

**INTRODUCTION TO THE
ENTREPRENEURSHIP**

BASIC FORMS OF ENTREPRENEURSHIP

Entrepreneur:

- An individual who organizes production, combines factors of production and takes risks with his own money or the capital of others in the hope to make profit, but in the knowledge that at worst he can lose all his money and go bankrupt

Entrepreneurship:

- It is usually associated with innovation, organization of production and taking risks in the small newly set businesses

Business activity:

- It is a continuous activity done by the entrepreneur under his own name with his own reliability and with the aim to make profit (definition acc. To Commercial Code, which rules the business)
- The process of combination of factors of production in the way so that the output > input
- Features:
 - continuity
 - independence
 - responsibility
 - own name
 - making profit

Enterprise:

- an economic unit/entity that has its economic and legal independence
 - Ø **economic unit** :
 - there are two types: **1) Market subjects**
 - enterprises which can only survive when they make profit
 - 2) Non-market subjects**
 - enterprises which are established and financed by the government to provide various government and social services
 - can be fully or partially financed from state budget
 - don't have economic independence
 - Ø **economic independence** – enterprises can decide themselves about their economic ability (production...)
 - government cannot decide for them but it can give some legal limitations (eg. Minimum wage, maximum P, conditions for labourers-Labour Code...)
 - Ø **legal independence/subjectivity** – the enterprise is a legal subject » can make contracts with other firms or with individuals (eg. with its employees)
- enterprises can be divided into:
 - 1) **Physical entities** (fyzické osoby):

- = **a sole proprietorship** (živnosť)
- if there is only one owner of the business

- 2) **Legal entities** (právnické osoby):
 - private firms which can have different forms (eg. corporations, limited liability company (s.r.o..))
 - these firms achieve their legal subjectivity by the registration in the Business register

Business Register

- the register of firms where all firms, which are located in the district, are registered
- is opened to the public
- it has to contain following data about the firm:
 - » name and address
 - » identification number of organization (IČO)
 - » tax identification number of organization (DIČ)
 - » the object of business activity
 - » legal form of business (s.r.o./a.s.)
 - » name and address of the people who are entitled to act in the name of the company (eg. to sign the contracts)
- every change in these data must be announced to the register (eg. bankrupt, dissolution...)

PROCESS OF ESTABLISHMENT AND DISESTABLISHMENT OF THE COMPANIES

- **Legal Entities** = are established by the registration in Business Register
- **Physical Entities** = are established by getting the business license
- Process of establishing a company is a long process which ends by the registration in business register (company is officially established from the day of registration in Business Register)
- This process consists of the following steps:
 - 1) **Business idea**
 - 2) **Business plan**
 - is not compulsory
 - but if you want to raise money from banks or investors or potential shareholders, they will require the business plan
 - BP has 3 main parts:
 - 1) **Economic plan:**
 - what is the necessary capital
 - costs of production
 - expected revenues/sales, profit
 - 2) **Production plan:**
 - what product/service will be produced/provided
 - location
 - how many employees (their qualifications..)
 - 3) **Legal & organization plan:**
 - which legal form will be the best for our business activity
 - organization structure
 - management

DISESTABLISHMENT & DISSOLUTION OF COMPANIES

Disestablishment:

- a longer process
- companies can be disestablished if:
 - Ø the company was established only for some time and this time has already passed
 - Ø the company was established in order to achieve certain growth and this growth has been already achieved
 - Ø the entrepreneur decides to stop his business activity (a sole proprietorship)
 - Ø the partners agree to stop their business activity
 - Ø declaration of bankruptcy or refusing bankruptcy because the company doesn't have any assets

Dissolution:

- the day when company is deleted from BR
- company can be dissolved :
 - 1) **Without Liquidation** (winding up):
 - in 2 cases: 1) If the company has a follower who takes over his liabilities
 - 2) If the company doesn't have any assets
 - 2) **With Liquidation:**
 - if the company has assets and liabilities and doesn't have any follower

Liquidation:

- is a process of selling out the assets of the company with the aim to pay all debts and the rest of money is divided among the business partners
- **LIQUIDATOR** - organises liquidation
 - is appointed by the management of the company (doesn't need to be declared by the court)

