

Corporations, Mergers, and Multinationals 8.3 notes

- **What types of corporations exist?**
- **What are the advantages of incorporation?**
- **What are the disadvantages of incorporation?**
- **How can corporations combine?**
- **What role do multinational corporations play?**

Types of Corporations

- A **corporation** is a legal entity, or being, owned by individual stockholders.
- ***Stocks***, or shares, represent a stockholder's portion of ownership of a corporation.
- A corporation which issues stock to a limited a number of people is known as **a closely held corporation**.
- A **publicly held corporation**, buys and sells its stock on the open market.

Advantages of Incorporation

Advantages for the Stockholders

- Individual investors do not carry responsibility for the corporation's actions.
- Shares of stock are transferable, which means that stockholders can sell their stock to others for money.

Advantages for the Corporation

- Corporations have potential for more growth than other business forms.
- Corporations can borrow money by selling bonds.
- Corporations can hire the best available labor to create and market the best services or goods possible.
- Corporations have long lives.

Disadvantages of Incorporation

- **Corporations are not without their disadvantages, including:**

Difficulty and Expense of Start-Up

Corporate charters can be expensive and time consuming to establish. A state license, known as a **certificate of incorporation**, must be obtained.

Double Taxation

Corporations must pay taxes on their income. Owners also pay taxes on **dividends**, or the portion of the corporate profits paid to them.

Loss of Control

Managers and boards of directors, not owners, manage corporations.

More Regulation

Corporations face more regulations than other kinds of business organizations.

Corporate Combinations

- **Horizontal mergers** combine two or more firms competing in the same market with the same good or service.
- **Vertical mergers** combine two or more firms involved in different stages of producing the same good or service.
- A **conglomerate** is a business combination merging more than three businesses that make unrelated products.

Multinationals

Advantages of MNCs

- Multinationals benefit consumers by offering products worldwide. They also spread new technologies and production methods across the globe.

Disadvantages of MNCs

- Some people feel that MNCs unduly influence culture and politics where they operate. Critics of multinationals are concerned about wages and working conditions provided by MNCs in foreign countries.

Multinational corporations (MNCs) are large corporations headquartered in one country that have subsidiaries throughout the world.

Section 3 Assessment

1. All of the following are advantages of incorporation EXCEPT

- (a) the responsibility for the business is shared
- (b) capital is easier to raise than in other business forms
- (c) corporations face double taxation
- (d) corporations have more potential for growth

2. A horizontal merger

- (a) combines two or more firms involved in different stages of producing the same good or service.
- (b) combines two or more partnerships into a larger partnership.
- (c) combines two or more firms competing in the same market with the same good or service.
- (d) combines more than three businesses producing unrelated goods.

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Other Organizations 8.4 notes

- **How do business franchises work?**
- **What are the three types of cooperative organizations?**
- **What are nonprofit organizations?**

Business Franchises

- Franchisers develop products and business systems, then local franchise owners help to produce and sell those products.
- Franchises allow owners a degree of control, as well as support from the parent company.

A **business franchise** is a semi-independent business that pays fees to a parent company in return for the exclusive right to sell a certain product or service in a given area.

Advantages and Disadvantages of Business Franchises

Advantages of Business Franchises

- Management training and support
- Standardized quality
- National advertising programs
- Financial assistance
- Centralized buying power

Disadvantages of Business Franchises

- High franchising fees and royalties
- Strict operating standards
- Purchasing restrictions
- Limited product line

Cooperatives

A **cooperative** is a business organization owned and operated by a group of individuals for their shared benefit.

- **Consumer Cooperatives**
 - Retail outlets owned and operated by consumers are called **consumer cooperatives**, or purchasing cooperatives. Consumer cooperatives sell their goods to their members at reduced prices.
- **Service Cooperatives**
 - Cooperatives that provide a service, rather than goods, are called **service cooperatives**.
- **Producer Cooperatives**
 - **Producer cooperatives** are agricultural marketing cooperatives that help members sell their products.

Nonprofit Organizations: exempt from federal income taxes

Professional Organizations

Professional organizations work to improve the image, working conditions, and skill levels of people in particular occupations.

Business Associations

Business associations promote the business interests of a city, state, or other geographical area, or of a group of similar businesses.

Trade Associations

Nonprofit organizations that promote the interests of particular industries are called **trade associations**.

Labor Unions

A **labor union** is an organized group of workers whose aim is to improve working conditions, hours, wages, and fringe benefits.

Institutions that function like business organizations, but do not operate for profits are nonprofit organizations. Nonprofit organizations are exempt from federal income taxes.

Section 4 Assessment

1. A business franchise

- (a) attempts to improve the image and working conditions of people in a particular occupation.
- (b) operates without the aim of profit.
- (c) is a semi-independent business tied to a parent company.
- (d) is not required to pay income taxes.

2. Consumer cooperatives

- (a) are owned and operated by consumers.
- (b) provide a service, rather than a good.
- (c) help members sell their agricultural products.
- (d) pay no income tax.

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