Organizational Plan For Entrepreneurs

Developing the Management Team

- Investors demand that the management team not operate the business as a part-time venture.
- It is assumed that the management team is prepared to operate the business full time and at a modest salary.
- An attempt to draw a large salary out of the new venture may be perceived as a lack of commitment to the business.

Legal Forms of Business

- Three basic legal forms of business:
  - Proprietorship - Single owner, unlimited liability, controls all decisions, and receives all profits.
  - Partnership - Two or more individuals having unlimited liability who have pooled resources to own a business.
  - Corporation - Most common form of corporation; regulated by statute (a written law passed by a legislative body); treated as a separate legal entity for liability and tax purposes.

Table 9.1 - Three Forms of Business Formation

Factors	Proprietorship	Partnership	Corporation
Ownership	Individual	No limitation on number of partners	No limitation on number of stockholders
Liability of owners	Individual liable for business liabilities	In general, partner individuals are all liable for business liabilities	Amount of capital contribution is limit of shareholders liability
Costs of starting business	None other than filing fees for trade name (NTN, GST)	Partnership agreement, legal costs and minor filing fees for trade name	Created only by statute (SECP). Articles of incorporation (Memorandum and association), filing fees

Table 9.1 - Three Forms of Business Formation

Factors	Proprietorship	Partnership	Corporation
Continuity of business	Death dissolves the business	Death or withdrawal of one partner terminates partnership agreement.	Greatest form of continuity. Death or withdrawals of owner(s) will not affect legal existences of business.
Transferability of interest	Complete freedom to sell or transform any part of business.	General partner can transfer his/her interest only with consent of all other general partners.	Most flexible. Stockholders can sell or buy stock at will. Some stock transfers may be restricted by agreement.

Table 9.1 - Three Forms of Business Formation

Factors	Proprietorship	Partnership	Corporation
Capital requirements	Capital raised by loan or increased contribution by proprietor	Loans or new contributions by partners require a change in partnership agreement	New capital raised by sale of stock or bonds or by borrowing (debt) in the name of corporation.
Management control	Proprietor makes all decisions and can act immediately	All even partners have equal control or majority rules.	Majority stockholders have most control from legal point of view. Day-to-day control in hands of management who may or may not be major stockholders.

Table 9.1 - Three Forms of Business Formation

Factors	Proprietorship	Partnership	Corporation
Distribution of profits and losses	Proprietor is responsible and receives all profits and losses	Depends on partnership agreement and investment by partners	Shareholders can share in profits by receipt of dividends.
Attractiveness of raising capital	Depends on capability of proprietor and success of business	Depends on capability of partners and success of business	With limited liability for stockholders, more attractive as an investment opportunity

Tax Attributes of Forms of Business

- Tax Issues for Proprietorship
  - Federal Board of Revenue (FBR) treats business as the individual owner; not regarded as a separate tax entity.
  - All income appears on owner's return as personal income.
  - Tax advantages:
    - No double tax when profits are distributed to owner.
    - No penalty for retained earnings.
- Tax Issues for Partnership (general)
  - Tax advantages and disadvantages are similar to sole proprietorship.

Tax Attributes of Forms of Business (cont.)

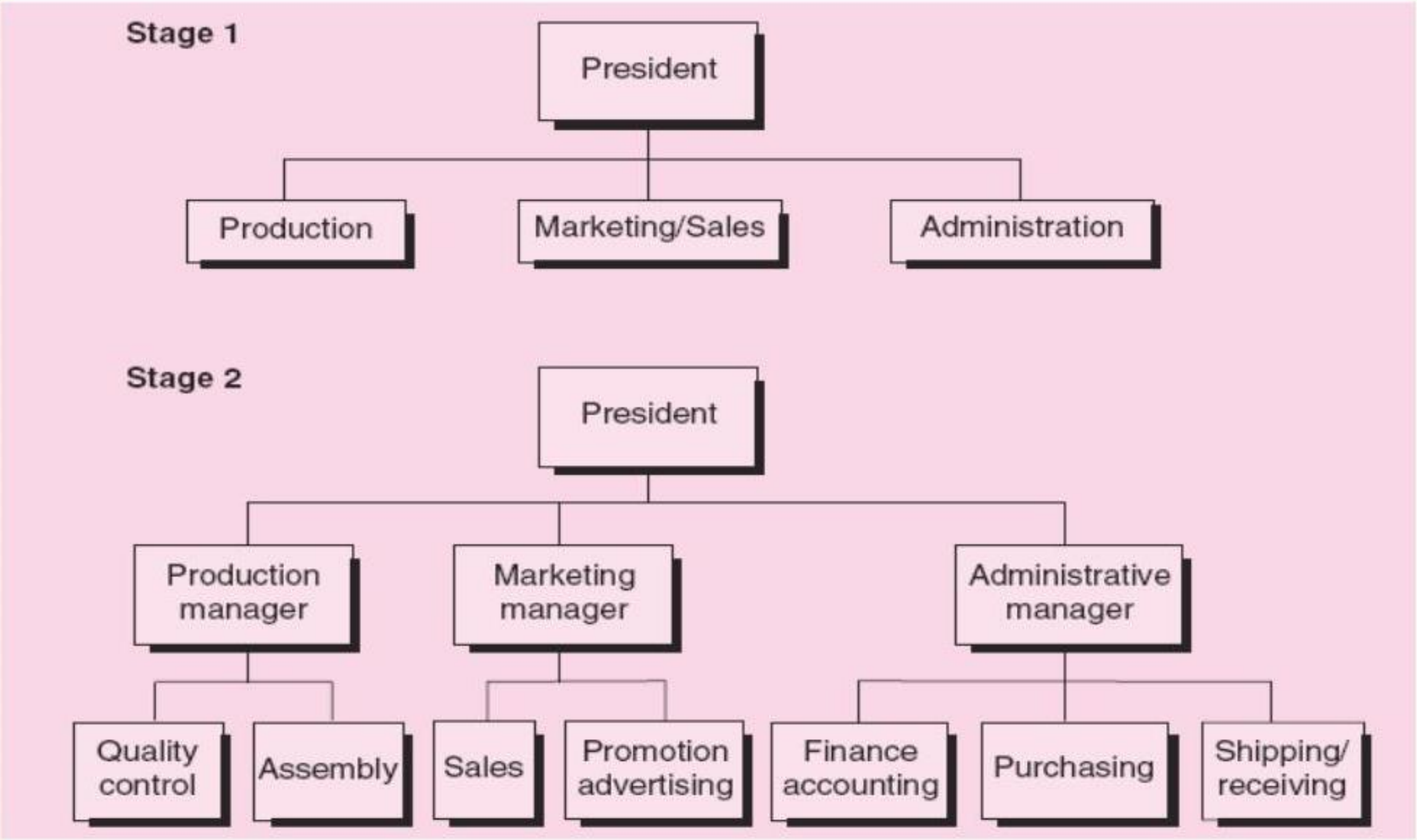
- Tax Issues for Corporation
  - Corporation is recognized as a separate tax entity
  - Distribution of dividends is taxed twice.
  - Double taxation can be avoided if income is distributed to entrepreneur(s) in the form of salary.

