What is a Company?

Suggested Grade

Grades 9-12

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 minor 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 can't buy shares of a private company in the stock market.

Public corporation: The stock of a public company is owned and traded by individual 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 your students if they or someone they know have ever:

1. Ordered from Amazon.com?
2. Bought something from The Body Shop?
3. Ate at a Dunkin Donut?

Jeff Bezos, Amazon's founder, Anita Roddick, founder of The Body Shop, and Dunkin Donuts founder, William Rosenberg, are examples of sole proprietorships that grew into internationally recognized companies and brands.

Explain to your students that there are different types of businesses. In addition to sole proprietorships there are partnerships like the group of former Paypal employees that founded YouTube. Have you or your students ever watched videos on YouTube?

There are also companies and corporations, which can be classified as private (companies that don't sell stock) or public (companies that sell stock on the stock market).

Ask

1. Why do you think a company would change its ownership?
2. Why would a private company want to become a public corporation?

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.

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

While William Procter was popularizing his candles and soaps in Ohio, William Colgate was doing the same in New York City. There are many similarities between their stories as well as differences. Ask your students to conduct research online about the Colgate-Palmolive Company and additional research about Procter and Gamble. How are they similar? How are they different? Both are publicly traded. Based on the research they've done, which company are they more likely to invest in? Why?

Application

Novice & Apprentice Levels

Mars, Inc. produces some of the most iconic candies in the US, including M&M's, Snickers, Skittles, Starburst, and Wrigley's Double Mint gum. They are a private, family-owned company. But what if they decided to go public? Ask your students: "If Mars, Inc. were to go public, would you invest in it? Why? Why not?"

Master & Grand Master Levels:

Have student's select three famous people who have started companies using https://www.thoughtco.com/inventions-4133303

Have students write summaries of the products or services of these companies including their corporate structures and advise their SMG teammates on whether or not 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 https://www.thoughtco.com/history-of-scotch-tape-1992403 or find another company they would like to know more about on the Internet.

Or print out several inventions from https://www.thoughtco.com/inventions-4133303 and have students present these companies to the class in a PowerPoint presentation.

Answer Keys

Activity Sheet 1

1. What type of business organization did William Procter use when he began to produce and sell candles in his small shop in Cincinnati?

Sole proprietorship

2. Name a business in your community that illustrates the same type of organization used by William Procter in his original candle-making business.

Answers may vary.

3. When James Gamble and William Proctor started the Procter & Gamble Company in 1837, the business was a partnership. Briefly explain the difference between a partnership and the type of business you identified in question 1.

In a partnership, two or more people own and manage the business, receive it profits and bear its losses, while in a sole proprietorship, the there is one owner who receives its profits and bears its losses as well.

4. What advantage did a partnership offer James Gamble and William Procter?

A partnership offered them both a bigger, growing company and more family partners.

5. Did limited liability apply to William Procter's candle-making business or to the partnership formed by William and James Gamble in 1837?

No, it did not apply until their company incorporated in 1887. Until then both parties had unlimited liability because their possible losses were not limited to the amount each had invested in their businesses.

6. By 1887, the partnership had grown to include 5 sons. Why did Cooper Procter recommend ending the partnership and turning the business into a corporation? Cooper suggested that they end the partnership and turn the business into a corporation to expand, develop and sell its new product.

What is a corporation?

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 stock.

8. Compared with a proprietorship or a partnership, a corporation is usually better at raising funds for growth. Describe at leas two features of a corporation that make it attractive for potential investors.

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. Look in a newspaper's stock tables and find two businesses that sell products or services you bought during the last week.

Answers may vary.

10. The businesses you named in the previous question are all corporations, rather than proprietorships or partnerships. Why do you think this is so?

Answers may vary.

P&G — Production & Growth

What's 99.44/100% pure and floats? The answer is Ivory soap. But it didn't always float, and it wasn't always called Ivory. An accident changed that. In 1879, Procter & Gamble Company was producing a new white soap by boiling and stirring various ingredients with a steam-powered mixer. One day, a worker went off to lunch and forgot to turn the mixer off. Upon returning, he discovered a foamy mixture overflowing from the vat.

The unusual mixture still looked like soap, so workers poured it into molds, cooled it, cut it into cakes, and shipped it off for sale.

Floating Soap

Not long afterward, customers began asking for "the floating soap." At first, no one at Procter & Gamble knew what their customers meant. But someone remembered the accident, and the company decided to conduct more experiments. Once they figured out what had happened, the soap floated from that day on.

Procter & Gamble originally called the new soap P&G White Soap, but the owners wanted a catchy name instead. Finally, a name was found during a Sunday church service, when the minister quoted Psalm 45:8, which refers to ivory palaces. What's more, a chemical analysis showed that all the ingredients that weren't pure soap equaled only 0.56 percent. Subtracting that tiny percentage from 100% meant that the pure soap totaled 99.44% of each bar. So Procter & Gamble named the new soap Ivory and began selling it as "99.44/100% pure." Today, a package of Ivory still says, "99.44/100% PURE®:IT FLOATS."

These events would not have occurred had it not been for two terrible illnesses. When James Gamble was 16 years old, he and his family left their home in Northern Ireland to go to Illinois. Towards the end of that trip, they were floating down the Ohio River on a flatboat when James became very ill. So his parents rushed him ashore at Cincinnati to find a doctor. Luckily, James recovered, but he and his family stayed and made Cincinnati their home. The year was 1819.

