

LESSON 1: BUSINESS ORGANIZATION

Focus Question: Is it best to organize our VE company as a corporation?

Objectives

Students will be able to:

- Explain the differences between a sole proprietorship, partnership, and corporation.
- Discuss the advantages and disadvantages of each form of business organization.
- Support their points of view as to whether their VE should have been organized as a corporation rather than a partnership or sole proprietorship.

Standards

NES: 10, 13, 14, 15, 18

ELA: 1, 2, 3, 4

Materials

Text, pp. 213-227. (All text references in the curriculum are *Economics: Today and Tomorrow*, Roger LeRoy Miller (Columbus, Ohio: Glencoe/McGraw-Hill, 2000).

Teaching Strategies

Introduction:

- Distribute Worksheet 1A “Business Organizations.” Have students complete the exercise on the worksheet for homework.
- To begin this lesson in class, have students explain their answers to the following:
 - Describe the design of your web page.
 - What appear to be the most important differences between the sole proprietorship, the partnership, and the corporation?
 - Based on what you heard so far, why has our VE business been organized as a corporation rather than a sole proprietorship or partnership? Do you think this was a good idea?
 - What questions does this worksheet raise for our class discussion?

Body of lesson:

- Distribute Worksheet 1B, “Interviews.” Select 13 students to play the following roles: (1) Owner of a Sole Proprietorship, (2) Members of a Partnership, (1) the Head of a Corporation, (9) Interviewers 1, 2, 3, 4, 5, 6, 7, 8, and 9. Have students act out the three interviews on the worksheet. Then, as part of the whole-class discussion, have them explain their answers to the following:
 - What did we learn about each form of businesses from the interviews?
 - Explain what you think the sole proprietor meant when he (she) said “As a sole proprietor I don’t have to answer to anybody, and that’s just the way I like it.”
 - What did the partner mean when he (she) said, “A partnership works only so long as you have a good relationship with your partner?”
 - Explain this statement by the head of the corporation. “The U.S. wouldn’t be what it is today without the corporation.”
 - Based on what you heard in these interviews, why has the corporation become the major form of business organization in the U.S.?
- Distribute Worksheet 1C, “Three Businesses.” Have students explain their answers to the following:
 - What advice would you give your client(s) in situation 1? Explain.
 - What advice would you give your client(s) in situation 2? Explain.
 - What advice would you give your client(s) in situation 3? Explain.

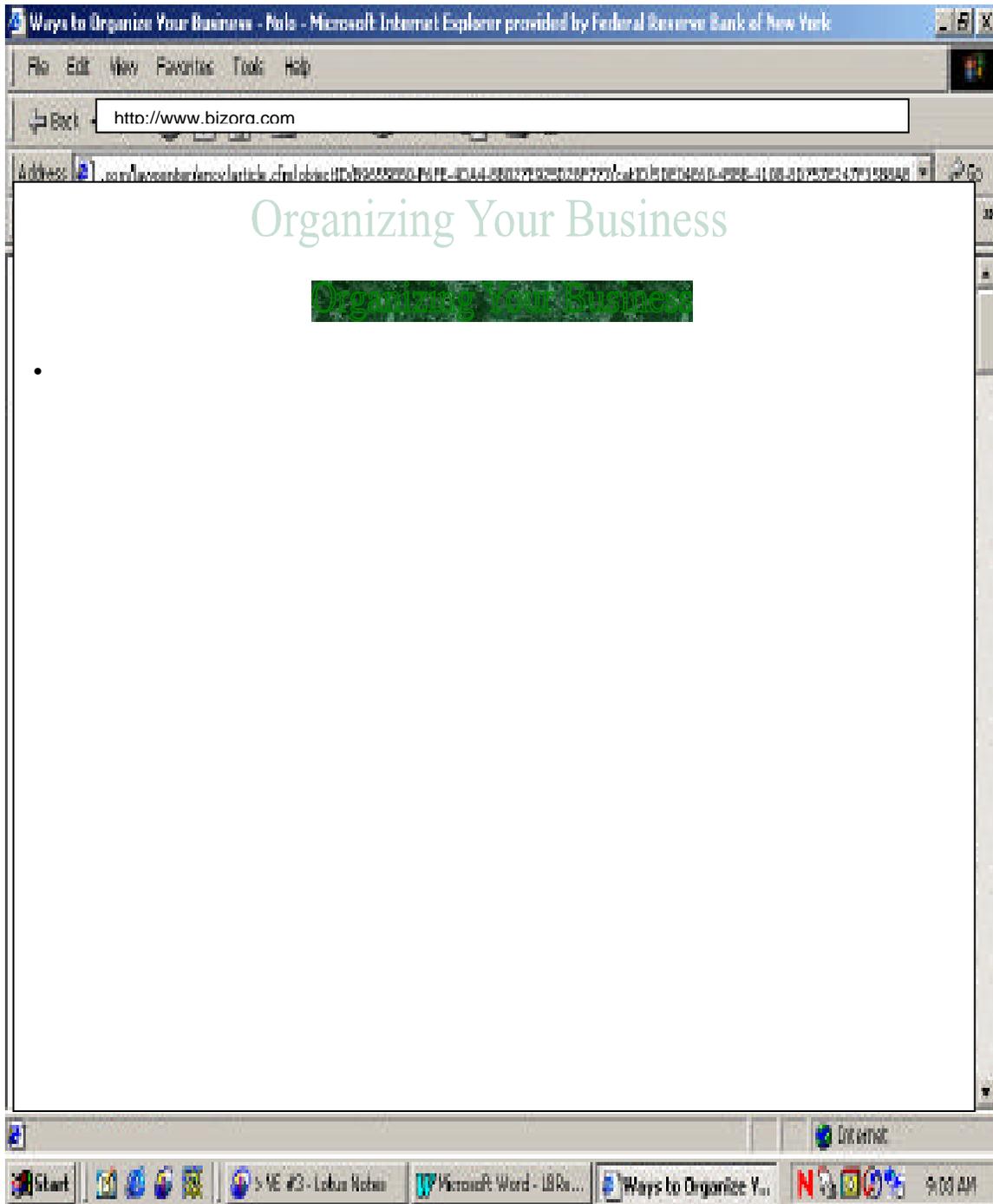
Summary/Assessment:

