

Entrepreneurial Management

Chapter 8

The Organizational Plan: Teams, Legal Structures, Alliances, and Directors

Lecturer: Michaella DeLeon Castillo, DBA

ENTREPRENEURIAL MANAGEMENT – LECTURE 8

CHAPTER 8 – The Organizational Plan: Teams, Legal Structures, Alliances, and Directors

LESSON 8

The Organizational Plan: Teams, Legal Structures, Alliances, and Directors

Learning Objective 8.1 – Building Management Team

Strong management may maximize a successful business idea by securing the necessary resources. Obviously, even a highly capable management team cannot save a company with a weak business plan or insufficient resources. Prospective investors view the quality of a new venture's management as one of the most crucial considerations when deciding whether to invest or not. In other words, investors are aware that weak or incompetent management often results in bad business performance. One reason a management team can frequently provide greater strength to a venture than a single entrepreneur is because a team can give a variety of talents to satisfy varied managerial needs. This can be especially useful for new technology-based firms that must manage a variety of factors. In addition, a team can provide more certainty of continuity, since the loss of a single team member is less detrimental to a corporation than the loss of a sole owner.

The necessary skills for a management team depend on the nature of the business and its activities. A software development company and a restaurant, for instance, require completely different forms of business knowledge. Similarly, service and retail enterprises are typically easier to create and maintain, which may explain why sole proprietors favor these types of organizations. Small businesses require managers with the necessary combination of education, experience, and abilities, regardless of the industry. The qualifications of a candidate for a crucial role must complement those of existing team members. In many instances, the founder of a startup fills the management team with family and friends instead of seeking balanced expertise. This has tremendous advantages. The owner knows and trusts these individuals, they frequently work for less pay (despite the higher risk associated with joining a new company), and they are more likely to make personal sacrifices to keep the business alive. The disadvantage is that the team might become very homogeneous, lack complementary strengths, harbor attitudes of entitlement, and bring family turmoil into the workplace. All of these elements, both bad and positive, must be considered when employing relatives and friends.

Achieving Balance

Even when entrepreneurs acknowledge the need for diversely skilled team members, they usually choose candidates with personalities and management styles similar to their own. Collaboration requires interpersonal compatibility and cooperation among team members, and cohesive teams tend to perform better. Experience suggests, however, that a functionally varied and well-balanced team is more likely to cover all business bases, giving the organization a competitive edge, particularly when softer relational factors like as fit and compatibility are also addressed. A management team should consist of both qualified insiders and outside professionals to provide balance. For instance, a small business will profit substantially from establishing partnerships with a commercial bank, a law firm, and an accounting firm.

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In addition to offering advice and direction to the management team, an active board of directors or advisory board can connect the business with external sources of expertise and assistance. It is merely a matter of tapping into the existing corporate networks of board members. In this regard, the importance of a good board cannot be understated.

The Solo Startup Is Still an Option

In spite of the benefits of joining a team to launch a firm, many entrepreneurs would rather go it alone. And modern technological advancements make this choice increasingly feasible. Business support services that once cost thousands of dollars are now available online for free or a small monthly fee, and hiring assistance from around the globe may be accomplished with a few clicks of the mouse. These technologies can serve as an alternative to hiring a skilled business partner or increasing the size of the management team.

Expanding Social Networks

Whether starting with a team or on your own, who you know is often more important than what you know. Members of the management team assist the business in obtaining financial and technological resources. In addition, they can connect the organization to a social network that provides access to a vast array of resources outside the reach of individual team members. A social network is the web of relationships that a person has with other individuals, including roommates or other acquaintances from college, previous employees and business associates, and contacts through community organizations such as Rotary and religious groups.

Some small business owners are utilizing the expanding universe of social media technologies, such as LinkedIn, Twitter, and Facebook, to attract clients, network with peers, and offer solutions to common issues. In fact, according to a recent survey, the rate of use of social media tools by small businesses has been tripling each year, considerably expanding their network-building efforts. Social capital is the advantage created by an individual's connections within a network of social relationships. Keeping up with the rapid growth of social media is difficult, but an active and robust social network is necessary for building social capital, which is the advantage created by an individual's connections within a network of social relationships.

Learning Objective 8.2 – Common Legal Forms of Organization

The Sole Proprietorship Option

A sole proprietorship, the most basic business form, is a company owned by one person. An individual proprietor has title to all business assets and is subject to the claims of creditors. He or she receives all of the firm's profits but must also assume all losses, bear all risks, and pay all debts. Although this form certainly is not right for everyone, forming a sole proprietorship is nonetheless the simplest and cheapest way to start operation.

