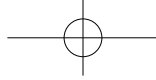


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# 1

## Chapter

# Forms of Business Ownership

## 企业产权形式

**Sole Proprietorships** 个人独资企业

**Partnerships** 合伙企业

**Corporations** 公司

**Joint Ventures** 合资企业

**Limited Liability Companies** 有限责任公司

**Mergers & Acquisitions** 企业兼并和收购

**Franchising** 特许经营

**Case Study 1:** The Acquisition of Schering by Bayer 拜耳公司收购先灵公司

**Case Study 2:** McDonald's: Franchising and Entrepreneurship 麦当劳：特许经营与企业家精神

Businesses can be classified according to different criteria, such as value, number of employees, ownership, etc. When people decide to go into business, they must first choose the type of business ownership. They may form their own businesses, start partnerships, or work in other people's businesses. Throughout this chapter, we not only present the basic forms of business ownership, but also discuss the advantages and disadvantages of each form. We begin with sole proprietorships, followed by partnerships (general and limited) and corporations. We then discuss joint ventures, limited liability companies, and mergers and acquisitions. We conclude by examining franchises.

If you are planning to go into business, you need to review these pros and cons and determine which form of ownership meets your needs, style, and talents.

## Lead-in Activities

How many Chinese and foreign companies can you name? What is your most admired company? What companies do you wish to work for? The following are some famous companies in China. Sort them out according to their forms of ownership.

TCL Corporation TCL集团股份有限公司

Lenovo Group Limited 联想集团有限公司

Huawei Technologies Co., Ltd. 华为技术有限公司

Dacheng Law Offices 大成律师事务所

Shanghai General Motors Co., Ltd. 上海通用汽车有限公司



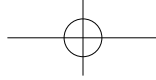
## Sole Proprietorships 个人独资企业

个人独资企业，是由一名出资者单独出资并从事经营管理的企业。

Many people desire to be their own boss. A sole proprietorship accomplishes this goal. You can begin a word processing service out of your home, open a car repair center, start a restaurant, or go about meeting other wants and needs of your community. An organization that is owned, and usually managed, by one person is called a **sole proprietorship**. There are an increasing number of sole proprietorships in China. The sole owner, often aided by one or two employees, operates a small business that frequently caters to a group of regular customers. The owner through personal wealth or borrowed money normally provides the capital needed to start and operate the business.

The sole proprietor is usually an active manager, working in the company every day. He/She controls the operation of the business, supervises the employees, and makes the decisions. The managerial ability of the owner usually accounts for the success or failure of the business. The sole proprietor owns all the assets of the business and the profits generated by it. He/She also assumes complete responsibility for any of its liabilities or debts.

Owning a sole proprietorship has several advantages and disadvantages.



## ADVANTAGES

One of the advantages of being a sole proprietor is that you can be your own boss. “Working for others simply does not have the same excitement as working for yourself.” That’s the way sole proprietors feel. You can make business decisions without having to ask anyone else. You have the freedom to wind up your business whenever you want. There is nothing like the pleasure of knowing that you can earn as much as possible and do not have to share that money with anyone else.

A sole proprietorship is the easiest form of business to start. All you have to do to start a sole proprietorship is to buy or lease the needed equipment and put up some announcements saying you are in business. You may have to get a permit or license from the local government.

## DISADVANTAGES

Owning a sole proprietorship also has disadvantages. It is often difficult for the owner to raise capital. The owner is personally responsible for all aspects of the business. He/She has unlimited liability (无限责任). If the business is being sued, so is the business owner. If the business owes money, the business owner is responsible for the debts, and the owner may have to use personal assets to pay. If the owner cannot pay off the debts of the business, he/she may have to claim personal bankruptcy.

Another disadvantage is that the owner must spend long hours working. The owner of a store, for example, may put in 12 hours a day, seven days a week, about twice the hours for a salaried worker.

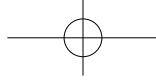
The only way to transfer ownership of a sole proprietorship is to sell the entire business to someone else. Otherwise, the life of the business ends when the sole proprietor dies.

If you are your own boss, you lose the fringe benefits (附加福利) that come from working for others. You have no automatic health insurance, no disability insurance, no sick leave, no paid holidays, and so on.

## Questions for Discussion

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1. Why is the sole proprietorship one of the most popular forms of business ownership?
2. Why would unlimited liability be considered as one of the biggest drawbacks to sole proprietorships?



## Partnerships 合伙企业

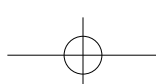
合伙企业是由各合伙人订立合伙协议，共同出资、合伙经营、共享收益、共担风险，并对合伙企业债务承担无限连带责任的营利性组织。

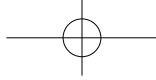
Many people do not have the money, time, or desire to run a business on their own. They prefer to form the business with someone else or some group of people. A **partnership** is a legal relationship between persons carrying on a profit-motivated business. It may be a partnership between two people, or among 30; the law in China doesn't set a limit on how many partners may be involved. The three key elements of any general partnership are (1) common ownership, (2) shared profits and losses, and (3) the right to participate in managing the operations of the business.

There are two types of partnership. The more common type is the general partnership. A **general partnership** (普通合伙) is a business with at least one general partner who has unlimited liability for the debts of the business. Regardless of the percentage of the business they own, general partners have authority to act and to make binding (有约束力的) decisions as owners of the business. The general partner may be liable for all the debts of the business. Partners generally share profits and losses according to a plan specified by an agreement between them. With the authority of acting as an owner, each general partner can engage the partnership in binding agreements. Unless a partnership agreement prevents a general partner from making such agreements, the partnership is responsible for all actions of each general partner.