- Ask students to explain their answers to the following:
 - What would be some of the advantages/ disadvantages of running our VE business as a sole proprietorship? A partnership?
 - Why was our VE business organized as a corporation?
 - Do you think it was a good idea?

Worksheet 1A

Business Organizations

Imagine that you work for a new dot com, called Biz.org. You were given the task of designing a web page about the three basic types of business organizations: sole proprietorship, partnership, and corporation. Besides a brief description, include the major advantages and disadvantages of sole proprietorship, partnership, and corporation. Finally, draw a graphic symbol for each type of business organization. Other than including the information called for above, you may design the page as you see fit.



Worksheet 1B

Interviews

INTERVIEW 1

Interviewer 1: Tell us about your business.

Sole Proprietor: I own a hardware store that serves the needs of the people in my community. We're open 6 days a week, Monday through Saturday, from 10 A.M.-7 P.M.

Interviewer 2: Why did you decide to operate your business as a sole proprietor?

Sole proprietor: As a sole proprietor I don't have to answer to anybody, and that's just the way I like it. I keep all the profits, set my own hours, and make my own decisions. I get a great deal of satisfaction in seeing the business I built grow, and knowing I did it on my own.

Interviewer 3: What things do you like least about running your own business?

Sole proprietor: Everything's on my head. If don't make enough money, there's no one to turn to for help. If I get sick, have to take care of family business, or go on a vacation, I must find someone to run the store or close it. Sometimes the people that I hire give me trouble, by showing up late or complaining about this or that. Trouble is I have to depend on such people.

INTERVIEW 2

Interviewer 4: Tell us about your business:

Partner 1: We are accountants. We have over 100 hundred clients. I handle half of the clients, and my partner handles the other half. We usually work 6 days a week, I stay late on some days, and my partner stays late on the others. During tax season we even work on Sundays.

Interviewer 5: Why did you decide to operate your business as a partnership?

Partner 2: Having a partnership means that not everything is on my head. If I can't figure out how to do something, my partner usually can. Our losses are shared. My partner fills in for me when I can't make a business meeting. The way I figure, two heads are better than one.

Partner 1: Having a partner makes for a very efficient operation. While we can stay close to the business, like a sole proprietor, there is more potential for growing the business. Having a partner allows us to tap into the strengths and talents that we each have.

Interviewer 6: What are the things you like least about running your business as a partnership?

Partner 2: Things are working fine today because we get along, but a partnership works only so long as the partners have a good relationship. Also, I regret having to share all the profits with my partner when I deal with the biggest clients. Finally, if it ever happens that my partner can't pay her business debts, then I must pay them.

INTERVIEW 3

Interviewer 7: Tell us something about your business.

Head of corporation:We make computer chips. The company is owned by 12,000 stockholders. 6,500 employees work for us. We have factories in Mexico and Thailand and a sales staff all over the U.S., Europe, Asia, and Latin America.

Interviewer 8: Why did you decide to operate your business as a corporation?

Head of corporation:For us there was little choice. In order to raise the large sums of money we needed, it was necessary to sell shares of stock to the public. Our operation is very complex. Organizing as a corporation makes it easier to hire the large number of managers with special abilities we needed. Corporations are taxed at a special rate, which helps us financially. Finally, the corporate form of business allows us limited liability to protect the owners of the corporation. This means that if the corporation is sued or goes out business, those who the corporation owes money cannot take the personal property or money of the corporation's owners. The U.S. wouldn't be what it is today without the corporation.

Interviewer 9: What are the problems you face running your business as a corporation?

Head of corporation:Managing a corporation is not easy, with a Board of Directors wanting to go one way, stock holders wanting higher profits, and the senior officers operating things daily. Having so many levels of management means that making decisions often takes a long time.

Worksheet 1C

Three Businesses

You are a business adviser. The three clients described below come to get your advice as to whether they should organize their businesses as a sole proprietorship, as a partnership, or as a corporation. Write a memo to each fully explaining your decision.

Client 1: "I and a group of investors would like to open an electronics business. Our first product would be a new kind of television that could be sold around the world. The unique features of this TV are that it can also be used as a computer and video telephone. Start-up costs are estimated to be in the millions of dollars, which will go towards opening two factories in Asia and one in South America. We are looking to hire some very skilled technicians and expert managers. I expect that we will be employing about 1,000 workers by the time we open."

Client 2: "I want to be my own boss. The last thing I want is having somebody making business decisions for me. My idea is to open a store that rents DVDs in my neighborhood. I'm not looking to make a fortune, but to earn enough to meet my basic needs, with a little left over for savings and vacation."

Clients 3 & 4: "The two of us would like to start a house-painting business. We're willing to work hard to get the business started. One of us is better at the business side, the other is an expert painter. Together we have enough money to open a small store and buy supplies."