At the time, Cincinnati's main business was the slaughtering of hogs. Soap making was also an important industry because a main ingredient of soap was animal fat from local packinghouses. No wonder James eventually entered the soap-making business.

During that same period, William and Martha Procter were traveling from England to a new home in Kentucky. They, too, were traveling down the Ohio River on a flatboat when illness suddenly struck. In this case, Martha became seriously ill with cholera, so they also stopped in Cincinnati to look for a doctor.

Tragically, Martha died a few days later, leaving William Procter alone and grief-stricken. He decided to stay in Cincinnati, however, where he eventually started his own candle-making business.

The Proprietor

The business William started was a proprietorship because he was the sole owner. A proprietorship is a company owned and run by one person who receives its profits and bears its losses. William had no trouble starting a proprietorship because he didn't have to fill out any legal papers or sign any agreements. He just opened his small store in Cincinnati and started selling his candles.

Before reading further in the story, answer the following questions on a separate sheet of paper:

1. What type of business organization did William Procter use when he began to produce and sell candles in his small shop in Cincinnati?

2. Name a business in your community that illustrates the same type of organization used by William Procter in his original candle-making business.

Okay, Partner

The work was hard and his life was lonely, so William must have been very happy when he found a new wife. His new wife's sister was married to James Gamble, so James Gamble, the soap maker, and William Procter, the candle maker, became brothers-in-law. After a few years, James and William decided to combine their businesses by forming a partnership. A partnership is just like a proprietorship, except two or more people own and manage the business. Like a proprietor, partners in a business receive any profits or bear any losses. James and William signed a formal partnership agreement in 1837, and Procter & Gamble was born.

The partners became widely known as honest people who produced high quality soap and candles. As years passed, the company prospered and grew. In 1851, William's oldest son joined the company and eventually became a third partner. In later years, sons from both families joined the partnership. Still later, a member of the third generation, Cooper Procter, joined the business. By the company's 50th birthday in 1887, annual profits had grown, and the number of family partners had risen to seven. The company's future looked bright, and the partners wanted to develop and market many new products. But producing new products costs a lot of money. The company would have to build new plants, buy new equipment, and conduct new research.

Answer the following questions:

3. When James Gamble and William Procter started the Procter & Gamble Company in 1837, the business was a partnership. Briefly explain the difference between a partnership and the type of business you identified in question 1.

4. What advantage did a partnership offer James Gamble and William Procter?

5. Did limited liability apply to William Procter's candle-making business or to the partnership formed by William and James Gamble in 1837?

Let’s Incorporate

These new projects would cost more than the partners could afford. So the youngest partner, Cooper Procter, suggested that the partnership become a corporation. Cooper believed that, as a corporation, the company could raise enough money to develop and sell its new products.

A corporation exists independently of the particular stockholders who own it and of the managers who run it. It’s a legal entity with its own rights and responsibilities. So changing the partnership into a corporation was a big step. In a partnership the owners and managers are usually one and the same. As partners, the family members were legally responsible for all taxes, expenses, or debts their business produced — even if they had to pay with their savings or sell their property.

A corporation, however, conducts business and pays its expenses as a separate legal entity. The owners risk their money when they buy shares of stock in a corporation. But, unlike a proprietor or a partner, their potential loss is limited to the amount in- vested in their shares of stock.

Having this “limited liability” is an attractive feature of corporations. But a corporation’s separate legal status also gives investors another advantage: They know they’re investing in a business that will last. The stockholders and managers of a corporation may change, but the business will continue.

Compare the life of a corporation with that of a proprietorship or a partnership. If an owner of a proprietorship or a partnership dies, the business dies, too. As a result, these types of businesses usually don’t last as long as a corporation.

A corporation’s long life and stockholders’ limited liability help make this type of business appealing. Investors also like corporations because they can easily sell their shares of ownership in the stock market. Investors in a corporation may also benefit from managers who have specialized knowledge and abilities. As a corporation, for example, Procter & Gamble was able to hire managers with special skills and knowledge. The abilities of these managers then benefited stockholders by helping to make the business more profitable.

Potential investors in a corporation see the benefit of limited liability, long life, ease of transferring ownership, and specialized management. These benefits allow corporations, in general, to raise more money for expansion and growth than a proprietorship or a partnership could. No wonder Cooper Procter recommended that Procter & Gamble become a corporation. The partners agreed, and the company was incorporated in 1890. As a corporation, Procter & Gamble was able to raise lots of money for growth by selling new shares of stock to many investors.

Through a diverse range of popular brands, products in more than 180 countries, and $66.8 billion in net sales (2018), Procter & Gamble has grown to one of the largest companies in the world.

Answer the following questions:

6. By 1887, the partnership had grown to include 5 sons. Why did Cooper Procter recommend ending the partnership and turning the business into a corporation?

7. What is a corporation?

8. Compared with a proprietorship or a partnership, a corporation is usually better at raising funds for growth. Describe at least two features of a corporation that make it attractive for potential investors.

9. Look in a newspaper's stock tables and find two businesses that sell products or services you bought during the last week.

10. The businesses you named in the previous question are all corporations, rather than proprietorships or partnerships. Why do you think this is so?

Activity Sheet 2: Researching a Company

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

Would you invest in this company? Explain