A **limited partnership** (有限合伙) is an arrangement where a person can contribute to a business without being involved in the affairs of the partnership. A limited partnership includes one or more general partners and one or more limited partners. The general partners arrange and run the business, while the limited partners are investors only. The limited partners take no part in the management of the firm and they don't act on behalf of the company. A limited partner's liability to the firm or its creditors (债权人) is limited to the amount he/she invests in the firm. For example, if a limited partner invests \$30,000 in the business, he/she is liable for only that amount. However, it is a good idea to put a partnership agreement in place because it will outline issues such as how the profits or losses will be divided among the partners, and it will describe any limits to the legal responsibility of the partners.

Being a partner in a partnership has several advantages and disadvantages.





## ADVANTAGES

There are two main advantages of forming a partnership. Firstly, a partnership allows two or more people to work together and bring different skills and resources to the business. For example, one partner may be good at marketing; the other may be expert at accounting and financial matters. Combining these skills could provide a greater chance of success.

Secondly, when two or more people pool their money and credit, it is easier to pay the rent, utilities, and other bills incurred by a business. A limited partnership is specially designed to help raise capital. Some of the people who are enjoying the advantages of partnerships today are doctors, lawyers, and other professionals. Some people find that the best partner is a spouse. That is why you see so many husband-and-wife teams managing restaurants, grocery stores, and other businesses.

## DISADVANTAGES

There are four main disadvantages of forming a partnership. Firstly, because the partnership is not considered to be separate from its owners, the general partners are personally responsible for liabilities of the partnership. If the business fails, they will be personally responsible for paying all of the debts and obligations of the partnership. That means if you are a general partner in a partnership you are liable for other general partners' mistakes as well as your own. Like a sole proprietor, general partners can lose their homes, cars, and anything else they own if the business were to be sued by someone or to go bankrupt.

Secondly, there exists the division of profits. Sharing the risks means sharing the profits, and that can cause conflicts. For example, two people form a partnership. One puts in more money and the other puts in more hours. Each may feel justified in asking for a bigger share of the profits. Imagine the resulting conflicts.

Thirdly, there may be disagreements among partners. Disagreements over money are just one example of potential conflicts in a partnership. Who has the final authority over employees? Who hires and fires employees? Who works what hours? What if one partner disagrees? Potential conflicts are many. Because of such problems, all terms of a partnership should be spelled out (清楚地说明) in writing to protect all parties and to minimize misunderstandings.

Fourthly, it is usually difficult to terminate a partnership. Once you have committed yourself to a partnership, it is not easy to get out of it. Of course you can end a partnership by just saying "I quit." However, questions about who gets what and what happens next are often very difficult to solve when the business is closed.

## Questions for Discussion

1. What are the differences between a general partner and a limited partner?
2. What will you consider when you decide to team up with someone in a partnership form of business?



## Corporations 公司

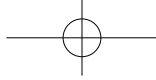
公司是依《公司法》的规定设立的法人组织，具有独立的法人资格，有权以自己的名义拥有财产，享有权利和承担义务。

Some industries, such as automobile manufacturing, computer manufacturing, oil refining, and natural gas production, require millions of dollars to operate a business. Typically such vast sums of money are put together by attracting numerous investors. The **corporation** is a legal entity (法人实体), allowed by legislation, which permits a group of people, as shareholders (for-profit companies) or members (non-profit companies), to create an organization, which can then focus on pursuing set objectives. It is empowered (授权) with legal rights which are usually only reserved for individuals, such as to sue and to be sued, own property, hire employees, or loan and borrow money. The primary advantage of a for-profit corporation is that it provides its shareholders with a right to participate in the profits (by dividends) without any personal liability because the corporation absorbs the entire liability of the organization.

### TYPES OF CORPORATIONS

When we think about business corporations, our attention usually centers on the giants listed annually in Fortune Global 500, a directory of the 500 largest world industrial corporations, such as Procter & Gamble (宝洁公司), ExxonMobil (埃克森美孚公司), Boeing, Samsung, and Hyundai (韩国现代集团). In China, there are also some large industrial corporations on the list, such as Sinopec Group and State Grid Corporation of China.

In reality, corporations come in many sizes and types (see Table 1.1). Many corporations are not conducted for profit and do not have private owners or shareholders. Many universities and religious organizations are non-profit corporations. That is, they are not profit-seeking enterprises. The non-profit sector includes universities and other schools, charities, volunteer associations, and a



number of other kinds of organizations. The non-profit enterprise is prohibited, by law, from distributing any earnings to its owners. It exists because the founders believe that the firm provides something (e.g. help to the homeless, education) of value that is not being provided well or at all by other enterprises. Non-profit firms provide jobs for millions of employees. Donations, collections (募捐), and the sales of goods or services provide the funds to pay employees and finance operations.

Table 1.1 Types of Corporations

Type	Description
Private	Attempts to earn a satisfactory profit
Public	Owned and run by the government
Closed	Stocks held by only a few owners and not actively sold on the stock market
Open	Stocks held by numerous people and actively sold on the stock market
Municipal	Run by cities and towns
Domestic	Incorporated in one country and doing business within that country
Foreign	Incorporated in one country and doing business in another country
Alien	Incorporated in another country but operating in the domestic country
Non-profit	Exists for educational, charitable, and other reasons and does not seek profit

Corporations are owned by stockholders, each of whom owns a percentage of the entire corporation through their stocks. Stocks can generally be bought and sold fairly easily, unless restrictions have been placed on the transfer of stocks.

## ADVANTAGES

There are many advantages to incorporating a business.

**Limited liability:** A major advantage of corporations is the limited liability of owners. Corporations in some countries have the abbreviation *Ltd.* after their names. The abbreviation stands for limited (liability) and is probably the most significant advantage of corporations. It means that the owners of a business are responsible for losses only up to the amount they invest.