In a sole proprietorship, an owner is free from interference by partners, shareholders, and directors. However, a sole proprietorship lacks some of the advantages of other legal forms. For example, there are no limits on the owner's personal liability—that is, the owner of the business has unlimited liability, and thus his or her personal assets can be taken by business creditors if the enterprise fails. For this reason, the sole proprietorship form is usually the practical choice only for very small businesses. In addition, sole proprietors are not employees of the business and cannot benefit from the advantage of

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many tax-free fringe benefits, such as insurance and hospitalization plans, which are often provided by corporations for their employees.

The death of the owner terminates the legal existence of a sole proprietorship. Thus, the possibility of the owner's death may cloud relationships between a business and its creditors and employees. It is important that the owner have a will, because the assets of the business minus its liabilities will belong to her or his heirs. In a will, a sole proprietor can give an executor the power to run the business for the heirs until they can take it over or it can be sold.

The Partnership Option

A partnership is a legal entity formed by two or more co-owners to run a for-profit business. Due to the voluntary nature of a partnership, its owners can establish it quickly, avoiding many of the legal formalities required in forming a corporation. A partnership combines the managerial abilities and financial resources of its members. However, similar to a single proprietorship, the owners share limitless liability. Operating a business as a partnership provides advantages, but it is also laden with potential pitfalls, to the point where the majority of experts discourage the use of this organizational structure. The advantages of partnerships include the potential to share the enterprise's emotional and financial burdens and to acquire management expertise that would otherwise exceed the budget.

Qualifications of Partners

Any person legally capable of entering into contracts may become a company partner. Individuals can become partners without providing funds or having a claim on the company's assets upon dissolution. These individuals are only partners in terms of management and profits. In addition to legal considerations, the creation of a partnership must also take into account human and management elements. A solid relationship requires partners that are trustworthy, healthy, competent, and compatible.

Rights and Duties of Partners

A spoken partnership agreement is lawful and enforceable, but memory is never perfect. Fred S. Steingold, a practicing company attorney and author of *Legal Guide for Starting and Running a Small Business*, highly suggests that partners sign a written partnership agreement to avoid complications in the future. This document, which outlines the rights and responsibilities of the partners, should be drafted prior to the commencement of the endeavor. Although partners may opt to have an attorney prepare the agreement to ensure that all essential elements are covered, there are numerous alternative sources of aid available to guide you through this process.

Termination of a Partnership

Death, incapacity, or withdrawal of a partner dissolves a partnership and necessitates commercial liquidation or restructuring. Generally, liquidation produces in large losses for all partners, however it may be required by law. A partnership represents a deep personal relationship that cannot be maintained against the will of either of the parties. If the partnership agreement specifies that surviving partners can continue the business after purchasing the deceased partner's interest, loss due to liquidation may be

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avoided in the event of the death of a partner. This option can be made easier if each partner has life insurance with the other partners as beneficiaries.

The C Corporation

A corporation is a different entity from its owners, meaning that the company, not its owners, is responsible for the business's debts. This arrangement has profound and far-reaching implications for risk taking and business formation, prompting a highly influential business executive to declare the creation of the modern corporation to be the single greatest innovation in the last several hundred years, at least in terms of wealth creation.

The Corporate Charter

One or more individuals must apply to the secretary of state (at the state level) for permission to incorporate in order to form a corporation. After completing basic formalities, including payment of an incorporation fee, the secretary of state approves the written application (which should be prepared by an attorney) and it becomes the corporate charter. This document, also known as articles of incorporation or certificate of incorporation, demonstrates the existence of the organization. In compliance with state law, a corporation's charter should be succinct and comprehensive in its description of the company's authorities. Details should be left to the corporate bylaws, which outline the fundamental rules for ongoing formalities and decisions of corporate life, including the size of the board of directors, the duties and responsibilities of directors and officers, the scheduling of regular meetings of the directors and shareholders, the means for calling a special meeting of these groups, voting procedures, and restrictions on the transfer of corporate stock.

