African Virtual University

Applied Computer Science: ADM 1102

ENTREPRENEURSHIP

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Course Overview

Welcome to this module in Entrepreneurship!

This module presents the following as its content:

- Meaning of the term Entrepreneur and Entrepreneurship,
- Characteristics of Entrepreneurship/Entrepreneur,
- Entrepreneurial competencies ,
- Types and functions of Entrepreneurs, Entrepreneurial roles, Ventures and Style,
- Motivations for starting Business,
- Small Businesses: Vital Components of the Economy, Significance and role of Small Businesses ,Steps in setting a small business unit ,Small business failure factors ,Factors support the sound management of small business ,
- The Government and Legal Environment of Business, Government Regulation , ,Areas of Business Law relating to small Business, Business risks and insurance, Legal form of business ownership and legal requirement, Criteria for choosing the ownership of firms,
- Opportunity scanning and Identification , Sources of Business idea , Methods of generating business idea,
- the purpose and importance of a business plan, need for a business plan, parts of a business plan, an outline of a business plan, writing a business plan and finally
- Entrepreneurship and ICT (entrepreneurship based on ICT innovations).

Prerequisite Course or Knowledge

None

Number of Hours

120 hours

Course Objectives

Introduction

As a general education, learners should able to develop their entrepreneurship qualities.

By the end of this course the learner should be able to:

1. To acquire skills and knowledge necessary for starting enterprises
2. Explain the conceptual bases of entrepreneurship and the entrepreneur.

3. Analyze the realities of the business environment.
4. Evaluate the various opportunities, issues, and processes related with starting and managing new ventures.
5. Identify entrepreneurial qualities to become conscious and active members of the business community

Units outline

Unit 0 overview of entrepreneurship

1. General overview of trends and employment situation in Africa and the rest of the world
2. Definitions and concepts-entrepreneurship, entrepreneurs, eintreapreneurship
3. Types of entrepreneurs and Characteristics of success entrepreneurs
4. Importance of self- employment to individuals
5. Requirement for entering into self- employment
6. Importance of studying entrepreneurship

Unit one: entrepreneurship and society

1. Entrepreneurs' contribution to national development and general society
2. Entrepreneurship development success factors
3. Identification of business opportunity
4. Business ideas and the opportunity
5. Sources and ways of getting business ideas
6. Evaluating business opportunities

Unit two: forms of business organizations

1. Business legal forms/types, registration and licenses
2. Sources and types of business finance
3. Legal aspect of a business

Unit three: entrepreneurship motivation, business and business planning

1. Government policies and enabling environment
2. Internal source of motivation
3. External source of motivation
4. Business plan definition
5. Uses and importance of business plans
6. Business planning process

Unit four: entrepreneurship and ict (entrepreneurship based on ict innovation)

Assessment

Summative assessments, such as final tests and assignments, are provided at the end of each module and cover knowledge and skills from the entire module.

Summative assessments are administered at the discretion of the institution offering the course. The suggested assessment plan is as follows:

The final grade will be based on the following

Unit Assessment	30% (Unit 0,1,2, and 4 each 7.5%)
Project Assessment	20
Final exam	50%
Total	100%

Assesment Table

1	Unit 0 Assessment	7.50%
2	Unit 1 Assessment	7.50%
3	Unit 2 Assessment	7.50%
4	Unit 4 Assessment	7.50%
5	Unit 3 Projects Assessment	20%
6	Final Examination	50%
7	Total	100%

Course Schedule table

Unit	Unit Titles	Activities	Time
Unit 0	Overview of Entrepreneurship	Activity 0-1 key terms and concepts	20 hours
	1. General overview of trends and employment situation in Africa and the rest of the world	Activity 0-2: The Characteristic of Successful Entrepreneur	
	2. Definitions and conceptsentrepreneurship, entrepreneurs, entrepreneurship	Activity 0-3 Self- Employment	
	3. Types of entrepreneurs and Characteristics of success entrepreneurs		
	4. Importance of self- employment to individuals		
	5. Requirement for entering into self- employment		
	6. Importance of studying entrepreneurship		
Unit 1	Entrepreneurship and Society	Activity 1-1 Key Term and Concepts	20 hours
	1. Entrepreneurs' contribution to national development and general society	Activity 1-2 Distinctions between Entrepreneurial ventures and Small business ventures	
	2. Entrepreneurship development success factors	Activity 1-3 Role of entrepreneurship in economic development	

	3. Identification of business opportunity	Activity 1- 4 Opportunity Recognition	
	4. Business ideas and the opportunity		
	5. Sources and ways of getting business ideas		
	6. Evaluating business opportunities		

Unit 2	Forms of business organization	Activity 2-1 Key Terms and Concepts	30 hours
	Legal aspect of a business	Activity 2-2 Forms of Business organization	
	1. Business legal forms/types, registration and licenses	Activity 2-3 Financing for forms of Business Organizations	
Unit 3	Entrepreneurship Motivation and Business Planning	Activity 3-1 Key Terms and concepts	30 hours
	Government policies and enabling environment	Activity 3-2 Business Plans	
	1. Internal source of motivation		
	2. External source of motivation		
	3. Business plan definition		
	4. Uses and importance of business plans		
	5. Business planning process		

Unit 4	Entrepreneurship and ICT	Activity 4-1 Key Terms and Concept	20 hours
	(entrepreneurship based on ICT Innovation)	Activity 4-3 Uses of e business, e-government and e-procurement	

Required Resources and Resources

1. Meridith,GA., Nelson,R.E,and Neck, P.A.(1987). The practice of entrepreneurship .ILO, Geneva
2. Kuratko, D& Hotgetts R. M.(2005). Entrepreneurship . theory, process & practice. Mason, south-western
3. Illinois Department of commerce(1989). A business plan outline, Illinois. USA.
4. Neck, p. ansd Nelson, R.E .,(Eds.) (1987). Small enterprise development: policies and programmes. ILO, Geneva
5. Dollinger , M(1999).Entrepreneurship: Strategies and Resources, upper saddle River ,New Jersey: prentice Hall.
6. Timmon.J.(1995). New Venture Creation. A guide to Entrepreneurship, Chicago Irwin publishers.

Unit 0: Overview Of Entrepreneurship

Introduction

This unit gives an insight to what entrepreneurship is and how the thought of entrepreneurship was developed.

Unit Objectives

By end of this Unit you should be able to explain:

1. Explain the basic terminologies used in entrepreneurship.
2. Describe The evolution of entrepreneurship
3. Compare the different Types of entrepreneurs
4. Analyze the Characteristics of entrepreneurs
5. Explain the Importance of self-employmen

Learning Activities

Activity 1 key terms and concepts

Key Terms

Entrepreneur- is one who creates a new idea in the face of risks and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources

An **entrepreneur** is basically a person who identifies a business opportunity and obtains the resources necessary to initiate a successful business activity. The entrepreneur implements the idea and undertakes to operate the business.

Entrepreneurship:This is entrepreneurship practice within an existing business. Many organizations are developing an entrepreneurship environment to accommodate employees who have a strong need for creativity and innovation. These are individuals who believe strongly in their own talents and desire to create something of their own.

The Evolution of Entrepreneurship

Interest in the development of entrepreneurship and small enterprise in Africa gained momentum as a possible remedy to the stagnation of economic development and the escalating unemployment problem between the early 1960 and 1970s

Although there were attempts by the governments to develop entrepreneurship, the main impetus came from the international labour organization (ILO) report.

The report centered on the potential of the informal sector and suggested that the bulk of Africa's urban workers were self-employed in small enterprises.

The report proposed that the development of this sector could;

- Promote employment
- Facilitate development
- Facilitate equitable distribution of resources.

Based on ILO report the governments responded with a series of working papers in 19790s – which recognized the role of entrepreneurship in employment creation not just in the formal sector but also in the formal sector.

Subsequent development plans have devoted time to the development of strategies and to promote small-scale enterprises and entrepreneurs which include.

- The industrial estate program
- Establishment of development agents
- Policy and institutional framework to promote entrepreneurs.
- Promoting indigenous enterprises.

How governments planned to promote entrepreneurship

- The development plan laid down proposed to implement small scale industrial policy

- Review the central and local government regulations that a hindrance to entrepreneurial development.
- Provision of direct assistance to the small scale businesses.
- Establishment of an organization that would give extension services to the small scale enterprises.
- Creating and strengthening institutions and schemes for the assistance of the small enterprise sector
- Establishment of credit guarantee schemes for loans given by commercial banks
- Establish procedures to improve small scale training through the ministry of technical training and Applied Technology.
- Overhaul the education system.
- Establish a fully-fledged small industrial division in the ministry of commerce and industry – which gave rise to the District focus for rural development.
- Introduction of entrepreneurship education is all levels of training.

Entrepreneurship- is the process of creating something new with value by devoting the necessary time and effort, assuming the risks involved and receiving the resulting rewards inform of monetary gain personal satisfaction and independence.

- In the broader sense entrepreneurship refers to the means of stimulating innovative and creative undertakings for a better business community or world.
- The meaning of entrepreneurship brings forward four aspects of being an entrepreneur;

1. It involves creating something new and of value to both the entrepreneur and the customer
2. It requires the devotion of both time and effort
3. It assumes the necessary risks such as financial, psychological and social risks
4. It brings forth rewards such as good profits, personal satisfaction, prestige, independence, etc.

NB: All entrepreneurs are business people – though not all business people are entrepreneurs.

Entrepreneurs tend to be more innovative than ordinary business people and end up.

An entrepreneur is therefore a central key individual in the society who makes things happen for economic development.

Types of Entrepreneurs

Craft entrepreneurs

Exploits and utilizes personal skills to start a business without thinking of its growth or the expansion objectives in this type of entrepreneurship

i. There is no expanding even after a long time ii. It is not

business expansion oriented.

iii. The skills can be technical skills, professional skill, etc. **Opportunistic entrepreneurs**

- This is a person who starts a business, acts as a manager and with a view to expand the business to maximum.
- They might not have the skill to profession but he has the opportunity to start and direct others.
- One who sees beyond and has abilities to initiate and venture into business that will expand and grow.
- This is one who is innovative, has an idea. Somebody able to delegate activities to others, ready and able to see, scan the environment

Soloist entrepreneur

This is a self-employed person operating alone. It is common in professions such as medical (clinics), law (advocate firms), etc.

Acquirer

An entrepreneur who prefers to take over a business that already exists rather than start up from scratch

Turn about entrepreneur

This is an entrepreneur who buys a small business with problems but potential for growth.

Matriarch/patriarch entrepreneur

This is a head of a family-owned business which often employs several members of the family.

Activity 2: The Characteristic of Successful Entrepreneur

Initiative and risks taken by;

1. Doing things before being asked or forced by events
2. Acts to extend business into new areas products etc
3. Sees and acts on opportunities
4. Looks for and takes action on opportunities.
5. Sees and acts on new business opportunities
6. Persistence and patience through
7. Taking repeated action to overcome obstacles
8. Taking action to overcome obstacles
9. Taking action in the face of significant obstacles.

Information and property seeking

1. Take action on their own to get information to help reach business objectives
2. Does personal research on how to provide a product or service
3. Consultation of experts on business and technical advice
4. Asks questions to clarify information
5. Undertakes market research analysis and investigation.

Concern for high quality work by

1. Acting to do things that meet or beat existing standards
2. A desire to produce and sell top and better quality products or services
3. Compares own work favorable to other.

Commitment to work contract by

- Placing the highest priority on getting the job completed.
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Accepts full responsibility for problems that may arise in getting the job done Expresses concern on customers satisfaction.

Efficiency orientation by;

- Finding ways of doing things faster and cost effectively
- Uses information to improve efficiently.
- Express concern on costs improvements change etc. **Systematic planning**

- By developing and using logical plans to meet goals
- Breaking tasks down to sub-tasks
- Developing plans which anticipate obstacles
- Evaluating alternatives
- Taking logical and systematic approach to activities • Identifying new and potential unique ideas to reach goals
- Switches to alternative strategies to reach goals.

Self confidence

- Has a strong belief in self and own abilities
- Expresses confidence in own ability to complete task or meet challenges

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- Sticks with own judgment in the face of opposition or early lack of success Confronts problems and issues directly Tells others what they have to do.

Persuasion

- Convinces people to buy the products or service
- Convinces people on providing funds
- Asserts own competence reliability and the company product.

Uses strategic influence and networking

- Develops business contacts
- Uses influential people as agent to accomplish objectives

Activity 3: Self- Employment

Entrepreneurship often leads to self- employment.

Factors to consider when preparing to be self- employed:

- Source of finance, e.g. savings, bank , friends and family
- Government policies
- Availability of competent labour force
- Availability of raw materials
- Availability of security
- Purchasing power of consumers
- Availability of transport and communication
- Competition
- Availability of auxiliary

Self -Employment is significant in the following ways:

- Fast decision making because of less consultation
- Job security
- Enjoyment of profits alone
- Being one boss
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- Self-satisfaction
- The owner can work for more hours and generate income Services e.g. banks, post office. Insurance companies

Availability of land

Problems of self -employment

- No sharing of losses
- Long working hours causing health related problems
- Less consultation may lead to wrong decision making
- One may be unable to employ individuals with the right competencies especially at entry point of a business
- Little expansion of business due to lack of enough funds
- High competition which may lead to collapse of business
- Monotony which may lead to demoralization

Advantages of entrepreneurship

- Financial gains
- Self-employment which leads to job satisfaction and flexibility
- Provide job opportunities to the unemployed or those seeking better jobs.
- A means of opening up new industries especially in the rural areas- facilitating globalization
- A source of generating income and increased economic growth.
- facilitates competition encouraging high quality products
- facilitates production of more goods and services
- Leads to the development of newer markets
- Promotes use of modern technology in especially small- scale manufacturing to enhance higher productivity

Challenges/disadvantages of entrepreneurship

- poor pay
- long working hours
- unclear future
- fear of losing all that has been invested
- bankruptcies and closure
- lack of experience
- poor financial management
- Fear of delegating
- high cost of production
- lack of market
- lengthy and complicated government procedure
- the problem do it yourself and know it all competition by established business

Promotion of Entrepreneurship

The following are ways in which entrepreneurship can be promoted:

- Integrating entrepreneurship into the education system
- Registration to encourage risk taking
- National companies to promote entrepreneurship
- Support of entrepreneurs through friendly loans at the appropriate time.

Conclusion

Entrepreneurship has to develop from one's creativity and converting the same ideas into products or services for income generation.

Unit Summary

Having gone through this unit we expect you to give a brief summary of what you have learnt in one paragraph.

Unit Assessment

Check your understanding! **Instructions**

Attempt all the questions at the end of the unit. **Rating**

criteria

This review is on individual basis and should be performed after the readings recommended compulsory and free consultations on entrepreneurship and its importance to an individual entrepreneur or the society. It has a 7.5 % weight on the overall evaluation of Entrepreneurship. This unit will be graded based on your understanding of the concepts outlined and discussed in the unit. Grading will be based on your 20 hours coverage which translates to 7.5 % of the whole assessment. You will be expected to attempt the questions given at the end of the unit

Evaluation

Prepare an essay (article), a maximum of seven (5) pages, the relationship between entrepreneurship and self-employment. Consider different types of entrepreneurs available in your country (1) identification and evaluation of entrepreneurial opportunities,

(2) Evolution of entrepreneurship

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Unit Readings and Other Resources

a. The readings in this unit are to be found at course level readings and other resources.

b. Meridith,GA., Nelson,R.E,and Neck, P.A.(1987). The practice of entrepreneurship .ILO, Geneva

c. Kuratko, D& Hotgetts R. M. (2005). Entrepreneurship. Theory, process & practice. Mason, south-western

d. Illinois Department of commerce (1989). A business plan outline, Illinois. USA.

e. Neck, p. and Nelson, R.E.,(Eds.) (1987). Small enterprise development: policies and programmes. ILO, Geneva

f. Dollinger, M(1999).Entrepreneurship: Strategies and Resources, upper saddle River ,New Jersey: prentice Hall.

g. Timmon.J.(1995). New Venture Creation. A guide to Entrepreneurship, Chicago Irwin publishers.

Unit 1: Entrepreneurship

Unit Introduction

Welcome to the unit on entrepreneurship and society. In this unit, you will learn different entrepreneurial ventures and there implications to society's economic development.

Unit Objectives

Upon the end of this unit, you should be able to:

1. Distinguish between entrepreneurial ventures and small business ventures
2. Explain entrepreneur's contribution to economic development
3. Analyze the entrepreneur's critical success factors

Activity 1.1: Key Term and Concepts

Key Terms

Entrepreneurial ventures: Entrepreneurial ventures are businesses that are created to introduce new goods or new methods of production.

Small business ventures refer to businesses that are independently owned and operated by one person. They are commonly referred to as sole proprietorship or single license businesses.

Activity 1.2: Distinctions between Entrepreneurial ventures and

Small business ventures

This section distinguishes Between Entrepreneurial and small business ventures by outlining clearly why the two concepts are not the same based on several factors. **Entrepreneurial ventures Distinctions Between small business venture**

Entrepreneurial ventures	Small business ventures
They are concerned with their future and thus spend a great deal of time planning for the future	They are concerned with the daily operation of the business
Spend a great deal of time learning new and different ways of doing things	They prefer already tried methods of doing things. They only make the methods more efficient
Time-conscious and dislike details	Concerned with details. Have a more realistic idea of how long tasks take
Make decisions that are risk y in nature	Prefer routine decisions that may not put the business to any risk
Are always creative and innovative for new business ideas	Lack innovation and creativity

Activity 1.3: Role of entrepreneurship in economic development

Economic development is the process of structural transformation of an economy towards a modern technologically advanced economy based on services and manufacturing.

This process involves not only qualitative changes but also accompanied by quantitative changes to improve welfare.