**Skilled management team:** The board of directors has the duty of hiring professional managers, and the owners delegate their power of operating the business to these managers. Professional managers are trained and experienced career executives. They may own stocks in the business but usually not enough to control the corporation.



**Transfer of ownership:** Stockholders have the right to sell their stocks of a corporation to whomever they please, except a legal restriction on some closed corporations. These stocks can be sold whenever the stockholder desires and at the price the buyer is willing to pay.

**Greater capital base:** The corporate form of business makes it easier for a business to grow and expand. Through the issuance (发行) of stocks, corporations may be able to access the money they need for expansion. If a company sold 10 million stocks for \$10 each, it would have \$100 million available to build plants, buy materials, hire people, manufacture products, and so on. Such a large amount of money would be difficult to raise in any other way. Corporations may also find it easier to obtain loans since lenders find it easier to place a value on the company when they can review how the stock is trading.

**Stability:** A corporation has an unlimited life. Because the corporation is a separate legal entity, the corporation will continue to exist even if the stockholders die or leave the business, or if the ownership of the business changes.

## DISADVANTAGES

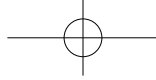
There are also disadvantages to incorporating a business.

**Double taxation (双重课税):** The corporation has to pay taxes on its profits. The stockholders must also pay income tax on the dividends they receive through ownership. This practice of taxing corporate income and dividends is referred to as double taxation.

**Difficulty and expense of starting:** The registration and set-up fees for a corporation are higher than those for a sole proprietorship or a partnership. Incorporating a business is also a more complicated process than starting a sole proprietorship or partnership.

**Government involvement:** Provincial and state governments have the right by law to exercise control to a certain degree on, and to require corporations to maintain proper corporate records, called a minute book (记录簿). A minute book contains the corporate bylaws (规章制度) and minutes (会议记录) from annual meetings.

**Lack of secrecy:** A corporation must provide each stockholder with an annual report. In a closed corporation, the few reports circulated usually won't get into the hands of non-owners. But when a large number of reports are issued, the reports become public knowledge. These reports present data on sales, profits,



total assets, and other financial matters. Public disclosure of such data enables competitors and other outsiders to see the corporation's financial condition.

**Lack of personal interest:** In most corporations except the smaller ones, management and ownership are separate. This separation can result in a lack of personal interest in the success of the corporation. If the managers are also stockholders, the lack of personal interest is often minimized. It is assumed that employees who are also owners will work harder for the success of the business, but the accuracy of this assumption is an individual matter.

**Credit limitations:** Banks and other lenders have to consider the limited liability of corporations. If a corporation fails, its creditors can look only to the assets of the business to satisfy their claims. For partnerships, the creditors can rely on personal assets of the partners to pay off business debts.

### Questions for Discussion

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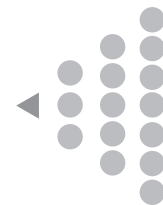
1. What are the differences between an open corporation and a closed corporation?
2. Why do many young people prefer to work for a large corporation?

## Joint Ventures 合资企业

合资企业是指由两个或两个以上属于不同国家（或地区）的企业或其他经济组织以合资方式组成的经济实体。

Sometimes a number of individuals and businesses join together in order to accomplish a specific purpose or objective or to complete a single transaction. A joint venture is the pooling of resources and expertise by two or more businesses, typically from different areas or countries to achieve a particular goal. The risks and rewards of the enterprise are also shared. For example, Hewlett-Packard (惠普公司) and Samsung have initiated a joint venture. Under the agreement, Samsung will manufacture both microprocessor chips and computer workstations, using Hewlett-Packard's technology and software.

The reasons behind the formation of a joint venture often include business expansion, development of new products, or moving into new markets, particularly overseas.



## ADVANTAGES

A successful joint venture can offer: (1) access to new markets and distribution networks; (2) increased capacity; (3) the sharing of risks with a partner; and (4) access to specialized staff and technology.

Another advantage of a joint venture is that it isn't as final as a merger or takeover (收购). For example, depending on the terms of the agreement the venture may have a limited life span and partners can eventually sell or transfer their share.

Joint ventures are particularly popular where cooperation between businesses in different countries is an advantage, for example, transport, tourism, and hotels.

## DISADVANTAGES

Many joint ventures experience the following problems.

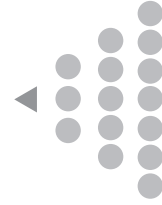
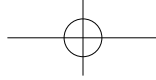
- If the objectives of the venture are not 100 percent clear, or not communicated to all the staff involved, problems are likely to arise.
- There is an imbalance in levels of expertise, investment, or assets brought into the venture by the different partners.
- Different cultures and management styles result in poor integration and cooperation between the partners.
- The parent businesses don't provide sufficient leadership and support in the early stages.

Success in a joint venture depends on thorough research and analysis of aims and objectives. This should be followed up with effective communication of the business plan to everyone involved.

## Questions for Discussion

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1. What kind of ownership is a joint venture similar to? Why?
2. How many joint ventures do you know in China? Give one example to state its advantages.



## Limited Liability Companies 有限责任公司

有限责任公司是新型的企业组织，它集合了公司的一些特征和合伙企业的组织结构，股东以其出资额为限对公司承担责任，公司以其全部资产对公司的债务承担责任。

A **limited liability company (LLC)** is a type of business ownership combining several features of corporation and partnership structures. But it is not a corporation or a partnership. It may be called a limited liability corporation, while the correct terminology (术语) is limited liability company. Its owners are called members not stockholders or partners. The number of members is unlimited and they can be individuals, corporations, or other LLCs.

### ADVANTAGES

**Limited liability:** Owners of an LLC have the liability protection of a corporation. An LLC exists as a separate entity much like a corporation. Members cannot be held personally liable for debts unless they have signed a personal guarantee.

