poor, Help from MBAs

They're bringing microfinancing, business development—and eventually a consumer economy—to many impoverished developing nations.

Sue Igoe, a second-year MBA student at Columbia Business School in New York, is returning from her summer internship invigorated and ready to learn how to make a profit—and a difference.

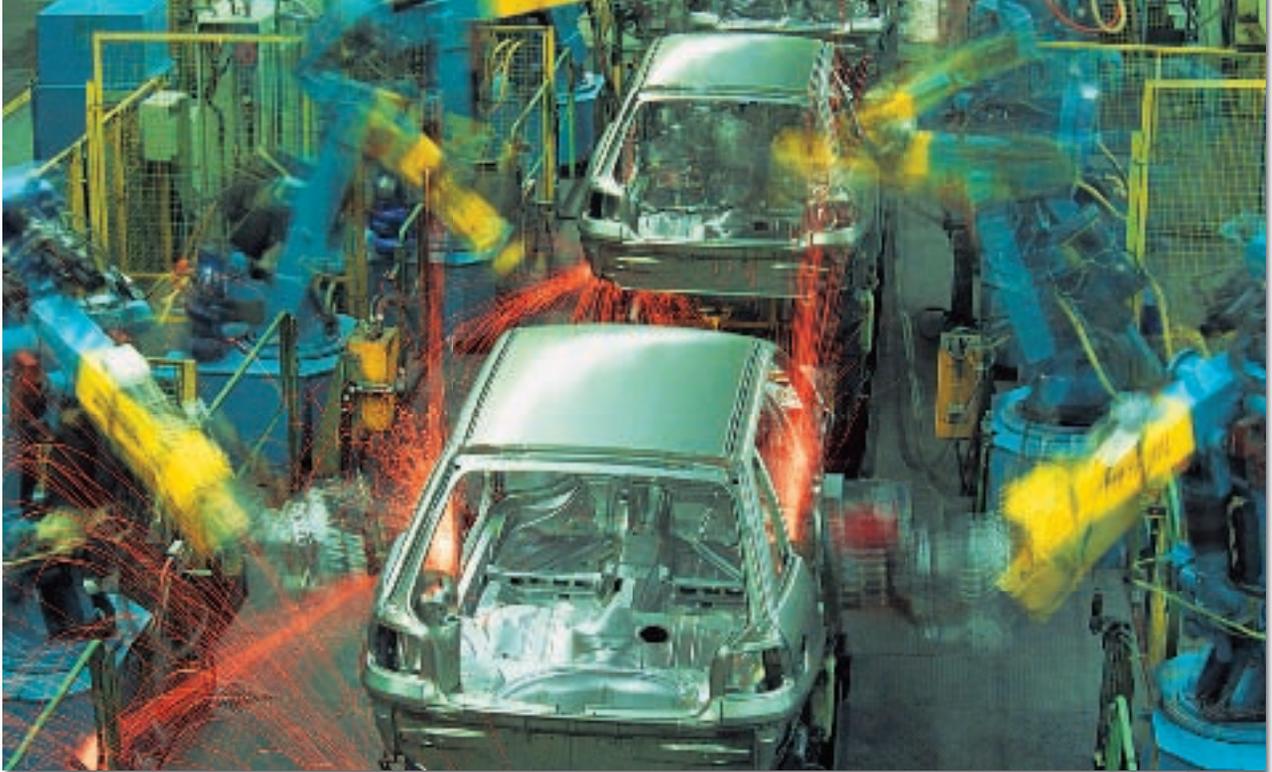
Igoe, who originally sought to intern at a media outlet in New York, instead spent 11 weeks in Nicaragua assisting in the launch of Agora Partnerships, an enterprise that helps young entrepreneurs in Central America develop socially responsible businesses. “I was attracted to this job in part because it had such heart,” says Igoe.



CASE STUDY Go to the *Introduction to Business* Online Learning Center through glencoe.com for the *BusinessWeek* Reader Case Study.