Rights and Status of Stockholders

The number of shares owned by a stockholder is denoted on the stock certificate that serves as evidence of ownership in a firm. A stake of ownership does not confer the legal right to represent the company or participate in its management. It does, however, grant the stockholder the right to receive dividends proportional to their stockholdings, but only when the dividends are duly declared by the company. Typically, ownership of stock confers a preemptive right, or the right to purchase additional shares in proportion to the number of existing shares, before new stock is offered for public sale. Obviously, the legal status of stockholders is essential, but it may be overemphasized. In numerous small businesses, the proprietors' function as both directors and management officers. A business can be controlled as effectively as a single proprietorship by the owner of the majority or all of the stock. Consequently, this form of organization can be advantageous for individual- and family-owned enterprises where preserving control of the business is essential.

Limited Liability of Stockholders

The limited liability of most stockholders is a major advantage of the corporation form of organization. Their responsibility is limited to the amount of capital they invest in the business. Creditors cannot ask them to liquidate personal assets to satisfy business debts. However, a bank that lends to a small business may require the proprietors to bear personal liability for the business's debts. In the event that the corporation is unable to repay the loan, the banker may seek repayment from the owners' personal assets. In this instance, the benefit of restricted liability for corporations is lost. Why would owners agree to guarantee a company's debt personally? Simply put, if they want the money, they may

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have no choice. The majority of bankers are unable to lend money to an entrepreneur who is unwilling to risk his or her own personal assets.

Death or Withdrawal of Stockholders

Unlike partnership interests, corporate ownership is easily transferrable. The exchange of shares of stock is sufficient to transfer a person's ownership stake. The continuous exchange of stock shares in huge organizations has no discernible influence on the running of the firm. Despite the legal similarity, a change of ownership for a small business might include various obstacles. For instance, it may be difficult to find a buyer for the stock of a tiny company. A minority shareholder in a small company is also vulnerable. If two of three equal shareholders in a small business sold their shares to an outsider, the remaining shareholder would be at the outsider's mercy. In a small company, the death of a majority stakeholder can have negative consequences. It is possible for an heir, the executor, or a purchaser of the shares to insist on direct control, with negative repercussions for other stockholders. Legal procedures should be created at the outset to ensure management continuity by surviving stockholders and fair treatment of a stockholder's heirs in order to avoid complications of this sort. As in the case of a partnership, purchasing life insurance in advance can protect the capacity to buy out the interest of a deceased stockholder.

Maintaining Corporate Status

Certain measures must be done for a corporation to maintain its status as a distinct entity. For instance, the company is required to convene annual meetings of both the shareholders and the board of directors, maintain separate bank accounts from the owners' accounts, and file a separate income tax return.

Learning Objective 8.3 – Considerations in Choosing an Organized Form

Due to the numerous, often contradictory characteristics of each organizational structure, the selection of a legal form for a new corporation requires careful consideration. Depending on the specifics of a given business, the tax advantages of one form, for instance, may outweigh the limited liability advantages of another form. Some compromises may be required. Ideally, a seasoned attorney or accountant should be engaged for assistance in determining the most suitable form of organization. Some gurus on entrepreneurship say that the two most fundamental business structures, sole proprietorship and partnership, should never be utilized. Although these forms have obvious limitations, many small business owners can nevertheless use them. Fortunately, there is an additional fundamental form to consider: the C corporation.

Initial Organizational Requirements and Costs

As the level of formality of an organization rises, so do its requirements and expenses. Thus, a sole proprietorship is often simpler and cheaper to organize than a partnership, and a partnership is simpler and cheaper to incorporate than a corporation. In light of the relatively minor expenses, however, this factor is ultimately of little consequence.

Liability of Owners

When adopting an organizational form, liability concerns are among the most crucial aspects to consider. As previously said, sole proprietorships and partnerships have the inherent problem of limitless owner

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liability. There is no separation between the firm's assets and the owners' personal assets under these organizational structures. In contrast, incorporating a business limits the owners' responsibility to their initial investment.

Regarding responsibility and organizational structures, two cautions are warranted. First, incorporation does not shield a company's owners from culpability if the business is used to perpetuate fraud, evade the law, or commit some other wrongdoing. In such situations, courts may determine that there is no legal separation between the owners and the corporate entity, a concept known as penetrating the corporate veil. Protection from financial liability may be jeopardized if, for instance: (1) the company is bankrupt, but its owners knowingly incur debt; (2) the board of directors does not meet as required by law or observe other corporate formalities; or (3) business and personal accounts are not kept separate and company funds are used to pay for an owner's personal expenses. Most typically, legal action is taken against smaller, privately held businesses and "sham firms" whose formation is intended to deceive others. Obviously, some kinds of organization provide no protection against liability.