**Flexible profit distribution:** Limited liability companies can select varying forms of distribution of profits. Unlike a common partnership where the split is often 50 to 50, an LLC has much more flexibility.

**No minutes:** Corporations are required to keep formal minutes, have meetings, and record resolutions. The LLC business structure requires no corporate minutes or resolutions and is easier to operate.

**No double taxation:** All the business losses, profits, and expenses flow through the company to the individual members. Thus, the double taxation of paying corporate tax and income tax is avoided. Generally, this will be a tax advantage, but circumstances can favor a corporate tax structure.

### DISADVANTAGES

**Limited life:** Corporations can live forever, whereas an LLC is dissolved when a member dies or undergoes bankruptcy.

**Going public (上市):** Business owners with plans to take their company public, or issuing employee stocks in the future, may be best served by choosing a corporate business structure.

**Added complexity:** Running a sole proprietorship or partnership will

have less paperwork and complexity. An LLC may be classified as a sole proprietorship, partnership, or corporation for tax purposes. Classification must be selected or a default (违约) may apply.

### Questions for Discussion

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1. What are the differences between a corporation and a limited liability company?
2. How is a limited liability company similar to a partnership?



## Mergers & Acquisitions 企业兼并和收购

企业兼并是指企业间的吸收合并，也就是两个或两个以上企业合并，一个企业因吸收了其他企业而成为存续企业的合并形式。收购是指一个企业购买另一个企业的资产和债务。企业兼并有三种主要形式。

横向兼并是指同一产业的相关企业的兼并。横向兼并的主要经济目的是消除或减少竞争，并因此增加兼并企业的市场份额。

纵向兼并是指同一生产过程中的相关环节的企业兼并。纵向兼并的经济目的是保证供应和销路，同时也能保证产品的质量控制。

混合兼并是指跨行业、跨产品的综合性企业兼并，又称为一体化兼并，目的是经营多样化。

A **merger** is the result of the combination of two or more companies to form a new company. An **acquisition** is one company buying the property and obligations of another company. There are three major types of corporate mergers: horizontal, vertical, and conglomerate.

A **horizontal merger** joins firms in the same industry and allows them to diversify or expand their products. In a horizontal merger, the acquisition of a competitor could increase market share. An example of a horizontal merger could be the merger of a bicycle company and a tricycle company. The business can now supply a variety of cycling products.

A **vertical merger** is the joining of two firms involved in different stages of related businesses – a manufacturer merging with a supplier of component products, or a manufacturer merging with a distributor of its products. Think of a merger between a bicycle company and a company that produces



wheels. Such a merger would ensure a constant supply of wheels needed by the bicycle company. It could also help ensure quality control of the wheels.

A **conglomerate merger** unites firms in completely unrelated industries. The primary purpose of a conglomerate merger is to diversify business operations and investments. The acquisition of a restaurant chain by a bicycle company would be an example of a conglomerate merger. Figure 1.1 illustrates the differences in the three types of mergers.

