

# What is a Company?

## Suggested Grade

High School – all levels

## Suggested Time

50 minutes

## Teacher Background

A company is a business or association usually formed to manufacture or supply products or services for profit. A company can be a partnership, a limited liability partnership (LLP), a corporation or owned by a single individual.

All companies are set up in accordance with government regulations. In a partnership the partners share the profits or losses of the business in which they have all invested; they are personally liable for the company's debt. A limited liability partnership (LLP) transfers much of the firm's personal liability from the partners to the partnership, for example, accounting and law firms are generally set up as limited liability partnerships.

A public corporation is a company with publicly traded shares that anyone can buy in a stock market. A public corporation is also legally separated from the stockholders who own it and the managers who run it. A corporation offers these advantages:

- Stockholders' are not responsible for the company's debt;
- A corporation continues to exist even if its stockholders or managers change;
- Stockholders can easily sell their ownership shares through the stock market.

A private corporation may be owned by an individual or privately sell stock to fund the business. The partners in the company are called shareholders. They receive shares for their contributions to the business. Shareholders have ownership and some decision making power in the company. The company does not sell shares to the public; you cannot buy shares of a private company on the stock market.

## Vocabulary

**Company:** A business or association usually formed to manufacture or supply products or services for profit.

**Corporation:** A company legally separate from stockholders who own it and the managers who run it.

**Entrepreneur:** A person who organizes, operates, and assumes the risk for a business venture.

**Partnership:** A company owned and managed by two or more people who share its profits or losses. A partnership is not separate from its owners, who are liable for the company's debts.

**Private corporation:** A corporation that doesn't sell shares to the public. You cannot buy shares of a private company in the stock market.



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**Public corporation:** The stock of a public company is owned and traded by individuals and institutional investors. In contrast, the stock is held by company founders, employees, and sometimes venture capitalists.

**Sole-proprietorship:** A company owned and run by one individual who receives its profits or bears its losses. A proprietorship is not separate from its owner, who is liable for the company debts.

## Performance Objectives

Students will be able to:

- Identify and describe the terms: company, partnership, and corporation.
- Explain the characteristics, advantages and disadvantages of various types of companies.
- Explain how companies are formed.
- Describe the benefits of forming a business to manufacture and sell a product.

## Materials

*Activity Sheet 1: P&G – Production & Growth*

*Activity Sheet 2: Researching a Company*

## Springboard Activity

### Ask

What do Martha Stewart, Bill Gates and Donald Trump all have in common?

Elicit answers from students and explain they are all individuals who started famous companies:

- Martha Stewart started Martha Stewart Living Omni Media (NYSE:MSO)
- Donald Trump started Trump Organization
- Bill Gates started Microsoft Corporation (NASDAQ:MSFT).

Each is a company that makes products or provides services to customers. Explain that companies are organized in different ways. Some, like The Trump Organization, are owned by one person; others like Microsoft and Martha Stewart Living Omni Media were founded by one owner but became public corporations.

### Ask

Why do you think a company would change its ownership?

Why would a private company want to become a public corporation?



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## Procedure

### Distribute

*Activity Sheet 1: P&G - Production & Growth* and have students read the history of Proctor and Gamble to determine why different companies are organized differently.

### Novice Level

Have students write their definition of “company” and share it. Then have students read *Activity Sheet 1: P&G - Production & Growth* and answer the “Before Reading Further Questions” 1 and 2.

After students complete the “Before Reading Further Questions,” ask the students to complete the additional questions 3 through 10 with their SMG team.  
Review the answers, and as a class refine the students’ original definition of a company.

### Apprentice Level

Have students write their definition of “company” and share it with a neighboring student. Then have students read *Activity Sheet 1: P&G - Production & Growth* and complete the “Before Reading Further Questions,” numbers 1 and 2 as a class.

After the “Before Reading Further Questions,” are completed, have the students to complete the additional questions 3 through 10 with SMG teams.

