

# Closely held corporation essay sample

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Why might a closely held corporation choose to remain private? Why might it choose to be publicly traded?

A closely held corporation is one which is owned and controlled by small number of stockholders. The reason why these corporations are held closely is due to absence of a market for the company's stock and substantial participation of shareholders in the management of the corporation.

In public corporation, the investor is always a detached shareholder who neither contributes labor to the company nor involves in the management of the company. Conversely, in a closely held corporations, a more close and strong relationship exists between capital and labor. Further, in a closely held corporation, there always prevail a meaningful role in day to day management and serious expectation on return on investment. The most incredible attribute of a closely held corporation is the family or other personal relationships that result in a familiarity among the participants.

In a closely held corporation, the board is controlled by the shareholder or shareholders holding a majority of the voting power.

Why do closely held corporations choose to remain private?

The main aim is to have control over the ownership and for this reasons they always oppose to dilute their holdings. Further, the most of the closely held corporations are family owned companies, by remaining private, ownership will be always held by the close family member's.

The majority shareholders in most cases will tend to oppress the minority shareholders of the corporation by resorting “ freeze-out” or squeeze-out

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techniques. Common squeeze-out techniques include the termination of minority shareholder's agreement, the rebuttal to declare dividends, the elimination of minority shareholder from managerial position and the draining off corporate earnings through high compensation to the majority shareholders.

With unemployment and nil return on the capital invested, the minority shareholders are forced to sell their shares at unfairly low prices to majority shareholders. In a public corporation, a minority shareholder can divest his investment by offering his shares in the market whereas in the closely held corporations, the minority shareholders find it intricate to divest shares in the market as there may be no demand or due to legal restrictions.

Why might it choose to be publicly traded?

Closely held corporation should opt for publicly traded to enhance their capital and market value and to augment its liquidity . A closely held corporation with proven record of consistent revenues and earnings growth, market leadership in their given industry and a niche product or servicing that excludes them apart from competition may reap substantial benefits if they opt themselves for publicly traded or listed in a stock exchange. These companies can retain their voting control by not diluting much may opt for initial public offering and subsequent financing will be easier as the company has track record with investors and the securities regulators .

Public companies can utilize their stock instead of cash to make acquisitions to eliminate competition as the market provides public companies with a

ready valuation of their stock. It is easier to get financing from banks and financial institutions in case of public traded companies for their expansion, diversification, working capital etc.

REFERENCE: APA Format

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Reference: General Format

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