Second, no form of organization can shield business owners from every type of liability. If an owner causes a traffic accident and is found personally liable for damages or injuries, he or she must pay the judgment, even if it means selling personal assets to satisfy the ruling. If, on the other hand, an employee caused the accident while on company business, the company's assets will be at risk, but the owner's personal assets will be shielded from liability—but only if the business is organized as a corporation (which will be discussed later in the chapter). This protection does not apply to sole owners or partners, whose personal assets would likewise be at danger.

Continuity of Business

The instant dissolution of a sole proprietorship upon the owner's death. Similarly, a partnership is dissolved upon the demise or withdrawal of a partner, unless the partnership agreement specifies otherwise. In contrast, a corporation provides continuity. The position of an individual investor has no bearing on the existence of the corporation.

Transferability of Ownership

A corporation facilitates ownership transfer the most. The ability to transfer ownership is neither inherently positive nor negative; it all relies on the desires of the owners. In some cases, business owners may wish to evaluate prospective new investors. In other situations, transferability without restrictions may be preferable.

Management Control

A solo proprietor exercises complete control over the business. Control within a partnership is often based on the majority vote; therefore, as the number of partners increases, so does each partner's say in management. Control has two dimensions inside a corporation: (1) the legal control vested in the owners who possess the majority of the voting common shares, and (2) the functional control exercised by the corporate officers in carrying out daily activities. In a small business, these two forms of authority are typically held by the same individuals.

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Attractiveness for Raising Capital

Due to the simplicity of transferring ownership via the sale of common shares and the flexibility of distributing the shares, a corporation has a significant advantage when raising fresh equity capital. New investors are deterred by the unrestricted liability of sole proprietorships and partnerships.

Income Taxes

Income taxes frequently have a significant impact on a business owner's choice of business structure. To comprehend the federal income tax structure, consider the following two questions: Who pays taxes, and how is tax liability determined? The three major organizational structures are taxed differently:

- **Individual proprietorship** Individuals who conduct a business as a sole proprietorship are required to disclose business income on their personal federal income tax filings. They are subsequently taxed on this income at the individual rates prescribed by law.
- **Partnership.** The Internal Revenue Service is informed of a partnership's income, but the partnership itself does not pay taxes. The revenue is divided among the partners in accordance with their agreement. On their individual tax returns, the partners record their respective shares of the partnership's income and pay any taxes due.
- **C corporation.** As a separate legal entity, the C corporation reports its income and pays any taxes associated to these gains. On their individual tax returns, the owners (stockholders) of the corporation must record any dividends they received from the corporation. (They are also required to record capital gains or losses, but only when they sell company stock.) Keep in mind that dividends are taxed twice: first as a portion of a corporation's revenues, and then again as a portion of the owners' personal income.

Learning Objective 8.4 – Specialized Legal Forms of Organization

The majority of small firms operate as sole proprietorships, partnerships, or C corporations, the three basic ownership arrangements already outlined. Small businesses utilize additional specialized organizational structures. The limited partnership, the S corporation, the limited liability company, the professional corporation, the nonprofit corporation, and the B corporation need more examination.

The Limited Partnership

There must be at least one general partner and one or more limited partners for a limited partnership to exist. As long as they do not actively participate in the operation of the partnership, limited partners have limited accountability for the business's debts.

The S Corporation

S Subchapter of the Internal Revenue Code is the source of the designation S corporation or Subchapter S corporation. This organizational structure allows a business to preserve the limited liability of a C corporation while receiving a more favorable income tax treatment. For a corporation to qualify as a S corporation, it must meet the following requirements:

- Domestic incorporation is required.

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- The corporation may not have more than one hundred investors; • all stockholders must be people or certain qualified estates and trusts
- Only one class of outstanding shares may exist.
- The corporation's fiscal year must follow the calendar year.
- Shareholders cannot be partnerships, corporations, or non-resident aliens.

The Limited Liability Company

The popularity of the limited liability company has increased because it combines the convenience of a sole proprietorship with the liability protection of a corporation to shield the owners' personal assets. A limited liability company may have an infinite number of owners (in most jurisdictions, even a single owner is acceptable), including non-U.S. nationals. This form varies from the C corporation in that double taxation is avoided. Similar to S corporations, limited liability businesses are not taxed but instead pass their income to their owners, who pay taxes on it as part of their own income.

The Professional Corporation

On the letterhead or signs of your physician, dentist, or attorney, have you noticed the initials PC or PA? These letters signify that the practice has been established as a professional corporation to provide professional services. This would include doctors, chiropractors, lawyers, accountants, engineers, architects, and other highly trained persons, although the definition differs from state to state. However, unlike other liability-shielding organizational structures, the professional corporation does not shield practitioners from their own negligence or malpractice. Rather, it protects practice owners from one another's liabilities.