Active Learning

With a partner, think about other opportunities that can help give purchasing power to people in developing nations. Write a two-page report about a country you would like to help. Describe socially responsible businesses that already exist in that country. Finally, prepare an oral presentation based on your report.



● **The Interdependence of Businesses** Many businesses rely on other businesses. **Which types of businesses might be involved in the manufacture of an automobile?**

Intermediaries and Wholesalers

An **intermediary** is a business that moves goods from one business to another. It buys goods, stores them, and then resells them. A **wholesaler distributes** goods. Wholesalers are also known as distributors. A clothing wholesaler, for example, may buy thousands of jackets from several manufacturers. The wholesaler then divides the large quantities into smaller ones and sells them to retailers.

Retailers and Service Businesses

A **retailer** purchases goods from a wholesaler and sells them to consumers, the final buyers of the goods. Service stations, record stores, and auto dealers are examples of retailers.

Service businesses perform **tasks** rather than provide goods. Some service businesses meet needs, such as medical clinics and law firms. Others provide conveniences, such as taxi companies and copy shops. Service businesses employ about three-quarters of the workforce and are rapidly increasing in numbers.

Functions of Business

There are five main **functions** involved in the operation of all types of businesses. They are production and procurement; marketing; management; finance; and accounting.



Identify What are the five main functions of business?

As You Read

Think about starting a surfboard business that sells boards you design and make. Would your business be involved in production or procurement?

Production and Procurement

Production is the process of creating, expanding, manufacturing, or improving goods and services. Most retailers procure goods from producers for resale. **Procurement** is the buying and reselling of goods that have already been produced. Wholesalers buy goods from producers to resell to retailers and other wholesalers.

Marketing

Marketing is the process of planning, pricing, promoting, selling, and distributing ideas, goods, and services. Marketing **involves** getting consumers to buy a product or service. Marketers make decisions based on market research of trends and consumer habits.

Management

Management is the process of achieving company goals by planning, organizing, leading, controlling, and evaluating the effective use of resources.

Finance and Accounting

Finance is the business or art of money management. It requires analyzing financial statements to make future decisions. **Accounting** involves maintaining and checking records, handling bills, and preparing financial reports for a business.

Science/TechTRENDS

The History of Information Technology

The information technology (IT) practices of today have evolved and developed through several stages, each with the goal of solving the input, processing, output, and communication problems of the time. During the Premechanical Age, from 3000 BC to AD 1450, writing and alphabets developed, books and libraries were invented, and the first calculator, the abacus, came into popular use. The Mechanical Age, from 1450 to 1840, brought with it the first real computers. During the Electromechanical Age, from 1840 to 1940, the discovery of ways to harness electricity meant knowledge and information could be converted into electrical impulses. From 1940 to the present, the Electronic Age has the ongoing communications revolution in our homes and places of business.

Web Quest

Go to the *Introduction to Business* Online Learning Center through glencoe.com for links to Web sites where you can find out more about the history of information technology. Write a few paragraphs about a person, invention, or time period that interests you.

How the Functions of Business Are Interdependent

The functional areas of business depend on each other. For example, say a furniture maker's sales have been decreasing. The accounting and finance departments have noted the drop in sales. If the products are too high-priced, then more efficient procedures will have to be implemented. This will involve management and production. A new marketing plan may be required. Accounting and finance will have to closely monitor the effects that new efforts have on profits.

Sometimes the functional areas conflict with each other. Suppose management wants to increase sales by 20 percent within three years. The production department suggests improving quality to attract more customers. However, changing the quality would add to costs. Meanwhile, the marketing department says the problem is that there is not enough marketing being done. It requests more funds for projects. Accounting then says neither plan is good since both would lower profits by raising costs. It suggests improving production efficiency. The final plan involves ideas from all functions of business. Companies benefit when all functional areas work together.



To Advertise or Not
Advertising is used to influence consumers to buy one product or service over another. *Do you think you could run a successful business without doing major advertising? Why or why not?*

Section 6.2

After You Read

Review Key Concepts

1. What is the difference between a producer and a processor?
2. Identify the five functions of business.
3. Give an example of how the accounting and finance functions can affect a business's marketing and production processes.