Entrepreneurship contribution to economic development

1. Generation of employment
2. Capital formation – through production, profits, investments, savings and further investments
3. Growth of infrastructure- helps to open up infrastructures such as roads, communication, factories etc boosting economic independence by producing goods that would have otherwise being imported
4. Provision of essential capital goods such as tools and equipments. Furniture etc
5. General improvement of standards of living by providing goods and services to the society
6. Growth of industries- entrepreneurship results in growth of industries thus contributing to industrialization
7. Government revenue through taxes taxation
8. Rural development which in effect-Equitable development
9. Reduced rural-urban migrations
10. Entrepreneurship facilitates structural transformation, innovation – driven growth by f
11. Facilitating transformation from traditional agricultural based economy to modern industrial economy and production for the market.
12. Entrepreneurs are seen as capitalists and therefore facilitate increased savings through which capital accumulation is stimulated for investment e.g.

    - Entrepreneurs save to start -up businesses
    - Entrepreneurs save to expand their businesses
    - Entrepreneurs save to reduce need for expensive borrowings
    - Entrepreneurs save for precautionary reasons.

13. Entrepreneurs provide an environment where human capital is accumulated in the form of; workers specialized and non-specialized Managers of all levels.

Unit 1: Entrepreneurship

14. The entrepreneurial ability determines the sizes of firms and the general growth of an economy by;The limitative role and ability to take risks and ability to trigger investments.
15. Entrepreneurship facilitates re-allocation of production factors from less productive areas to productive areas.
16. They cause an increase in the demand for education of labour
17. Facilitates adoption of improved technology. Through entrepreneurship creation of new firms through, which

- Increased production • Production for expert market
- Employments are achievable.

18. Through entrepreneurship need to knowledge accumulation generalization and commercialization has had to cooperation between researchers and institutions, private firms (sector) and the government.
19. Through entrepreneurship development and production of;

- Variety of consumer goods
- Producers goods or intermediate goods has greatly increased hence new products are bought to the market
- Application of new technology and profit multiplication.

20. Through entrepreneurship information if provided on what an economy can be good at producing which in the context of LDCS information is lacking.
21. Thorough entrepreneurship a vast growth of the private sectors tends to automatically check the large government sector facilitating to development a greater free market economy.

Entrepreneurial development success factors

These are factors that one needs to consider before starting a business and are critical to its success. They include

- Capital- ensure you have enough capital to start and continue with the business
- Availability of market for the product
- Availability of infrastructure

- Level of technology- keeps pace with existing modern technology
- Appropriate location of the business
- Availability of security
- Availability of auxiliary services such as banks, insurance services etc
- Legal matters-Consider government policies and regulations
- Ability to cope with competition
- Competent staff

Procedures of Starting a Business

1. Identification of a business idea
2. Development of a business plan
3. Location of a business demand evaluation
4. Registration of the business
5. Choice of the business organization
6. Business name
7. Trading licenses / permit
8. Start-up and management of the business.

Means of Generating a Business Idea

1. Identifying a need
2. Brainstorming
3. Building on one's skill, hobbies or interests
4. Spotting a market niche
5. Listening to what people say

6. Attribute listening
7. Gaining from waste
8. Look to see and listen to hear
9. Research
10. Importing an idea

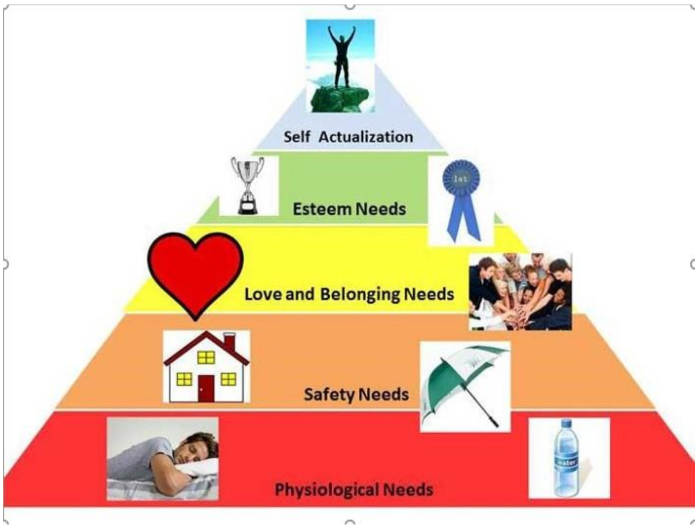
11. Day dreaming

12. Spin off from employment.

Identifying a Need

A need can be an opportunity and indeed a consumer buys to satisfy need. Abraham Maslow in his humanistic hierarchy of needs, physical needs to very high personalized needs. Identifying un-served need is a sure way of generating business ideas.

The Maslows Hierarchy of needs



Page Source: http://www.simplypsychology.org/maslow.html

- Self actualization
- Self esteem / ego
- Social needs
- Safety needs
- Basic/ Physiological needs

Basic or physiological needs

The first and the most basic need such as thirst hunger and sleep – in the process of satisfying these needs, entrepreneurs can generate a lot of business ideas- such as cloth stores, food stores, building materials etc.

Safety and security needs

Human beings require these and entrepreneurs can generate ideas in the process of satisfying them e.g. security, watchmen etc. **Social needs**

Generally speaking to need should be accepted in the society e.g. membership clubs, beauty clinics.

Self esteem or ego

the need only needs recognition e.g. need for luxury cars cellular phones etc. **Self – actualization**

This is the need to prove the ability in one's self i.e. self-fulfillment – research institutions opportunity to do something in one's ability.

Brain Storming

This is a process of detaching analysis of an idea from the actual ideas.

The idea may or may not be related to a given product. In brainstorming even silly and stupid ideas may be generated.

Building on One's Skill, Hobbies or Interests

Business ideas can be generated through

i. personal interests and hobbies
ii. Copying or improving somebody's ideas. (Skills) **Sporting a Market Niche**

Entrepreneurs usually look for gaps in the growing markets, identifying market sections which are not being utilized.

Listening to what People say.

These are people who simply say or speak their needs e.g. if these good bus services **Attribute listening**

This method of generating business ideas is based on changing the way one looks at something in order to find a new use for it.

It attempts to answer the question – what do we do with this product.

Gaining from Waste

What would appear waste can be used- say recycles to create a new opportunity.

Others by soliciting ideas by interview, reading, observations, listening

How do we screen a business idea?

After generating business ideas- it is important that some evaluation through a screening process be made. The screening process is a systematic evaluation ideas in order to select the best idea which would suit one. The screening process must be done carefully, objectively, soberly and without any emotions. The business idea screening is required even when there is only one idea to consider. This is because this is a stage of starting a business that may be not be profitable or may be difficult to run.

The screening process must therefore evaluate the following

a. **Personal Evaluation**

- The objective for going to business
- personal interests
- The degree of commitment to the business or others e.g. family.

b. **Personal Skills** c.

The self SWOT analysis – this aims at analyzing

- Strengths
- Weaknesses
- Opportunities
- Threats
- Market evaluations
- An analysis of skills available
- Analysis of the government policies.

The Importance of this Screening Stage includes;

- In order to develop a strategic profile.
- To provide a framework to assess the current and future plans
- To act as a control technique when conducted periodically
- To get realization (reality) on the activities

Components of the SWOT

The screening process or evaluation helps identify; a. **Strength**

- Distinctive competence
- Adequate finances
- Access to economies of scale
- Good innovation ability
- Proven management

b. **Weakness**

- Lack of key skill
- Internal operations problems
- Low morale
- Poor track records
- Weak internal image

c. **Opportunities**

- Potential customers
- Potential goodwill
- Health
- A favorable social

d. **Threats**

- Strong competitions
- Adverse government policies
- Political instability
- A designed economy mismanaged economy
- Unfavorable legislation

a) Market evaluations where is the focus?

The aim is to create assurance of adequate market

The main components include

- Consumer demand analysis

- Product price and placements • No. of competitors in markets.

b) An analysis of availability of raw materials in terms of

- Adequacy
- Reliability
- Price

c) Analysis of providing technology in terms of

- Appropriateness
- Affordability

Characteristics of a Good Business idea

I. Easy to manage and involve minimal risk.

II. Does not require excessive capital investments

III. Offers a good returns on capital

IV. The idea has scope for growth, expansion and diversification

V. Comparative with owner's goal and interest

VI. Not against expectation of the society

VII. Has a short gestation period

VIII. Has a readily available market IX. Easy to exit when necessary.

The Generation and Sources of Business ideas

Entrepreneurs have the ability to see opportunities in whatever environment they happen to be

They are sensitive to people's needs

They use people's problems as opportunities of a business

The entrepreneurs can use several methods to help generate and test new ideas.

Methods of Generating ideas or Business Opportunities

Focus groups – ie. where a moderator leads a group of peoples through an open, in –depth discussion through which new ideas are shared.

Apart from generating new ideas, the focus group is an excellent method of screening ideas.

Brainstorming

The brainstorming method allows people to be stimulating to greater creativity by meeting with others and participating in organized group experience.

When using brain-storming the following rules must be obeyed.

- No criticism or negative comments
- The wilder the idea the better (freewheeling)
- Quality of ideas is desired
- Combinations and improvements of ideas are encouraged.

Problem inventory analysis

This method used individuals in a manner that it focus groups to generate new ideas e.g consumers given a list of problems in a general product category and discuss the various problems in each product category normally used to test new products.

Creative problem solving – is a method of obtaining new ideas by focusing on the parameters such as

Brainstorming – group method of obtaining spontaneous ideas Reserve brainstorming – a group method of obtaining new ideas but by focusing on the negative i.e by finding fault.

Brain writing – is a form of brainstorming which gives participants more time to think than brainstorming which dwells on spontaneous ideas the participants write their ideas on a special form.

The Gordon method- is the method of developing new ideas when the individual are unaware of the problem.

It ensures that the solution is not clouded by pre-conceived ideas or behavioral pattern **Checklist method**.- is a method of developing new ideas through a list of related issues

Free association method

- A new idea is developed through a chain of world association
- Forced relationship it is a technique that asks questions about an object or idea in an effort to develop a new idea it follows the following five steps
- Isolate the element of the problem
- Find the relationships between these elements
- Record the relationship in an orderly way
- Analyze the resulting relationships to find ideas pattern
- Develop new ideas from the pattern

Collective notebook method

- Develops new ideas by a group members regularly recording ideas
- Attribute listing
- Developing a new idea by looking at the positives and negatives.
- Big-dream approach
- Developing a new idea by looking without constraints i.e think of the problem and its solutions I, thinking big.
- Every possibility should be recorded and investigated without regard to all the negatives.

Parameter- analysis

- Developing a new idea by focusing on parameter identification and creative synthesis
- Parameter identification involves analysis variables in the situation to determine their importance.

The sources of new ideas

Some of the more frequently used sources of business ideas for entrepreneurs include.

Consumers

Potential entrepreneurs not only pay attention to potential customers but also monitor their potential needs through allowing the customers to express their opinions. **Existing products and services**

Through monitoring and evaluating competitive products and services.

Distribution channels

Contact with members of the distribution channels since they are familiar with the needs of the market and give suggestions of new products and consumer needs. **Federal government**

Can be a source of a business idea through

The patent office which contains numerous product possibilities.

Official government magazines

Government regulatory bodies

Government shows and exhibitions **Research and development**

- Is the largest source of new ideas to the entrepreneur.
- Education – i.e picking a given line of study e.g construction
- Vocational training programmes and experience.

- Personal hobbies especially for craft entrepreneurs.

Personal contacts and observations through.

- Interactions
- Newspapers and magazines.

Conducting surveys and interviews of the people around. Other ways

of generating business ideas

Activity 1.4: Opportunity Recognition

Some entrepreneurs have the ability to recognize a business opportunity which is fundamental to the entrepreneurial process as well as growing business.

A business opportunity represents a possibility for the entrepreneur to meet a large enough unsatisfied need that is worthwhile.

The key to recognition of an opportunity lies in the knowledge (education) and experience gained either by a person or through work by both

The prior knowledge is as a result of the combination of education and experience.

The entrepreneurship needs to be aware of this knowledge and experience and have the desire to understand and make use of it.

The other important factors in this process include

- Entrepreneurship alertness
- Entrepreneurial networks

Those entrepreneurs who have the ability to recognize meaningful business opportunities are in strategic position to successfully complete the planning and development process and successfully launch a new venture.

Definition of a Business Opportunity

A business opportunity may be defined as an attractive project idea with an entrepreneur accepts for investment on the basis of what is known about the possible success for the project

A real business opportunity can be distinguished from a mere possibility through the following two ingredients.

- A good market scope

- An attractive return on investment (profit)

Qualities (Characteristics) of a Good Business Opportunity The

following are qualities of a good business opportunity.

- Demand – there should exist a good market scope
- Returns on investment – i.e the business should be sufficiently profitable. • availability of raw materials
- Enough skilled people.
- Potential for growth
- Where there is insufficient quantities
- Where quality is lacking
- Where a product or service is unavailable

Evaluation of Business Opportunities (objectives of a pre-feasibility study)

Once a business opportunity has been identified one needs to confirm that it is viable through a pre-feasibility study.

The main objective of a feasibility study is to determine whether;

- The investment opportunity is promising enough
- The project is viable from the marketing manufacturing and other points of view.
- Any aspect of the project that may be crucial to call for in-depth analysis.

The Purpose of Pre-feasibility Study (Market Research)

To verify that the investment opportunity is promising enough to make a firm decision.

To confirm that the project is viable from the

- Marketing
- Manufacturing and
- Other points of view

To identify any aspects of the project that is critical or crucial enough to call for in depth analysis

To acquire comprehensive technical, economic and commercial data for the final investment decision.

To enable an in-depth study of aspects such as

- Market potential
- Technical requirements
- Managerial ability

- Financial projections and analysis
- Risks evaluation
- Business environmental analysis.

To enable sourcing reliable information such as

- Authorized publications
- Consultants openings.

To establish the final outcome of whether or not to proceed with the business.

Unit 2: Forms Of Business Organizations

Unit: Introduction

This Unit introduces you to the various forms of business organizations and the documentations involved in their start-ups

Unit Objectives

Upon the end of this unit you should be able to:

1. Discuss legal aspects of a business
2. Identify and discuss various legal forms of business owners

Activity 2.1: Key Terms and Concepts

Introduction

This section will look at the definition of key terms and discuss the concepts in forms of business organizations.

Key Terms

Unincorporated Business: These are business which do not have separate entity (existence from that of their owners)

According to law such organizations are one and same in the existence of the owner.

They do not have separate rights and obligations from those of their owners

They include

1. sole proprietors
2. partnership.

Sole Proprietorship I can go it alone!

It comes from the word solo which means Sole means single while proprietorship refers to the owner of a business owned by one person who takes responsibility on risks of the business. He enjoys the profits or servers the losses of the business alone.

Formation of Sole Proprietorship

It is simple and easy to form since legally only licensed from the government is required.

If the name of the business is different from that of the owner the business name should be registered with the registrar.

Management of Sole Proprietor

The owner of the business is the manager of the business

He/she makes decisions operating the day to day activities the business.

He /she may employ people to work in the business or be assisted by family members. Sources of Capital

The term capital is used here to refer to the resource required to start and operate the business He/she

may obtain capital from;

1. His/hers own savings
2. Borrowing from friends and relatives
3. Banks and other financial institutions
4. Credit suppliers
5. Borrowing from government institutions.
6. Funding from non-government organizations
7. Hire purchase funds
8. The business itself from retained profits.
9. Hi/hers own savings
10. Borrowing from friends and relatives
11. Banks and other financial institutions
12. Credit suppliers
13. Borrowing from government institutions.
14. Funding from non-government organizations
15. Hire purchase funds
16. The business itself from retained profits.

Liability

Liability refers to the extent which the owner of the business can be called upon to meet the debts of the business.

A sole proprietorship is viewed as being one and the same with the owner hence does not have separate rights and obligation.

Where a sole proprietorship business cannot pay its liabilities all its assets and the business properties are sold in order to clear the business debts.

The responsibility of the owner of the sole proprietorship business is thus unlimited.

The sole proprietor is therefore said to have unlimited liability.

This means that the liability of the owner is not just restricted to capital contributed but extends to include its personal property.

Activity 2.2: Forms of Business Organizations Discussions

Introduction

This section gives a broad discussion of the different forms of business organizations and their legal implications. It explains their features, their merits and demerits. It also gives the distinctions between different types of businesses.

Features of a Sole Proprietorship

1. It is a business owned by one person
2. It has no separate legal existence from its owner
3. It has a limited legal life since its existence depends on the life of the owner.
4. The owner has unlimited liability in the business. **Advantages of a Sole Proprietorship**

1. It is easy to start since only a license is required
2. Quick decision making
3. Freedom of action at any time
4. Flexibility in adapting quickly to changes in customers needs
5. Profits are entirely on the owner's hands
6. There is control over business secrets
7. Easy to use family labor cheaply. **Disadvantages of Sole Proprietorship**

1. Limited life in case of death of the owner

2. Unlimited liability may cause the owner to losing personal property.
3. The sole proprietor serves loses entirely by himself
4. Limited capital may delay expansion.
5. working for longer hours may result to fatigue
6. Lack of essential skills may cause mis-management **Circumstances under which the Sole Proprietorship ideal**

1. When customers show preference to specialized services
2. Where small capital is required to start up a business
3. Where returns are low and may not warrantee existence of a large business.
4. Where the market experiences frequent demand changes
5. Where locations are remote and the population may be small.

Dissolution of a Sole Proprietorship

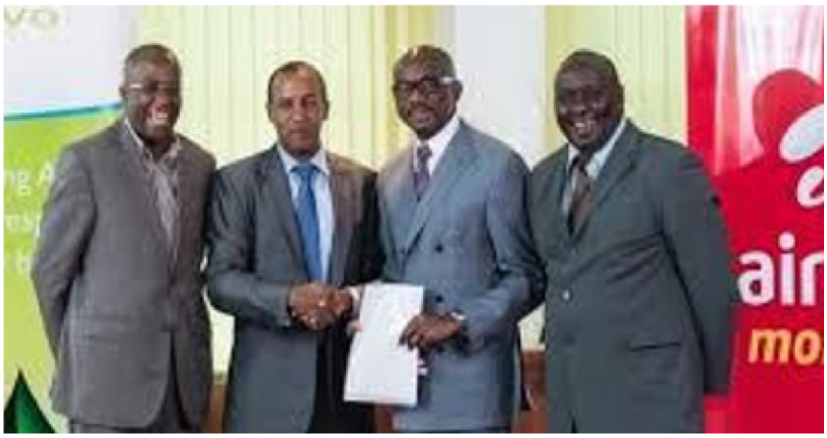
Dissolution refers to the termination of the legal existence of the business.

