**Business corporations**

A corporation is a type of business that the law treats like a single person. This means a corporation can do things like buy a car, sign a deal with a supplier, or borrow money to rent office space.

While a corporation is treated as an individual, it can be owned by multiple shareholders. Shareholders are served by an elected board of directors, who oversee officers that handle the day-to-day running of the company.

## Types of corporations

While there are several [types of corporations](https://www.shopify.com/blog/types-of-corporations), most of them fall into one of three main categories:

### C corporations :[C corporations](https://www.shopify.com/blog/what-is-a-c-corporation" \t "_blank) are the most common type of corporation. In this corporation type, businesses are legally separate from their owners, who aren’t personally responsible for the corporation’s liabilities. C corps can have unlimited shareholders, making them ideal for large businesses.

### S corporations :[S corporations](https://www.shopify.com/blog/what-is-an-s-corp" \t "_blank) are similar to C corporations, but they have a special [tax status with the IRS](https://www.irs.gov/businesses/small-businesses-self-employed/s-corporations) that allows profits (and some losses) to be passed directly to owners’ income without being subject to corporate tax rates. However, S corps are also subject to certain restrictions, such as a limit on the number of shareholders.

### Nonprofit corporations :[Nonprofits](https://www.shopify.com/blog/nonprofit" \t "_blank) are formed for charitable, educational, religious, literary, or scientific purposes. Profits don’t benefit individuals, and the corporation enjoys special tax exemptions as a result.

Each type of corporation has its own set of rules, benefits, and considerations. Choosing the right one for your business depends on a variety of factors, including the size of your company, the number of owners, and its long-term goals.

## How do corporations work?

A corporation is created when a group of shareholders with a common goal decide to incorporate a separate legal entity. Each shareholder’s ownership in the corporation is represented by their holding of stock.

### Shareholders

Shareholders are the owners of a corporation. They receive a share of profits from the business, often in return for an investment of money or labor. Ownership is represented by common or preferred shares issued by the corporation.

A majority shareholder is someone who holds more than 50% of a company’s shares. Sometimes, a private corporation will have a single shareholder. However, most have multiple shareholders, as with publicly traded corporations.

Anyone can buy and sell the shares of a publicly traded corporation on the stock market.

### Board of directors

Before a corporation begins doing business, it must vote for a board of directors. Shareholders elect directors during an annual general meeting, with each shareholder receiving one vote per share.

The board of directors makes decisions on major issues affecting the interests of shareholders. They also create policies to guide the corporation’s management and daily operations, which are carried out by the corporation’s chief executive and other officers.

Directors owe a duty of care to shareholders. They must act in the best interests of the shareholders and the corporation.

### Taxes

Corporations are required to file and pay taxes as a business entity. The exact tax laws and forms can vary depending on the size and type of corporation formed, such as a C corporation or S corporation.

Because they’re seen as separate entities, corporations are taxed independently of their owners. Here is more detailed [tax information for corporations](https://www.irs.gov/corporations) from the IRS.

## Forming a corporation تشكيل شركة

You can [register your business](https://www.shopify.com/blog/register-business) as a corporation in any location—not necessarily where you’re based or do business. That’s why corporations are often formed in states considered pro-business, such as [Delaware](https://www.shopify.com/blog/how-to-start-a-business-in-delaware) or [Nevada](https://www.shopify.com/blog/how-to-start-a-business-in-nevada), or in overseas jurisdictions with favorable tax rules.

The process for forming a corporation varies depending on the state or country, but two components are universal: articles of incorporation and by-laws.

### Articles of incorporation بنود التأسيس

Articles of incorporation act as the birth certificate of a corporation. These documents are filed with the state secretary (or equivalent department) and legally establish the corporation’s existence.

Articles of incorporation typically include:

* **The corporation’s name and address**, which must be unique
* **The corporation’s purpose**, including a description of the goods or services the business will provide
* **The corporation's duration**, if it’s not intended to exist perpetually
* **The number and type of shares** the corporation is authorized to issue

### By-lawsاللوائح

By-laws serve as a corporation’s internal rule book. They provide the framework for operations and management, outlining how the corporation will be run.

A corporation’s by-laws typically cover:

* How often the board of directors will meet
* Roles, responsibilities, tenures, and powers of directors
* Shareholder rights and obligations, including processes for selling shares and receiving dividends
* Procedures for handling disputes and organizing votes

By-laws can be amended as needed once the corporation has been formed.

## Pros and cons of forming a corporation

Forming a corporation is a significant decision. It’s important to weigh the advantages of structuring a business as a corporation with the time and resources required to keep it running.

### Corporation Pros مزايا الشركات

Corporations offer several key benefits. Here are four pros of running a business as a corporation:

1. **Limited liability:** A corporation provides liability protection for its shareholders. This means shareholders are typically not responsible for the corporation’s debts and liabilities.
2. **Raising capital:**Corporations can more easily raise funds than other types of business by selling shares.
3. **Lower tax rates:** While corporate profits are taxed, the rate is often lower than the personal income tax rate individuals pay.
4. **Employee owners:**Potential employees may find the prospect of ownership benefits to be an incentive.

