

UNIT 2: THE COMPANY I

1. The company and the business owner concept

1.1. Company concept

Bueno Campos defines company like: " The economy that combines the different productive factors, ordered according to a certain organizational structure, and directed on the basis of a certain relation of ownership and control, with the aim of achieving objectives, among which the business benefit stands out".

- **Productive factors:** resources from which goods and services can be obtained.
- **Organizational structure:** Productive factors should be mixed to obtain the best combination of goods and services. The organizational structure defines the management.
- **Management= Planning +organizing+ motivating+ controlling**
- **Property and control:** In small companies, property and control usually fall on the same person. But in bigger companies they don't.
- **Goals:** All companies have goals. Without them, the company wouldn't exist.

1.2. The elements of a company

The company is not a set of elements, but a system (combination of elements which are interconnected to each other). The management coordinates them all (productive factors in a broad sense) so that the company can achieve its objectives.

- **Human capital:** is the main productive factor of the company. Without it, it will be impossible to obtain any good or service. We can differentiate:
 - Employees: People who provide their labour power in exchange for a salary and personal recognition. They comprise the workforce of the company.
 - Owners: People who have set the initial capital to be able to start the business in exchange for future benefits.
 - Managers: people who are in charge of coordinating all the productive factors so that the company achieves its goals, in exchange for a remuneration and personal recognition.
- **Technical capital:** investments necessary for the company to perform its activity and offer goods and services.
 - Tangible: Machines, buildings, facilities, materials, goods, raw materials, etc.
 - Intangible: patents, property rights, software, etc.
- **Capital finance:** resources to acquire the technical capital (bank loans, financing of suppliers, etc.).

1.3. The business owner term from the legal point of view

Considering it from a legal point of view, we can define the term business owner as it is included in article 5 of Law 37/1992, of December 28, on Value Added Tax.

Thus, we can say that we call business owners any individuals or entities that carry out business or professional activities.

Business or professional activities are the ones that involve the management of production of material or human factors or one of them, with the purpose of intervening in the production or distribution of goods or services.

Accepted meanings of the word entrepreneur (business owner)

- Classical: Person who provides capital.
- Marshall: the one who organizes and directs the company, without necessarily contributing to capital.
- knight: the who is at risk by paying the labour and capital in advance.
- Schumpeter: the one who innovates.
- Bueno Campos: the who makes human capital to be motivated and perceive the goals of the company as their own.

ACTIVITIES

1. Classify the following elements according to human, financial or technical capital:

- Bottling plant.
- Sales Manager.
- 5-year bank loan.
- Cooperative partner.
- Brand of the company.

2. An entrepreneur has managed to patent ecological cardboard coffins. As time goes by, imitators have appeared, and the market is now stabilized. With which theory of the entrepreneur would you identify this case? Why?

2. Individual company

2.1. The figure of the autonomous employer (self-employed person)

The self-employed person is a natural person who carries out, on a regular, personal, direct, self-employed basis and outside the sphere of management and organization of another person, an economic or professional activity on a profit basis, whether it gives benefits or not, (Article 1 of the Statute of Self-Employed Workers). Let's look at the elements of this definition:

- Physical person: human being, who acquires personality at birth and is subject to abilities, rights and obligations.
- On one's own account: the individual entrepreneur is not managed by another person and will accept the obligations that derive from the business activity.
- On a regular basis: it is an ambiguous term and not exactly defined by law. Generally, on a regular basis means when the activity constitutes a livelihood that makes the sustenance of the person possible.
- Economic or professional activity: extractive activities, manufacturing, trade and provision of services, including artisanal, agricultural, forestry, livestock, fishing, building, mining and the exercise of liberal and artistic professions.
- Profitable: the individual entrepreneur carries out businesses or professional activities in order to obtain an economic benefit, among others.

2.2. Requirements to be self-employed

The Commercial Code, in its article 1, establishes that they are merchants who, having legal capacity to exercise trade, are usually engaged in it.

Thus, we can understand that there are two main requirements for carrying out an economic or professional activity:

- Having legal capacity: Any adult (person of legal age) who has the free disposition of their goods (article 4 of the Commercial Code). However, minors and the disabled may continue the business activity of their parents or offenders through their legal representatives.
- Exercising the activity on a regular basis: Article 3 of the Commercial Code recognizes habituality if the person determined to carry out the activity announces via newspapers, flyers, posters, signs exposed to the public, or in a different way, an establishment intended for any commercial activity. We understand that such actions are aimed at providing a livelihood to the entrepreneur.

2.3. Rights and duties of the self-employed

The Statute of the self-employed establishes, in Articles 4 and 5, the basic rights and duties. They are:

Rights (art. 4)	Duties (art.5)
Right to work and to free choice of profession or trade.	Accomplish the obligations derived from contracts established by them
Freedom of economic initiative and right to free competition.	Fulfil the obligations regarding occupational health and safety.
Intellectual property law on their protected work or services.	Carry out tax, Social Security obligations, any others derived from the applicable legislation and the deontological rules applicable to the profession.