This may be caused by;

- The death of the owner
- The transfer of the business to another person.

Problems the Sole Proprietorship may face.

1. Lack of continuity in case of death.
2. Lack of skills may lead to mis-management
3. Working for longer hours may lead to fatigue
4. Loses are served by the owner
5. Limited capital to facilitate expansion functions.
6. Lack of consulting with others may lead to poor decision making
7. Unlimited liability may cause lose of property.



Partnership

According to the partnership Act, A partnership is referred to as a relationship which subsists between persons carrying on a business in common with view of making profits.

A partnership is thus an extension of sole proprietorship and is in fact necessitated by the fact that a sole trader may for several reasons fail to carry out his business efficiently and profitability.

Partners pull the financial and managerial skills together in order to make profit.

Formation

Through Act of parliaments; a partnership business may come into existence through any of the following ways.

- Orally
- By actions of persons concerned
- By a simple put in written
- By a partnership deed

NB the above ways of forming a partnership are allowed by the partnership Act, however, it's better to remember that it may be made illegal under the following circumstances.

Circumstances under which the Partnership is illegal

i. If the partnership has been formed for an illegal purpose e.g. theft.

ii. If is formed and the partners do not meet the minimum qualifications e.g. auditing

iii. Where the partnership contains more than 20 members iv. Where the partnership wants to run their business with the name which does not disclose the true names of all the partners or the name had not been registered under the registration of the business Act under which it is deemed illegal.

Requirements for the Registration of a Business Name

Under the partnership Act, the partners must furnish the registrar of business names for the following

- The business name
- The general nature of the business
- The principle place of location of the business
- The present and names together with their usual residential address.
- The nationality of each partners
- Any other occupation of the partners
- The date of commencement of their business.

Types of Partners

General partners

These are the real partners in new sense of the partners which refers to those partners who are the most active partners in the partnership

In most cases the general partner is a reliable of the debts of the partnership.

Limited partners

This is a partner whose liabilities are limited to the amount of capital contributed to the partnership business

These types of partners do not usually participate in the management of the partnership because if they do they lose their limited liability in respect to the transaction and decisions participated in.

Active partner

This is the type of partner who takes the active part in the running of the business. In most cases such a partner may be employed somewhere or may be in another business all together The partner contributes capital to the partnership business and the profits or losses at lower proportions.

Articles of Partnership/ Partnership Deed

Although it is not a statutory requirement the partnership can be formed by a written agreement, it is usual for the partnership business in particular those involved in huge commitments to write articles of a partnership also known as a partnership deed.

The aim of this document is to safeguard the interest of each partner and it constitutes a legal contract among the partners.

Contents of a Partnership Deed

- The nature of the business to be carried out

- The capital and property of the firm together with the respective capital contributions of each partner.
- The sharing of profits or losses by partners.
- The rules as to the case of interest on capital and drawings by partners. • Provision for proper accounts and their audit
- The power of each partner.
- The method of determining the value of good-will on retirement of drafting in of a new partner.
- The method of determining the amount payable to a deceased partner.
- No partners may should carry on a competing business
- Any changes in partnership composition must be agreed upon by all partners

Management of Partnership

Members of a partnership are correctly responsible for the management of the business.

The members may share responsibilities and duties according to their respective skills and availability in order to ensure effectiveness in management of the partnership.

The partners may decide to hire skilled or non-skilled labour to assist the management of the partners.

Features of a Partnership

Mutual agency – each partner is an agent of the partnership and therefore any action by one partner with transacting the business binds the rest of the partners provided his actions are within the partners express or implied authority.

Limited life-since the partnership is a relationship originating from an agreement between two or more members any changes in their relationship caused by factors such as- death withdrawal of a partner etc. terminates the partnership or dissolves it.

Unlimited liability

In a partnership the partners' liability is not limited to the amount of capital investment.

The partners are separately held liable for the debts of business and their personal properties may be sold to meet such debts.

Ownership of interests – the interest of a partner in a partnership business e.g. right to inspect the accounting records of a firm of a firm, admission or dismissal of partner transit of interest etc. must have the full consent of the partnership. **Sharing of profits**

Each partner share of profits of proportional to his/her investment in the partnership. And any agreement of non-partner to share the profits does not make a non-partner a partner.

NB circumstances under which a non-partner may be included in sharing the partnership profits and losses.

- As compensation for services rendered to the partnership

- As compensation for the partnership use of his/her property or name. • As payments for loans advanced to the firm
- As payment to the next of kin.

Sources of Capital of a Partnership

- contributions from partners
- Loans from commercial banks and other financial institutions
- Stock from hire purchase firms
- Credit facilities from suppliers
- Loans from government institutions
- Plough backs from retained profits

Classification of Partnerships

There are five ways through which partnership are classified.

1. By trading

A partnership may be classified was

- **Non-trading partnerships-** these partnerships whose activities are to offer services e.g. legal, medical, accountancy, teaching etc.
- **Trading partnerships** – these are partnerships whose main activities are manufacturing, purchasing or sales of goods.

2. By liability

General partnerships – are partnerships in which all partners may publicly act on behalf of the firm and each partner individually be held responsible for the debts of the firm. Their properties may be attached to clear the debts of their partnership.

Limited partnerships – a partnership whose activities of certain partners are limited. The personal liabilities of such partners (limited partners) are limited to a certain amount stated. These amounts are normally equivalent to the amount of their contributions.

NB the following conditions must be fulfilled for a limited partnership to be formed. The partnership should not consist of more than 20 partners.

- The partnership must consist of one or more general partners.
- The limited partners are not liable to the partnership debts beyond his capital contribution.

NB Restrictions of the limited partners.

- Is entitled to inspect the books of the firm and examine the partnership state at any time.
- The death, withdrawal bankruptcy of a partner shall not cause dissolution of a partnership or the partnership cannot be dissolved by a court order because of lunacy of the partner.
- A limited partnership is only dissolved by the general partners unless brought through a court order.
- Any differences on partnership matters can only be decided by a majority of the general partners.
- With the consent of the general partners a limited partner may assign his/her shares in the partnership to another person.
- A person may be introduced into the partnership without the consent of the limited partners.

3. By time duration

A temporally partnership (joint venture partnership) – this is a partnership formed for a specified period of time .Termination of the stated period or accomplishment of the purpose may cause the partnership to come to an end.

Permanent partnership (partnership at will) – This is a partnership formed to carry the business indefinitely. It does not have a fixed life of fulfilling its purpose

4. By activity

Active partner – this is a partner who is actively involved in the day to day management of the partnership and may be paid a salary for these services. And the partner is held liable for the debts of the firm.

A dormant /sleeping partner – does not take part of the day to day management of the partnership but contributes capital, shares profits and is liable for the business debts

5. By capital contributed

Real partner – a partner who contributes capital into the business and whose name may be used in relation to transactions of the business and enjoys the profits of the partnerships.

Nominal partner – is a partner who has not contributed any capital to the business but allows his or her name to be used in the business. They are usually influential persons whose names can be used.

He is not fully liable to the partnership debts however is he presents himself to the public in a manner that portrays him a general partner he will be held liable.

Quinsy-partners – a partner who has retired from the partnership but has left his capital in the partnership business which is treated as a loan, he earns interest

6. By age

Majority partner – A partner who has attained the age of 18 years and above. Such a partner unless stated to the centrally can be held liable for the partner.

Partner shares only profits and not losses since he didn’t participate in decision making that may have caused such losses.

The liability of the minor is limited only to the amount of capital contributed to the business since any liabilities arising may not be part his decision making.

The minor partners can act on behalf the partnership and such acts shall be binding on the other partnership

When the minor partner attains the age of majority he/she has up to six months to decide whether or not to continue with the partnership. If he/she decides to stay, he has full responsibilities and rights of a major partner

Termination/ Dissolution of Partnership

When can entrepreneurship be terminated?

Although the partnership deed or articles of partnership will contain regulations of terminating the partnership, nevertheless in the absence of our subject these regulations, a partnership may be dissolved in the following ways.

- When the fixed time if any are stated in the articles of the partnership expires.
- If the partnership was specifically entered into for a given venture, transactions or undertakings the completion of which or achievement will automatically dissolve the partnership.
- If the partnership is a partnership at will, it can be dissolved by any partner giving notice of his intention to dissolve the partnership.
- By mutual consent of all partners
- By bankruptcy or death of one the partners.
- By one partner's shares in the partnership being changed or attached by a court order for private debts.
- If any events occur which will make the partnership business illegal, the partnership will stand dissolved irrespective of the content of the partnership deed.
- Automatic or compulsory dissolution as it is provided section 39 of the partnership Act which lay the following grounds under which a partnership may be dissolved by a court order.
- If any one of the partners becomes insane
- If any of one partner becomes permanently in case of performing his/her duties through in capabilities, accidents or disabilities
- Where a partner has acted in a manner which is pre-judicial to the carrying out firm's business and may bring the name of the business to its disables.
- Where a partner was found guilty of breach the partnership contract.
- Where the firm has been operating in losses.

Circumstances under which the Partnership Deed is ideal

- In a business where the amount of capital required is reasonably large.
- If professional were pulling together effort for efficiency and better performance.
- If professional areas where the law prohibits a couple of days.

Advantages of Operating a Business under a Partnership

- Partnership business benefits from the talents of individual ensuring almost efficiency and acceptance.
- Since a partnership would be owned by a no. of partners it sets a basis of pulling together saving to raise large capital for investments
- Sound decision making through consultative processes
- A higher growth rate as a result of combining ambitious from different partners.
- Partnerships have a good will and financial influence enabling it to raise finance easily.
- Collateral or security of loans can be easily be raised.
- Formation of partnership business requires minimal government interventions.

Disadvantages of Operating a Business under a Partnership

- Slow decision making due to long discussion processes
- Sharing of profits tends to disregard hard working partners.
- Partnership business have limited life in case of retirement or death of one partner.
- Disagreements make partnerships business vulnerable to disputes among partners.
- The partners have unlimited liability which lead to losing personal property in the event the partnership business cannot settle its debts.
- The agency burden where every partner is an agent of the partnership and one's partner's mistake may affect the rest.
- Limited managerial skill may lead to mismanagement of the business.

Incorporated Business / Joint Stock Companies

Incorporated Business

We have so far looked at unincorporated business and have seen the main features of such business is that they do not have a separate legal existence from the owners.

We shall now focus on business units that are legally viewed as separate and distinct units from their owners. Such businesses are called in co-operated or joint stock companies.

Incorporated business organizations are legally separate and distinct from their owners or members.

The main forms of incorporated business or joint stock company include;

- Companies
- Co-operative societies
- Public co-operation

These are advanced forms of companies where a group of people pull their savings together and contribute as capital to set up a business enterprises or companies. These companies are governed by Acts of parliament. The Act states down the formation and general conduct of joint stock companies.

Companies

A company is a business registered by the registrar of companies Act.

The Act of registering a company is known as incorporation.

Incorporation

This is a process that creates an organization separate and distinct from the person forming it (owners)

The organization is known as a body corporate and registered company is known as a corporation.

NB companies are business organizations or units formed to carry out a specific activity.

They are organized by processing an existence that is separate and distinct from the persons who own it. Companies have rights and obligations of a natural person. **Rights and Obligations of Companies**

- It can own and sell property.
- It can enter into a contract on its own name
- It can borrow and lend money in its own capacity
- It can hire and fire employees
- It can sue and be sued in its own right
- It can form subordinate agencies and its authority
- It can spread information.

Features of a Company

- It is an artificial person created through legal process
- A company has rights and obligations of natural person e.g. holding and disposing property.
- A company has a perpetual life independency of the owners lives i.e. has perpetual succession.
- A company has a separate legal identity from the owner.
- A company is created for a particular purpose
- The owners of a company enjoy limited liability

Types of Companies

There are basically two types of companies. Namely

- Public limited companies
- Private limited companies

Public Limited Companies

A public limited company has a minimum number of 7 members with no maximum membership.

The maximum membership normally is determined by the number of authorized shares (capital) of the company

In Kenya a public limited company has the term limited at the end. **Characteristics of a**

Public Limited Company

- Minimum membership is 7 with no maximum
- Invites members of the public to subscribe to its shares
- The shares are easily transferable among shareholders
- It has a minimum of 3 directors
- It has authorized minimum capita figure.

NB authorized share capital is to the total shares that have been legally authorized by the government during the company's registration

A public limited company starts to operate after receiving a certificate of commencement (trading)

A private Limited Company

This is a company with a minimum of 2 persons and a maximum of 50 persons excluding all past and present employees.

A private limited company should have name ending with limited.

Characteristics of a Private Limited Company

- Has a minimum of 2 members and maximum 50 members
- It does not invite the members of the public to subscribe its shares.
- Its shares are not easily transferable unless with consent with other share- holders.
- Operates with only one director.
- Its shares don't have authorized minimum capital figure
- It can start its operations after receiving its certificate

Limited liability Concept in Companies

This is the fact that the liability of companies of owners is restricted to the amount of investment of a company plus any other amounts that to be undertaken to be contributed towards payment of one company's debt.

The word limited indicates that the liability of the owners of members in respect to this amounts (capital contributed) and not their personal property.

Company may be limited by-:

- Shares
- Guarantee.

Companies Limited by Shares

This is a company where member's liability is limited to the value of shares held.

The liability of members is limited to the share contributed.

Company limited by guarantee

This is a company whose members liability is limited to the amount that members have undertaken to contribute to the business debts.

These contributions may cover for;-

- Court charges and
- Any other expenses.

Formation of Companies

A company may be formed by any person or persons associating for a legal purpose through registration with a registrar of companies under the companies Act.

Although a limited company is a legal person it can only act through human agents who must register it with registrar of companies and for a company to be depending on your country's regulations and procedures.

Memorandum Of Association

This is document that defines that relationship between the company and outsiders.

It informs the outsiders what the company does, the amount that is required.

The memorandum of association is the company's charter constitution and once the company is registered the memo becomes a legal document that can only be altered by law.

Contents of a Memorandum of Association

Name clause – This states that name of the company ending with the work limited.

Any name may be selected to be used by the company as long as it is not prohibited by law.

This requirement is meant to protect people who may erroneously enter into a contract in the company believing it to be another company can also protects companies from possibly misuse of their names.

Object clause – this clause outline the objectives of the company anything outside this objective will ultra virus.

Certificate Of Incorporation/ Registration Of A Company

Once all the required documents are properly filled with the registrar of companies is ratified with what is contained in these documents.

The registration brings the company into being and the companies issued with a certificate of registration.

The registration gives a company an identity that is separated and distinct from its owners.

From the date of incorporation the company becomes a body corporate with the name powers and rights and obligations of an incorporated company.

The process of forming a company is formalized when a certificate of incorporation issued has inclusive evidence that all the information has been complied with and that the company is duly registered.

NB - A private company can start its business operations immediately it is issued with a certificate of incorporation, this is because the company does not have to invite the members of the public to buy shares.

A public limited company must proceed to issue proposals inviting the members of the public to buy shares. (A prospectus a notice or circular of advertisement inviting the public to purchase the shares of a company)

Public limited companies can only be allowed to purchase goods only when the registrar is satisfied that-:

- The company has raised a minimum amount of capital as required by the memo.
- That every director has paid to the company the minimum amount of money on the shares to be taken.
- That there's a declaration by at least one director that the company shall comply with the regulations stipulated by the law that governs companies.

Once the registrar is satisfied by the above requirements then the public limited company is issued with the certificate of trading which will enable the company to commerce its operations.

Ownership and Management of Companies

Ownership

A company is owned by any person who has subscribed and purchased that company's shares. The owners of a company are known as shareholders and their names are entered into the company's registrar. Each share holder has a claim in the property of the company proportional to the shares held.

The shareholders of a company have unlimited rights to the transfer or sale of their shares in the company.

Management

The management of a company is in the hands of the board of directors.

The initial directors stay in the office till the first meeting (AGM) is held at which new directors are elected.

The size of the board is usually determined by the size of the company.

The board of directors is charged of formulating and overseeing the implementation of company policies.

The board is normally supported by a terms of profession employed to the responsible for the day to day management of various departments.

For a public limited company, the directors are required by law to present the company's financial statement at the AGM meetings and filled with the registrar of companies.

Sources of Capital of a Company

- From the public through the sale of shares
- From commercial banks and other financial institutions
- Government institutions.
- Suppliers inform of trade credits.
- The business itself inform of retained profits
- Higher purchase traders.
- Rent revenue earnings from any investments.

Public limited companies

These are stock joint companies that have sold stock to the general public and thus attracts public money in form of share capital i.e. ordinary or preference shares.

Such companies are usually quoted at the stock exchange where shares are bought and sold through stock brokers.

These companies usually raise large size of money from the public and in order to do so the companies must;

Obtain permission from the development market authority also known as "New issue committee" this committee assesses the financial soundness of such companies before allowing them to attract public money.

- The aim is to safeguard the interests of public investors
- The company in need of public money will have to obtain permission from the Nairobi stock exchange council before it can be allowed to have its shares dealt with.

Private limited companies

These companies are formed by submitting the necessary requirement to the registrar of companies (the five documents)

Once this has satisfied the registrar of companies such a company will receive a certificate of incorporation.

The private limited companies are usually not allowed to advertise their shares to attract public money and as such they sell their shares privately (private placing to the interested members of the public.

Like public limited companies, private limited companies have limited liability; their shares are not fully transferable as they are not quoted at the stock exchange.

Any transfer of shares requires the consent of other share members of the company.