Review answers to the *Activity Sheet 1: P&G - Production & Growth* and have the students refine their definitions of “company.”

Have each SMG team prepare a timeline of Proctor and Gamble – from founding through major changes.

### Master & Grand Master Levels

Have students read *Activity Sheet 1: P&G - Production & Growth*.

Organize students into SMG teams and have each team research and evaluate two companies producing products that they are familiar with. One company should be a public company and the other a privately held company. Use *Activity Sheet 2: Researching a Company*, to organize data.

Have them identify the type of company, the history of the company/product, and the benefits the company has gained from forming this type of business organization.



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## Assessment

### Novice & Apprentice Levels

Have students explain, orally or in writing, the advantages of changing a partnership or private company into a public corporation.

### Master & Grand Master Levels

Donald Trump owns The Trump Organization, his real estate company. This company is privately held. But Trump Entertainment, which owns his Atlantic City casinos, is a publicly owned corporation.

Have students apply their knowledge of public and private corporations to explain why they believe Trump would have these two different corporate structures.

## Application

### Novice & Apprentice Levels

#### Ask

How does the company structure impact the stocks you pick in SMG?  
Would you invest in Trump Organization if it “went public”? Why? Why not?

### Master & Grand Master Levels:

Have student's select three famous people who have started companies using <http://www.hoovers.com>.

Have students write summaries of the products or services of these companies including their corporate structures and advise their SMG teammates on whether the team should invest in these companies.

## Enrichment Activities

Have student's research additional companies.

Assign students to read about the Scotch Tape invention from 3M <http://inventors.about.com/library/inventors/blscotchtape.htm> or find another company they would like to know more about on the Internet.

Or print out several inventions from <http://inventors.about.com/library/inventors/html> and have students present these companies to the class in a PowerPoint presentation.



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# Answer Key

## Activity Sheet 1

1. Sole proprietorship
2. Answers may vary
3. In a partnership, two or more people own and manage the business, receive its profits and bear its losses, while in a sole proprietorship, there is one owner who receives its profits and bears its losses as well.
4. A partnership offered them both a bigger, growing company and more family partners.
5. Limited liability applied to the partnership formed by William and James Gamble in 1837.
6. Cooper suggested that they end the partnership and turn the business into a corporation to expand, develop and sell its new product.
7. A corporation exists independently of the stockholders, who own it, it conducts business and pays its expenses as a separate legal entity, and the owners risk their money when buying shares of stock.
8. One feature that potential investors like about corporations is that they can easily sell their share of stock in the stock market. Another feature may be that the liability is limited.
9. Answers may vary
10. Answers may vary.



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## Activity Sheet 2

Name of Company:

| Identify the type of business organization                              | List highlights of the history of the company/product   | Benefits to the company from the type of business organization it formed   | Source(s) of Research   |
|---|---|--|---|
| <p>Martha Stewart Living Omni Media (MSO)</p> <p>Trump Organization</p> | <p>MSO is organized into four business segments: Publishing, Broadcasting, Merchandising, and Internet. Not too much on history...</p> <p>Has timeline of his life and how he got into all different businesses<br/>Includes listing of businesses which include real estate, entertainment, etc.</p> | <p>Has a three presidents and a Board of Directors<br/>Shows concerns for ethics and audits<br/>Stock used to promote new areas of business like New Home Collection for Macy's</p> <p>One person is clearly in charge<br/>No stockholders to report to<br/>No dividends to give out<br/>Able to still own a lot of big businesses</p> | <p><a href="http://www.marthastewart.com">http://www.marthastewart.com</a></p> <p><a href="http://www.trump.com">http://www.trump.com</a></p> |

Would you invest in this company? Explain.

*Both companies seem to be involved in many different areas but I don't like Donald Trump-he looks untrustworthy and he is the only one in charge. But the Martha Stewart's site shows how many people are watching over the various areas of business and they seem to care about stock holder relations, as well as their accurate accounting practices.*



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