NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: BHM 305

COURSE TITLE: SMALL BUSINESS MANAGEMENT

BHM 305: SMALL BUSINESS MANAGEMENT COURSE GUIDE

Course development/writer	Dr. Ernest W Okwuonu National Open University of Nigerian.
Course Coordinator	Dr. Ernest W Okwuonu National Open University of Nigerian.
Course Leader	

BHM 305 **Course Guide**

Introduction

BHM 305 is a semester course work of 3 credit units. It will be available to all students taking the B.Sc. Program in the School of Business and Human Resources Management.

This course of 21 units consists of small Business Management as an integral aspect of Entrepreneurship & Business Management Program. The course guide tells you what the course BHM 305 is all about, the materials you will be using and how to make the best use of the materials to ensure successful outcome. Other information that contained in the course includes how to make use of your time and the information on the tutor marked assignment. There will be tutorial classes for students in 100-200 levels. Full details, concerning the tutorial classes will be conveyed to you at the appropriate time.

What you will learn in this course

This course content is composed of the definitions of Small Business, types, firms & entrepreneurial characteristics and sources of ideas for creating new ventures. Types of franchising systems, advantages & disadvantages, the nature of management function in small firms, management process, sources of management assistance special management problems of small entrepreneurial and family firms and effective use of time management.

COURSE AIM

The salient purpose of this course is to give you total emersion with knowledge, tools, and organizational agility you need in today's business taking place in an increasing technological and in global fast paced small business environment. You will also be acquainted with the nature, structure, role, competiveness and operation of small business as a vital energizer of the economy and examine the challenges and prospects of the industry.

The aim will be achieved by:

- Explaining the concept and formation of small Business in Nigeria
- Identifying types of small businesses, the composition of small business, evaluate reason for going into small business, how to establish them, how to develop a business plan, marketing and services provision, source of capital requirement, size, objectives, strategy & operational planning, benefits, problems and prospects.
- Examining the types of industry in which small business operate and their contribution to the economy.
- Presenting unique contribution of small business to the Nigerian economy.
- Evaluating the nature of management functions in small firms.
- Describing the relation of the management process to the growth cycle of small business.
- Highlighting special Management problems of small entrepreneurial and

family firms, challenges, benefits and prospects.

- Itemizing sources of management assistance.

COURSE OBJECTIVES

By the end of the course you should be able to:

- Understand the nature of management and how to apply management principles, and skills in a small business operational procedures and making strategic managerial efforts and managerial decisions

- Explain how to set up a new small business enterprise and identify business success criteria, realizing that profit is the ultimate goal of all managerial endeavors and that profit are the functions of three factors, price, costs and volume.

- Evaluate appropriate theories and models applications to small business potentials and access small business opportunities in your community

- Describe the importance of planning and describe business plans, embrace marketing concept, remain competitive and sustainable.

- Discuss the various salient sources of internal information system relevant to small business firm success and how the elements of an information system can contribute towards improved decision making

- Identify key elements in employee-empowerment and development tools in, accounting information, ratio analysis, budgeting and breakeven analysis apply to management of a small business.

- Analyze how to source for small business funds, the use of credit facilities in this context and how small business can extend credit to its customers
- Explain the meaning of a franchise, types of franchising systems, advantages and limitation and reasons for buying an existing business.
- Discuss operational functions of a franchise organization and locating and investing in franchise opportunities.
- Evaluate sources of idea for creating new venture and benefits of preparing and writing a new –venture plan
- Analyze uncertainties and risk involved in running small business and be proactively prepared to mitigate the risk.
- Outline the problem confronting small business and steps necessary in ameliorating those problems and forging head.
- Explain some of the reasons why family business may fail to successfully transfer power and ownership to the next generation.

COURSE MATERIALS

- The course Guide
- Study Units
- Text books Journals, conference papers and others
- Intellect resources to which you will be referred
- The Assignment file
- Tutor-marked Assignment

STUDY UNITS

There are 21 Units of this course which should be carefully studied and understood in an ascending order.

Unit 1 An Overview of Small Business scope and concept

Unit 2 The Process of Management & Information Resource

& Information Technology in small business

Unit 3	Objectives, Strategy & Planning in Small Business
Unit 4	Stages of Growth Cycle in Entrepreneurial Firms
Unit 5	Advantages and disadvantages of Small business
Unit 6	Category of Entrepreneur & Characteristics
Unit 7	Small business as vital component of the economy
Unit 8	Increasing Likelihood of Business Success
Unit 9	Roles and Types of Entrepreneur
Unit 10	Importance of Strategic Management in Small Business
Unit 11	Key to Sub-Stages of Small Business Development
Unit 12	Transfer of Power & Wealth in Family Business
Unit 13	Sources of Innovation and Entrepreneurship
Unit 14	Small Business in Major Industries
Unit 15	Special Contribution of Small Business to the economy
Unit 16	Preparing a New Venture Plan and Franchise
Unit 17	The Role of Marketing in Small Business Firms
Unit 18	Major Consideration in establishing an Accounting System
Unit 19	Credit in Small Firms
Unit 20	Problem Facing Small Business & Causes of Failure
Unit 21	Prospects for the future of Small Business

The first five units are designed to give you a total emersion in small business and entrepreneurial development, structure, operations, strategic management, profitability and sustainable development. It acquaints you with the necessary background knowledge required of a would-be-entrepreneur and small business manager.