Academic Skills

4. **English Language Arts** Brainstorming is a technique you can try to come up with ideas to use in your writing. Imagine that you have written a book encouraging high school students to start their own part-time business. Work with a group to brainstorm titles for your book. Ask the group to think of titles that would be intriguing to high school students.
5. **English Language Arts** Write a three-sentence summary of the material in this section. Share it with four classmates, and ask them to either add a sentence containing something you missed, correct any errors they find, comment about how you could write a better summary, or compare their summary to yours. Then rewrite your summary, incorporating any ideas or corrections you feel are appropriate.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Chapter 6 Review and Activities

Section 6.1 Summary

Types of Business Ownership Three primary forms of business ownership are sole proprietorships, partnerships, and corporations. A major advantage of sole proprietorships and partnerships is their ease of formation. One advantage corporations have over sole proprietorships and partnerships is limited liability. Limited liability means an owner cannot suffer a loss that is more than he or she invested. An advantage partnerships and corporations have over sole proprietorships is better access to capital. Nonprofits, cooperatives, and franchises are other forms of organizations.

Section 6.2 Summary

Types and Functions of Businesses There are different types of businesses. Most can be categorized as producers, processors, manufacturers, intermediaries, or retail or service businesses. There are five functions of business: production and procurement; marketing; management; finance; and accounting. These functions take place in every company. The functional areas are interdependent and must work together for the business to succeed. Sometimes the functional areas are in conflict with one another. Conflicts can be resolved by considering ideas from all functional areas.

Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

Key Terms

sole proprietorship	franchise	production
unlimited liability	producer	procurement
partnership	processor	marketing
corporation	manufacturer	management
limited liability	intermediary	finance
cooperative	wholesaler	accounting
nonprofit organization	retailer	

Academic Vocabulary

sole	distributes
income	tasks
partners	functions
regulates	involves

Review Key Concepts

2. Describe the advantages and disadvantages of three major forms of business organizations.
3. Describe how cooperatives and nonprofits are like and unlike corporations and franchises.
4. Differentiate the six types of businesses.
5. Describe the five functions of business.
6. Discuss how the five functions of business relate to each other.

Critical Thinking

7. Why might two or more people decide to form a partnership instead of each forming a sole proprietorship?
8. Working as a team member is similar to being in a partnership. What are some advantages and disadvantages of working with others?
9. There are more sole proprietorships than partnerships or corporations in the United States. Why do you think so many businesses are organized as sole proprietorships?
10. Identify what happens during the production, processing, and delivery stages within each type of business responsible for the manufacturing and sale of a loaf of bread.
11. Explain how a producer, a processor, and a manufacturer are not involved in producing a service.
12. How can accountants in a firm provide an idea of the general financial health of the company?
13. Imagine that you and a friend have developed a new engine and would like to manufacture the engine and sell it to major automakers. What form of business organization would you select for your company? Why?

Write About It

14. Write an e-mail to a friend, explaining the reasons for the differences between the cost of manufacturing a product and its final sales price.
15. Interview a business partner. Ask why he or she entered into a partnership. What are the challenges of being in a partnership? Write a report based on the person's responses.
16. Form groups. Have each member interview someone who works in finance, marketing, production, human resources, management, or sales. Ask them about the responsibilities of their positions. How do their departments function within their companies? Write a report on your findings.
17. Look in reference books for information about what is included in the articles of incorporation. Write a one-page report about your findings.
18. Research the characteristics of an S corporation or a limited liability company. In two or more paragraphs, discuss how they are like and unlike a conventional corporation.
19. Interview the director of a nonprofit. Find out how its functions are similar to or different from a for-profit business. Prepare a one-page report on your findings.

Technology Applications

Creating a Database

20. Compile a database of at least 10 businesses from a phone book. Include fields for the name, address, telephone number, and the category of business. Find at least one business that is a producer, a processor, a manufacturer, an intermediary, and a retail or service business.

Business Ethics

Go Solo or Form a Partnership?