Individual company and responsibility

The responsibility of the individual or self-employed entrepreneur is unlimited. That is, the people who start up an individual company respond with all their assets to the possible consequences that arise from the exercise of business activity.

Types of companies

- Depending on the job sector in which they operate, we will have companies in the primary, secondary or tertiary sector.
- Depending on the capital ownership, we can talk about private, mixed or state companies.
- Depending on their size, we will talk about microenterprises, small and medium enterprises (SMEs) or large companies.
- Depending on its geographical scope, we will distinguish between local, regional, national or international companies.
- As a general rule, micro-enterprises (0-9 workers) are usually individual, while small (up to 50), medium (up to 250) and large (over 250 workers) are usually legal entities.

ACTIVITIES

1. Tick the cases where you can find an individual entrepreneur and explain the reason for your answer:

- a) Martín is 18 years old and has sold his mountain bike to his friend to obtain money.
- b) Elena has just graduated from a high degree vocational training course in design and has decided to sell her designs with a brand of her creation through a website, and her market will be global.

2. Say if a self-employed person can hire workers and then explain why.

3. Claudia, as a self-employed person under direct estimation, must fill out the four three-term tax returns to pay the Personal Income Tax (IRPF). What kind of obligation do we refer to? What do you think can happen to Claudia if she doesn't pay the tax income one term?

3. The social company

3.1. The legal personality:

Under the concept of legal personality, current legislation recognizes an entity's ability to be a holder of rights and obligations.

An entity or society is constituted by one or more people called partners.

Therefore, entities with legal personality may exercise economic and professional activities. They will be able to be entrepreneurs.

It is here when we can talk about the term social entrepreneur.

In Spain, an entity acquires legal personality when the following two requirements are met:

- The will of the founding members to establish a company, expressed in writing and signed before a notary. It is what is known as public deed granting.
- Registration of the public deed in an official register (Mercantile Registry, Cooperatives, etc.)

With these two acts (grant and registration) the company acquires legal personality and, therefore, will have capacity to carry out business activities.

3.2. Types of societies

There are several types of mercantile companies, and in most of them, the liability of the partners is limited to the capital contributed to the company.

This is the main characteristic of mercantile societies and the main difference with self-employed workers. The partners that contribute capital only respond to the debts and social obligations with its contributed capital. Liability is thus limited.

Types of most constituted societies in Spain	Minimum partners	Minimum capital to constitute a business
Limited liability company (S.L.)	1	3,000€
Corporation (S.A.)	1	60,000€
Cooperative Society (S. COOP)	3	0 € / 3,000 € depending on the autonomic laws

It should be noted that all incorporated companies have to have a manager, whose management, in certain cases, can lead to responsibilities.

3.3. The express limited company

From the Royal Decree Law 13/2010 on, in Spain it is possible to constitute a Limited liability company (S.L.) by telematic means in a very short period of time. These types of companies are known as express limited companies.

- It has to be a Limited liability company (S.L.)
- The partners must be natural people; that is, other companies are not allowed to participate in the social capital.
- Their social capital must be greater than 3,000 euros and less than 30,000 euros.
- There are two options: Limited liability company with social capital between 3,000 y 3,100 euros, with a limited corporate purpose and by-laws predetermined by Law, and Limited liability company with capital greater than 3,100 euros.

Responsibility in social enterprises. In the case of societies, the partner is only exposing the capital it brings to society. His liability would therefore be limited to the contributed capital. In other words, the partner who participates in a company, in general, does not respond with his personal assets of the activity of the company. In practice, companies, whether individual or social, need financing to make their investments.

Often, this financing is expensive and difficult to obtain and it is a common practice for financial institutions to apply for personal guarantees.

Therefore, whether it is self-employed or it is a partner of a company together with other partners, when it comes to obtaining financing, personal guarantees are likely to be required in both cases.

A personal guarantee implies that the responsibility may affect the personal patrimony.

4. The productive process

4.1. What is the productive process?

In simple terms, the productive process is the one by which the company obtains a product (good or service) and is able to put it on the market, starting from the application of factors of production (human capital, technical capital, financial capital) within the framework of a particular state of technology.

The way in which the factors of production are related to each other depends on the state of technology.

4.2. Efficiency

Not all production processes are the same. The quantity and quality of the product obtained depend on two fundamental variables:

- The productive factors employed in quantity and quality.
- The technology with which these productive factors have managed to combine.

Companies seek to optimize their production processes to make them efficient.

A productive process will be efficient when the maximum production is reached using a determined quantity of productive factors. In other words, producing the maximum from what is available.

Depending on technology, we can obtain larger quantities of the product with the same productive resources.

4.3. Productivity

How can we measure productive efficiency? Through productivity. This is simply to compare the amount of product a company gets with the amount of productive resource needed to obtain it.