The Nonprofit Corporation

The nonprofit corporation is the most practicable form of organization for some enterprises. The majority choose to form 501(c)(3) organizations, which are established for civic, educational, philanthropic, or religious reasons. The IRS will not issue 501(c)(3) status to a sole proprietorship or partnership. A corporation is required to qualify for 501(c)(3) status. In the application procedure, the officers must submit articles of incorporation that define and restrict the enterprise's scope of activities. For a tax exemption to be granted, the organization must pass the organizational test (IRS-speak for confirmation that the organization adheres to its filed articles). A nonprofit organization is required to establish a board of directors or trustees to oversee its activities, and it must transfer its assets to another nonprofit corporation upon dissolution.

Learning Objective 8.5 – Forming Strategic Alliances

A strategic alliance is an organizational connection that binds together two or more separate commercial entities for a common purpose. Without impacting the legal independence of the member businesses, it enables them to increase their individual effectiveness by sharing specific resources. And these alliances can take many different forms, ranging from casual information exchanges to formal equity- or contract-based arrangements and beyond. Numerous small companies develop agreements involving licensing, external contracting, marketing, and distribution.

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Strategic Alliances with Large Companies

Small business owners frequently believe that their enterprises have nothing to offer larger businesses, but the reality is that they may play a crucial role in assisting multinationals with some of their most pressing issues. Typically, these alliances are formed to promote the competitive advantage of both (or all) sides by combining their complementary talents and knowledge. For instance, huge manufacturers sometimes collaborate with innovative little manufacturers on product development, and large retailers make alliances with smaller suppliers to attain certain quality standards and meet stringent delivery deadlines. Combining the speed, adaptability, and inventiveness of a small business with the industry knowledge, production capacity, and market reach of a huge organization can be a winning strategy.

Strategic Alliances with Small Companies

Small enterprises can also develop strategic partnerships with partners of like size, so enhancing the competitive strength of both parties. Studies indicate that around half of all small businesses maintain one or more strategic relationships with smaller or comparable-sized organizations. When researchers from Inc. questioned dozens of entrepreneurs which alliance partners had performed best for them, they were shocked to realize that the most enthusiastic responses were other small businesses. These collaborations were more adaptable, committed, innovative, and cognizant of the particular demands of small enterprises.

Setting Up and Maintaining Successful Strategic Alliances

It reduces the risk of entering new markets and makes tiny players with unappealing balance sheets appear more stable to the ultimate purchaser. It can help expedite obtaining the critical mass necessary for pre-sale and after-sale assistance. Entrepreneurs should choose partners with a "division of labor" philosophy that enables each party to focus on what it does best. Identifying intersections between product lines and expertise, for instance, generates growth prospects for all parties involved through cross-selling. Working closely with other businesses might potentially pose substantial risks.

The objective is to build strategic relationships that are mutually advantageous and to successfully manage these ties. Understanding the nature of the relationship is essential for forming effective strategic alliances. In strategic alliances, relationships are formed between individuals, not between organizations.

Learning Objective 8.6 – Making the Most of a Board of Directors

In entrepreneurial enterprises, the board of directors is often small (five members or fewer) and serves as the governing body of corporate activity. In theory, the stockholders elect the board, which then selects the executives who manage the business. The board of directors also establishes or approves management policies, considers the officers' operational success reports, and declares any dividends.

Selection of Directors

An entrepreneur who is striving to create a cooperative and experienced board of directors should examine the importance of a board composed of non-employees. The firm's attorney and banker, local management consultants, and other corporate executives may all be considered as potential board members; nevertheless, they typically lack the impartiality required to evaluate an entrepreneur's objectives objectively. Additionally, in many instances the owner already pays for their skills.

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Contributions of Directors

The increasing complexity of small businesses, due in part to globalization and technical advancements, makes the knowledge of well-selected board members particularly vital. As indicated previously, outsiders can play a unique role in a family firm by assisting with talent evaluation and mediating conflicts amongst family members. And a good board of directors can assist the entrepreneur in making significant, long-term strategic decisions that extend beyond the next few months. In other words, competent directors will be able to assist businesses in keeping the big picture in mind. By virtue of their backgrounds, directors can fill up gaps in a management team's knowledge and oversee its actions.