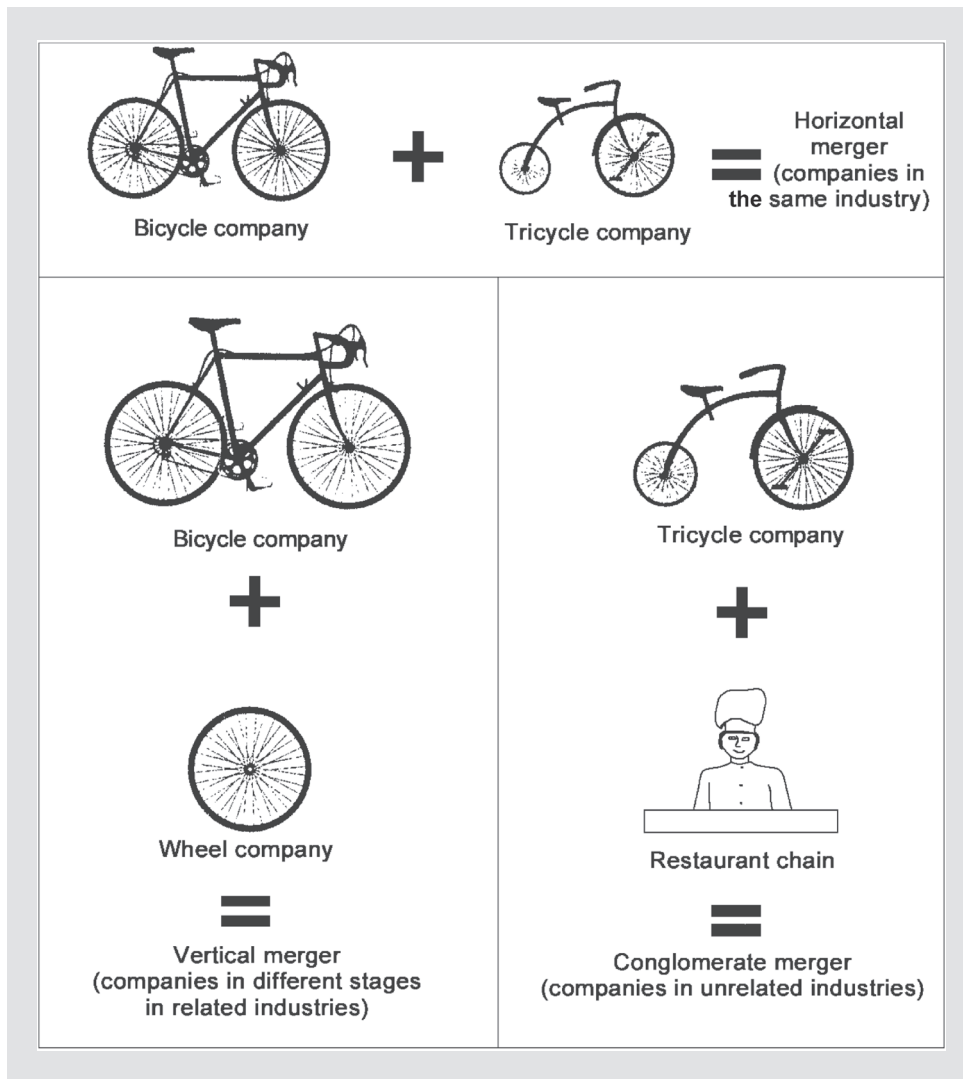


Figure 1.1 Types of Mergers

Most mergers actually benefit both companies and consumers by allowing firms to operate more efficiently. But some are likely to lessen competition. That, in turn, can lead to higher prices, reduced availability of goods or services, lower quality of products, and less innovation. Indeed, some mergers enable a single firm to raise prices.

### Questions for Discussion

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1. What are the definitions of mergers and acquisitions?
2. Give more examples to explain horizontal mergers, vertical mergers and conglomerate mergers.



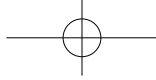
## Franchising 特许经营

特许经营是指特许者将自己所拥有的商标、商号、产品、专利和专有技术、经营模式等以特许经营合同的形式授予被特许者使用，被特许者按合同规定，在特许者统一的业务模式下从事经营活动，并向特许者支付相应的费用。由于特许企业的存在形式具有连锁经营、统一形象、统一管理等基本特征，因此也称之为特许连锁。

An attractive business opportunity for many people is to obtain a franchise and become the owner of a restaurant, a motel, a fast-food restaurant, a drugstore, dry-cleaning services, a beauty salon, or other businesses. A franchise is the right to use a business name and sell products or services, usually in a specific geographical territory.

Some people are more comfortable not starting their own business from scratch. They would rather join a business with a proven track record through a franchise agreement. A franchise can be formed as a sole proprietorship, partnership, or corporation. Franchised businesses grow quickly in China. Some of the best-known franchises are McDonald's and KFC.

The franchiser has developed a system for reproducing his/her business (often right down to the last detail). As a franchisee (the person who buys a franchise), you rent the franchiser's trademark and method of doing business. The method of doing business involves a standardized approach to delivering a product or service.



## ADVANTAGES

Buying a franchise is a popular choice for starting a business. It is a way to reduce risk and receive support from a large network. The preliminary work has been done with an infrastructure well established, a product line in place, and the marketing strategy developed. The customer base may be set, sometimes with good name recognition. The franchiser usually provides management assistance and training and may offer financial support. Historically, the failure rate for franchises has been lower than that of other business ventures.

## DISADVANTAGES

A franchise offers less freedom than an independent business. There are likely to be lots of rules and regulations in place. The franchisee may lose the spirit and incentive of being their own boss with their own business. For example, the owner cannot change products and services. In addition, initial franchise fees may be expensive. You need to take into consideration start-up and operational costs. The franchiser often demands a large share of the profits, referred to as royalty payments (专利权税). The reputation of one franchisee could be adversely affected by the failings of others. Finally, many franchisees face restrictions in the reselling of their franchises with transfer of ownership possibly requiring approval of the franchiser.

## Questions for Discussion

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1. What are some of the factors to consider before buying a franchise?
2. Go to visit a local franchise and find out how it operates. Then share your findings with your partner.

## Group Activities

1. Carefully examine the following partnership agreement and decide if it is sound, complete, and accurate. Then discuss with your classmates and present your ideas to the class.



### Partnership Agreement

This partnership agreement is entered into on January 8, 2013, between Mary Richards and Niki Stutzman.

**We agree that:**

1. We will become equal general partners in the women's cosmetics business.
2. We will use the name "Yellow Rose" of 1818 Milam Street, Houston Texas 77001.
3. Each general partner will contribute \$20,000 to the partnership on January 9, 2013.
4. All profits earned from selling "Yellow Rose" cosmetics will be divided equally by the general partners, and all losses incurred by the business will be equally shared by them.
5. Proper accounting books will be kept by the business; a public accounting audit will be conducted each year by a firm mutually agreed upon. Profits, inventories, and losses will be accurately accounted for each year.
6. Each partner will earn no more than \$1,500 per month, if earnings permit this amount to be taken out of the business. No more than \$18,000 per partner per year will be drawn out during the first four years of the partnership.
7. No new partners can be added without the full written consent of both partners.
8. If grievances (不满, 抱怨) between partners cannot be resolved, an arbitrator (仲裁人) will be hired that is acceptable to both partners. The decision reached after arbitration is binding.
9. In the event of the death or retirement of a partner, the remaining partner will pay the estate or retiring partner the full amount of the original investment (\$20,000), plus 1.5 times the most recent year's gross sales for all "Yellow Rose" products. The payment will be made within one year of the death or retirement of the partner.

At the termination of the partnership, a full inventory and balance sheet (资产负债表) will be prepared by an accounting firm. All debts will be paid, and all property will be divided between the partners.

The parties have carefully reviewed the contract and have freely signed, in the presence of a witness, this document.

Witness \_\_\_\_\_  
Date \_\_\_\_\_

Partner \_\_\_\_\_  
Date \_\_\_\_\_

Partner \_\_\_\_\_  
Date \_\_\_\_\_

2. Suppose you want to open one of the following new businesses. What form of business ownership would you choose for each of the following businesses? Why?
- a video game rental store;
  - a wedding planning service;
  - a software development firm;
  - a computer hardware manufacturing company.