Bankruptcy:

- an involuntary end of a company
- the process in which the assets of the company are sold out with the aim to pay the debts of the company fully or partially (not all debts can be repaid)
- is declared by the court

§ **Suggestion to bankruptcy** can be submitted by the:

- **Debtor**
- **Creditor**
- **Liquidator**

- suggestion to bankruptcy must be registered in BR

§ **Assets in bankruptcy** (konkurzná podstata)- the property underlying bankruptcy

§ **Factor/Receiver**- the company loses the right to operate with the assets and all the rights are given to the Factor/Receiver (Správca konkurznej podstaty) who is appointed by the court

- the Factor sells the properties and pays the debts in following order:
 - 1) the revenue for the factor
 - 2) the debts, wages or salaries to the employees
 - 3) the debts to the state (taxes, social insurance contributions..)
 - 4) the debts to the business partners

- if there is some money left it is divided among the partners

- § **Suggestion to satisfaction**- before the declaration of bankruptcy the debtor can pass the **Suggestion to satisfaction** (návrh na vyrovnanie), in which he suggests the way of satisfaction of debtors
- describes the way how to satisfy creditors (list of all assets, debts)
 - if all the creditors accept this suggestion, there is no need of bankruptcy

TYPES OF BUSINESSES

I) According to the SIZE:

a) **Small scale businesses** – up to 50 employees

- objectives: to survive, grow and to make profit (the aim of all types)
- exist because economies of scale can be limited, barriers to entry fall and size of the market small
- + more flexible / can change production easier
- + don't have so many assets (not so many debts)

b) **Middle scale businesses** – 50-500 employees

c) **Large scale businesses** – more than 500 employees

- + easier to raise money (they are more trusted)
- exist for different reasons

- **Businesses can grow in 2 ways** :

- 1) **Internal** - increase in output
- increase in number of employees
 - increase in investment

1) **External**

a) **Takeover** – one of the partners is voluntary member

b) **Merger**

– voluntary partnership

- can be:

1) **Horizontal** – merger of 2 or more companies in the same industry on the same level of production

2) **Vertical** – merger of 2 or more companies in the same industry but on the different level of production

a) Forward - merges car suppliers with the seller of their cars

b) Backward – merges car producers with the seller of their cars

3) **Conglomerate** – 2 firms in the different industry

Types of mergers:

1) **Consortium** – temporary association of physical and legal entities created by the contract to achieve some objectives

- eg. consortium of banks created to finance highways

2) **Cartel** – an association of several businesses created with the aim to reduce the competition among its partners

a) Price cartel – companies agree the same prices

b) Production cartel – companies divide the production

c) Sales cartel – agree how much will be sold by each partner

3) **Syndicate** – special form of cartel, in which the participants create their sales

company (odbytovú firmu) which has the right to sell their product and they lose the contact with the clients

- 4) Concern** – an association of businesses which have the legal subjectivity but they underlie common management (they are capital dependent)
- eg. mother and daughter company, in which daughter comp. depend on the capital of mother company

- 5) Professional association** (odborný zväz)
- relatively free association
- established to protect the interests of its members in the parliament of the government
- eg. Association of entrepreneurs of Slovakia

II) According to the Business Activity

1) Production Businesses

- a) Primary sector businesses**
- extracting of raw materials, agriculture
b) Secondary sector businesses
- processing

2) Non-production Businesses

- a) Tertiary sector businesses**
b) Quaternary sector businesses

III) According to the ownership

- 1) **Public** – not to make profit but to provide services of government
2) **Private**
A) **Sole proprietorship**
B) **Business companies**
a) **Partnerships** (osobné spoločnosti)
- don't need to create initial capital
- have unlimited liability
i) **Limited partnership (k.s.)**
ii) **Ordinary partnership (v.o.s.)**
- different countries might have different forms of businesses
b) **Capital companies** (kapitálové spoločnosti)
- have limited liability
- need initial capital
i) **Limited liability company (s.r.o.)**
ii) **Joint-stock company (Br.E)**
Corporation/Incorporated company (Am.E.)
C) **Cooperatives**
3) **Mixed**