Compensation of Directors

The compensation offered to board members is highly variable, with some tiny businesses not paying any fees at all. If compensation is offered, it often consists of a yearly retainer, board meeting fees, and compensation for committee participation. These expenditures are typically in addition to reimbursements for travel expenses associated with board meetings and the financial burden of providing directors and officers liability insurance, which protects board members if they are sued while performing their duties as directors. Occasionally, board members are also paid a small percentage of the company's revenues as a bonus for their participation, and some cash-strapped organizations may issue them shares in lieu of remuneration (typically 1 percent, but as high as 2 percent or more to attract top talent).

An Alternative: An Advisory Board

Some individuals are hesitant to join a board of directors because outside directors may be held liable for illegal company conduct, even if they were not personally involved. Therefore, many small businesses utilize an advisory board in lieu of a board of directors. The corporation solicits qualified outsiders to serve on its board of directors as consultants. This group acts similarly to a board of directors, with the exception that its activities are advisory in nature. That is to say, it has no legal authority over the owner or the business.

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Essay Questions

1. Describe the characteristics and value of a strong management team.
2. Explain the common legal forms of organization used by small businesses.
3. Identify factors to consider in choosing among the primary legal forms of organization.

Answer Key

1.
 - A strong management team nurtures a good business idea and helps provide the necessary resources to make it succeed.
 - The skills of management team members should complement each other, forming an optimal combination of education and experience.
 - A small firm can enhance its management by drawing on the expertise of competent insiders and outside specialists.
 - Social media tools can be very helpful in attracting customers, connecting with peers, and sharing advice about common problems.
 - Building social capital through networking and goodwill is extremely helpful in developing a small business.
2.
 - The most basic legal forms of organization used by small businesses are the sole proprietorship, partnership, and C corporation. In a sole proprietorship, the owner receives all profits and bears all losses. The principal disadvantage of this form is the owner's unlimited liability.
 - In a partnership, which should be established on the basis of a written partnership agreement, success depends on the partners' ability to build and maintain an effective working relationship. The partners share unlimited liability.
 - C corporations are particularly attractive because of their limited liability feature. The fact that ownership is easily transferable makes them well suited for combining the capital of numerous owners.
 - Currently, 63.9 percent of all new businesses are organized as sole proprietorships, 8.9 percent are set up as partnerships, and 7 percent are established as C corporations.
3.
 - The key factors in choosing an organizational form are initial organizational requirements and costs, liability of the owners, continuity of the business, transferability of ownership, management control, attractiveness for raising capital, and income tax considerations.
 - Self-employed individuals who operate businesses as sole proprietorships report income from the businesses on their individual tax returns.
 - A partnership reports the income it earns to the Internal Revenue Service, but the partnership itself does not pay income taxes. The income is allocated to the owners according to their partnership agreement.
 - A C corporation reports its income and pays any taxes due on this corporate income. Individual stockholders must also pay personal income taxes on dividends paid to them by a corporation.

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Quiz

True or False

- 1.** Strong management can make the best of a good business idea by securing the resources needed to make it work
- 2.** Interpersonal compatibility and cooperation among team members are necessary for effective
- 3.** Collaboration, and cohesive teams tend to perform worst
- 4.** Whether starting with a team or choosing to go it alone, it's often not what you know but whom you know that matters
- 5.** Management team members help the venture obtain investment and technology resources.
- 6.** A healthy system of personal relationships cannot help a small business access the knowledge and resources it needs to get established and grow
- 7.** An entrepreneur, having a healthy social network and a management team with helpful connections can be critical in establishing a solid reputation
- 8.** The death of the owner terminates the legal existence of a sole proprietorship
- 9.** Studies have indicated that about half of all small businesses maintain one or more strategic
- 10.** The formation of a partnership involves consideration only of legal issues but also of personal and managerial factors.
- 11.** The person who owns most or all of the stock can control a business as effectively as if it was a sole proprietorship
- 12.** Most bankers are willing to loan money to an entrepreneur who is not prepared to put his or her
- 13.** No form of organization cannot protect entrepreneurs from all forms of liability
- 14.** A strong management team nurtures a good business idea and helps provide the necessary resources to make it succeed
- 15.** In a sole proprietorship, the owner receives all profits and bears all losses.

Entrepreneurial Management

Chapter 8

The Organizational Plan: Teams, Legal Structures, Alliances, and Directors

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Answer key

1. True
2. True
3. False
4. True
5. True
6. False
7. True
8. True
9. True
10. False
11. True
12. False
13. True
14. True
15. True