Advantages of a Company

- More capital can be raised since it has large membership
- The company offers better collateral for loans to be advanced.
- Limited liability secures private property in-case of inability to pay debts.
- The companies have continuity i.e. have perpetual life or succession.
- A company has a liability to hire highly qualified professionals facilitating better management
- Shares are easily transferable.
- The companies have legal identity and therefore no conflicts to its members.

Disadvantages of a Company

- Difficult to form since it is costly and has long legal procedures
- The company has restricted operations by the memorandum of association
- Slow decision making due to long approval procedures
- Limited ownership caused by land of control of the firm
- The agency burden may cause mismanagement when especially the board is weak.
- Double taxation especially of the dividends
- Lack of secrecy since the company has to publish its financial status annually.

Main Features of Joint Stock Companies

- As already noted a joint stock company is an association of people who contribute capital to form common stock in order to carry on a business activity for product motive.
- The company formed comprises- corporate status and is registered under the companies act

- A joint stock company may be public or private company and its main features include;
- Legal personality – the company has identities separates from that of other persons contributing capital and can therefore hold property, contract in its own name sue and be sued.
- The shares are transferable. This means that the share-holders can sell their interest in the companies to other persons willing to invest in it (freely for public ltd company but limited to the consent of the rest of the shareholders for private company.
- Common sill – as a separate entity it will be necessary for a joint stock company to sign documents and such signatures are normally embodied in a common sill of a company.
- The sill is kept under custody of the responsible offices.
- Members/ shareholders can not bind the company by their Acts
- Individual/ members are not entitled to take part in business since it is managed by the board of directors
- Shareholders have a limited liability.

Advantages of Joint Stock Companies

- The liability of share-holders is limited to the capital contributed by shares guarantee.
- A joint stock company is going concern implying that it has perpetual existence separate from that of the shareholders.
- A joint stock company is an artificial legal person independent of the shareholders and it can own its assets and liabilities.
- The shares of a joint stock company in particular public limited company are freely transferable.
- The shares of a joint stock company can easily be used as security for loans making it easy to obtain loans.

Disadvantages of Joint Stock Companies

- It lacks secrecy and privacy since it requires audited financial statement annually.
- The formation of a joint stock company requires long legal formalities.
- They are difficult to form since they require a heavy capital investment.
- Joint stock companies cannot increase their capital investments beyond the legally authorized capital.
- The decision making process of joint stock company is slow and bureaucratic due to consultations.
- Joint stock companies are not flexible to changes.

Dissolution of a Joint Stock Company

Holding Companies

The company Act of the laws of Kenya defines a holding company as one which has more than half of equity share capital of another company of which it is a member or controls a bigger percentage of the board of directors of one or more other companies which are called subsidiary companies.

A holding company may be public or private depending upon wishes of the promoters or shareholders.

In Kenya a good example of a holding company is ICDC.

Public Corporations

This is the net price to which the government has stakes in

The government owns a certain percentage of the enterprises shares.

Where a government has a fall ownership of the corporation, the business enterprise is known as a parastatal

Some public corporations are profit seeking while others are not.

Examples of such public corporations include;

- Kenya pipeline
- Kenya airways
- KCB (Kenya commercial Bank)
- Kenya lighting company (KPLC)

Parastatals are run to provide the essential services such as education, medical etc.

Similarities between public corporations and joint stock companies

They are both legal entities

They are governed by a board of directors appointed They are

self- financing.

Public corporations

A corporation is wholly and partially owned by the government

Corporations tend to be monopolists

Are operated on public interest not entirely on profit motive

They are paid for by the public from the taxes collected by the government.

Joint stock companies

Owned by the public and has shareholders.

They are subjected to companies

Purely operate on a profit motive.

Private funds finance joint stock companies.

Formation of a Public Cooperation

They are formed by a specific Act of parliament which define and powers and the overall mandate of their institutions.

The law creating corporations also state the minimum capital under which they will operate.

The corporations are viewed as separate legal entities and may be wholly or partially owned by the government.

Management of Public Corporations

This is under a board of directors. Directors are appointed by the government when the government owns wholly the corporation or relevant joint directors and government appointed directors where the government owns partially the cooperation.

The government influences decisions of the corporations either directly or indirectly e.g. pricing decisions. In Kenya the board of directors is appointed by the relevant ministries or by the president. It is this board which is responsible for the implementation of the policies of the organization. The board may employ professional managers charged with the day to day running corporations.

Sources of Share Capital

Public corporations may get their capital from the government through loans or budgetary provisions.

Where the government own corporations jointly both contributions of capital and the public will raise capital through issuing shares.

As a body corporate a public corporate has power to borrow money from financial institutions.

Features of a Public Corporation

- A service motive- they provide essential services to the citizens and may therefore not aim at making profits – entirely.
- They are formed by an Act of parliament which states that government ministries will take charge of such corporations.
- They are subsidized by the government to enable them provide essential goods and services at minimum fees.
- The board of directors is wholly appointed by the government or jointly with other stake holders to influence the policies of the cooperation.
- They are financed by the government but for jointly owned public corporations. • It has a legal distinct from the government or any other owners
- They have limited liability.

Advantages of Public Corporations

- Raising initial capital is each since funds comes from the government
- Public corporations improve the welfare of the people since basic goods and services are offered at affordable prices
- The company has limited liability
- They are used to meet government objectives.

Disadvantages of Public Corporations

- Political influence may lead to a week management
- Public corporations may not respond to consumer needs since some operate as monopolist.
- Public corporations have a public interest making them difficult to achieve their objectives.
- The job insecurity of senior managers e.g. C.O.S , may lead to dishonest management
- Slow decision making because of the size of same public corporations
- most corporations are loss making

Dissolution of Public Corporations

Since formation of a public corporation is by an Act of parliament it follows therefore, that in order to dissolve such an organization one would have to repeal the Act of parliament under which they are allowed.

The following reasons may lead to repealing the Act of parliament under which they are formed.

Perpetual operations of the corporation of a loss Outright

insolvency.

Mismanagement which may adversely affect the performance of the corporation

Co-operative Societies

This refers to a co-operative.

The term co-operative is derived from cooperation

It is a body of people or a body of persons who have agreed to come together to achieve a certain goal.

The members of the public get together to voluntarily contribute capital to the corporative society sharing the risks of investments in order to achieve and enjoy the benefits

Reasons for Promoting Cooperative Societies

They facilitate members to manage their own society and distribute themselves the benefit generated.

In order to increase bargaining power in selling the members produce or gaining maximum satisfaction.

In order to enhance participation by members in economic activities minimizing the middlemen.

In order to reduce market cost of produce especially in transportation and storage.

In order to promote and improve quality production

In order to facilitate stable income earning

In order to put together capital resources of expensive investment e.g. transport, refrigeration etc.

Formation of Co-operative Societies

They are formed by a minimum number of 10 members who pursue to undertake some objectives. The members work out a defined plan of what the co-operative society is supposed to do. For the co-operative society to be formed they have to submit their constitution to the commissions of co-operative societies with the following detail.

- The objectives of the society
- By-laws of the society
- The nature of the business to be undertaken
- The location of the head office.
- The application of registration is to be submitted to the commissioner through the local co-operatives.

Upon satisfying the commissioner, a certificate of registration is issued .

The co-operation then recruits members who pay registration fees and buy their specified shares in the society.

No member is allowed to buy more than 5% of the share capital

The registration of the co-operative society makes it a body separate meaning it becomes a separated entity distinct from its owners and with perpetual succession.

Ownership and Management of a Co-operative Societies

It is owned by its owners and its ownership and membership is opened and voluntarily

The members in a co-operative society have a limited liability to the amount contributed.

The supreme authority of the registered co-operative society is in the AGM (Annual general meeting).

During the AGM the managing director is elected on one person one vote basis irrespective of the shares owned by each member.

The outcome is determined by a simple majority and such elections are supervised by the district corporation officer.

The managing director serves for a period of time after which elections are held by a vote.

The elected members hold constant meetings to discuss operations and the concerned of the cooperative.

The committee may employ professional staff to charge of various parts in the society.

A number of sub-committees may be formed from the elected officers to take to take various responsibilities of various societies.

Examples of Committees in a Co-operative society

Executive Committee-The committee is charged with the day to day running of the society and its membership is made up of the following Chairperson

V-chairperson

Honorable secretary

Treasurer

Secretary

Education committee- It is charged with educating members of the society and it is made up of 3-members answerable to the executive.

Credit committee- It is normally common in saving and credit societies. It is made up of 3-members answerable to the executive and it is charged with the following:

- Processing loan applied and making recommendations.

- Loan recovery
- Credit recommendations and approval

Supervisory committee-It is charged with overseeing the overall management of the society's finances.

The Relationship between the Cooperative Society and its Business with its Members A

cooperative society should usually transact its business with its members.

This business relationship relates the following relations.

The customer relations- The members can be customers of the cooperative society by purchasing its goods and services

The supplier relations-The members can supply to the society by the selling to the cooperative society marketing their produce.

The employee relations- The members can be employees who work for the cooperative society which they jointly own.

Sources of Capital for Cooperative Societies

Members contributions through

- Registration fee
- Amount contributed by members to purchase shares
- The fee charged from the proceeds or sales of the members produce.
- Interest earned on money loaned out or firm inputs advanced to members.
- The loans from financial institutions.
- Plough backs or financing through retained profits.

Features of the Cooperative Society

Separate entity- Registration of a cooperative society makes it separate from its owners and the cooperative society has rights and obligations that are separate distinct from those of its owners.

Liability-The liability of its members is restricted to the amounts they have contributed in terms of capital.

The minimum membership of a cooperative society is 10 persons and the maximum number is specified since it depends on the share capital of the society.

Continuity-The cooperative society has a perpetual life.

Cooperative societies are governed using by-laws contained in the constitution of the cooperatives.

The share capital is divided into units both persons who want to become members of the society.

The cooperative society is run by management committee elected

The distribution of profits to the members is according to the level of activity carried out among members-High volume of activity command high portions of profits.

Essentials for the Success of a Cooperative Society

- Adequate volumes to secure the benefits of large scale production.
- Adequate finance to fund operations construction purchasing of equipments.
- A sound management team with effective entrepreneur skills.
- Existence of a definite objective

Principles of Cooperatives

Open Membership

Membership is open and voluntary without artificial restriction imposed on membership **Democratic administration.**

The affairs of the cooperative society are managed in a democratic manner and elections are on a one person

Service to members-The primary purpose of a cooperative society is to render services to members.

Distribution of profits or surplus- Distribution of profits or surplus is based on a specified rate.

Limited interest on capital- This is because the aim of cooperative society is to help its members and not make profit.

Cooperation with officer cooperative society so as to achieve a common purpose and a common objective.

Education to its members.

Types of Cooperative Societies

A cooperative is a voluntary association of persons who come together to promote their social economic interest.

The types include:-

Producer cooperatives

A producer cooperative is an association of producers such as societies which collect, process, market and distribute the members produce. **Functions of Producer Cooperatives**

- Getting better prizes for members produce.
- Providing better transport facilities for moving the produce from the source to the market.
- Providing better storage facilities for members for members produce.
- Proving grading, packing and processing services to the members.
- Extending credit facilities to its members.
- Educating members on better methods of production through seminars, demonstrations etc.
- Facilitating use of quality seeds, fertilizers and farm inputs

Consumers Cooperatives

A consumer cooperative is an association of borers who have the same consumer needs.

The consumers buy bulky and sells to the consumers at lower/fair prices.

This reduces the cost of products by eliminating the brokers or channels of distributors.

The main function of these cooperative societies is to purchase and distribute quality goods to members at reasonable prices.

Benefits of the Consumer Cooperatives

- They make goods easy available to members.
- They buy goods in bulky and sell to members at lower prices.
- They distribute the realized profits to members at lower prices

Why consumer cooperatives are not popular

Fears competition between the local traders which push prices down and provide quality goods hence no need for cooperatives.

Many people supply enough subsequent food for themselves.

Most people cannot afford large amount of capital required to start.

Most population in Kenya lives in the rural setup and may not accept the cooperative rule.

No proper attention to such cooperatives by the government.

Savings and Credit Cooperative Society (SACCOS)

These societies are formed by persons who come together to save their money in a common pull with a view of getting loans to improve their welfare.

The members of a SACCO are usually under one employer and members contributions are deducted from their salaries but the employer to the cooperative society through a check of system at regular intervals usually monthly.

At the members savings earn interest and get loans at reasonable interest rates normally 1% per month.

Members savings serves as a security for a loan, three guarantors and a pay slip.

Why SACCOS are Popular among Employee

- It is easy to save with the SACCO since deductions are done through a check of system.
- Easy to get loans from SACCOS due to fewer simple requirements.
- Interest charge on loans is low compared to commercial banks.
- Loans do not require collateral except for members’ salary slip and guarantors.
- Members’ savings are secured since they are insured.
- In case of death the beneficiaries do not lose their savings in cooperatives nor they are called upon to repay.
- SACCOS are flexible since they give different types of loans e.g. normal, emergency, school fees loans, medical etc.

Structure of Cooperative Societies

This refers to the hierarchy of the cooperative movement.

It shows the various levels of which various cooperatives operate this include: **Primary**

Cooperatives

Draw membership from business organizations engaged in production of particular goods and services.

Such cooperatives are found in specific geographical turgid or sector.

Examples: - Local agricultural societies in different regions.

Secondary cooperatives made up of the primary cooperative within a region e.g. a district. Through such cooperative the primary cooperative society pulls their objectives. **Main Reasons of Forming a Cooperative Union**

- To strengthen the buying capacity especially of farm inputs or transport facilities.
- To negotiate for loans for members cooperatives from the cooperative banks.
- To market the product of members cooperatives.
- To help members cooperatives with the processing of their produce.
- To help member's cooperatives with storage, administrative services, accounting etc.
- To educate, advise, train, the staff of members cooperatives.

National Union

This is the union of various cooperative unions.

The national cooperatives form umbrella bodies of cooperatives formed.

The membership of such a cooperative comprises cooperative societies or operating in a particular production line.

Examples:-

- The Kenya Planters Cooperative Union.
- The Kenya Union of Savings and Credit.

Apex Cooperatives

These are the overall cooperative bodies to which all other cooperatives i.e. primary, cooperative unions and national union are carried. An example in Kenya is the Kenya National Federation of Cooperatives Union. They are formed to promote cooperative performance with the aim of:-

a) Providing information about the activities of cooperative.

b) Providing education and training for member cooperative for efficient

c) Represent cooperatives both regionally and internationally.

Another example is the Kenya cooperative bank.

International cooperatives

Are composed of national cooperatives from various countries

Problems Facing Cooperative Societies

Mismanagement by cooperative officials who take advantage of their knowledge and position to benefit themselves.

Unskilled management elected without any knowledge whatsoever with management skills.

Lack of adequate capital due to small contributors and difficult to get bank loans.

Capital interference and self interests.

Most cooperatives are agro based facing price fluctuations climatic problems, low prices etc.

Little government input to rejuvenate the cooperative societies.

Advantages of Cooperative Societies

- Low cost services to members.
- Improved welfare of members enhancing their participation in economic activities.
- Encourage savings enabling members to accumulate their capital.
- Extended credits to members at low interest rates improving their welfare.
- Limited liability protecting personal property.
- Flexibility in membership for entity and exit.
- Equality of the members in terms of rights irrespective of the number of shares held.
- Large capital base due to high membership.

Structure of Cooperative Societies

- International Cooperative Societies
- Apex Cooperative Society
- National cooperative societies National cooperative societies
- Secondary co-operatives secondary co-operatives secondary co-operatives
- Primary co-operatives primary co-operatives primary co-operatives

Disadvantages of Cooperative Society

- Poor management caused by the system of choosing the managers I.e. AGM elections.
- Constant political interference causing unrest and mismanagement.
- Withdrawals are easy which may cause instability and discontinuity.
- Slow decision making due to over consultation.
- Lack of secrecy since all activities must be approved by all members.
- Large membership may cause management problems.

Dissolution of a Cooperative Society

- Disagreement among members or an agreement of members may lead to application of registration.
- Insolvency- Where the cooperative is unable to meet its debts.
- By a court order upon application by one or more members.
-
- An order of dissolution by the apparent ministry in the interest of its members.
- Withdrawal of members leaving membership to less than the minimum required.

Steps towards Promoting Entrepreneurship by the Governments

Increase small scale industrial sector. These are small tiny cottage industries. They have increased and the governments in developing schemes to help entrepreneurs

Increase investments in the service sector by Increased investments in quality services especially in the transport sector repairs services entertainment sector hospitality sectors

Increased in rural entrepreneurship development by Promoting rural entrepreneurship and Promoting Agro exports e.g eggs , meat e.tc

Development of brick making

Promoting women entrepreneurs in; Encouraging women to a variety of ventures

Education programmes in entrepreneurship

Providing cheap finance ie loans at low interest rates Providing cheap

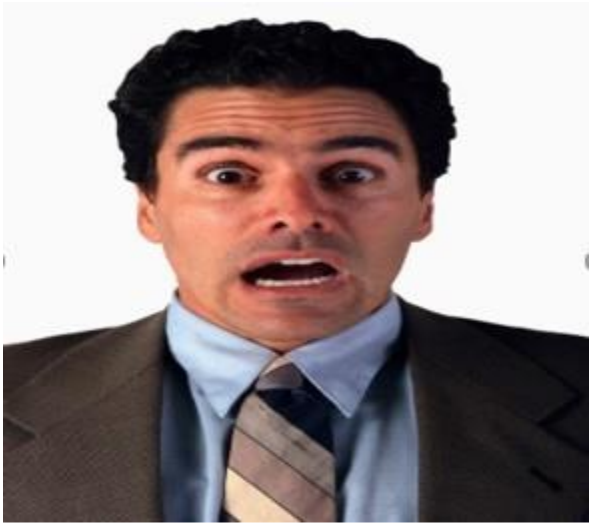
land or industrial estates

Guaranteeing entrepreneurs market for their products

Activity 2.3: Financing for forms of Business Organizations

Introduction

This section gives an elaborate explanation of the various available financing for all types of businesses. It gives an overview of the advantages and disadvantages and the circumstances when such financing can be obtained.



