

MODULE 3: **Entrepreneurship**

LESSON 2: **Organisation of Agricultural Enterprises**

TIME: **1 hour**

AUTHOR: **Gidraph J Nduati**

This lesson was made possible with the assistance of the following organisations:



BILL & MELINDA
GATES *foundation*



Farmer's Agribusiness Training by United States International University is licensed under a Creative Commons Attribution 3.0 Unported License.
Based on a work at www.oerafrica.org

LESSON

2

ORGANISATION OF AGRICULTURAL ENTERPRISES



TIME:

1 hour

AUTHOR:

Gidraph J Nduati



OUTCOMES:

- Understand the importance of formal and informal organization.
- Understand the process of establishing an agricultural enterprise.
- Understand the different legal requirements of organizing a new agricultural venture.

INTRODUCTION:

It is important that every new business enterprise should be registered under one of the legal forms of business ownership. The entrepreneur should therefore decide the form of business ownership that would be appropriate for his/her new business venture. Mwalimu Njuguna operates his dairy farm on his quarter acre plot and has operated the venture since 1982.

FORMAL AND INFORMAL ORGANISATION

A *formal* entrepreneurial venture or enterprise is registered under the law while an *informal* venture is unregistered. If your venture or operation is to grow, then you will need to register it in order to access various support mechanisms, such as small business loans. There are, however, different types of formal and informal organizations.

Activity 1



Group Discussion



In a group of five students discuss what the group believes are the differences between formal and informal organizations. See if you can identify the positives and negatives of both formal and informal enterprises.

PROCESS OF ESTABLISHING AN AGRICULTURAL ENTERPRISE

One of the key activities that an entrepreneur should undertake is to establish the enterprise. There are specific requirements that the entrepreneur should follow in order to be allowed to operate.

The law requires that every venture should be licensed. To get the license the entrepreneur should follow the following procedure:

- Identify business premises
- Select the business name
- Have the business name registered
- Obtain a health license
- Obtain a trade license

Activity 2



Case Analysis



Read Mwalimu Njuguna's case and show whether the business has followed the licensing procedures. Explain the advantages and disadvantages of licensing.

FORMS OF LEGAL BUSINESS OWNERSHIP

There are different forms of business ownership from which an entrepreneur can choose from:

Sole Proprietorship

A sole proprietorship, also known as a sole trader or simply a proprietorship, is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business. The owner receives all profits (subject to taxation specific to the business) and has unlimited responsibility for all losses and debts. Every asset of the business is owned by the proprietor and all debts of the business are the proprietor's. This means that the owner has no less liability than if they were acting as an individual instead of as a business. It is a "sole" proprietorship in contrast with partnerships.

Wikipedia: http://en.wikipedia.org/wiki/Sole_proprietorship CC: BY-SA

Partnerships

A partnership is an arrangement where entities and/or individuals agree to cooperate to advance their interests. In the most frequent instance, a partnership is formed between one or more businesses in which partners (owners) co-labour to achieve and share profits or losses... Partnerships have widely varying results and can present partners with special challenges. Levels of give-and-take, areas of responsibility, lines of authority, and overarching goals of the partnership must all be negotiated. While partnerships stand to amplify mutual interests and success, some are considered ethically problematic, or at least debatable.

Wikipedia: <http://en.wikipedia.org/wiki/Partnership> CC: BY-SA

Company

A company is a form of business organization. It is a collection of individuals and physical assets with a common focus and an aim of gaining profits. This collection exists in Law and therefore a company is considered a "Legal Person"... In English law, and therefore in the Commonwealth realms, a company is a form of body corporate or corporation, generally registered under the Companies Acts or similar legislation. It does not include a partnership or any other unincorporated group of persons.

Wikipedia: <http://en.wikipedia.org/wiki/Company> CC: BY-SA

Cooperative

A cooperative (also co-operative; often referred to as a co-op) is a business organization owned and operated by a group of individuals for their mutual benefit. Cooperatives are defined by the International Cooperative Alliance's Statement on the Cooperative Identity as autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly owned and democratically controlled enterprises. A cooperative may also be defined as a business owned and controlled equally by the people who use its services or by the people who work there. Cooperative enterprises are the focus of study in the field of cooperative economics.

Wikipedia: <http://en.wikipedia.org/wiki/Cooperative> CC: BY-SA

In Kenya the formation of cooperatives is governed by the *Co-operative Societies Act* (1997) amended (2004)

The Co-operative Societies Act (No.12 of 1997, amended 2004) can be accessed from the course CD ROM. See *Resource Index | Module 3 | Lesson 2 | Cooperative Societies Act*

Activity 3



Group Discussion



In groups of five people discuss the advantages and disadvantages of each of the following:

- Sole proprietorship
- Partnership
- Company
- Cooperative

Conclusion



In this lesson we have learnt the different forms of business ownership that you can adopt when establishing your small business. The first distinction is between formal and informal. However, as it is required by law that all ventures should be licensed, there are a number of different forms of legal businesses that you can adopt. These include sole proprietorship, partnership, company and cooperative.

Glossary



Business Partner

Business partner is a term used to denote a commercial entity with which another commercial entity has some form of alliance. This relationship may be a highly contractual, exclusive bond in which both entities commit not to ally with third parties. Alternatively, it may be a very loose arrangement designed largely to impress customers and competitors with the size of the network the business partners belong to.

Wikipedia: http://en.wikipedia.org/wiki/Business_partner CC: BY-SA

Cooperative Societies Act

Legislation that shapes the formation of cooperative societies in Kenya. It came into law in 1997 and was amended in 2004.

References

Government of Kenya (2004). The Cooperative Societies Act. (No. 12 of 1997, amended 2004). Available online: <http://www.cooperative.go.ke/downloads/cooperative%20societies%20act%20amended%202004.pdf> Accessed 04/03/2011

Wikipedia. (2011). *Company*. Available online: <http://en.wikipedia.org/wiki/Company> Accessed 04/03/2011. CC: BY-SA

Wikipedia. (2011). *Sole Proprietorship*. Available online: http://en.wikipedia.org/wiki/Sole_proprietorship Accessed 04/03/2011. CC: BY-SA

Wikipedia. (2011). *Partnership*. Available online: <http://en.wikipedia.org/wiki/Partnership> Accessed 04/03/2011. CC: BY-SA

Wikipedia. (2011). *Cooperative*. Available online: <http://en.wikipedia.org/wiki/Cooperative> Accessed 04/03/2011. CC: BY-SA