Thus, if we are to measure the productivity of human capital, for example:

$$Pch = \frac{\text{Quantity of product obtained}}{\text{Quantity of human capital used}}$$

Since productivity is a relationship between two variables, how could we increase labour productivity or human capital?

- Reducing the number of workers without reducing the quantity of product.
- Increasing the amount of product with the same amount of work.

The way to increase work productivity, in this case, is very different depending on the response. Technology and the structure of the labour market determine the way in which economies grow.

ACTIVITIES

1. What productive factors do companies use? Analyze them briefly.
2. When is a production process efficient from a technical point of view?
3. What role does technology play in efficiency?

5. The production theory

5.1. Fixed and variable production factors

In a company, not all productive factors are the same. Think of a pizzeria that has two wood ovens, a space to serve and thirty tables with their corresponding chairs. This is what we know as technical capital or capital, simply. In addition, the business has a cook, a kitchen assistant and two waiters (human capital or work).

Imagine now that, after a couple of years of operation, the pizzeria increases its reservations by 50%. Suddenly, the owners of the business must make a decision to increase production in the restaurant. What do you think they will do? Will they invest more money in remodelling the premises to build another wood-burning stove and will they buy the attached premises to increase the number of tables or, on the contrary, will they decide to hire some more kitchen assistants and some extra bartenders? Would your response be the same if that 50% increase in sales was maintained over the years?

In such a case, the option is to use more labour (human capital). It is said then that labour is a variable productive factor and that capital is a fixed factor in the short term, since, unless the increase in sales is perceived as permanent (long term), the amount of capital won't change. So:

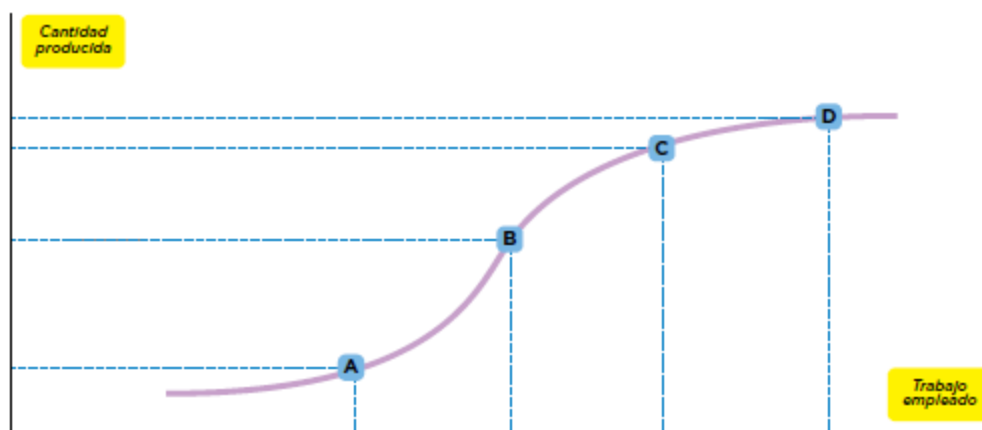
- In the short term, the labour factor is variable and the capital factor is fixed. If in the short-term sales vary, production is settled by adjusting the work.
- In the long run, all factors (capital and labour) are variable. If the variation of sales is perpetuated over time, production is accommodated by adjusting labour and capital.

5.2. The decreasing returns law

The fact that in the short-term work is variable and the capital is fixed has important consequences.

Following the example above, once you hire an extra kitchen assistant and another waiter, we will have six people working with the technical capital initially intended for four people.

Now imagine that the reservations continue to increase and that more staff are recruited, and yet, no other furnace is built, nor the tables, the tools, nor a longer counter. What do you think will happen as the number of people working in the business increases without an increase in the capital?



As we see in the graph, as the quantity of labour contracted in equivalent doses increases, keeping the technical capital constant, the production increases, but each time in smaller quantities.

That is, additional work is becoming less productive, because each unit of work has less capital to work with.

This evidence is known in economics as the "Law of Variable Factor Decreasing Returns."

In our example of the pizzeria, it is reasonable to think that, as the number of waiters and kitchen helpers increases (without increasing the number of tables, the capacity of the kitchen or bar meters), increases in production will be less and less, because each waiter will produce less than before, with less capital per capita to work with. In other words, in the end, the workers at this pizzeria would start to get in the way and the kitchen and table service would not work properly.

ACTIVITIES

1. What does the empirical evidence known under the name of "Variable Factor Decreasing Returns Act" indicate?
2. Explain what the long term is from the following sentence of J. M. Keynes: "In the long run, we will all be dead."
3. Imagine you belong to an NBA team of players. Imagine that the coach decides to remove the star player from the court and that you start playing in his place.
 - a. What do you think will happen to the average performance of the team from this moment? Why?
 - b. If a minute later, you go back to the bench and the star player goes on court, what will happen now with the average performance? Why?