Entrepreneur, business activity

Entrepreneur = an individual, who organizes production, that means who combines factors of production (land, labour, capital) to produce goods and services, who takes risks with his own money or financial capital of others in hope that he will made profit but in the knowledge that he can lose all his money and go bankrupt.

Entrepreneurship – more meanings: organization of production,
risk-taking,
innovation, etc
– associated with new small firms, but some economists have suggested that entrepreneurs can be also managers and owners of big companies.

Business activity – in business law defined as <u>continuous activity done by an entrepreneur under his own name, his responsibility and with the aim to make profit</u>
– entrepreneurs risk financial resources in the hope of making profit, they generate supply of goods and services that satisfy the demand (entrepreneur combines scarce resources to satisfy needs and wants of consumers).

Essential aim of business activity – to add value to the factors of production, so that the market value of output is greater than the cost of inputs.

Features of business activity – continuity,
– economic independence,
– own name ,
– own responsibility,
– making profit.

Enterprise = an **economic unit**, that has **economic independence** and **legal independence**.

Economic unit – <u>non –market subjects</u>: whose aim is **not** to make profit but they have to fulfill other roles (e.g. schools, hospitals...);
they have legal independence (own name) but not economic independence – they depend on state budget – <u>partially</u> (e.g. hospitals)
– <u>completely</u> financed by state (e.g. charity)
– <u>market subjects</u>: their aim is to make profit if they want to survive in the market

Economic independence – government cannot control or decide about the usage of profit, costs, investments, labour force , management, etc.
– an enterprise with economic independence has to follow laws, pay taxes (legal limitation)

Legal independence – an enterprise is legal subject with own name, it can make contracts with other companies or individuals (e.g. job contract)

Business register – opened to public , registers all firms except small business firms
* small businesses are registered in small business register
– includes following facts about the firms :
* business name,

* address,
* identification number of organization ,
* tax identification number of organization ,
* subject of business activity,
* legal form (e.g. corporation, etc.),
* name and address of statutatory body
    * initial capital
* all the changes in the company (e.g. change of statutatory body)

Process of establishing the company

Before we start business, we should answer more **questions** :

* What to produce? (business idea)
* For whom to produce?
* How to produce? (technology)
* Do I have enough capital? (If not, where I can to obtain it?)
* What legal form should I choose?

Based on the answers for these questions we prepare **business plan**:

* for bank (if we want to obtain capital - loan)
* for potential shareholders
* potential partner

Business plan – 3 parts: 1.) production plan – what we will produce,
– what technology do we need,
– where we want to start the business,
– how much material do we need, etc.
2.) legal form – depends on what we will produce,
– also includes the organization structure,
– employees and their qualification
3.) economic plan – costs of production, future profits, revenues
– needed capital and where we can obtain it
– weaknesses and strengths are there

Establishing of company = when it is registered into business register

Disestablishment and dissolution of the company

disestablishment = date when company is deleted from the business register
dissolution = longer process connected with the ending of business activity

Reasons of dissoluton of the company:

1.) voluntary: a.) if the company was established only for certain time and this time has passed.
b.) if the company was established only for to reach certain goal and this goal has been reached (e.g. building of highway)
c.) if the entrepreneur decides to stop business activity (sole proprietor)
d.) if the partners agree to stop their business activity

2.) involuntary: a.) court verdict (for various reasons)
b.) declaring bankruptcy (declared by the court)

Company can be disestablished: **1.) without liquidation** – if enterprise does not have any property – nothing to liquidate,
– if some other company takes over the business activity and its property
2.) with liquidation – means selling out the properties of the enterprise with the aim to pay all the debts and the rest of money will be divided among the partners

Liquidation is provided by the liquidator, who is nominated by a statutory body

Bankruptcy

Bankruptcy = involuntary end of the company, which must be declared by the court.

The aim of declaring bankruptcy –to pay the debts of the company either partially or completely from the income for sold properties of the company.

The proposal to bankruptcy can be passed by the debtor, creditor or liquidator
Bankruptcy has to be in the business register (with aim to warn other firms)

Factor – company loses the right to deal with the assets in bankruptcy so all rights are given to the factor
– sells out the properties (money is used to pay the debts)
– controls the properties underlying the bankruptcy
– nominated by the court

"Assets in bankruptcy" = the properties underlying the bankruptcy
Debts are paid in this order: 1.) revenue for the debtor (in the past 10%, today it is less)
2.) wages and salaries of employees
3.) debts to state – taxes, fees, social insurance
4.) other creditor´s debts – partially
– completely

"Suggestion to satisfaction" – before declaring bankruptcy the debtor can give „a suggestion to satisfaction", where he suggests the way of satisfaction if all creditors agree, there is not need for bankruptcy – the enterprise is disestablished by the deleting from the business register.

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Division of enterprises:
1.) according to the size

a.) small size enterprises (up to 50 employees)
b.) middle size enterprise (50 to 500 employees)
c.) large size enterprise (over 500 employees)

Small and middle size enterprises exist to survive, grow and make the profit.
Small size firms exist because economies of scale are limited, barriers to entry low and size of market can be very small.
Large firms survive for opposite reasons – barriers to entry, economies of scale, large market...