## Exercises

- I** Define the following terms in your own words and then translate them into Chinese.

sole proprietorship  
 partnership  
 general partnership  
 limited partnership  
 limited partner  
 general partner  
 corporation  
 non-profit corporation  
 double taxation

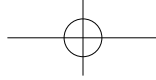
joint venture  
 limited liability company  
 merger  
 horizontal merger  
 vertical merger  
 conglomerate merger  
 acquisition  
 franchise

- II** Fill in the following table to make a summary of the different forms of business ownership.

Type of Business	Description of Business
Sole Proprietorships	
General Partnerships	
Limited Partnerships	
Corporations	
Joint Ventures	
Limited Liability Companies (LLCs)	
Mergers and Acquisitions	
Franchising	

**III Choose the best answer to each of the following questions according to what you have learned in this chapter.**

1. The easiest way to become your own boss is to set up \_\_\_\_\_.  
A. a sole proprietorship      B. a partnership      C. a corporation
2. My brother-in-law and I want to start a small vacuum cleaner repair shop as partners. We want to keep our investment costs down. We should organize \_\_\_\_\_.  
A. through an informal handshake  
B. a corporation                      C. a partnership
3. A good reason to consider starting a business with a partner is \_\_\_\_\_.  
A. your partner will take half of the responsibility for all liabilities  
B. partners with complementary skills can enhance the success of a business  
C. partners can take part in the management of the firm or act on behalf of the company
4. In which of the following forms of organization can you deduct health insurance premiums (保险费) as a business expense?  
A. A sole proprietorship.      B. A partnership.      C. A corporation.
5. Marie Wang recently invested \$4,000 that her aunt had left her in the stock of a corporation. Marie has become a \_\_\_\_\_ of the corporation.  
A. partner                      B. stockholder      C. creditor
6. What type of business finds it much easier to raise money?  
A. A sole proprietorship.      B. A partnership.      C. A corporation.
7. All of the following statements about corporations are true except \_\_\_\_\_.  
A. corporations are generally more expensive to form than sole proprietorships  
B. the death of an owner of a corporation does not terminate the company  
C. corporations must have at least one owner with unlimited liability
8. If I set up my business as an LLC, I could file my tax return as \_\_\_\_\_.  
A. an individual                      B. a corporation      C. a sole-proprietorship
9. A \_\_\_\_\_ merger unites firms in completely unrelated industries.  
A. horizontal                      B. vertical                      C. conglomerate



**IV Decide whether the following statements are true (T) or false (F) according to what you have learned in this chapter.**

- 1. A sole proprietor is not personally liable for the obligations of his/her business.
- 2. If a sole proprietorship fails, the business is lost, but the personal assets of the owner are secure.
- 3. Closed corporations mean that the stock is held by only a few owners and not actively sold on the stock market.
- 4. The liabilities of the parties to a joint venture are similar to the liabilities of the partnership.
- 5. Ralph Xu wants to invest his money in business and share in its profits, but has no desire to actively manage the company. He also wants to limit his risk of loss. One type of ownership that would allow Ralph to meet his objectives is the general partnership.
- 6. A major producer of personal computers, is considering a merger with a leading producer of microprocessors and other computer chips. The former believes such a merger would give it a guaranteed source of needed components, and would enable it to have better control over quality. If this merger occurs, it would be an example of a horizontal merger.
- 7. A franchisee has the right to change products and services of the franchise company.
- 8. The franchiser can provide training, guidance, and other forms of support to the franchisee.

## Case Study 1

### The Acquisition of Schering by Bayer

#### 拜耳公司收购先灵公司

In March 2006, the German pharmaceutical (制药的) company Bayer (拜耳公司) announced plans to take over the German pharmaceutical company Schering (先灵公司), with production plants in Asia, Europe, Latin America, and the U.S. and with R&D (Research and Development) facilities in Europe, Japan, and the U.S. The



purchase was eventually completed in 2008 to form Bayer-Schering Pharma after agreement from the U.S. authorities and the European Commission. Although the companies are both in the same industry, the fields in which they specialize and carry out research tend to differ.

At the time of the announcement, Bayer employed some 82,600 people worldwide, while Schering had a global workforce of about 25,000 people. The purchase of Schering for a sum of €16.3 billion was financed in part by the sale of two Bayer subsidiaries (子公司) – H.C. Starck and Wolff Walsrode.

### **Reasons for the merger**

Schering agreed to the acquisition in order to prevent an unfriendly takeover by the pharmaceutical company Merck (默克公司). For Bayer, the takeover was intended to expand the company's market share in pharmaceutical and consumer health products and to put the company back on the list of the top 10 pharmaceutical companies in the world, as well as to increase its R&D capacity.

### **Involvement of trade unions/employee representatives**

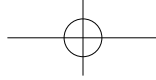
Due to co-determination (共同决策) rights, representatives of IG BCE<sup>1</sup> had a place on the board of Schering. Like other board members, they were informed before the decision on the takeover was made and voted in favor of the merger. The works council<sup>2</sup> was also consulted but was not involved in the decision-making process.

### **Effects on employment**

The reason behind the merger was to enable the R&D activities of the two companies to be rationalized (合理化) at the global level and concentrate them in three main sites, namely Berlin in northeastern Germany, Wuppertal in western Germany, and Berkeley in the U.S., while closing plants in West Haven and in a subsidiary of Schering in Richmond in the U.S. It was also planned to close a manufacturing plant in Indiana in the U.S. and one in Filago in northern Italy and to reduce administrative costs by merging functions and shedding (去除, 摆脱) jobs at Schering's headquarters in Berlin in Germany.

According to the CEO of Bayer, Werner Wenning, in March 2006, although no precise plans were made regarding job cuts, experience of other mergers indicated possible job losses of about 10 percent of the workforce. The expectation was that some 6,000 jobs would be lost globally, which led German Chancellor (总理) Angela Merkel<sup>3</sup> to intervene and ask Bayer not to cut jobs in Germany.