Where Do We Get The Finance?

Economic Environment- Sources Of Business Finance

The entrepreneur may obtain finance from the following main sources.

- Debt financing
- Equity financing
- External and internal sources.

Debt financing requires a borrowing system and the entrepreneur is bound to pay back the funds borrowed together with interest payable.

Debt financing can be long term or short term. Depending on the lender collateral, may be required.

Equity financing does not require collateral and offers the investor some form of ownership position in the business.

Internal financing are funds generated from several sources within the company, they include profits sale of Assets, reduction in the working capital accounts receivable, retained profits etc.

External sources of finance may come from family members, credit suppliers, government programmes, grants etc.

Equity Finance

It the largest source of finance to a business organization and usually forms the base of which other finances are raised. Equity is the total sum of the business ordinary shares plus the retained earnings also known as revenue reserves.

Ordinary share-capital

It that finance contributed by ordinary shareholders of a business.

- It is raised through the sale of the company's ordinary shares- who are the real owners of the business.
- The finance type is only raised by limited companies and is permanent in nature and can only be refunded in the event of liquidation.
- It earns ordinary dividends as a return to the investments.
- The investors carry voting rights and usually each share is equal to one vote.
- The ordinary shares are quoted at the stock exchange where they are sold and bought.
- The finance carriers the highest risks in the company because it gets its return after other finances have got their and also in the event of liquidation is it paid last.
- The ordinary dividends are not a legal obligation on the part of the company to pay.
- Where the profits are good ordinary shareholders get the highest return because their dividends are varied.
- This type of finance grows with time and this growth is equity which basically is facilitated by retention earnings.

Advantages of Ordinary Share Capital to Shareholders

- Ordinary shares have a right to vote and their votes influence the company's activities.
- Ordinary shareholders can use their shares to secure loan.
- Ordinary shares are easily transferable.
- The owners of the ordinary shareholders earn dividends in perpetuity.
- The fluctuating nature of dividends is earned.
- The ordinary shareholders benefit from the residual claim in the event of liquidation.

Disadvantages of Ordinary Shareholders

- Carry variable returns in case of low or non-profit dividends are not paid..
- In case of liquidation an ordinary shareholder may lose everything.
- The sale of more ordinary shares dilutes ownership of the existing shareholders.
- The dividends of an ordinary shareholder are double taxed.

Retained earnings (revenue reserves)

This is a source part of equity finance which arises out of undistributed profits over and above dividends paid to shareholders.

It is a cost free source of finance and its cost is opportunity cost in terms of foregone dividends to ordinary shareholders.

The retained earnings constitute growth in equity which is a cost of equity because the company may declare retained earnings as extra dividends or inform of bonus issues.

Arguments in Favour of Retention

- Acts as a stabilizer to future dividends (ordinary dividends) especially when profits perform poorly.
- No cost are incurred for it's acquisition
- It is able to be raised at no notice especially during unforeseen events e.,.g. • Abrupt

  increases in the prices of raw materials
- Fire hazards e.t.c.
- Promotes savings promoting investments and growth
- Large volumes of retained earnings influence the company's shares positively.
- A good source of finance to those very urgent short-term ventures whose returns are immediate
- The boost the company's creditability to the company's creditors.

The advantages of using retained earnings as a source of finance to the company.

- It is the largest internal source of finance which the business will use without paying any costs.
- The use increases the equity base of the company making it possible to generate more debt finance.
- Retained earnings are used to finance new fixed assets whose value cannot be met by other sources
- It is used without pre-conditions or restrictions making it the most flexible source of finance.
- It boosts confidence among the company's creditors
- It is a permanent source of finance to the company to be used on long –term investments.

The disadvantages of using retained earnings as a source of finance to the company.

- Easily misused by the management as it may be invested in areas which are prejudicial to majority shareholders.
- Retained earnings once used will leave not shield to take care of contingencies exposing the company.
- The finance can easily be mis-invested in areas of quite low returns.
- the source involves a lot of sacrifice to the ordinary shareholders in form of opportunity cost
- Easily invested in high risk investments.

Capital reserve

These are reserves which cannot usually be classified as normal trading profits arising out of the company's ordinary trading activities – but are created with say shares are sold at a higher price than the par value and the excess is profit – such are credited to the capital reserve account and is used to offset the issuing expenses.

It can also be created from revaluation of assets (fixed assets) **Quasi**

equity finance (preference share capital)

This is finance contributed by Quasi – owners or preference shareholders

It is called quasi – equity because it combines features of debt finance and those of equity finance.

It is called preference share capital because it is accorded preferential treatment over ordinary shareholders.

Similarities between Ordinary & Preference Shares Capital

- Both finances earn a return in the form of dividends
- They are a permanent source of finance especially the irredeemable preference shares
- Both receive perpetual dividends (irredeemable preference shares)
- Both form the company share capital
- Both are difficult to raise due to prolonged formalities.
- Both claim on assets residual and in profits after debt finance has had it's claim.
- Payment of dividends not a legal obligation
- Both finances are not secured
- Both are long –term finance to the company.

Debt Finance – Loan

This is the type of finance which is obtained from persons other those actual owners of the company i.e. creditors to the company. The finance can be in any of the following forms;

- Loans
- Debentures
- Bank overdrafts
- Trade creditors
- Borrowing against bills of exchange
- Lease finance
- Mortgage finance
- Hire purchase finance

All the above finances have a legal claim or change against he company's resources or assets.

Requirements a Company must meet before raising Debt Finance.

- The company must provide a summary of history of the business and its nature. This is used to assess the risk of the company's business line.
- Details of management – names, ages, qualification and experience of managers and directors. If these are of questionable integrity, such as a company may not get debt finance.
- To produce five years audited accounts which will reflect the company's financial ability to service debt finance.
- The purpose of the loan must be; within the lender's priority within the government areas of priority for development purposes.
- Furnish lenders with cash flow forecast and proposed trend of repayment.
- Major shareholders of the company must give consent to the loan.

Reasons why Commercial Banks prefer to lend short-term

- Majority of deposits with these banks are subject to withdrawal on demand and short-term notice these cannot be lent long term. The violation of this principle led to the downfall of a number of financial institutions in 1980s.
- Commercial banks are subject to sudden credit squeeze imposed by the central Bank and as such they have to keep their investments in short-term investments to meet the requirements of the central bank.
- Short-term forecasts are usually accurate and also short-term investments are less risky which is thus preferable to commercial banks.
- Short-term investments are usually more profitable to the banks e.g overdrafts which carry higher rates of interest than long-term loans.
- Usually short-term investments are not secured e.g. overdrafts and thus are easier and more flexible go give.

Limitations of debt finance/ disadvantages of using debt finance to the **company.**

- Interest is a legal obligation and failure to pay it may lead to company into receivership and consequently liquidation.
- Using debt finance entails conditions and restrictions as to its use and this makes it non-flexible finance which can only be invested in those ventures approved by the lenders.
- Its use on large scale increases the company's gearing level which exposes the company to incidences of receivership and thus liquidation.
- It is not usually long-term finance and the payment of principal leaves the company in financial strain and may cause liquidity problems to the company.
- The use of excessive debt finance i.e. beyond 67% level puts the company at the mercy of the lenders because they can come in to control their interests which dilute the control of owners and this may lead to lower share prices. Moreover,

- This finance calls for a security i.e. it is usually secured against a collateral security which may be rare or lenders may be rare or lenders may restrict the use of such asset thus reducing the company's operations and thus its profit.
- The lenders usually insist that the security be compressively insured which will compound the cost of this finance as it will entail an implicit cost to the company.
- This finance is available only in big businesses which are known to lenders and as such small companies will not be able to raise it easily as they are assumed to be risky and are in most cases unknown to lenders.

Advantages of using Debt Financing

- Most debt financing is short-term and as such it will not burden the company's cost of financing for long i.e. cost is short-lived.
- Interest on debt is a tax-allowable expense and thus the effective/real cost of debt will be equal to interest less tax on interest iI.,e. interest is less by the much of tax on it. (Refer to cost of finance).
- the principal is later reduced in real monetary values by much of inflation on it iI.e. the company pays less on long- term loans by virtue of inflation reducing the real monetary value of the principal and interest.
- The use of debt finance does not necessarily entail dilution of control to existing shareholders are these shareholders may only lose the control if the company has used 67% of debt finance in its financing i.e. in its total capital employed.
- it is usually invested in viable ventures whose return is higher than its cost, thus it is used with a good investment policy
- This finance does not call for a lot of formalities in its use as it does not involve a lot of floatation costs.

Characteristics of Debt Finance

- It is a fixed return finance i.e. interest on debt is fixed regarding less of the profits made by the company.
- Interest of debt finance is a legal obligation on the part of company to pay and failure to pay it may lead the company into receivership in the extreme.
- It is usually given on conditions and restrictions except for overdrafts.
- It carries a first claim on profits and assets before other finances.
- It does not carry voting rights and as such it does not participate in the decision making process of the company.
- Its use rises the company's gearing level.
- It is always refundable except for irredeemable debentures.
- it is usually a secured type of finance
- Interest on debt finance is a tax-allowable expense.

Similarities between Debt finance and Ordinary Share Capital

- In the case of irredeemable debentures both form a permanent source of finance to the company.
- Both carry explicit costs to the company I. e interest on debt finance and
- Dividends on ordinary share capital.
- both are raised by financially strong companies
- In case or irredeemable debentures both will entail a permanent cost to the company.
- In case the company has used overdrafts then both are not secured finances.
- Both are external sources of finance to the company.
- Both have control over the company if the company has used debt finance of up to 67% of the company's total financing.

Classifications of debt Finance.

Short-term finance

This ranges from 1 month up to 4 years and is given to customers known to the bank or to lenders. The agreement of this loan will mention both the repayment of principal and interest, and must identify whether it is simple or compound interest. For principal, it has to be paid over some time. This finance usually secured and the terms of the loan will be restrictive. Usually be invested in an area acceptable to the bank or lender. Usually this finance should be used to solve short-term liquidity problems.

Medium –term finance

This finance will be in the business for a period ranging between 4-7 years. This term is relative and will depend upon the nature of the business. This type of loan is used for investment purpose and is usually secured but the security should not be sensitive to the company's operations. The finance obtained must be investigated while respecting the matching approach to financing i.e. the term and pay- back period must be matched. This type of
finance is the most popular of all debt financing because most of the business will need it both in their growing stages and also their mature stages of development. **Long-term finance**

This is a rare finance and is only raised by financially strong companies. It will be in business for a period of 7 years and above. This finance is used to purchase fixed assets in particular during the early stages of a company's development. It is always secured with a long-term fixed asset; usually land or buildings. Its investment, however must obey the matching approach. In all, the companies needing such finance do not have to be known to the lenders.

Reasons why long term loans are difficult to raise on financial markets

This finance calls for long-term securities such as land and buildings which most businesses in Kenya may not have.

- There are no long –term savings to back-up these loans due to low income of average Kenyans and as much most of the savings are short-term and cannot be made available on long-term basis.

- Most business in Kenya are agro-based and these are risky and as such lenders cannot avail their finance to such businesses of long-term.
- The central bank has tended to stimulate the development of money markets that capital markets which have not been fully developed to avail such finance to meet the development needs of industry and commercial sectors of the economy.
- Long-term loans are not usually profitable because interest and principal repayment are eroded by the by the impact of inflation and thus banks may be reluctant to give such.
- The size of the businesses in Kenya is small and such businesses are not going concerns so as to be able to attract this finance on long term basis.
- A number of companies in Kenya are multinational companies which obtain long-term finances from parent companies abroad and this has limited the development of capital markets in Kenya as demand by such companies is low.
- there are been a tendency by the financial institutions to avail long term debt for building purposes and little attention has been paid to long-term finances for businesses.
- This finance is given on conditions and restrictions to avail long-term debt for building purposes and little attention has been paid to long-term finances for businesses.
- This finance is given on conditions and restrictions which make it less ideal for profitable ventures as such restriction may reduce profitability of companies concerned.
- Long-term forecasts by commercial banks are inaccurate and filled with a lot of uncertainties thus the banks are very reluctant to shield such potential risks and prefer to lend short term which they can forecast with some degree of accuracy and certainty.

Solutions to limitations of Long term debts

- The government should diversify the security such that the same asset acquired acts as its on security and also to allow guarantees as securities in particular personal guarantees
- The government or individual commercial banks should undertake mass education campaigns to businessmen so as to induce them to save/keep their money in banks so as to avail such money of long –term lending.
- Tthe government should participate in the development of this capital market by;
- Allowing some parastatals to go public i.e. to sell shares to the public.
- Selling or purchasing long-term debt instrument or creating a market for these and allowing the forces of demand and supply for money to operate freely in Kenya so as to determine the prices of securities in the financial market.
- The government should introduce insurance schemes to cover agro-based industries so as to reduce their risk and so as to be open to long-term finance.
- There should be diversification in the economy from over-dependence on agrobased industries to manufacturing which will create employment and thus boost the incomes of average Kenyans and thus saving which will be available for lending.
- The government should stabilize the value of the Kenyan currency so as to attract foreign long-term investors and aim at exporting more as means of gaining foreign exchange which can be used to stimulate long-term growth through importation of more capital goods and less consumer goods.

Limitations of Debt Financing

- The economic life of the asset to be used a security act as an outer limit to debt financing both the terms of principal and the term.
- If the balance of debt outstanding in the company's capital structure is high it means that the company is highly geared and this cannot allow lenders to give further finance to such a company as it will be viewed as risky.
- Debt financing may be expensive because it carries both implicit and explicit costs. These may be more than the returns from the investments.
- Ordinary shareholders may limit the much a company can use in debt financing as the level of the gearing is influenced by this finance thus putting them at risk.
- The size of the company may influence its ability to raise debt finance this size works better for quoted companies and unquoted companies usually find it difficult to raise such finance.
- General economic conditions may limit the availability of debt finance because in recession it is quite dangerous to use large sums of debt finance as these may not be serviced under conditions of low profits and may lead to the company's receivership in extreme cases.
- The management for the company may also limit the availability of this finance either by virtue of its nature (if its integrity is questionable) or if it is conservative in the use of debt.

Advantages of using an Overdraft

- It can be used to bail the company out of short-term financial liquidity problems
- Usually it is not secured as the company's goodwill is all that matters in obtaining this finance as long as the company is known to lenders.
- It is used without pre-conditions or restrictions which makes it a flexible source of finance,.
- It can be raised fast thus very useful in emergency financing endeavors.
- It is not expensive to raise i..e. there are no costs paid to obtain it such as floatation costs.
- Its cost and financial constraints are short lived.
- It can assist the company to meet its obligations in particular short term obligations thus sustaining the goodwill from creditors.
- Overdraft finance does not increase the company's gearing level, at least in the long run.
- Overdraft finance is used without consent of shareholders thus it is flexible as it can be used as and when it is needed.

Disadvantages of using Overdrafts

- It is very expensive finance and its lending rate is usually 1-2 % higher than the usual lending rates.
- Its constant use of a sign of bad/poor financial management policy and this may endanger the company's ability to raise long-term finance as long-term lenders view constant use of

overdrafts as a sign of lack of overdrafts as a sign of lack of cash forecasts and budgeting policies on the part of the economy.

- It is not easily available to every business thus it is obtained by companies know better to the bankers.
- In some cases this finance may be used in a manner flexible to the management which most cases may not be in the interest of shareholders it may be used in areas which may not directly benefit shareholders.
- It is only available is small quantities and as such may not be useful for bigger ventures.
- The bank may recall this overdraft in part or in whole at any time and this may inconvenience the Company affected.
- Overdraft finance may only be used to finance non-profitable operations e.g. working capital and cannot be used to finance fixed assets which are the most important ingredients in the company's production and profitable operations.

Other Sources of Debt Finance

Bills of exchange.

As a source of finance, bills of exchange can be:-

- Discounted –used to withdraw money from a financial institution before the maturity date less a discounting fee.
- Endorsed –transferred to another party
- Given as securities for loans

The following are the common type of bills of exchange:

Accommodation type of bills of exchange is that type where two parties A and B are B is known to bankers. The two enter into an agreement where A draws a bill on B and B accepts it an agreement whereby A draws a bill on B and B accepts it and thereafter A can either discount the same bill or endorse it to another party to get finance which A will have to refund later to B. However, a bill of exchange is defined as an unconditional order in writing addressed by one person to another signed by the person giving it, requiring the person to whom it is addressed to pay on demand at a fixed or determinable future date a certain sum of money to the order of the person or to bearer. Most of the bills mature between 90-120 days although they could be sight bills i.e payable on sight be valid and to serve as a source of finance it should be

- signed by the drawer
- accepted by the drawee
- be unconditional
- bear appropriate revenue stamp

Advantages of Bills of Exchange as a Source of Finance

- It does not involve a lot of formalities and as such will allow the drawer to obtain finance faster.
- It is highly negotiable making it a liquid investment which the company can liquidate fast (if the drawee is of high credit rating)
- Since it is unconditional the drawer will use the same finance obtained on the strength of the bill without preconditions and restrictions.
- It does not affect the company's gearing level.
- It is cheap to obtain and to retain – retention cost is discounts which are usually lower than bank rates.
- Iit does not call for any tangible security because the good will of the drawee is all that is necessary to use.

Disadvantages of Bills of Exchange

- It is a very short-term source of finance and as such it may not be profitable as its duration cannot warrant any profitable ventures i.e. finance from the bill cannot be invested in profit table ventures.
- There are possibilities that the bills may be dishonored by the drawee and drawer may have to settle any liabilities incurred thereon.
- It is a foreign bill of exchange this may delay the finance in that it may require the approval of the central bank before discounting it.
- Its negotiability and thus liquidity as an investment will depend upon the goodwill of the drawee which will be lacking in some cases.
- Finance from this bill may be misused (misinvested) by the management thus may not benefit shareholders.
- There are chances of getting a fake bill of exchange which cannot be discounted nor endorsed which will constitute a fraud to the company.
- It may involve some costs in particular discounts which may be high depending on conditions some of which may be a bit expensive to fulfill e.g. stamp duty.