Economies of scale = output increases – >long run average costs decreases
Internal economies of scale: – technical economies
– managerial economies (better management – higher efficiency of production)
– marketing economies (cost effective methods)
– buying economies (larger firms buy big amount of material for lower price)
– risk-bearing economies (large firms risk in hope to obtain higher profit)
– financial economies (large firms can obtain capital more easily and cheaply than smalls...e.g. loans in bank)

External economies of scale: - reducing of cost of production

- better infrastructure
- benefits
- government spending
- gorwth in certain industry (e.g. production of cars in SR)
- supply of graduates of the universities

Diseconomies of scale = cost of production increases when output decreases; firm grow beyond the optimum size. Cost increases because the management is not able to control large companies.

Ways of growth of (small) firms

1.) internal growth (increase in output, increase in investments, increase in labour force...)
2.) external growth (merger = joining of two or more firms under one ownership – voluntary;
take over = merger where one firm is an unwilling partner – involuntary)

Types of merger:

1.) horizontal = between two or more firms in the same industry, at the same stage of production, e.g. two building societies)
2.) vertical = two or more firms at different production stages in the same industry
a.) backward merger: purchaser buys one or more of his suppliers; it means that firm will have lower costs of production, guarantee of supply, etc. (e.g. car assembler buys manufacturer of the components)
b.) forward merger: supplier merges with one of its buyers (e.g. news papers buy news agency – sale is ensured)
3.) conglomerate = merging of two firms with no common interest

Special types of mergers:

1.) consortium = temporary association of business companies which is established by signing a contract in which is given the purpose for which they are established and the time for which they are established. We know e.g. bank consortium which provide loans and finance large projects (e.g. building highways)
2.) cartel = an association of several business companies with the aim to reduce competition (we can say that this is kind of monopoly). It can be established for various reasons – price cartel (where they agree the prices for their product)
– production cartel (where they agree quotas for their products – e.g. OPEC)
3.) syndicate = a special form of cartel where the companies form their common sales company and they loose contact with their customers and all businesses are provided by this sales company
4.) concern = an association of enterprises which have the legal subjectivity but they give up economic independence, they create so-called mother and daughter companies where the daughter companies depend on the capital of the mother company. (Companies associated in concern can be equal or they can have a common managing organization.)
5.) professional association = relatively free association established to present common interest of the participants towards to government and government institutions.(In SR -> SOPK = Slovenská obchodná a priemyselná komora)

2.) according to the subjects of business activity

a.) production firms – primary sector (extraction of raw materials, agriculture...)
– secondary sector (industry...)
b.) non-production firms – tertiary sector (services)
– quaternary (info. services)

3.) according to the ownership

a.) state-owned companies
positives – government can control this company
– profits go to state budget

negative = management is not so efficient)

b.) private–owned companies – a sole proprietorship

– *companies*

*** partnerships** (they have unlimited liability, but they do not need initial capital – they have liability by all their properties*)*

* **capital companies** (liability, need initial capital)

– *cooperatives*

4.) according to the legal form

– small businesses

– business companies: partnerships – ordinary (v.o.s.)

– limited (komanditna spolocnost)

capital companies – LLC (s.r.o.)

– corporation

– cooperatives

Risk taking

Risk is the thing that distinguishes entrepreneur from other employees.

types of risk:

1.) economic risk – connected with business activity, because the entrepreneur starts the business with the aim to make a profit but with the knowledge that he can lose all his money or capital of others. The entrepreneurs can:

- ensure the economic risk (e.g. travel agencies) and
- establish risk fund (In corporation: 20% of capital of company, in LLC: 10%f the capital , in other kinds of companies is establishing of risk fund voluntary)

2.) price risk – if we start the business activity we calculate with some market prices at which we can sell the products, but these market prices can change considerably. (market prices are influenced by demand, supply or unfair tactics of some companies – monopolies.)

3.) exchange rate risk –if exchange rate increases or decreases considerably, it can influence companies which have high import or export. If exchange rate of domestic currency increases it is good for import, but bad for export.

4.) interest rate risk – if the interest rate increases it is good for people, who save the money in banks but bad for those who want invest.

5.) share-ownership risk – potential shareholders keep shares in the hope to get dividends and sell them in future at higher price than it was bought.

Image building

For every firm image is very important, because consumers tend to buy well-known or branded goods. Brand is for the consumers the mark of a good quality. To build the image, firm have to pay for it (advertisement, after sale services, prolonged guarantee…).

Factors of image – quality of products

– services (car production)

– qualified staff (all employees in the company…)

– behavior of representatives of the company

– propaganda

– advertisement

– seat of the firm

– good references (e.g. positive info published in newspapers)

– certificates (e.g. ISO – international certificate of quality)

VOCABULARY

assets in bankruptcy = konkurzná podstata
bankruptcy = konkurz
business activity = podnikanie
business company = obchodná spoločnosť
business licence = živnostenský list
business register = obchodný register
capital company = kapitálová spoločnosť
committee = výbor
cooperative = družstvo
creditor = veriteľ
debtor = dlžník
declaring bankruptcy = vyhlásenie konkurzu
disestablishment = zrušenie
dissolution = zánik
district court = okresný súd
economic unit = hospodárska jednotka (širší pojem ako podnik)
enterprise = podnik
factor = správca konkurznej podstaty
identification number of organisation = identifikačné č. organizácie (IČO)
liability = ručenie
limited liability company = spoločnosť s ručením obmedzeným
merger = združovanie
partnerships = osobné spoločnosti
risk fund = rezervný fond
sleeping partner = tichý spoločník, komandista
small business = živnosť
small business register = živnostenský register
sole proprietorship = podnik jednotlivca
statutatory body = štatutárny orgán
suggestion to satisfaction
tax identification number of organisation = daňové ident. č. organizácie (DIČO)
unlimited liability = neobmedzené ručenie