A year after the announcement, according to a press release on March 6, 2007, it was decided that employment was to be reduced by 3,150 jobs in Europe, 1,000 in



the U.S., 750 in Asia, and 1,200 in Latin America and Canada by the end of 2009. Of these, 1,400 jobs would be in global R&D, 1,850 in production, and 2,850 in central and regional administrative offices.

Despite these job losses, the merger was expected to lead to an increase in market share, although not necessarily to any longer-term expansion of jobs. The company's CEO, Mr. Wenning, stated, "We want to create an internationally successful pharmaceutical company with competitive cost structures. We said right from the start ... that job cuts would be necessary. These essential streamlining (精简) measures are to be fairly implemented in a socially acceptable process – balanced across the globe."

The planned job cuts and plant closures seem to be proceeding on schedule. Although in the spring of 2007, workers demonstrated on the streets of Berlin because the precise number of planned job cuts at Schering's site in the city was still unclear.

According to a press release issued by Bayer in March 2008, however, 90 percent of the jobs cut in Germany will be made without forced redundancies "in a socially responsible manner" – which means offering severance pay (解雇费) above the statutory (法定的) amount – although works council members have voiced concerns about whether workers have always left their jobs voluntarily. Moreover, works council members claim that they had to put pressure on Bayer to enter negotiations on the job losses and to award compensation for the workers affected.

In addition, according to the works council, the terms and conditions of employment in Schering were adapted and reduced to suit those at the former Bayer.

### **Outcome of the merger**

According to the Head of Global Drug Discovery at Bayer Schering Pharma, Andreas Busch, the integration process is running ahead of schedule. A company press release in May 2008 (in German) stated that, in line with initial plans, up to March 2008, 90 Schering subsidiaries had been integrated into Bayer, half of them from reducing the workforce. The merger was expected to save €800 million in costs, €100 million more than expected, by 2009. In addition, the merger has enabled pharmaceutical research activities to be streamlined.

How beneficial the merger has been outside the company, however, remains questionable. In March 2006, Berlin politicians supported the merger expecting it to improve Berlin's position as a research location. Whether it has had this effect, however, is unclear, although it is clear that Berlin has lost several hundred administrative jobs.

### Notes:

1. IG BCE: 德国矿业、化学及能源行业工会
2. works council: 工作委员会（任命或选举出一些员工，当管理部门作出重大决策时必须与之商讨）
3. Angela Merkel: 德国总理安格拉·默克尔（生于1954年7月17日），德国女政治家，德国历史上第一位女总理，有“德国铁娘子”之称。

### Questions for Discussion

1. Find out the forms of business ownership of Bayer and Schering.
2. What benefits does each party gain from the acquisition?
3. Summarize the merger's effects on employment. What is Bayer's attitude toward job cuts?

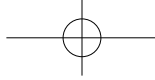
## Case Study 2

### McDonald's: Franchising and Entrepreneurship 麦当劳：特许经营与企业家精神

#### Introduction

When the McDonald brothers, Dick and Mac opened their first restaurant in 1940 in San Bernardino, California, they could never have imagined the phenomenal (显著的) growth that their company would enjoy. From extremely modest beginnings, they hit on (偶然发现) a winning formula selling a high quality product cheaply and quickly. However, it was not until Ray Kroc, a Chicago based salesman with a flair (本领) for marketing, became involved that the business really started to grow. Ray realized that the same successful McDonald's formula could be exploited (利用) throughout the U.S. and beyond. He realized that the key to success was rapid expansion. The best way to achieve this was through offering franchises. Today, there are over 34,000 restaurants worldwide, employing more than 1.8 million people, of which 80 percent are operated by franchisees.

This case study examines the success of franchising and investigates the special three-way relationship that exists between the franchisee, the franchiser, and the



suppliers.

### **What is McDonald's franchising?**

McDonald's is an example of brand franchising. McDonald's, the franchiser, grants the right to sell McDonald's branded goods to someone wishing to set up their own business, the franchisee. The license agreement allows McDonald's to insist on manufacturing or operating methods and the quality of the product. This is an arrangement that can suit both parties very well.

Under a McDonald's franchise, McDonald's owns or leases the site and the restaurant building. The franchisee buys the fittings, the equipment, and the right to operate the franchise for 20 years. To ensure uniformity throughout the world, all franchisees must use standardized McDonald's branding, menus, design layouts, and administration systems.

### **Advantages for the franchisee**

#### ► Being their own boss

In return, the franchisee agrees to operate the restaurant in accordance with McDonald's standards of quality, service, cleanliness, and value. McDonald's regularly checks the quality of the franchisee's output and failure to maintain standards could threaten the license. The franchisee is also expected to become involved in local events and charities. Ray Kroc believed strongly that a business must be prepared to put something back into the community in which it operates.

The franchisee, for all the training and support McDonald's offers, is running his/her own business. They fund the franchise themselves and therefore have much to lose as well as gain. This makes them highly motivated and determined to succeed.

#### ► Selling a well established, high quality product

In this case, the product is recognized all over the world. A large proportion of new businesses and new products fail, often due to costs of the research and development needed. The McDonald's formula, however, has been successfully tried and tested. Ray Kroc's insistence that all McDonald's outlets sold the same products and achieved the same quality has led to a standardization of the process and great attention to detail.

The cooking processes in McDonald's restaurants are broken down into small, repetitive tasks, enabling the staff to become highly efficient and adept in all tasks.



This division of labor (劳动分工) and the high volume turnover (营业额) of a limited menu allows for considerable economies of scale (规模经济). For the franchisee, this can considerably reduce the risk of setting up their own business. There is no need to develop the product or do expensive market research. Nor will they have sleepless nights wondering if the product will appeal to the consumer. McDonald's carries out regular market research.