### Corporation Cons سلبيات الشركات

However, forming a corporation also comes with drawbacks. Here are four potential downsides to corporations:

1. **Complexity and costs:** C corporations are expensive to set up and maintain. They require significant paperwork and adherence to many regulations.
2. **Ongoing regulatory and admin costs:** Once established, corporations can incur substantial costs to stay compliant with changing business regulations and timely filing of paperwork.
3. **Double taxation:** Corporations pay federal, state, and sometimes local taxes on profits. Additionally, dividends paid to shareholders are taxed again on the shareholders’ personal income tax returns.
4. **Reserved for large organizations:** Due to their complexity and cost, corporations are often best suited for large organizations with many employees.

**Types of Corporations**

# Subsidiary vs. Affiliate: What's the Difference?

A business entity can be an affiliate, an [associate](https://www.investopedia.com/terms/a/associate-company.asp), or a subsidiary of a [parent company](https://www.investopedia.com/terms/p/parentcompany.asp) depending on its level of ownership. The terms affiliate and associate are often used synonymously to describe a business with a parent company that possesses a stake of between 20% and 50% ownership. A minority stake is an ownership or interest of less than 50%.

A subsidiary is a business whose parent company holds a majority stake. It's a majority shareholder of more than 50% of all shares. Some subsidiaries are [wholly owned](https://www.investopedia.com/ask/answers/032615/what-difference-between-subsidiary-and-wholly-owned-subsidiary.asp). The parent corporation owns 100% of the subsidiary.

As a majority shareholder, the parent company owns enough of the subsidiary to exercise majority control over it, making decisions such as appointing the board of directors or other important business transactions.

## An Example: Disney

The Walt Disney Company ([DIS](https://www.investopedia.com/markets/quote?tvwidgetsymbol=dis)) is involved in a joint venture with Hearst Communications, a private company. It's called A+E Networks, a global entertainment media content company.

# The Walt Disney Company also owns an 80% stake in ESPN, an American multinational basic cable sports channel. Hearst Communications owns the remaining 20% stake. The Walt Disney Company also owns a 100% interest in the Disney Channel. A+E Networks, which is independently run, is an affiliate company in this scenario. ESPN is a subsidiary and the Disney Channel is a [wholly owned subsidiary](https://www.investopedia.com/terms/w/whollyownedsubsidiary.asp) company.

## Subsidiaries

A [subsidiary](https://www.investopedia.com/terms/s/subsidiary.asp)typically becomes part of a parent company to provide the parent company with specific synergies such as increased tax benefits, reduced regulation, diversified risk, or assets in the form of earnings, equipment, or property. Companies usually take ownership of subsidiaries to extend the range of their products and services beyond what would be expected from the parent company’s brand.

The purchase of an interest in a subsidiary differs from a [merger](https://www.investopedia.com/terms/m/merger.asp) because the parent company can acquire a controlling interest with a smaller investment.

## Affiliates

An investment in an associate or affiliate company is one in which the acquiring company owns between 20% and 50% of the shares. This ownership implies "significant influence," the accounting term that states that a company should be accounted for under the equity method of accounting. This is in contrast with a subsidiary where control is established and consolidation accounting is undertaken.4

## How Foreign Ownership Is Handled

Companies create subsidiaries and affiliates in host countries in many cases of [foreign direct investment](https://www.investopedia.com/terms/f/fdi.asp) (FDI) to prevent any negative stigma associated with foreign ownership or negative opinion associated with being owned by a controversial parent company.

FDI generally occurs when a company acquires foreign business assets in a foreign company. Owning an affiliate or subsidiary in this way can allow a company to extend its market share into parts of the world to which it otherwise wouldn't have access.5

Affiliate and subsidiary banks are the most popular arrangements for foreign market entry in the banking industry. These banks must follow the host country's banking regulations but this type of corporate structure allows these banking offices to underwrite securities.

Bank of America still generates the majority of its revenue in its domestic market in the U.S. but its acquisition of Merrill Lynch allowed it to establish international operations. London-based Merrill Lynch International is one of Bank of America's ([BAC](https://www.investopedia.com/markets/quote?tvwidgetsymbol=bac)) largest operating subsidiaries outside the U.S. Merrill Lynch International serves customers worldwide and offers wealth management, research, analysis, fixed income, investment strategies, financial planning, and advisory services.67

## Special Considerations

Subsidiaries are distinct legal entities for liability, taxation, and regulation purposes but parent companies are required to combine the financial statements of their subsidiaries with their own financial statements.8

## What Is an Example of a Company With Subsidiaries?

Berkshire Hathaway Inc. is a good example of a company with several subsidiaries. They include Business Wire, Clayton Homes, Duracell, GEICO Auto Insurance, Helzberg Diamonds, International Dairy Queen, Inc., and See's Candies.9

## What Is an Example of Affiliated Companies?

Bank of America Corporation has a list of affiliated companies including U.S. Trust, Merrill Lynch, First Franklin Financial, and BAL Investment & Advisory, LLC.