Factoring

This can be defined as an outright sale of the company's debtors to a factor (which is usually a financial institution that specializes in purchasing of debtors) this factor will pay the selling company up to 80% of the face value of debtors and is left with 20% to care of bad debts if any, and also his discounts, this type of source of finance is rare in Kenya mostly because it is an expensive source of finance due to high discount costs. Savings in this source are in form of costs of credit management which are transferred to the factor. However, the factor takes up risks in debts (of default) which previously were supposed to be borne by the selling company.

Advantages of using Factoring

- The selling company can obtain ready finance from the factor which can be used to solve its liquidity problems.

- the selling company transfers the risk of bad debts to the factor company thus reducing its losses
- It minimizes the burden of collecting debtors' i.e. debt collection expenses.
- this finance can be raised fast thus does not entail a lot of formalities
- It does not carry collateral security thus a flexible source of finance to raise.
- It can be raised by any company regardless of its status as long as it has good debtors i.e. of reputable companies.
- It does not affect the company's gearing level thus no loss of control to the company by its use.

Trade Debtors

This acts as a source of finance in such as the company holding; such debtors can discount them with a bank and obtain immediate finance. They can be used as security for loans in particular overdrafts. The company can continue to sell on credit and as such this source can be a semi –permanent source of finance.

Accrued Expenses

Examples of these are;

- accrued electricity bills
- accrued telephone bills
- accrued water bills
- accrued rent
- Accrued rates.

These are a short-term source of finance and can be big sources if the company has a number of these outstanding expenses. However, a company should use these even if they cannot affect its future operations and only pay such on the last date when these are due.

Credit Card buying (plastic money)

These are arrangements whereby a company or an individual enters into an agreement with a credit card organization to use their card to purchase a number of goods and services and pay after agreed period of time. Usually repayment carries interest charges. These cards are used to obtain such goods and services as:

- fuel expenses in particular for tour companies
- stationery
- Medical expenses for employees and their families.
- Vehicle maintenance
- Air transport

- Purchase of inputs such as oils, spare parts e.t.c.

Why Plastic Money in the developing economies

- Due to high incidences of frauds by dishonest employees these cards e.g. in tour companies.
- They minimize the use of liquid cash thus reduces chances of petty cash frauds and also solves the company's liquidity problems and those of individuals.
- Fast development (in sophistication) and the use of these cards is a sign of high social and economic status.
- There is a lot of awareness amongst the elite community as regards credit facilities and as such have responded to the introduction of this type of money fast.
- There is a lot of risk associated with carrying lots of cash which is open to theft and as such people prefer to carry finance in card form.
- A number of companies and establishments have quickly recognized these cards as a means of settling bills and some even give discounting to card holders which has boosted their popularity.
- It is a source of finance to individuals who depend on monthly earnings who settle their bills using the credit cards and later pay at the end of the month when their liquidity position warrants it.

Disadvantages/ limitations of using credit cards as a source of finance

- It is expensive to obtain (because the holder has to deposit some amount of money with credit card Organizations) and later pay interest on all his expenditure.
- It may lead to unwarranted spending which may lead to financial strain on the part of the holder when it comes to settling his bills.
- The majority of populace is unaware of these credit card facilities in particular the rural population who form the majority.
- The card is limited only to those establishments which have formal arrangements with credit cards

Debenture Finance

Debenture has its origin in the latinLatin word Deboe which means " I owe" it is a document that is evidence of a debt which is long term in nature, and confirms that the company has borrowed a specific sum of money from the bearer or person named in the debenture certificate. Most debentures are irredeemable thus forming a permanent source of finance to the company. If these are redeemable then these will be long-term loans which range between 10-15 years. They can be endorsed, negotiated, discounted or used as securities for loans. They carry a fixed rate of interest with is payable after six months i.e. twice a year.

Classification of Debentures

Classification according to security

Secured debentures- these are secured against the company's assets or have a fixed charge against the company's assets. In the event of the company's liquidation such debentures will claim on any or all of the company's assets not yet attached by other secured creditors. A debenture holder with a floating charge has a status of a general creditor, however floating charge debentures are rare and they are sold by financially strong companies.

Unsecured (naked) debentures –these carry no security whatsoever and such they rank as general creditors. They carry a residual claim to the first class creditors but a superior claim to the first class creditors but a superior claim over ordinary shareholders. These are rare sources of finance and are sold by financially strong companies with a good record of dividend payment to the shareholders.

Classified According to Redemption

Redeemable Debentures – these are bought back by the issuing company. Like preference shares, these have two redemption periods which are minimum and maximum redemption periods. This usually between 10-15 years i.e. the company has the option to redeem these after 10 years but before expiry of 15 years. In most cases redeemable debentures are secured against specific assets e.g. land or buildings (mortgage debentures) their interest is a legal obligation on the part of the issuing company.

Irredeemable debentures (perpetual debentures) these can never be bought back by the issuing company except in the event of liquidation and as such they form a permanent source of finance to the company. These debentures are rare and are only sold by financially strong companies which must have had some good dividend history. These are unsecured and thus are known as naked perpetual debentures.

Classified according to convertibility.

Convertible debentures- these are the type of debentures which can be converted into ordinary share capital and this conversion is optional as follows;

- At the option of the company i.e. at the company's option.
- At the option of both parties i.e. debenture holder and the company
- At the option of the holder.

However the conversion price of the debenture is given by

Conversion price = nominal value of the debentures

No. of shares received

Conversion ratio = Nominal value of debentures Nominal value

of shares to be converted

In all, convertible debentures are never secured.

Non- convertible debentures – these cannot be converted into any shares be it ordinary or preference shares and are usually secured.

Subordinate debentures (naked)

These are issued with a mutuality period of 10 years and above and usually they carry no security and depend upon the goodwill of the company. They are so called subordinate because they rank last in claims after all classes of creditors except trade creditors. Nevertheless their claims are superior to those of shareholders both preference and ordinary shares.

Advantages of using debenture finance (to the selling company)

- In case the company sells irredeemable debentures these will form a permanent finance to the company which can be invested in long term venture or fixed assets.
- Their use does not entail dilution of the company's control as they carry no voting rights with which to influence the company's policies.
- In case of convertible debentures, once converted into ordinary shares will be permanent finance to the company and can be used in finance to the company and can be used in financing of long- term ventures.
- Interest on debentures is tax –allowable expense and as such it will be less by the much of the tax on interest.

Disadvantages of using debenture finance (to the selling company.)

- Interest on debenture is a legal obligation for the company to pay and failure to pay it may put the company into legal wrangles.
- it raises the gearing level of the company which may expose it to risks of receivership and, in extreme, liquidation
- In case of redeemable debentures once redeemed may leave the company in financial strain.
- Since interest is paid twice a year it may be cumbersome to the company to pay and may pose liquidity problems.
- For irredeemable debentures these place a permanent commitment in terms of cost to the company.
- If they are redeemable and reach maximum redemption period before they are redeemed these may force the company into receivership and consequently liquidation.
- For secured debentures, these may be expensive because they will carry implicit costs. i.e. insurance and maintenance of the security and later explicit costs . i.e. interest on these debentures.

Similarities between Debentures and Preference Shares Capital

- They both carry fixed rate of return.
- Both increase the company's gearing level.
- Both can be converted into ordinary shares.
- Both carry no voting rights in the company
- Both may be unsecured if the company sells naked debentures

- Both claim on profits and assets before ordinary share- holders
- If they are both redeemable they can force the company into receivership after the expiry of the maximum redemption period if not yet redeemed.

Differences between Debentures and Preference shares Capital

- Debentures Preference Shares
- Interest is legal obligation for the company to pay.
- Interest is a tax-allowable expenses to the company.
- They claim on profits and assets before preference shares.
- They are purely creditors.
- They cannot participate over and above their fixed claim.
- They can be raised by any company.
- These are usually not transferable except bearer debentures.
- These are usually secured.
- Cost of raising debenture finance is low. ‘
- They are usually sold at a discount.
- Dividend payment is not a legal obligation for the company to pay.
- Dividends are after appropriations and are thus not tax-allowable expense.
- They claim on profits and assets after debentures.
- They have an element of ownership into the company i.e. quasi-owners.
- They may participate over and more their fixed claim in case of participative preference shares.
- They can be raised by limited companies only.,
- These are usually transferable to other parties though the stock exchange.
- These are never secured.
- Cost of raising preference share finance is high e.g. floatation costs.
- They are usually sold at par value or above i.e. at a premium.

Advantages of using Debenture Finance to Ordinary Shareholders

- The use of debenture finance does not dilute the shareholders control of the company unless they are convertible and are converted.
- Under boom conditions ordinary shareholders may benefit from higher dividends due to fixed charges on debentures which is paid under conditions of high profits.
- Interest on debentures is tax-allowable expense and as such this may allow the company to retain more and even pay higher ordinary dividends to its shareholders.

- In case the company issues irredeemable debentures, these will be invested in long-term ventures with not only have the effect of raising the shares pieces of the company's ordinary shares but will also increase the company's future ordinary dividends.
- After debentures are redeemed, the company will benefit from the asset/ investment they had financed which will increase the net worth of shareholders.

Trade Credit

This finance is obtained by companies by which purchase goods on credit and pay for such goods later. This "kind" and is available to companies which can pay bills on time as and when they fall due. It the largest source of finance to sole traders and wholesalers in Kenya. This is cheap source of finance and it does not entail any explicit cost except discounts foregone. This finance may be long-term in particular if the company meets its bills regularly such that after settling a given bill the same company obtains further credit immediately, thus may become a continuous source of finance. In order to be a source of finance, credit received must exceed credit given.

Advantages of using trade credit a source of finance (reasons why trade credit is popular in

- Most businesses lack collateral securities which are necessary to raise other forms of debt finance thus resort to trade credit.
- it is cheap source of finance because the only cost involved is discounts lost I,e no implicit or explicit costs.
- most other finances need the borrower to maintain healthy accounts which small businesses in Kenya may not have thus resort to trade credit.
- The fact that small businesses in Kenya are not known to lenders makes trade credit the best source of finance as they may not qualify for other finances which require that the borrower be known to the lender.

Disadvantages (limitations) of using Trade Credit

- The debtor company will undergo the opportunity cost of the discount foregone by the very buying company.
- This finance is not reliable because in the event of default on the buyer's side the seller cannot give it and this way cut the buyer's credit line which may lead a lot of inconveniences and in some cases stoppages in production or sales of the debtor.
- It is usually restricted to working capital items and as such may not be available for fixed assets which are important for profitability reasons.

Promissory Note

A promissory note is a bill wherein one party promises to pay another party on a specific date and conditions, a specific sum of money. It is a short term source of finance to the company, usually up to 3 months. This type of finance is used when the two parties know each other well. It acts as a source of finance because it can be discounted or endorsed. It can also used as security for loans.

Advantages and disadvantages promissory note Advantages of

promissory note

- It does not involve a lot of formalities and as such will allow the drawer to obtain finance faster.
- It is highly negotiable making it a liquid investment which the company can liquidate fast (if the drawee is of high credit rating)
- Since it is unconditional the drawer will use the same finance obtained on the strength of the bill without preconditions and restrictions.
- It does not affect the company's gearing level.

Disadvantages of promissory note

It is a very short-term source of finance and as such it may not be profitable as its duration cannot warrant any profitable ventures i.e. finance from the bill cannot be invested in profit table ventures.

There are possibilities that the bills may be dishonored by the drawee and drawer may have to settle any liabilities incurred thereon.

It is a foreign bill of exchange this may delay the finance in that it may require the approval of the central bank before discounting it.

Invoice discounting (confidential factoring)

This is an arrangement where the selling company discounts its invoices usually with a bank or financial institution and will receive a large percentage of its invoices in cash in advance. Usually it is expensive source of finance and should only be used if the company cannot obtain overdraft finance from commercial banks. The invoice discounter analyzse which invoices to discount and in this case he will request the selling company to send original invoices to the customer and a copy to the discounter. The invoice discounter has not only lien on the debts but also recourse to the borrower in which case the seller or borrower will have to pay the discounter should any debtor default to pay his bills on the due date.

Advantages of using invoice discounting as a source of finance

- Iit is useful as a solution to short term liquidity problems.
- Iit does not call for a collateral security and as such it is a flexible of finance to raise.
- Iit is easy to raise as it does not entail a lot of formalities.
- Normal credit will be extended to customers as the discounting of invoices does not affect the relationship between the selling company and its customers.

Disadvantages of using Invoice discounting as a source of finance.

- The discounter has resource to the borrower and in case may debtor fails to honour his obligation then the discounter can turn to the seller to pay such debt and interest on finance advanced to him.

- It may be an expensive source of finance in particular if the invoices are small and numerous in which case the costs of collecting these may be too high.
- This type of finance is usually available to those companies whose debtors are highly rated in credit payment point of view thus may be discriminative if a given company has unknown debtors in which case they cannot be discounted.

Factoring

- The factor has no recourse to the borrower.
- The factor takes over the debtor's ledger.
- The chances of bad debts are minimal and even then these are borne by the factor.
- The invoices are sold outright to the factors and cannot act as securities for loans.
- The discount rate is relatively high.

Advantages of leasing as a source of finance

- It may be a long –term source of finance e.g. for land leased for a period of 99 years.
- In case the lease agreement gives the option to purchase the asset after the expiry of the lease term then.
- Such a company will have known which asset it is taking over, and thus make a good investment decision based on experience.
- Lease charges are tax-allowable expenses thus will reduce the company's tax liability.
- The lessee enjoys the benefits of wear and tear which reduce his tax liability.
- The company does not risk holding assets which may turn to be technologically obsolete.

Disadvantages of leasing as a source of finance

- This type of finance is available for fixed assets and as such does not have provision for working capital which is important in generating sales.
- The periodic rental charges may outweigh the cost of the same asset in the longterm i.e. in the long run the 'leasee' may pay more in rental charges that the cost of this asset.
- The lessor may not renew the lease agreement and this may put the lessee out of business.
- It is limited only to those assets which are available from the lessor's business thus is not useful in all financial requirements of the company.
- Lease finance entails implicit costs e.g. maintenance and insurance of the same asset leased which may compound the cost of this finance.

Sale and Lease –Back

This is an arrangement whereby a company which owns some assets arranges to sell the same assets and at the same time agrees with the buyer to lease the same asset back at an agreed rental charge. This type of arrangement is possible if the asset back at an agreed rental charge. This type of arrangement is possible if the asset is fixed asset whose return must outweigh the cost of the same finance. Also the parties involved must have had an intimate relationship before i.e. they should be acquitted to one another. **Advantages of using Sale and Lease Back**

The company gets finance in cash and finance in kind which boost its operations tremendously.

Since the 'leaser' and the lessee are known to each other, this finance may not entail any conditions or restrictions on the part of the lessee.

- This arrangement does not involve tedious formalities, thus is flexible to raise for financing reasons.
- The risks of obsolescence shifts from the lessee to the 'leaser' then it will entail less risk of capital loss to the lessee.
- It is easily available i.e. faster because the two parties are known to each other.

Disadvantages of using sale and lease back.

- The company's asset will be removed from the balance sheet which will in essence affect its financial position i.e. reflect a bad financial picture.
- The lessee may not enjoy the benefits of wear and tear as such this will increase his tax liability.
- The finance is limited to the cost of the asset leased, and cannot be versatile.
- If it is an operating lease, then it will be used for short-term purpose.
- It entails implicit costs such as repairs and maintenance costs of the asset leased.

Conditions under which sale and lease- back is ideal as a source of finance

- If the asset is required for seasonal purpose
- If the asset is technologically sensitive i.e. may soon be technologically obsolete.
- If the asset cannot meet the company's contemplated expansion programmes
- Where the asset has a tendency of depreciating fast
- If the asset is not sensitive or central to the company's operations.

Sale of an asset

For companies with assets which are not very necessary for their operations, such assets can be sold to raise finance for the company. These assets should only be sold if the funds from the sale of assets can be invested in ventures which can generate returns higher than those the asset sold was generating

Hire Purchase

This is an agreement whereby a company acquires an asset on hire by paying an initial installment usually 40% of the cost of the asset and repays the other part of the cost of the asset over a period of time. The source is more expensive than bank loans. Companies that use this source of finance need guarantors as it does not call for collateral securities to raise.

The company hiring the asset will be required to honour all the terms of the agreement which means that if any term is violated then the company that gave the item may repossess the asset e.g. in Kenya if the hirer fails to pay any installment before he clears 2/3 of the value of the assert the hiree may repossess it.

They avail hire purchase facilities for such assets as;

- Plant and machineries
- vehicles
- tractors
- heavy transport machines
- aircrafts
- Agricultural equipments.

Advantages of using hire purchase as a source of finance.

- It does not call for securities in acquiring it in as such it is a flexible source of finance.
- this finance is a long-term finance and as such it can be used to acquire fixed assets which are very essential for the company's profitability
- It is useful under conditions where the company cannot raise finance due to the amount involved i.,e. if it is substantial.

Disadvantages of using hire purchase as a source of finance

- It is an expensive source of finance and in most case the interest on it may outweigh bank rates and at the end of the hire purchase contract the total installments paid may double the cost of the asset.
- It involves a lot of formalities to obtain e.g. legal implications and accounting formalities prior to.

Need for finance.

A company may raise finance to finance its working capital needs; this finance is known as bringing finance such as finance will be raised from such sources as overdraft and short-term loans.

To acquire a fixed asset this will be raised from long-term sources of finance

- ordinary share capital

- preference shares capital
- long term debt financed or sell of debenture • hire purchase finance
- lease finance et.c.

