NIT-Lecture 4
GSU 08202C
Entrepreneurship
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INSTRUCTOR: MBARAKA ISMAILI

Entrepreneurial Venture

Entrepreneurial Venture

- Entrepreneurial ventures are creating and bringing to market new products and services that make our lives easier, enhance our productivity at work, improve our health, and entertain us in new and fascinating ways.

- Venture/Enterprise is a business organization that is formed and which provides goods and services, creates jobs, contributes to national income, imports, exports and sustainable economic development.

- An Entrepreneur is nothing else than the person who starts or work in an enterprise or venture.

Venture Structure

- One of the first decisions you will need to make in starting a business is choosing a form of ownership.

- Several issues should be considered when making this decision.
  - To what extent do you want to be personally liable for financial and legal risk?
  - Who will have controlling interest of the business?
  - How will the business be financed?

- The three basic legal structures you can choose for your firm are:-

  1. Sole proprietorship,
  2. partnership,
  3. corporation,

Sole Proprietorship

- A sole proprietorship is a business that is owned and operated by one person.
- There are no legal requirements to establish a sole proprietorship.
- **Advantages**
  - **complete control of the business**. The sole proprietorship is well suited to the aspiring entrepreneur's desire for independence. You don't have to consult with any partners, stockholders, or boards of directors. As a result of this independence, you are free to respond quickly to new market needs. Because you make all the decisions and bear all the responsibility, you do not have to share profits with anyone. You may have a smaller pie, but it's all your pie.
  - **Easy to set up**. There are fewer legal requirements and restrictions than with a partnership or a corporation. Legal and license costs are at a minimum. An inexpensive business license from the authority required—and sometimes not even that—unless your type of business requires special permits. For example, businesses selling food must be inspected by health departments. Otherwise, you need only hang your sign on the door and let the world know you are in business. The fast, simple way in which a proprietorship can be formed reduces start-up costs and stress.
  - **Easy to close**. If you choose, you can liquidate your assets, pay your bills, turn off the lights, and take your sign off the door, and you are then out of business. This is not the case with partnerships and corporations.

Sole Proprietorship

- **Easy in Tax calculation or sometimes not paying tax** at all, Sole proprietorship can provide the tax exemptions at a certain time or paying local revenue only fixed a certain amount per day.

Disadvantages

- **Unlimited liability**. As a sole proprietor, you are personally liable for all debts incurred by the business. If the business should fail, you could lose more than you invested in it. Personal assets, such as your home and car, might have to be liquidated to cover the business debt. Thus, although there are few caps on the potential for return with a sole proprietorship, there are similarly few caps on the amount you could lose.
- **Difficult to raise capital from outside sources**. As one individual, you have access to fewer financial resources than a group of people could gather. Lenders believe that their chances of seeing a return on their investment are reduced in a sole proprietorship and therefore are not as likely to loan money to this type of business.
- **Limited to and by your own skills and capabilities,** The total responsibility of running a sole proprietorship may mean independence, but it can also be a disadvantage. Just as you are limited to the amount of capital you can raise, so you are limited to and by your own skills and capabilities. You may be an expert in some areas of running a business but be deficient in others.
- **Lack of continuity in the business,** Total responsibility can also mean a lack of continuity in the business. If you should become unable to work through illness, disability, or death, the business will cease to exist. Long vacations can become virtually impossible to take.

Partnership

- If two or more people are going into business together, they have two choices: form a partnership or form a corporation.
- A partnership is defined as an association of two or more persons to carry on as co-owners of a business for profit.
- Legally you can have a partnership without a written agreement (although it is not recommended), so the paperwork requirements for starting a partnership are about the same as those for a proprietorship.
- When you form a partnership with friends, family, or associates, you may not think it is necessary to have a written agreement because you are so familiar with each other. You do. Problems are inevitable for every partnership, and the human memory is far too frail to depend upon in times of business difficulty.
- An agreement that is well thought out when the partnership is formed can save the business—and a friendship—later.
- Without a written agreement, a partnership operates according to the general law of Partnership.