## What Are Sister Companies?

[Sister companies](https://www.investopedia.com/ask/answers/031915/what-difference-between-subsidiary-and-sister-company.asp) are subsidiaries that are owned by the same parent company. ABC Television Network and National Geographic are sister companies owned by the same parent, The Walt Disney Company.

# What Is an Associate Company and How Does It Work?

An associate company is a corporation in which a [parent company](https://www.investopedia.com/terms/p/parentcompany.asp) has invested and possesses a significant but [noncontrolling interest](https://www.investopedia.com/terms/n/noncontrolling_interest.asp), a [minority stake](https://www.investopedia.com/terms/m/minorityinterest.asp) anywhere from 20% to 50%.1 This is different from a [subsidiary](https://www.investopedia.com/terms/s/subsidiary.asp) company, in which a majority stake is owned.2 The definition varies greatly from jurisdiction to jurisdiction and in different fields, as the concept of the associate company is used in economics, accounting, taxation, securities, and beyond.

## How Do Associate Companies Work?

An associate company may be partly owned by another company or group of companies. As a rule, and unlike a subsidiary, the parent company (or companies) does not consolidate the associate company’s [financial statements](https://www.investopedia.com/terms/f/financial-statements.asp).3 Typically, the parent company records the associate company’s value as an asset on its [balance sheet](https://www.investopedia.com/terms/b/balancesheet.asp). It uses [equity accounting](https://www.investopedia.com/terms/e/equityaccounting.asp) to record a profit or loss on its [income statement](https://www.investopedia.com/terms/i/incomestatement.asp).

[Consolidated financial statements](https://www.investopedia.com/terms/c/consolidatedfinancialstatement.asp) are the combined financial statements of a parent company and its affiliated companies or subsidiaries. While there is usually no mandatory consolidation of an associate company’s activities, in most countries there are tax rules that need to be considered when preparing financial statements and tax returns.

Investing in a minority stake in an associate company may be a simple means of entry into a new market for companies seeking to make foreign direct investments.

## Example of Associate Companies

Associate companies may also be used in the context of a [joint venture](https://www.investopedia.com/terms/j/jointventure.asp) among several different partners, each of whom brings a different element to the group. For example, one partner may own production facilities, a second might possess the technology for a new product, and the third may have access to financing. Together, they can form a new company, which is an associate of all three without being the affiliate of any of them.

**Example** : A company investing in an associate company: In July 2015 software giant Microsoft Corp. ([MSFT](https://www.investopedia.com/markets/quote?tvwidgetsymbol=MSFT)) invested $100 million in Uber Technologies Inc. ([UBER](https://www.investopedia.com/markets/quote?tvwidgetsymbol=UBER)), thereby getting a foothold in the ride-sharing industry, which is not Microsoft’s usual line of business. However, Uber is heavily reliant on software, and so it promised to be a path to [diversification](https://www.investopedia.com/terms/d/diversifiedcompany.asp) and growth for Microsoft.

# Strategic Joint Venture: What it is, How it Works

A strategic joint venture is a business agreement between two companies that make the [active decision to work together](https://www.investopedia.com/terms/e/economic-network.asp), with a collective aim of achieving a specific set of goals and increasing each company's bottom line.

Through this arrangement, the companies effectively complement one another’s strengths, while compensating for one another’s weaknesses. Both companies share in the returns of the joint venture, while equally absorbing the potential risks involved. Strategic joint ventures may be seen as [strategic alliances](https://www.investopedia.com/terms/s/strategicalliance.asp), though the latter may or may not entail a binding legal agreement, while the former does.

Unlike mergers and acquisitions, strategic [joint ventures](https://www.investopedia.com/terms/j/jointventure.asp) do not necessarily have to be permanent partnerships. Furthermore, both companies maintain their independence and retain their identities as individual companies, thus allowing each one to pursue business models outside the partnership mandate.

## Understanding Strategic Joint Ventures

There is a multitude of reasons why two companies might choose to enter into a strategic joint venture. For one, the [coopetition, or strategic joint ventures](https://www.investopedia.com/terms/c/coopetition.asp), let companies pursue larger opportunities than they could attempt autonomously. For example, such partnerships let companies establish a presence in a foreign country or gain [competitive advantages](https://www.investopedia.com/terms/c/competitive_advantage.asp) in a particular market.

To cite a more specific example, strategic joint ventures have helped many companies enter emerging markets that would be otherwise difficult to break into without the benefit of local intelligence and connections to on-the-ground operatives in the region.

In such arrangements, one company typically contributes more to the operational costs, while the other company contributes know-how and operational experience. The share of the venture owned by each company largely depends on their individual contributions. But the most successful strategic joint ventures are those where each founding member firm winds up with an equal stake.

# Strategic joint ventures may also help companies achieve greater [efficiencies of scale](https://www.investopedia.com/terms/e/economiesofscale.asp) by combining assets and operations. They also may help companies access unique skills and capabilities that they would otherwise be unable to develop themselves. Joint ventures also let the companies involved mitigate the risks for investments or projects, while helping each one gain access to the other’s technology, increase revenues, expand their customer bases, and widen product distribution channels.