The size of the company

- The size of the company will determine which finance it can raise. This is so because small companies may not be able to raise difference finances due to the following reasons;
- such companies will find it difficult to have access to different finances because:
- They may be unknown to the lenders and as such their credibility will be questionable.
- Such companies may not have the necessary securities to pledge in order to raise various finances available in the financial market.
- They may be ignorant of the various finances available on the financial market.
- They may not meet the requirements of the stock exchange so as to float their shares e.g. for a company to go public such a company must have a minimum of shs. 2,000,000 or such £ 100,000 which very few companies may have.
- Lenders also discriminate against small companies in their lending activities in particular due to ownership of small companies most of which are sole traders whose life-span is equivalent to that of the owner; this means that they viewed as highly risky areas of investment.
- Big companies not only are they able to raise share capital, but also can sell their debentures even under credit squeeze, which condition usually makes it difficult for small companies to raise finance.

Conclusion

There are many forms of business organizations and this may also mean that their access to financing could also be different depending on their circumstances.

Unit Summary

Having gone through this unit we expect you to give a brief summary of what you have learnt in one paragraph.

Unit Assessment

Check your understanding! **Instructions**

Attempt all the questions at the end of the unit. **Rating**

criteria

This review is on individual basis and should be performed after the readings recommended compulsory and free consultations on forms of business organizations. It has a 7.5% % weight on the overall evaluation of Entrepreneurship. This unit will be graded based on your understanding of the concepts outlined and discussed in the unit. Grading will be based on your 20 hours coverage which translates to 7.5 % of the whole assessment. You will be expected to attempt the questions given at the end of the unit.

Unit Readings and Other Resources

The readings in this unit are to be found at course level readings and other resources.

- Meridith,GA., Nelson,R.E,and Neck, P.A.(1987). The practice of entrepreneurship .ILO, Geneva
- Kuratko, D& Hotgetts R. M. (2005). Entrepreneurship . Ttheory, process & practice. Mason, south-western
- Illinois Department of commerce (1989). A business plan outline, Illinois. USA.
- Neck, p. and Nelson, R.E .,(Eds.) (1987). Small enterprise development: policies and programmes. ILO, Geneva.

Unit 3: Entrepreneurial Motivation And Business Planning

Unit: Introduction

This unit introduces you to entrepreneurial motivation by highlighting the inspiration behind entrepreneurship creation and the enabling environments that such motivation can exist.

Unit Objectives

Upon the end of this unit you should be able to:

1. Explain ways by which the government can create an enabling environment
2. discuss internal motivation to entrepreneurship
3. Relate external motivation to entrepreneurship
4. Prepare a plan for a small business

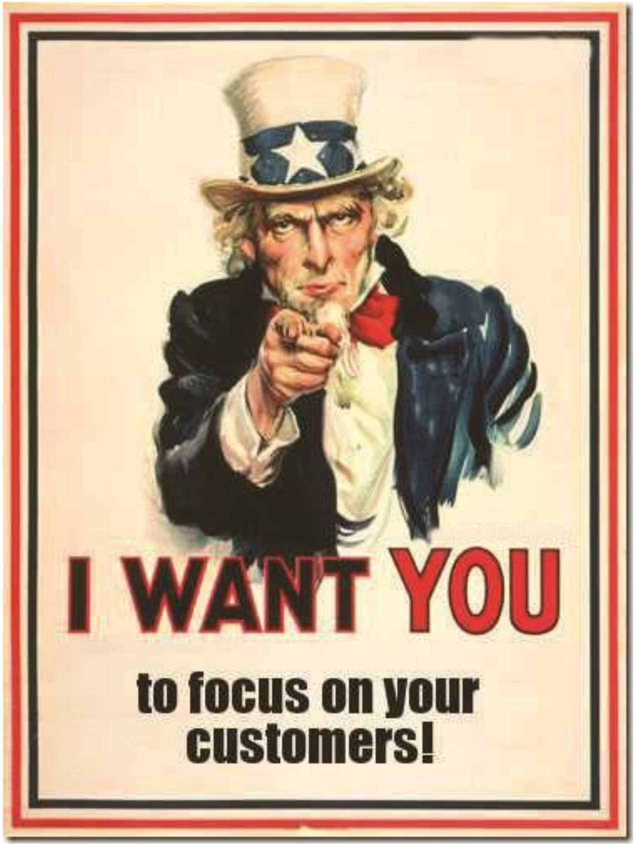
Activity 3.1: Key Terms and concepts

Introduction

This section gives an in=depth analysis of entrepreneurial motivation and the idea of business planning

Key Terms

Entrepreneurial Motivation: This is what drives pushes and inspires the entrepreneurs to start and grow their businesses. This drive usually guides entrepreneurs effort towards a given behavior that may lead to venture success.



What is this motivation?

Steps towards Promoting Entrepreneurship by Governments

i. Increase small scale industrial sector. These are small tiny cottage industries. They have increased and the governments in developing schemes to help entrepreneurs

ii. Increase investments in the service sector by increased investments in quality services especially in the transport sector repairs services entertainment sector hospitality sectors

iii. Increased in rural entrepreneurship development by Promoting rural entrepreneurship and Promoting Agro exports e.g. eggs, meat e.tc

iv. Development of brick making

v. Promoting women entrepreneurs in; Encouraging women to a variety of ventures

vi. Education programmes in entrepreneurship vii. Providing cheap finance i.e. loans at low interest rates viii. Providing cheap land or industrial estates ix. Guaranteeing entrepreneurs market for their products

Motivation Of Starting A Business

There are several factors that motivate an entrepreneur to take all the risks and launch a new business against all odds of failure. They can be categories into two sets

- Internal motivation /pull influences
- External motivation/push influences

What is the drive?

Internal motivation factors

1. Desire for independence
2. Desire to exploit an opportunity
3. Financial rewards associated with entrepreneurship
4. Turning a hobby or previous work experience into a business
5. Job satisfaction
6. Need or achievement **External**

motivation factors

1. Retrenchment from ones formal employment
2. Lack of employment
3. Job insecurity
4. Disagreement with employer
5. Dissatisfaction with ones' job

Business Planning

Planning for the Business Venture

Planning is a predetermine cause of action. It is a statement outlining an organizational mission and future direction, short and long term performance, targets and strategies

Planning as a formal document contain a mission statement description of the firm's goods and services, a market analysis, financial projections and description of management strategies together with policies for attain the goals.

Planning is a process of determining the goals and objectives of the enterprises for a future period of time developing the strategies guiding the firm's operational and utilizing the available resources towards achieving the set goals and objectives.

Planning involves

Predicting into the future by defining the enterprise mission statement

- Determining the organizational goals and objectives
- Formulating strategies towards achieving and objectives.
- Assigning of responsibilities and functions
- Allocating resources
- Monitoring and evaluation
- Taking corrective action or re-designing the original.

<u>Need for Planning</u>

Planning is the cornerstone and backbone of management.

It covers all the functional levels and activities of the entrepreneurs/ enterprise.

It involves predicting and projecting the future and making adequate arrangements on how to reach there.

Planning helps entrepreneurs in the following ways.

- To develop the most effective way of achieving maximum growth.
- To properly informed about the competitors and the able to predict their next cause of action
- To meet up with the consumers needs and income
- To meet up with the frequent changes in the market
- To be acquitted with the market forces of fluctuations.
- To have adequate knowledge of the financial requirements of the business.

The planning function

The planning function covers all activities of the business i.e. finance, sales, marketing, personnel management, research and development.

Planning functions involve formulation of the enterprise goals, objectives, strategies, policies standards, budgets, procedures and programmes to be embarked upon towards fulfilling the business mission statement.

The components of planning function

a. Objective - is the measurable, verifiable, specific and attainable

The objective gives focus and direction to a business mission statement.

b. Strategies - are a scheme & methods which an entrepreneur hopes to deploy in order to move the enterprises from it's present position to arrive at its targeted goals

c. Policies - are overall guides to action which must be followed consistently for the achievement of organization goals. They act as rules & regulations which an entrepreneur imposes on the enterprise in order to achieve the major objectives.

d. Standards - are a planning function that permits an entrepreneur to use values as forms (acceptable standards) when certain things have been adopted as norms in the entrepreneur, they acts as control measures for evaluation of performance.

e. Budgets – are quantitative expressions of future cause of action. They usually show cash flow of an organization and act as a guide especially for the entrepreneurial spending i.e.

- sales budgets
- purchases
- experiences • cash

f. Procedures - help and entrepreneur to chart the sequence or related tasks to be performed for the accomplishment of the enterprise objectives it enables the entrepreneurship determine how a particular task will performed and when it should be done.

g. Methods reveal the manner of performing specific tasks. It mainly prescribes how one step of a procedure should be carried out.

h. Programme - are a set of activities undertaken to accomplish objectives e.g a Production programme may specify a production objective Production standard or even production policies.

Activity 3.2: BUSINESS PLANS

Introduction

This section takes you through the step by step method of coming up with a business plan and it also explains importance of a business plan to an entrepreneur.

Business Plan

Definition: a business plan is a document that convincingly demonstrate that your business idea can sell enough of its products and services so as to make products and services so as to make satisfactory profit and attractable to potential financiers.

In other words a business plan in a road map you can follow to start and manage a successful business. It shows step by step on how to start, fund, manage, monitor, and evaluate a successful business.

Business Plan as a Tool

- Objective and goal creating tool management tool training tool
- promotion tool

- fund raising tool/capital
- staffing tool
- monitoring and evaluating tool
- business creation tool
- weakness/ omissions identifying tool
- measuring performance
- for motivation

Why Prepare a Business Plan

- To avoid silly mistakes
- It defines and focus business objectives and goals
- As a tool for fundraising, marketing, monitoring, evaluation, staffing
- To be realistic on our intentions
- To clearly communicate your vision/ ideas to other within and outside.

Who should writes a Business Plan?

Should be written by entrepreneur since he/ she is the owner of the business idea and is the custodian of the vision

Can be written by consultants and employees **What is a**

"good" Plan?

- a good plan should be dynamic document which should be available for reference for decision making evaluation and future plans
- it should clearly communicate visions and ideas
- should show the evidence of understanding of target customers
- Appealing to the potential financier.

<u>Benefits /uses/ importance of a business plan</u>

1. It forces would be entrepreneur to establish written goals and objectives for their proposed businesses.
2. it enables potential entrepreneur to assess the viability of their business opportunity on paper by
3. Enables identifying the products one will be dealing with.
4. It helps an entrepreneur to determine in advance the financial and other resources required and plan on how and where to get them.
5. It enables the entrepreneur to evaluate/assess the performance of the business. The plan is the yardstick for such evaluation

6. Iit assist in identifying the potential customers, marketing opportunities, pricing strategy, promotional activities, distribution strategy and a competitive conditions needed for business success.

7. It identifies the number of employees needed, the skills they should possess, the task they will perform and the methods of remuneration to be adopted.

8. It establishes the financial needs of a business and suggests the possible sources of financing

9. suppliers need to see a good business plan before signing contracts to supply large quantities of materials

10. Customers want to review a business plan before buying a product that may require significant long term commitment such as high technology equipment's and machines.

11. Lenders such as banks and investors require a business plan to assess the possibility of receiving their money back. They will not lend money for ideas they do not believe viable even when security is provided.

12. It helps to identify critical factors for successful entry and growth of a businesses in a given market place.

Components of a business plan

Business plans include details under the following main sections;

1. Executive summary
2. Business description
3. Marketing plan
4. Competitor analysis
5. Management plan
6. Business operation (production/ service, delivery plan)
7. Financial plan
8. Appendices

Executive Summary

N/B. This should be done last

It includes the;

1. type of venture
2. products/ service to be offered '

3. how unique
4. it there a major opportunity for products/ services
5. the business status/ stage
6. legal form of business
7. location of business
8. target market
9. Percentage share of market
10. competitor strength and weakness
11. strategy of entering the market
12. managing staff and their qualifications and experiences
13. Time frame for accomplishing your goals.
14. how much money needed for starting and running the business
15. what type of financing are seeking
16. loan
17. grand
18. the strength of the business that will make it succeed
19. future plans of the business

Business Description For a new startup business, it will include

1. Objectives, vision, mission statement and goals
2. Specific objectives (SMART)

a. Service objective (qualify of service)

b. Profit objective (actual % and amount targeted)

c. Growth objective

d. Social objectives (corporate responsibility)

3. Type/form of business venture
4. Date of commencement
5. Physical location
6. Advantages of the location
7. Postal address, physical address/ street/buildings/ road

8. Telephone contact/ email/ fax/website

9. Brief history of the business (company)

10. Experiences of the owners

Marketing Plan

- description of the target market (customer segment)
- description of products/ services
- prices of products/ services
- distribution of products /services
- promotion of productions/ services

Competitor Analysis

- internal analysis both strength and weakness
- external analysis (opportunities and threats)
- environmental analysis (political, social, economic, regulatory factors that can impact on your business)

Management and Organization a. **Key management staff**

- Their positions/ designations and responsibilities
- Qualification and experience

b. **Other staff**

- Their positions/ designation and responsibilities • Qualification and experience
- Their number.

c. **Human resources practices**

- Staff recruitment
- Motivation ‘
- Training and development
- Reward and recognition
- Staff appraisal

Business Operation

i. Product/service development design and facilities.

ii. Description of premises iii. Ownership status iv.

Renovations/ facelifts/medications

v. Products and services to be offered vi. Machinery, tools,

equipment and other facilities required vii. Implementation

a. Procurement

b. Repair and maintenance

c. Repair and maintenance

d. Future expansions

viii. .Legal requirements: business name, tax compliance, labour laws, by-laws etc.

ix. Monthly overhead expenses

x. Professional and support services **Financial Plan**

- Pre-operational costs (costs before start-up
- Working capital
- Projected monthly cash flow statement
- Projected annual cash flow statement
- Projected profoma income statement
- Projected balance sheet

Appendix

- Brochures and advertisement materials
- Maps and photos of location
- Copies of lease and contracts
- Company certificates of registration
- List of assets available as collateral for a loan
- Copies of licenceslicenses
- Research and marketing results
- Any other materials needed to support your business plan
- List of equipment owned or to be purchased

How does Potential Lenders and Investors Evaluate the Plan?

Potential readers or evaluators should reflect on the strengths of management and personnel, the product or service and the available resources.

Suppliers who may want to see a business plan before signing a contract together with customers who may want to see the business plan before buying the product or service and the available resources.

Suppliers who may want to see a business plan before signing a contract together with customers who may want to see the business plan before buying the products pay more attention to the i) experience of the entrepreneur.

Market projections

Lenders will primarily be interest in the ability of the new venture to pay back the debt of together with the interest within a designated period of time.

Banks want facts with an objective analysis of the business opportunity and all the potential risks associated with a business Lenders focus on the 4cs of credit i.e.

i. Cash flow ii. Collateral iii.

Character iv. Contribution

of equity

The business plan must therefore reflect the entrepreneurs credit history, the ability of the entrepreneur to meet the debt and the interest payable (cash flow) the collateral or tangible assets being secured for the loan and the amount of personal equity the entrepreneur has invested in the business.

Investors on the other hand place more emphasis on the entrepreneur's' character then lenders.

Investors want to make sure that the entrepreneur is compliant and willing to accept this involvement.

They also demand a high rate of returns and will therefore focus on the market and financial projections

In preparing a business plan it is important for the entrepreneurs to consider the needs of external sources and not merely provide their own perspective.

Presenting the Business Plan

1. It is often necessary for an entrepreneur to orally present the business plan before an audience of potential investors – in this case the entrepreneur is expected to provide a short presentation of the business plan.
2. The entrepreneurs are expected to sell their business concept in this short period – try and persuade potential investors that his is a good investment
3. The focus of such presentation is why this is a good opportunity – an overview of the marketing program.
4. Concluding remarks might reflect the recognized risks and how the entrepreneur plans to address them.

Unlike oral presentation –written presentation requires the entrepreneur to consult where necessary the services of lawyers accountants, marketing consultants and engineers in preparation of the business plan.

The plan must give a detailed account of the needs of the expected readers.

Information Needs

Before committing time and energy to preparing a business plan, the entrepreneur should do quick feasibility study of the business concept to see whether there are possible barriers to success.

The information obtainable from the many sources should focus on

i. Marketing ii. Goals and

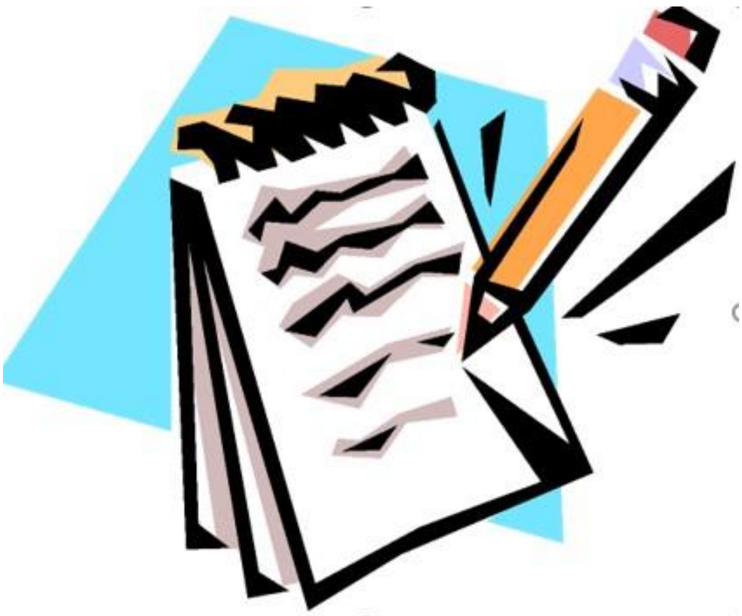
objectives iii. Finance iv.

Production

Goals and Objectives

Before beginning the feasibility study the entrepreneur should clearly define the goals and objectives and also provide framework for the business plan, marketing plan and financial plan.

Goals and objects that are too general or that are not feasible make the business plan difficult to control and implement.



Writing Of A Business Plan

The time of writing a business plan depends on the experience and knowledge of the writer (entrepreneur) as well as the purpose it intends to serve.

It should be comprehensive enough to give any potential investor a complete picture and understanding of the new venture

The following is a simple outline of a business plan.