Partnership

- There are two types of partnerships:
  - **General Partnership**. General partnership, which is more common. In a general partnership, each partner faces the same personal liability as a sole proprietor.
  - **Limited Partnership**. In a limited partnership, at least one of the partners has limited liability.
- **Advantages**
  - **The pooling of managerial talent** and capital to create a product or service that is better than what any of the partners could have created individually.
  - **Access to additional capital** is an advantage of partnerships. Partners can pool their money. Moreover, credit is easier to obtain than for a proprietor. The reason is that the creditor can collect the debt from any one or all of the partners. Partnerships can also benefit from more management expertise in decision making. With more partners involved, there is a higher chance of someone knowing what to do or having prior experience in any given situation.
  - **The owners pay taxes as individuals**. Therefore, profits are taxed only once on each partner's share of the income. The partnership must file an informational return that reports how much money it earned or lost during the tax year and what share of the income or loss belongs to each partner.
  - **Partnerships are easy to create**. All you need are the appropriate business licenses and a tax number, and you're in business—for better or for worse.

Partnership

- **Disadvantages**
  - **Unlimited liability**. Each general partner's liability is not limited to the amount of his or her investment but rather extends to that partner's personal property as well. Even if the partnership agreement specifies a defined split in profits, each partner is 100 percent responsible for all liabilities. Liable for the negligence of your partners. A great deal of trust, a comprehensive agreement, and a good lawyer are, therefore, needed before opening such a business. Similarly, each partner can act as an agent of the partnership. In other words, any partner can enter into a contract for the partnership, incurring debt or other responsibilities, or selling assets, unless limited by the articles of partnership, discussed in detail later in this chapter.
  - **The potential for managerial conflict** within the partnership is one of the most serious problems that can threaten its viability. If partners disagree on matters that involve core issues, such as a future direction for the business, the partnership could literally split at the seams.
  - **Limits that independence,** If a common reason to go into small business is independence, entering into a partnership limits that independence. For example, what happens if you want to reinvest profits in the business, but your partner wants to start holding your business meetings in Hawaii and have the company buy each of you new cars? Some resolution must be found, or the entire business could be in jeopardy.

Partnership

- **Difficulties may arise if a partner wants to withdraw from the partnership**, dies, or becomes unable to continue in the business. Even if the partnership agreement identifies the value of each owner's share, the remaining partners may not have the financial resources to buy out the one who wants to leave. If a partner leaves, the partnership is dissolved. The remaining partners must find a new partner to bring in, contribute additional capital themselves, or terminate the business. This problem can be avoided in advance by including a buy-sell agreement in the articles of partnership, which will be discussed in detail later in The buy-sell agreement spells out what will happen if one of the partners wants to leave voluntarily, becomes disabled, or dies.

Partnership

- **Limited Partnership** The limited partnership was created to avoid some of the problems of a general partnership while retaining its basic benefits. A limited partnership must have at least one general partner who retains unlimited liability and all of the other responsibilities discussed in the general partnership section.

Corporation

- The corporation is the most complicated business structure to form.
- In the eyes of the law, a corporation/Company is an autonomous entity that has the legal rights of a person, including the ability to sue and be sued, to own property, and to engage in business transactions.
- A corporation must act in accordance with its charter and the laws of the state in which it exists, these laws vary by state.
- There are several types of Corporation those are as follows:-
- **Closely held corporation**
  - With this type of business, relatively few people (usually fewer than ten) own stock. Most owners participate in the firm's management, and those who don't are usually family or friends
- **Public corporations**
  - Corporation that sell shares of stock to the public and are listed on a stock exchange. Public corporations must comply with more detailed by the laws of the state. For example in Tanzania must listed in Dar es salaam Stock of Exchange (DSE) regulations, such as disclosing financial information in the company's annual report.
- **limited-liability company (LLC)**

Corporation

- **Advantages**
  - **Limited liability,** it offers its owners. In a corporation, the most you stand to lose is the amount you have invested in it. If the business fails or if it is sued, your personal property remains protected from creditors.
  - **Easier access to financing**, because bankers, venture capitalists, and other lending institutions tend to regard them as being more stable than proprietorships or partnerships. Corporations have proven to be the best way to accumulate large pools of capital.
  - **Take advantage of the skills of several people** and draw on their increased human and managerial resources. Boards of directors can bring valuable expertise and advice to small corporations. Also, because a corporation has a life of its own, it continues to operate even if its stockholders change.
  - **Transfer of ownership** can be completed through the sale of the stock

Corporation

- Disadvantages

  1. Expensive to start

  2. Complex to maintain

  3. Double taxation

Forming a Corporation

- The process of incorporating your business includes the following steps: First, you must prepare articles of incorporation and file them for incorporating. You must choose a board of directors, adopt bylaws, elect officers, and issue stock.