► Intensive initial training

Every franchisee has to complete a full-time training program, lasting about nine months, which they have to fund themselves. This training is absolutely essential. It begins with working in a restaurant, wearing the staff uniform and learning everything from cooking and preparing food to serving customers and cleaning.

Further training at regional training centers focuses on areas such as business management, leadership skills, team building, and handling customer inquiries. The franchisees will have to recruit, train, and motivate their own workforce, so they must learn all the skills of human resource management. During the final period, the trainee learns about stock control and ordering, profit and loss accounts, and the legal side of hiring and employing staff. Consequently, no McDonald's franchisee would have to ask a member of his/her staff to do something that they couldn't do themselves. Knowing this can also be a powerful motivator for the staff.

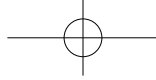
► Continuous support

McDonald's commitment (投入) to its franchisees does not end with the training. It recognizes that the success and profitability of McDonald's are inextricably (无法摆脱地) linked to the success of the franchises. A highly qualified team of professional consultants offer continuous support on everything from human resources to accounting and computers. The field consultant can become a valued business partner and a sounding board for ideas.

► Benefit from marketing carried out by McDonald's

A brand is a name, term, sign, symbol or design, (or a combination of these) which identifies one organization's products from those of its competitors. The phenomenal growth of McDonald's is largely attributed to the creation of its strong brand identity. McDonald's trademark, the Golden Arches, and its brand name has become amongst the most instantly recognized symbol in the world.

In the U.K., McDonald's recognized the need for a coordinated marketing



policy. In order to be successful, an organization must find out what the customers want, develop products to satisfy them, charge them the right price, and make the existence of the products known through promotion.

Cinema and television advertising have played a major part in McDonald's marketing mix. Radio and press advertisements are used to get specific messages across emphasizing the quality of product ingredients. Promotional activities, especially within the restaurant, have a tactical role to play in getting people to return to the restaurants regularly. All franchisees benefit from any national marketing and contribute to its cost.

The franchisees additionally benefit from the extensive national market research programs that assess consumer attitudes and perceptions. What products do they want to buy and at what price? How are they performing compared to their competitors?

Any new products are given rigorous (严格的) market testing so that the franchisee will have a reasonable idea of its potential before it is added to the menu. The introduction of new products, which have already been researched and tested, considerably reduces the risks for the franchisees.

Massive investment in sponsorship (赞助) is also a central part of the image building process, such as World Cup, Olympic Games, all of which increases the awareness of McDonald's brand.

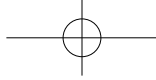
► Forecasting

Another major problem for a new business is predicting how much business it might enjoy, running the risk of either cash flow problems or the difficulties associated with overtrading (过度交易). The turnover and profit from any outlet will vary, depending on a wide range of internal and external variables. Each franchisee is expected to take a positive approach to building up sales, although an average rate of return of over 20 percent is generally expected over the lifetime of the franchise.

**Advantages for the franchiser**

McDonald's recognizes the benefits of a franchised operation. Franchises bring entrepreneurs, full of determination and ideas, into the organization. Franchising enables McDonald's to enjoy considerably faster growth and the creation of a truly global brand identity. The more restaurants there are, the more McDonald's can benefit from economies of scale.

On the financial side, McDonald's receives a monthly rent, which is calculated



on a sliding scale based on the restaurant's sales, i.e. the higher the sales, the higher the percentage and vice versa. There is also a service fee of 5 percent of sales in addition to the contribution to marketing. The purchase price of a restaurant is based on cash flow and is generally about £150,000 upward in the U.K. The new franchisee is expected to fund a minimum of 25 percent of this from their own unencumbered (没有债务负担的) funds.

Whilst the franchisees have to agree to operate their restaurants in the McDonald's way, there still remains some scope for innovation. Many ideas for new items on the menu come from the franchisees responding to customer demand. Developing new products is crucial to any business, even one which has successfully relied on a limited menu for many years. Consumer tastes change over time and a company needs to respond to these changes. Innovation injects dynamism (活力) and allows the firm to exploit markets previously overlooked or ignored. The introduction of the Egg McMuffin in 1971, for example, enabled McDonald's to cater initially for the breakfast trade. Filet-o-Fish, Drive-thru's and Playlands were all products or concepts developed by franchisees.

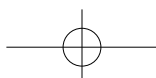
### **The three-legged stool – the suppliers**

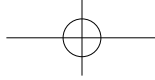
A third group of stakeholders (利益相关者), critical to the success of the franchise operation, is the suppliers. As McDonald's considers the quality of its products to be of absolute importance, it sets standards for suppliers that are amongst the highest in the food industry. McDonald's believes in developing close relationships with suppliers – everything is done on an open accounting, handshake trust basis.

The suppliers work closely with McDonald's to develop and improve products and production techniques. This close interdependency is described as a three-legged stool principle, and involves McDonald's, the franchisees, and the suppliers. Suppliers that are able to meet the quality standards set down by McDonald's have been able to share in the growth and success of McDonald's.

### **Conclusion**

McDonald's views the relationship between franchiser, franchisee, and supplier to be of paramount importance to the success of the business. Ray Kroc recognized the need very early on for franchisees that would dedicate themselves to their restaurants. He wanted people who had to give up another job to take on the franchise venture, relying on their franchise as their sole source of income and who would therefore be highly motivated and dedicated. Consequently, McDonald's will not offer franchises to partnerships, consortia (联合企业), or absentee investors. The





## Chapter 1

initial capital has to come from the franchisee as a guarantee of their commitment. The selection process is rigorous to ensure that McDonald's only recruits the right people.

### Questions for Discussion

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1. What is McDonald's franchising?
2. What are the advantages for the franchisees?
3. What are the advantages for the franchiser?