Innovation and Entrepreneurship:Lecture 32

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Syllabus

Course Content:

Unit I: Introduction to Entrepreneurship: Entrepreneurs; entrepreneurial personality and intentions - characteristics, traits and behavioral; entrepreneurial challenges.

Unit II: Entrepreneurial Opportunities: Opportunities. Discovery/ creation, Pattern identification and recognition for venture creation: prototype and exemplar model, reverse engineering.

Unit III: Entrepreneurial Process and Decision Making: Entrepreneurial ecosystem, Ideation, development and exploitation of opportunities; Negotiation, decision making process and approaches, Effectuation and Causation.

Unit IV: Crafting business models and Lean Start-ups: Introduction to business models; Creating value propositions-conventional industry logic, value innovation logic; customer focused innovation; building and analyzing business models; Business model canvas, Introduction to lean startups, Business Pitching.

Unit V: Organizing Business and Entrepreneurial Finance: Forms of business organizations; organizational structures; Evolution of Organisation, sources and selection of venture finance options and its managerial implications. Policy Initiatives and focus; role of institutions in promoting entrepreneurship.

OUTLINE OF LECTURE 32

- Forms of Business Organizations
- Organizational Structures

Forms of Business Organization

- Most business enterprises are organized as **sole proprietorships**, **partnerships**, or **corporations**.

Sole Proprietorship

- The vast majority of small businesses start out as sole proprietorships.
- These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business.
- Sole proprietorships own all the assets of the business and the profits generated by it.
- They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one in the same with the business.

Advantages of Sole Proprietorship

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Profits from the business flow-through directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages of Sole Proprietorship

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
- May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
- May have a hard time attracting high-caliber employees, or those that are motivated by the opportunity to own a part of the business.
- Some employee benefits such as owner’s medical insurance premiums are not directly deductible from business income (only partially as an adjustment to income).

Partnerships

- In a Partnership, two or more people share ownership of a single business.
- Like proprietorships, the law does not distinguish between the business and its owners.
- The Partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership or what steps will be taken to dissolve the partnership when needed

Advantages of Partnerships

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal tax return.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

Disadvantages of a Partnership

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Forms of Business Organization

- Most business enterprises are organized as **sole proprietorships**, **partnerships**, or **corporations**.

- Further, we classify 3 into 7 forms:
  - The Sole Proprietorship
  - Partnerships Business
  - Nonprofit Organization
  - Limited Liability Company (LLC)
  - Cooperatives Societies
  - Private Limited Company
  - Public Limited Company

Nonprofit Organization

- A **nonprofit organization** (**NPO**), also known as a **non-business entity**, **not-for-profit organization** or **nonprofit institution**,is an organization traditionally dedicated to furthering a particular social cause or advocating a shared point of view.

- In economic terms, it is an organization using the surplus of its revenues to further its objective, rather than distributing its income to the organization's shareholders, leaders, or members.

Limited Liability Company

- A limited liability company (LLC) is a hybrid type of legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership.

- The “owners” of an LLC are referred to as “members.” Depending on the state, the members can be a single individual (one owner), two or more individuals, corporations or other LLCs.

Cooperative

- A cooperative is a business or organization owned by and operated for the benefit of those using its services. They’re common in healthcare, retail, agriculture, art and restaurant industries.
- Profits and earnings generated by the cooperative are distributed among the members, also known as user-owners.
- Typically, an elected board of directors and officers run the cooperative while regular members have voting power to control the direction of the cooperative.

Private Limited Company

- A private limited company is a type of business entity in "private" ownership used in many jurisdictions, in contrast to "public" ownership, with some differences from country to country.
- Unlike a publicly limited company, where shares are traded on the stock exchange, a private limited company does not publicly trade shares and is limited to a maximum of 50 shareholders

Public Limited Company

- A **Public Limited Company** (**PLC**) is a separate legal business entity which offers its shares to be traded on the stock exchange for the general **public**.

- According to the regulations of the **corporate** law, a **PLC** has to compulsorily present its financial stats and position publicly to maintain transparency.

What are the 4 types of organizational structures?

- Traditional organizational structures come in four general types – functional, **divisional**, **matrix** and flat – but with the rise of the digital marketplace, **decentralized**, team-based org structures are disrupting old business models.

Functional Organization Structure

- Under a functional organization structure, people who do similar tasks are grouped together based on specialty.

- So all the accountants are placed in the finance department and so on for the marketing, operations, senior management and human resources departments.

- The advantages of this kind of structure include quick decision making, because the group members can easily communicate. They can also learn from each other, since they already possess similar skill sets and interests.

Divisional Structure Based on Products

- In a divisional structure, your company groups workers into teams based on the products or projects that meet the needs of a certain type of customer.
- For example, a bakery with a catering operation might structure the workforce based on key clientele, such as a wedding department and a wholesale-retail department.
- The division of labor in this kind of structure ensures workers making similar products can achieve greater efficiency and higher output.

Matrix Structure Combines Functional and Divisional Models

- A matrix structure combines elements of the functional and divisional models, so it’s more complex.

- It groups people into functional departments of specialization, then further separates them into divisional projects and products.

Flat Organizational Structure

- A flat organizational structure attempts to disrupt the traditional top-down management system of most companies. Management is decentralized so there is no everyday “boss.”

- Each employee is the boss of themselves, eliminating bureaucracy and red tape and improving direct communication.

Quick Question

- What is Forms of BIAS (business organizations)?
- What is Organizational structures of BIAS?
- Find Forms of your dream company and their Organizational Structure