

# Introduction to Entrepreneurship and Innovation

Leila Rawashdeh

Spring 2022/2023

---

## CHAPTER 7

Ethical and Legal Foundation in a Startup

# What is business ethics

**Business ethics** (also known as **corporate ethics**) is a form of applied ethics or professional ethics, that examines ethical principles and moral or ethical problems that can arise in a business environment.

Business ethics refers to contemporary organizational standards, principles, sets of values and norms that govern the actions and behavior of an individual in the business organization.



## Establishing a Strong Ethical Culture

### Lead by Example

- The most important thing that any entrepreneur, or team of entrepreneurs, can do to build a strong ethical culture in their organization is to lead by example.



### Establish a Code of Conduct

- A code of conduct (or code of ethics) is a formal statement of an organization's values on certain ethical and social issues.

#### CODE OF CONDUCT AND ETHICAL VALUES

- Decent Working Hours policy
- Non-Gender Discrimination policy
- Fair Remuneration policy
- Harassment policy
- Freedom of Associating Labor Unions policy
- Reporting of Illegal or Unethical Behavior policy
- Child Labor Policy
- Protection and Proper Use of Company Assets
- Forced labor policy
- Employee Relations Policy
- Safety Policy
- Non-discrimination policy

### Implement an Ethics Training Program

- Ethics training programs teach business ethics to help employees deal with ethical dilemmas and improve their overall ethical conduct.
- An ethical dilemma is a situation that involves doing something that is beneficial to oneself or the organization, but may be unethical.

<https://psut.edu.jo/sites/default/files/%D9%82%D9%88%D8%A7%D8%B9%D8%AF%20%D8%A7%D9%84%D8%B3%D9%84%D9%88%D9%832.pdf>



## Establishing a Strong Ethical Culture

### Pay off for a strong ethical culture

#### (Benefits)

Potential avoidance of fines

Better access to capital

Improved brand reputation

Improved employee commitment

Improved customer loyalty

Decreased vulnerability

## Choosing an Attorney for a Firm

### Select an Attorney Early

- It is important for an entrepreneur to select an attorney as early as possible when developing a business venture.
- It is critically important that the attorney be familiar with start-up issues.

(ways an attorney can help an entrepreneur)

### Intellectual Property

- For issues dealing with intellectual property (patents, trademarks, copyrights, and trade secrets) it is essential to use an attorney who specializes in this field.

## Drafting a Founders' agreement

### **Founders' Agreement** (ways an attorney can help an entrepreneur)

A founders' agreement (or shareholders' agreement) is a written document that deals with issues such as:

- the relative split of the equity among the founders of the firm,
- how individual founders will be compensated for the cash or the “sweat equity” they put into the firm,
- and how long the founders will have to remain with the firm for their shares to fully vest.

## Items to Include in a Founders' Agreement

- Nature of the prospective business.
- Identity and proposed titles of the founders.
- Legal form of business ownership.
- Apportionment of stock (or division of ownership).
- Consideration paid for stock or ownership share of each of the founders.
- Identification of any intellectual property signed over to the business.
- Description of the initial operating capital.
- Buyback clause.

When the **founders** have agreed on the **ownership** percentages, they can then determine how many **shares** in total to issue.

is the **cash used for daily operations in a company**.

The buyback clause is a clause that can be seen in the agreements of most founders which **legally obligates departing** founders for selling their interest in the firm to the remaining founders if they are interested. Mostly, the agreement mentions the formula to compute the \$ value to be paid.

## Avoiding Legal Disputes

### Avoiding Legal Disputes

- Most legal disputes are the result of misunderstandings, sloppiness, or a simple lack of knowledge of the law. Getting bogged down in legal disputes is something an entrepreneur should work hard to avoid.
- There are several steps that an entrepreneur can take to avoid legal disputes:
  - Meet all contractual obligations.
  - Avoid undercapitalization.
  - Get everything in writing.
  - Set standards.
- Although it's tempting to try to show people you trust them by not insisting on written agreements, it's not a good practice.
- One of the simplest ways to avoid misunderstandings and ultimately legal disputes is to get everything in writing.



# Obtaining Business Licenses and Permits

## Why should I register and license my business?

*When you register and license your business, it will become a formal entity that will be able to:*

- Conduct official transactions without the risk of penalties
- Be eligible for business loans and government benefits
- Benefit from legal protection (others can't steal any aspects of your business or trade mark or take advantage of it)
- Attract more customers
- Expand to new branches or locations
- Advertise publicly
- Attract more skilled employees
- Benefit from Jordan investment commission



## Choosing a form of business ownership

When a business is launched, a form of legal entity must be chosen, or a Legal business structures.

### Factors to take into consideration

1. The **cost** of setting up and maintaining the legal form
2. The extent to which personal assets can be shielded from the **liabilities** of the business
3. **Tax** considerations
4. The number and **types of investors** involved

## Choosing a form of business ownership



Individual establishment  
or **SOLE**  
**PROPRIETORSHIP**

### 1. Individual establishment: المؤسسة الفردية

- It is the simplest form of business structure
- You can apply for a permit at the Central Registration Directorate at the ministry of industry and trade or the commercial registrar in areas outside of Amman  
مراقب سجل التجارة      تصريح احتراف التجارة  
أمين السجل التجاري
- From a legal standpoint:
  - This type is not seen as separate from the owner
  - The owner doesn't have limited liability
  - The owner is personally responsible for covering all legal, financial, and administrative costs incurred by the business
- The minimum capital required is 1000 JDs, the registrar may or may not ask for evidence of capital

# Choosing a form of business ownership

## Legal business structures

### 2. General Partnership Company شركة التضامن

- Must have at least two owners
- Number of partners can range from 2 to 20, each at least 18 years old
- From a legal standpoint:
  - Each owner is fully obligated to the business
  - The owners don't have limited liability
  - If the capital of the business exceeds 50,000 JDs, a lawyer is required
- No minimum capital is required to set up the business



# Choosing a form of business ownership

## Legal business structures

### 3. Limited partnership company شركة التوصية البسيطة

- Allows for a combination of general partners and limited partners
- From a legal standpoint:

- الشركاء المتضامنون
  - General partners are responsible for the day-to-day operations of the business and do not have limited liability
- الشركاء الموصون
  - Limited partners contribute to the capital but are not permitted to get involved in the company's operations. They are limited to their own shares in the company
  - A lawyers is not require unless the capital exceeds 50,000 JDs
- Minimum capital required is 1000 JDs



**LIMITED  
PARTNERSHIP**

# Choosing a form of business ownership

## Legal business structures

### 4. Limited liability company

شركة محدودة المسؤولية

- Usually have a complex structure
- Usually have 2 or more partners, no upper limit for number of owners
- Can offer or trade company shares on the stock market
- If there is only one owner, the owner will need permission from the Company Controller at the Companies Control Department مراقب الشركات  
دائرة مراقبة الشركات
- From a legal standpoint:
  - All partners are considered limited partners
  - Required to have a lawyer and an auditor if the capital exceeds 20,000 JDs
  - The lawyer is required to file papers that confirm he or she is the legal counsel for the company
- Minimum capital required is 1 JD



**LLC**



# Choosing a form of business ownership

## Legal business structures

### 5. Private Shareholder Company شركة المساهمة الخاصة

- do not offer or trade their company shares to the general public on the stock market
- The company's stock is offered owned and traded privately
- Usually owned by non-governmental organizations or by relatively small number of shareholders
- From a legal standpoint:
  - All partners are considered limited partners
  - Required to have a lawyer and an auditor
- Minimum capital required is 50,000 JD

