



## Economics of Enterprises

1. Setting up an enterprise
  1. 1. Enterprise – definition, role and aims

What is an enterprise?

In everyday life the words “enterprise” and “company” are often used as synonyms. But the enterprise is an economic system for producing commodities, respectively selling goods or services.

And the company is the name of the enterprise with which it is registered in the firm division. The company is the name which the trader uses to carry out his commercial or industrial activity and signs all the documents with this name.

1.1. Definition of enterprise – it works at its own risk and tries not only to return all the expenditure given but also to get some profit.

The profit is different in different cases. It is important if we speak about big industrial enterprises with several thousands of workers or a small local bakery.

To carry out its activities, the enterprise needs great number of conditions, i.e. a site for the building, money for buying machines, furniture and computers, it also needs workers, managing staff, etc.

1. 2. Which are the factors for the process of production in the enterprise?

2.1. Land - this is nature in its unity: an area under cultivation (arable land), flora, fauna, climate, air, mineral resources.

2.2. Labour – this is the characteristic feature of human working force – mental and physical. It is an inseparable part of man.

2.3. Capital – durable (long-lasting) tangible assets: machines, buildings, facilities and money.

2.4. Information, including technology – patents, licenses, know-how, etc.

2.5. Managing – the man’s skill to unite and use all these factors of production.

2.6. Entrepreneur – the owner of the resources of production, who has the gift for organizing and managing the process of production.

1. 3. Functions of the enterprise – they are expressed as key departments in its organization.

3.1. Department: Research and Development (R&D); The manager and the staff ask themselves two main questions:

- ~ What should we improve?
- ~ What would our customers like?

3.2. Department: Provisioning (Supplies) this is the one which takes care of providing all the factors in order not to have breaks in the process.

3.3. Department: Production. Cost & Price – the essential activity is production of goods with the highest quality. Production is the process of purposeful impact on the resources for making a product.

3.4. Sales are carried out through the market which consists of the following interactive components:

**Customer**

Looks for goods or service and is ready to pay for them.

**Enterprise**

Offers goods, resp. service.

**Competitors**

Offer similar elements.

**Market**

The customer has the right to choose. He decides what to buy according to the benefit it gives him, the price, quality and the custom for purchasing.

1. 4. The enterprise and its social ambience:

- 4.1. Suppliers – they want safe (constant, reliable) orders, high prices and payment on time.
- 4.2. Customers – they want regular supplies, quality goods, low prices.
- 4.3. Owners of the enterprise – they save the property and want good profit.
- 4.4. The staff – they need constant and comfortable working places and regular salaries.
- 4.5. Creditors – they want interest and guarantee for giving the credit back.
- 4.6. Unions – they want membership due fees and coordination of the aims.
- 4.7. The state and the communities – they want taxes and obeying the laws.
- 4.8. Keeping the environment clean – litter, noise, air pollution, pollution of water, soil, etc.

1. 5. The enterprise – a compromise between personal and social aims.

5.1. Aims of the enterprise:

5.1.1. Profitableness – the main indicator for evaluating the production, i.e. the industrial activity. The entrepreneur is trying to get profit from the capital used and the risk taken. They compare the profit from the invested capital to the interest they would get if they invest their capital in the bank.

5.1.2. Effectiveness – minimal expenses for one commodity. Otherwise the enterprise becomes unprofitable and not competitive.

5.1.3. Market orientation – the enterprise should produce at prices which satisfy demands and offer them at prices equal to solvency abilities.

5.2. Aims of society – satisfying main needs of food, clothes, houses, education, health care, social insurance, loyal distribution of income and wealth for all the citizens, keeping our environment clean, etc.

## 1. 6. Types of enterprises according to the organizational and legal form of registration:

6.1. Definition – the legal form gives the face of the company, it cannot be changed in short terms and has considerable impact on taking decisions.

6.2. What has an important role when choosing the legal form?

- ~ The legal contents, especially the liability (limited or not);
- ~ The way of management;
- ~ Partnership in profit and loss;
- ~ Opportunities for financing;
- ~ Requirements for minimum capital;
- ~ Taxes;
- ~ The expenditure connected with the legal form about registration, about the increase of capital, book keeping, etc.

6.3. Sole trader – any active person with permanent residence in the country can be registered as a sole trader. In this case the enterprise belongs only to one person who can be the only employed person in it. He receives all the profit but he also takes all the loss. The sole trader has unlimited liability. In case of insolvency of the sole trader there is no difference between the capital of the company and his personal property.

6.4. Trade associations – unite two active local or foreign physical and juridical persons arranging their cooperative activities with joint capital, the size of installments, rights and obligations, the form of management, etc.

v Personal trade associations:

~ Partnership – it has unlimited liability. It is founded by two or more people who take part with their labour and are obliged with their personal property. Personal qualities of the associates have leading importance. Partnerships contain “and Co.” at the end of the company’s name. They are usually based on relatives – cousins, aunts and uncles, mother and son, father and son.

~ Limited joint stock company – it is established with a contract for carrying out joint activity between two or more people under one company. In this case one or more of the associates are with unlimited liability, while the others are with limited liability, i.e. up to the size of the arranged installment. It is a suitable form in case the enterprise opens agencies or uses trade agents’ services. The associates are divided into:

- Managing staff (complementaries) and
- Financing staff (commanditists).

6.5. Capital trade associations:

~ Limited liability company – this form appears at the end of the 19<sup>th</sup> century in Germany. It is introduced in Bulgaria with a law in the 1920s. It is established by two or more people, responsible for the duties only with the share installment of their capital. No matter how big the share of each partner is, he has the right to participate in the Management, in the distribution of profit and in case of liquidation he should get the relevant share.

~ Sole trader limited liability company – the owner is just one person. A major part of Bulgarian state enterprises are thus organized.

~ Joint stock company – it is also called “Corporation”. The capital of the company is divided into shares. The establishment is carried out by one or more physical or juridical persons. The share is a security, which certifies that its owner participates with the given cost of the capital of the Joint stock company. It gives the share holder the right to have one vote in the General meeting, the right of dividend and liquidation share. The shares are several kinds:

- Personal (nominal) shares;
- Bearer’s share;
- Ordinary;
- Establishing;
- Privileged;
- Cumulatively privileged;
- Privileged share with participation.

Bonds are securities which certify that their owner has lent a credit to a joint stock company for a certain period of time, getting a rate of interest for it. The interest is paid before the dividends of the shares, no matter profit or loss has been achieved. Buying and selling securities is done on the stock exchange. The bonds, with the decision of the General meeting, can be turned to shares. Thus their owner turns from a creditor to a share holder.

~ Limited joint stock company with shares – it imitates the activity of the joint stock company or it combines characteristic features of them both. It is established with a contract and it has limited liability partners. Their number can’t be less than three and with unlimited liabilities.

v Reorganization and uniting enterprises:

6.6. Consortium – a union of trade enterprises in order to accomplish a certain activity. It can be personal or capital association.

6.7. Holding – a capital association (joint stock company, limited liability company, limited joint stock company with shares) which has the aim to participate in other associations or in their management.