Designing the Organization

- This is an entrepreneur's formal and explicit indication to the members of the organization as to what is expected of them; expectations can be grouped into:

1. Organization structure: defining members jobs and the communication and relationship these jobs have with each other. These relationships are depicted in the organisation chart (see next page for organisation chart detail).

Organisation chart - Stages



Designing the Organization

2. Planning, measurement and evaluation schemes: All organisation activities should reflect the goals and objectives that underlie the venture's existence. The entrepreneur must spell out how these goals will be achieved (plan), how they will be measured and how they will be evaluated.
3. Rewards: members of the organisation will require rewards in the form of promotions, bonuses, praise and so on. The entrepreneur or other key managers will need to be responsible for these rewards.
4. Selection criteria: The entrepreneur will need to determine a set of guidelines for selecting individuals for each position.
5. Training: trainings, on or off the job must be specified. The training may be in the form of formal education or learning skills.

Building the successful organisation

- Once the legal form of organisation is determined, and the roles necessary to perform all the important functions of the organisation are identified, the entrepreneur will need to do job analysis in detail.
- The job analysis serve as a guide in determining job description, hiring procedures, training, performance appraisals, and compensation programs. A management team must be able to accomplish three functions:
  - Execute the business plan.
  - Identify fundamental changes in the business as they occur.
  - Make adjustments to the plan as per changes in the business environment so that to maintain profitability.

Building the successful organisation (cont.)

- Important factors in establishing an effective management team:
  - Desired organisational culture (behaviour of humans within an organization and the meaning that people attach to those behaviours) must match business strategy outlined in the business plan.
  - Employees must be motivated and rewarded for good work.
  - Entrepreneur should be flexible to try different /new things.
  - Spend extra time in the hiring process.
  - Core values and appropriate tools must be provided for employees to effectively complete their jobs.

Building the successful organisation (cont.)

- Job descriptions and specification
  - Job description specify details of work to be performed by an employee.
    - A job description communicates to candidates regarding job that what will be expected of them to do once one will be employed. It should be written clear, direct and in simple language.
  - Job specification enlists the details of knowledge and competencies (skills) needed to perform a specific job within an organisation.

Building the successful organisation (cont.)

Job Analysis

Job Description

- Job Title
- Job Location
- Job Summary
- Reporting to
- Working Conditions
- Job Duties
- Machines to be Used
- Hazards

Job Specification

- Qualifications
- Experience
- Training
- Skills
- Responsibilities
- Emotional Characteristics
- Sensory Demands

The Role of a Board of Directors

- A '**Board of directors'** is a body of elected or appointed members who jointly oversee the activities of a company or organization.
- Functions of the board of directors:
  - Reviewing operating and capital budgets.
  - Developing longer-term strategic plans for growth and expansion.
  - Supporting day-to-day activities.
  - Resolving conflicts among owners/shareholders and management (agency problem).
  - Ensuring the proper use of assets.
  - Developing a network of information sources for the entrepreneurs.

The Role of a Board of Directors
(cont.)

- They meet the requirements of the following criteria:
  - Ability to work with a diverse group and commit to the venture’s mission.
  - Ability to understand the market environment.
  - Ability to contribute important skills/information for the achievement of the new venture’s planned goals.
  - Ability to show good judgment in business decision making.

The Board of Advisors

- They serve only in an advisory capacity.
- No legal status; not subject to regulations
- Likely to meet less frequently.
- Useful in a family business.
- Selection process is similar to the process for selecting a board of directors.
- Advisors may be compensated on a per-meeting basis or with stock or stock options.

The Organization and Use of Advisors

- Outside advisors are usually used on an as-needed basis.
- They can become a part of the organization and need to be managed.
- The relationship between the entrepreneur and outside advisors can be enhanced by involving them thoroughly and at an early stage.
- Even after hiring advisors, the entrepreneur should ask for their advice.

Commonly used Terminology

Director - a person appointed to serve on the board of an organization, such as an institution or business.
Inside director - a director who, in addition to serving on the board, has a meaningful connection to the organization
Outside director - a director who, other than serving on the board, has no meaningful connections to the organization
Executive director - an inside director who is also an executive with the organization. The term is also used, in a completely different sense, to refer to a CEO
Non executive director- a director who is not an executive with the organization
Shadow director - an individual who is not a named director but who nevertheless directs or controls the organization