- At the time you incorporate, you must also decide whether to form a C corporation, an S corporation, or a limited-liability company (LLC), all of which will be described in this chapter.

Forming a Corporation

- Although states vary in their requirements, articles of incorporation usually include the following items:
- The name of your company
  - The name you choose must be registered with the state in which it will operate. This registration prevents companies from operating under the same name, which could create confusion for the consumer.
- The purpose of your corporation
  - You must state the intended nature of your business. Being specific about your purpose will give financial institutions a better idea of what you do.
- The names and addresses of the incorporators
  - Some states require at least one incorporator to reside in that state
- The names and addresses of the corporation’s initial officers and directors
- The address of the corporation’s home office
  - You must establish headquarters in the state from which you receive your charter or register as an out-of-state corporation in your own state.
- The amount of capital required at time of incorporation
  - The proposed capital structure includes the amount and type of capital stock you issue at the time of incorporation.

Forming a Corporation

- Capital stock to be authorized
  - In this section, you specify the types of stock and the number of shares that the corporation will issue.
- Bylaws of the corporation
  - A corporation’s bylaws are the rules and regulations by which it agrees to operate. Bylaws must stipulate the rights and powers of shareholders, directors, and officers.
- Length of time the corporation will operate
  - Most corporations are established with the intention that they will operate in perpetuity. However, you may specify a duration for the corporation’s existence.

Legal Issues Related to Emerging Venture

- **Patent rights**
  - Give protection of your machine, your process, or a combination of the two against unauthorized use or infringement for only a limited period of time, after which they are open to use by others.
  - Thus it is important for the prospective buyer of an existing business to determine precisely when the firm's patent rights expire and to value these rights based on the time remaining.
  - A patent gives you the right to exclude someone else (or some other company) from making, using, or selling the property you have created and patented for a period of 17 years.
  - Three types of patents exist. The most common type is the utility patent, which covers inventions that provide a unique or new use or function. Whereas utility patents cover use, design patents protect unique or new forms or shapes. If the new shape also changes the function of the object, then you need to apply for a utility patent.
  - If looks alone are different, you need a design patent. For example, if you were to design a ballpoint pen that looked like a fish, but which served no other function than that of a ballpoint pen, you would file for a design patent on your invention.
  - The third patent type is a plant patent. Such a patent covers living plants, such as flowers, trees, or vegetables, that can be grown or otherwise reproduced.

Legal Issues Related to Emerging Venture

- **Copyrights**
  - offer the best protection for books, periodicals, materials prepared for oral presentation, advertising copy, music, pictorial illustrations, commercial prints or labels, and similar intellectual property. Unlike patent rights, copyrights are renewable.
  - A copyright is the protection of literary, musical, or artistic works. Copyright laws protect the expression of ideas, not the ideas themselves, because lawmakers want to encourage the dissemination of ideas while protecting the rights of the original owner.
  - The length of copyright protection is the life of the author plus 50 years. If your corporation is the owner of a book's copyright, it will continue as owner for 75 years after the first publication, or 100 years after creation.
  - You don't have to register your work to receive copyright protection, but it does strengthen your rights to do so. If registered, you don't have to prove actual damages to collect up to $500,000 if someone violates your copyright, this is for USA laws.

Legal Issues Related to Emerging Venture

- **Trademarks**
  - A brand is a name, term, symbol, design, or combination of these elements that clearly identifies and differentiates your products from those of your competitors. A trademark is a registered and protected brand.
  - Therefore, all trademarks are brands, but not all brands are trademarks. A trademark can include a graphic as well as a brand name. For example, not only is the Coke name protected, but the style of its script also makes it a trademark.
  - Protect you against unauthorized use or infringement of a symbol, such as the Mercedes-Benz star or McDonald’s arches, used in marketing goods. The function of trademarks is to identify specific products and to create and maintain a demand for those products.
  - Because trademark protection lasts as long as the trademark is in continuous use, you should consider its value when purchasing a business that owns a trademark.
  - Your trademark rights remain in effect as long as you continue to use the trademark. This enduring nature offers an advantage over patents or copyrights. Trademarks are useful because they provide brand recognition for your product and are a good way to create an image in your customer’s mind.

"Play your part, it can be done" *By Mwl Nyerere*

THE END