21. Imagine that you and a friend invent a new material for fixing leaky faucets. You would like to sell this new product. Your friend wants to be your partner. Since he worked with you on the new invention, should you form a partnership with him? Write a letter to your friend discussing your decision.

Chapter 6 Review and Activities

Applying Academics to Business

English Language Arts

22. List the words *producer*, *manufacturer*, *wholesaler*, and *retailer*. Underline the base word within each and circle the suffix. Write a definition for the suffix and list a few other words that use it in the same way. What other suffixes have a similar meaning? Give some examples.

Mathematics

23. The neighborhood bakery makes bread, cakes, cookies, and pies. At the end of the day, the prices of all the leftover products are reduced by 75%. If bread sells for 87¢ at the end of the day, what is its regular price?

CONCEPT **Algebra: Equations** Using the information given in the problem, you can write an algebraic equation and find the solution. Let x stand for the regular price of the bread.

English Language Arts

24. The word *corporation* is related to other words in the English language that might not seem connected such as *corps*, as in *Marine Corps*, *corpulent* (meaning obese), and *corpus delicti* (meaning the facts that prove a crime was committed). Research the origins of these words, and explain why they are related.

Mathematics

25. Zack wanted to open a business having to do with his favorite sport, skiing. Since he lives in a warm climate, he decided to open an indoor ski park. The beginner's slope is 822 feet long and 65 yards wide. What is its area?

CONCEPT **Geometry: Finding Areas** The areas of two-dimensional geometric figures can be found using various formulas. Area is measured in square units. In solving this problem, decide which units to use.

Active Learning

Learning from Working

26. Most nonprofit organizations provide charitable services to people and communities. They rely upon volunteers to conduct much of their business. Volunteer to work in a nonprofit organization. Find out what workers do, how they do it, how the nonprofit is set up, what people like about working there, how it is funded, and what challenges it faces. Write a one-page report about your findings. Present your report to the class.

Business in the Real World

Comparing Business Organizations

27. Invite local businesspeople from sole proprietorships, partnerships, and corporations to serve on a panel discussion in your class. If there is a cooperative in your community, have a representative from the organization attend. Ask the panel members about the advantages and disadvantages of their type of business ownership, how they got their start, and the qualities they feel are important for success. Be sure to thank them for their time.

Real LIFE skills

ASSESSING YOUR SKILLS

28. Successful business ownership requires several personal qualities. They include: responsibility, self-esteem, sociability, self-management, integrity, and honesty. In your own words, write definitions of these qualities and rate your possession of them from 1 to 5, with 5 being your strongest quality and 1 being your weakest. What can you do to develop the two qualities that you have ranked as the lowest?

COOL Business CAREERS

FIND YOUR DREAM JOB

29. Go to the *Introduction to Business* Online Learning Center through glencoe.com for a link to the Occupational Outlook Handbook Web site. Click on the “OOH Search/A-Z Index” link and enter the job title “top executive.” Then write a one-page report about this type of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

Role Play

FUNCTIONAL AREAS OF BUSINESS

30. **Situation** You are the sales manager of a company that makes bicycles. Your salespeople report that several bicycles have been returned because of a faulty brake.

Activity The president wants to know what you think should be done to correct the problem. You need to prepare a report for him that demonstrates what you think should be done. Your report should include the actions to take in the functional areas of the business.

Evaluation You will be evaluated on how well you meet the following performance indicators:

- Make valid recommendations for each department.
- Describe each department function.
- Understand how the five functions of business depend on each other.
- Prepare a written report.
- Speak clearly and use correct grammar.

Standardized Test Practice

Directions Choose the letter of the best answer. Write the letter for the answer on a separate piece of paper.

1. Which word or phrase best completes the sentence?

Many people _____ hard over the years to make the business a success.

- A work
- B will work
- C works
- D have worked



TEST-TAKING TIP When taking a test, work on a problem only until you get stuck. Think about it for a minute or two, and if nothing comes to mind, then move on to another problem.



READING Go to the *Introduction to Business* Online Learning Center through glencoe.com for a list of outside reading suggestions.