Outline of a Business Plan

i) Introducing page;

- Name and address of the business
- Names and addresses of the principal owners
- The nature of the business
- Statement of financing needs
- Statement of confidentiality of the report

ii) Executive summary

iii) Description of the venture (business)

a. The product/services offered

b. The size of the business

c. The background of the entrepreneurs

iv) The production plan

a. The manufacturing process

b. The physical plant and machinery

c. The suppliers

v) The marketing plan

a. The pricing

b. The distribution

c. The promoters

vi) Competitors analysis vii) Management plan viii) Financial plan ix) Appendices

Introductory page

This is the title of cover page that provides a brief summary of the business plan's content. The introductory page should contain the following

- The name and address
- The names of entrepreneurs (Tel, Fax , Email , Box e.t.c.)
- A description of the company and the business nature
- The amount of finance needed
- A statement of the confidentiality of the report.

Executive Summary

This section of the business plan is prepared after the total plan is written – normally to maximum of two pages.

It should stimulate the interest of the potential investor and therefore should not be taken lightly

The executive summary should be concise and convincing, addressing issues such as

- The business concept or model
- The unique aspects of concept
- The individual starting the business
- How the money will be made and how much

Any supportive evidence that may give it strength are included

The section is only meant to highlight factors and provide a strong motivation to the person reading the plan.

Description of the Business

The description of the venture should be detailed so as to enable the investor to ascertain the size and scope of the business

This section should begin with the mission statement and vision of the business venture

The statement basically describes the nature of the business and what the entrepreneur hopes to accomplish

The definition will guide the firm through long –term decision making

After the mission statement a number of important factors that provide a clear description and understanding of the business venture should be discussed.

Key elements are the

- Products or services
- The location and size of the business
- The history of the venture.

Production Plan

The plan should describe the complete product. If some or all of manufacturing process is to be sub-contracted.

The plan should describe the sub-contractors, including location, reasons for selection, costs and any contracts competed.

Others include – manufacturing operations and layout the raw materials the suppliers, costs capital equipment etc. **Operation Plan**

This section goes beyond the manufacturing process and describes the flow of goods and services from production to the customer.

It includes storage, shipping, control procedures, customer support services.

Others include renovations, product service, machinery and tools etc. **Marketing Plan**

The marketing plan- is an important part of the business plan since it describes how the product or service will be distributed, priced and promoted.

Marketing plan – is an important part of the business plan since it describes how the product or service will be distributed, priced and promoted.

Marketing research evidence to support any critical marketing decisions as well as forecasting sales should be described in this section. **Organization Plan**

The organizational plan in part of the business plan that describes the ventures form of ownership. That is, proprietorship, partnership or corporation.

The details the shares of stock authorized, share options as well as names and resume of directors.

It details the organizational structure.

Financial Plan

Is an important part of business plan since it determines the potential investment commitment needed for the new business venture and indicate its economic feasibility.

Appendix

The appendix of a business plan generally contains any back-up materials that are necessary in the text of the document. Reference to any documents in the appendix should be made in the plan itself.

Conclusion

Entrepreneurship has to develop from one's creativity and converting the same ideas into products or services for income generation.

Unit Summary

The following is a summary of a business plan by its elements or components:

1. Executive summary
2. Business description
3. Marketing plan
4. Competitor analysis
5. Management plan
6. Business operation (production/ service, delivery plan)
7. Financial plan

8 Appendices

Having gone through this unit we expect you to give a brief summary of what you have learnt in one paragraph.

Unit Assessment

Check your understanding! **Instructions**

You will be expected to do a project question indicated at the end of the unit. **Rating**

criteria

This review is on individual basis and should be performed after the readings recommended compulsory and free consultations on entrepreneurship and its importance to an individual entrepreneur or the society. It has a 20% weight on the overall evaluation of Entrepreneurship. This unit will be graded based on your understanding of Business Planning outlined and discussed in the unit. Grading will be based on your 30 hours coverage which translates to 20% of the whole assessment. You will be expected to attempt the questions given at the end of the unit.

Evaluation (Project)

Prepare an elaborate business plan of a small business that you intend to start. Detail all the parts of a business plan that you have learnt.

Unit Readings and Other Resources

The readings in this unit are to be found at course level readings and other resources.

- Meridith, GA., Nelson, R.E, and Neck, P.A.(1987). The practice of entrepreneurship .ILO, Geneva
- Kuratko, D& Hotgetts R. M.(2005). Entrepreneurship . Ttheory, process & practice. Mason, south-western
- Illinois Department of commerce (1989). A business plan outline, Illinois. USA.
- Neck, p. and Nelson, R.E .,(Eds.) (1987). Small enterprise development: policies and programmes. ILO, Geneva

Unit 4: Entrepreneurship And Ict

Unit Introduction

Welcome again to our final unit in entrepreneurship. This unit is based on entrepreneurship and Information Communication and Technology (ICT) innovation.

Unit Objectives

Upon the end of this unit you should be able to

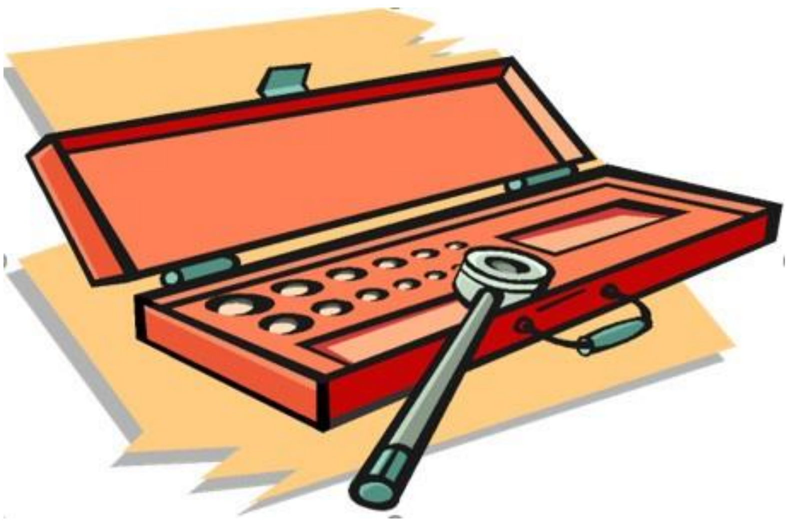
1. Define information, communication, innovation/ creativity and technology
2. Explain types of innovation
3. Describe the elements and types of technology

Explain the creative process

Activity 4.1: Key Terms and Concept

Introduction

This section explains in details the key terms used in this unit and it also explains how the concepts discussed such as e-government, e-business are useful for an entrepreneur and the economy. It finally discusses the concepts of technology and innovation in the light of information technology and innovation.



Power of innovation through information, communication technology (ict) that brings about electronic interactions

Key Terms

Information- translating the data gathered into sensible operations, entrepreneurial messages.

Communication-refers to the conveying of the entrepreneurial/sales messages and ultimately getting feedback from the clients/customers.

Technology- refers to the application of new knowledge and techniques in production.

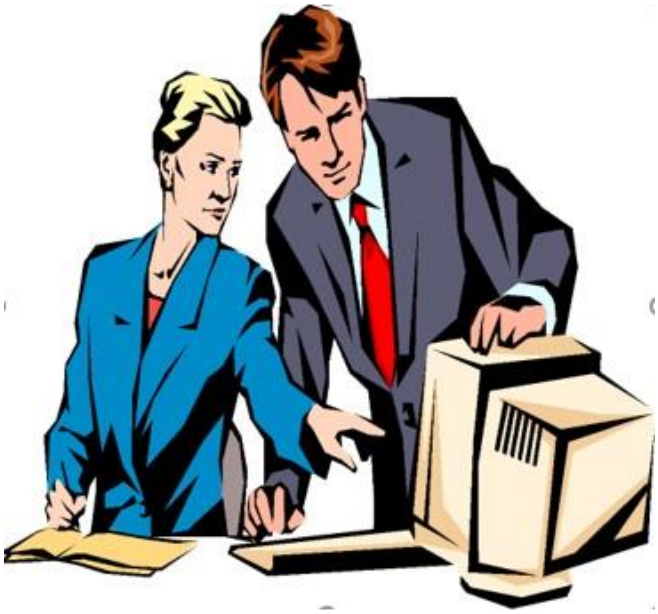
Invention or creativity or novelty refers to the process of devising a new idea, or thing or improving an existing idea or thing. Innovation turns new concepts into realities, creating wealth and power. Innovation can also disrupt the status quo. e.g. computerization i.e. Creative destruction.

Creative destruction occurs when innovations make long-standing arrangement redundant and frees resources to be employed elsewhere leading to greater economic efficiency.

Innovation –it is practical application of new inventions i.e. it is the process of implementing something new.

Types of innovation

1. Invention- creation of a new product, service or process.
2. Extension- the expansion of a product, service or process already in existence.
3. Duplication- the replication of an already existing product, service or process.
4. Synthesis- the combination of existing concepts and factors into a new formulation.



Technology

Types of technology include:

1. Information technology-it provides access to knowledge and other information resources.
2. Technology productivity tools-it refers to technology that enable us to work more efficiently and effectively e.g. computers hardware and software.,
3. Medical technology- advanced equipment that are used in medical field
4. Instructional technology- equipment used in the process of teaching and learning.
5. Communication technology-mechanisms that enhances faster and efficient communication.

Technology issues

E-Commerce

Communication – is the art of sending and receiving messages or information from one person to another via a channel.

Information- this is a product of data which has been given a structure and put into a context. In order for people to design and make what is needed to solve a problem, they first need information.

Technology – this is the generation of knowledge and process to develop systems that solve problems and extend human capabilities. Other words, people create technology to solve problems and to make it possible to do new things. e.g. people needed a way to keep cold during hot weather so, they invested the refrigerators.

Communication technology is the knowledge, tools, machines and skills that to into communicating. In other words communication technology is all the things people make and do to send and receive messages. Telephones, radios, television and computers are all examples of technologies that help us communicate with one another. In addition to communicating with other people, communication technology can be used to communicate with machines and to help machines communicate with each other. Information is the knowledge and skill needed in order to take a particular action.

Activity 4.2: ICT and Business Enterprise

Information Communication Technology (ICT) has transformed businesses. The following are some benefits of ICT to a business enterprise.

Benefits of ICT to a Business Enterprise

We make use of information to such a great extent in our daily lives that we probably do not realize how much we are relying on it. Although information is itself invisible and intangible, the information may have to use repeatedly will have been recorded in a paper or prepare for display on a computer screen; though we can also find weather forecast on radio, convenient at times.

Turning to the world of business, we can see that obtaining and using information effectively is vital. Business makes decisions, at all levels, more or less continuously; and the quality of those decisions depends almost entirely on the quality of the information on which they are based. Businesses compete with one another and thrive or wither according to how sound their decisions have been.

Business thus needs accessible information that is accurate, up-to- date and sufficient. ICT (Information and Communication Technology) refers to the developed knowledge, skills and ideas that pertain to human communication process and the information they handle.

It is the new science of collecting, storing, processing and transmitting of information.

Although ICT is important in all organizations, there is a difference in how important it is. In some organization it is part of the infrastructure; in some the delivery of goods and services depends on it; in some, it is major areas for strategic improved accuracy, internally and externally

i. Services to customers that are more comprehensive than before. ii.

Faster processing, leading to prompter responses to customers.

iii. Information for management, not previously available, or available too late to be useful;

and tighter financial control. iv. New customer services previously not possible.

v. New sources of information to allow improved product design and marketing.

vi. New customer services previously not possible. vii. New sources of information to allow improved product design and marketing.

viii. Reduced costs arising from the greater productivity of staff who supported and assisted by appropriate computer services.

ix. A more attractive, cleaner working environment in some cases, helping recruitment and retention of staff.

Activity 4.3: Uses of e- business, e- government, e- procurement in small enterprises

E- Business is the use of the internet and other networks and information technology to support electronic commerce, enterprise communication and collaboration, E, business can also be defined as web-enabled business process both within an internet worked enterprise and with its customers and business partners.

Benefits of E-Business

i. Cconsumers have a much wider choice available on the cyber market.

ii. Cconsumers can compare products, features, prices and even look up reviews before they select what they want.

iii. Consumers also have the convenience of having their orders delivered right to the door -step. iv. Consumers are driven to e-shopping in holders as even branded goods cost less on the net.

v. It minimizes inventory costs to the organization. They do this by adopting just in time- system enhancing the firm's ability to forecast demand more accurately.

vi. It improves customer services. vii. It reduces distribution costs.

viii. It helps business globalize. This is done through the interest by making information about certain products available on the net.

ix. It helps market products move quickly.

Because of the significance of small enterprise worldwide, it is increasingly being realized that if small sector gets behind in the information, then the whole world will also lag behind.

The information revolution has opened up a great deal of potential for small enterprise in the marketing field. The excellent opportunities E- business offers to small enterprises are to:

- Access new market
- Improve customization
- Lower various kinds of costs
- Reduce the size of the enterprise
- Sell products/ goods into global market

The fact remains that E- business has empowered small enterprise like nothing else had done so in the past. E- Business has emerged as an opportunity for small enterprises. Not making use of a will turn into a threat to their very survival.

E-Government

E- Government is a new term that finds wide applicability. While the term still, means different things to different people, available evidence suggests that it had been undergoing progressive conceptual development. So for the three generations their conceptual developments that have been identified are discussed below.

First Generation Conceptualization

In this conceptual generation, e-government is conceived as the government equivalent of e-commerce, and used to mean the application of advanced ICT to deliver government services. This conceptualization emerged from the relative success of "e- commerce" applications resulting in pressure being placed on government organization were doing. As a public sector equivalent of e-commerce, e-government is viewed primarily as a tool for electronic delivery of public services. The government transfers a range of services into electronic formats so as to make them more conveniently accessible over the internet.

Proponents of this conceptual view include Douglas Holmes (2001), Negaham cook (2000) and John (Arrow 2001). According to Holmes "electronic government or e-government, is the use of information technology, in particular the internet to deliver public services in as much more convenient, customer – oriented, cost-effective and altogether different and better way. He further points out that cutting costs, and improving government efficiency, meeting and improving citizens expectations and relationships and facilitating economic development are some of the important considerations driving e-government.

Features of E-Government

a. It is smart government in the sense that it selectively used of variety if ICT in ways and areas to add value.

b. It is customer- driver in that, customer needs and conveniences drive its organizing structures and business processes.

c. It is responsive, transparent and accountable, responds to the needs of its customers, and employs ICT to support continuous engagement with customers.

d. It is available on a 24* 7 basis (24 hours a day and seven days a week.) thus it does not kept its customers waiting for office hours and working days.

e. It is accessible from anywhere since it is ICT – enabled.

What E- Government is not

E- Government is not simply about technology; it is about the applicantion of technology specifically ICT, in government operations.

E- government is not so much what the government does but it is about how it accomplishes its tasks

E- government is not about building a smaller or leaner government, Smart in the sense that it is simple, moral, accountable, responsive and transparent and also in the sense that its decisions and actions are goal-oriented, outcome –driven and performance-based.

E-Procurement

E-procurement has been defined by the CIPS as;

The combined use of information and communication technology through electronic means to enhance external and internal purchasing and supply management process alternating a shooter definition is;

E-procurement is the business –to – business purchase and sale of suppliers and services over the internet.

The key enabler of e-procurement is the ability for systems to communicate across organizational boundaries. While technology for e-procurement provides the basic means, the main benefits derive from the resultant change in business procedures, process and perspectives. E-procurement is made possible by the open standards of XML (extensive markup language), a structured language that allows easy identification of data types in multiple formats and can be understood across all standard internet technologies. Adoption of XML will help organizations to integrate policies seamlessly and exchange information with trading partners.

Implementation issues of e-procurement

The CIPs has provided the following list of issues to be overcome when implementing e-procurement, organization are not simply passing costs or process inefficiency onto another part of the organization or onto suppliers.

1. Competition issues i.e. in exchanges using collaborative purchasing.
2. Possible negative perceptions from supplier's e.g. their margins reduced further from e-auctions.
3. Website and information control lost to exchange administrators
4. Negotiated procurement benefits may be shared with other exchange users who may be competitors'. Creation of catalogues can be long process and costly to suppliers.
5. Education – the concerned people in the organization should be educated by the entrepreneur in new technologies that have been selected for the project.

Product quality requirements – the technology selected should consistently give a uniform product quickly that is demanded by the customer segment.

Technology that gives overall cost and market acceptance; - the selection of technology should aim at giving products and services of consistent quality that market is looking for. The technology is selected based on long range requirements of the organization and that gives consistent product differentiation in the market place.

Conclusion

ICT and innovation is essential for enabling businesses to carry out their activities smoothly.

Unit Summary

Having gone through this unit we expect you to give a brief summary of what you have learnt in one paragraph.

Unit Assessment

Instructions

Attempt all the questions at the end of the unit. **Rating**

criteria

This review is on individual basis and should be performed after the readings recommended compulsory and free consultations on entrepreneurship and its importance to an individual entrepreneur or the society. It has a 7.5 % weight on the overall evaluation of Entrepreneurship. This unit will be graded based on your understanding of the ICT and innovation outlined and discussed in the unit. Grading will be based on your 30 hours coverage which translates to 7.5 % of the whole assessment. You will be expected to attempt the questions given at the end of the unit

Unit Readings and Other Resources

1. Meridith,GA., Nelson,R.E,and Neck, P.A.(1987). The practice of entrepreneurship .ILO, Geneva
2. Kuratko, D& Hotgetts R. M.(2005). Entrepreneurship. Theory, process & practice. Mason, south-western
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5. Dollinger , M(1999).Entrepreneurship: Strategies and Resources, upper saddle River ,New Jersey: prentice Hall.
6. Timmon. J.(1995). New Venture Creation. A guide to Entrepreneurship, Chicago Irwin publishers.

Course References

Required Resources and other optional Resources

i. Meridith, GA., Nelson, R.E, and Neck, P.A.(1987). The practice of entrepreneurship .ILO, Geneva

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v. Dollinger , M(1999).Entrepreneurship: Strategies and Resources, upper saddle River ,New Jersey: prentice Hall.

vi. Timmon.J.(1995). New Venture Creation. A guide to Entrepreneurship, Chicago Irwin publishers.

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