Units 6 to 10, introduces you to the significance of strategic management model in small business and the role of small businesses in the economy. It also addresses proactive criteria for small business success and activities of an entrepreneur in a developing economy.
Units 11 to 14 focus attention on essence of developing appropriate business plan, utilizing marketing concept and cost minimization strategy in managing operations towards greater profit and as well as monitoring performance. It also addresses the relevance of theories of probability as a quantitative tool for effective planning in small business administration.

Units 15 to 19, deals with critical sub-stages of small business development and analyzes how strategic managerial tools can aid small businesses in effective planning. It tackles family business and franchising contracting issues and transfer of ownership to new generation. It also addresses the issue of how to source for capital and maintenance of budgetary and accounting record requirement for small business.

The last units 20 to 21, unravels various economic development in industries where small business operates. It also draws attention to challenges facing entrepreneurs and small business managers and outlines necessary proactive criteria for overcoming the problems and achieving increased profit and sustainable development and growth.

Each study unit will take at least two hours of reading commitment and it includes the introductions, objectives, main content, exercises, condition summary and references. Others are the Continuous Assessment (CA) which is also called Tutor marked Assignments (TMA)

You are required to study hard the materials and reflect on them and do the exercises appropriately. Some of the exercises will require that you familiarize yourself with visit to some small business firms and entrepreneurial ventures within your community and observe their operations for yourself. It is extremely important that you initiate a visit to any small business concern. You are encouraged and strongly advised to study the text books and other recommended references.

ASSIGNMENT/EXERCISES

In each unit, you will find exercise which you are required to do. The exercise will enable you to understand and demonstrate better what you have learned.

COURSE ASSESSMENT

1. **Tutor Market Assignment (TMA)**

   In doing the Tutor marked assignments as your Continuous Assessment (CA) you are expected to apply what you have learnt in the contents of the study unit. The assignments are expected to be turned in to your tutor for grading. They constitute 30% of the total score.

   Final Written Examination

   At the end of the course, you will write final examination. It will attract the remaining 70%.

   This makes the final score to be 100%.

Summary

The course BHM 305 Small Business Management gives you a total emersion on the nature, scope of management and small business operational concept of management. This course also introduces and exposes you to the understanding and knowledge of various procedures and strategies that will aid the small business man/woman on how to establish organize and operate efficient small business in producing his product and services. When you complete the course, you would have been armed with the necessary tools and strong skills and organizational agility to manage small business successfully.

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BHM 305 *SMALL BUSINESS MANAGEMENT*

MODULE 1

Unit 1	An Overview of Small Business scope and concept
Unit 2	The Process of Management & Info Resource, IT in small business
Unit 3	Objectives, Strategy & Planning in Small Business
Unit 4	Stages of Growth Cycle in Entrepreneurial Firms
Unit 5	Advantages and disadvantages of Small business

UNIT 1 AN OVERVIEW OF SMALL BUSNIESS SCOPE AND CONCEPT

CONTENTS

7.0 Reference/Further Reading

UNIT 1 AN OVERVIEW OF SMALL BUSNIESS SCOPE AND CONCEPT

CONTENTS

1.0 Introduction

This first unit of this course gives you initial emersion as it lays foundation for the entire course discussing the concept of management and scope of small Business firm and entrepreneurial ventures operation and functionalities and their unquestionable role and contribution to our nation's small business economic welfare. Ritthaler opined that Like millions of people, you would probably love to start and run your own company. In fact, on any given day in Nigeria, Ghana , Canada and the United States, more people are trying to start new businesses than are getting married or having children. However, before entering the world of contemporary business, an entrepreneur needs to understand its framework.

Drucker, opined that every business owner must choose the form of legal ownership that best meets the company's needs. Several variables affect the choice of the best way to organize your business: How easily can you set up this type of organization? How much financial liability can you afford to accept? What financial resources do you have? What strengths and weaknesses do you see in other businesses in the industry? What are your own strengths and weaknesses?

We begin this unit by focusing on small-business ownership, including the advantages and disadvantages of small-business ventures. We also look at the services provided by the Nigerian Chamber of Commerce and Industry, the Central Bank of Nigeria's recently established Entrepreneurial development Assistance for small businesses and Small business Administration (SBA). The role of people in small business is discussed in detail. We will also examine the increasingly important role that entrepreneurs play in the economy, why a growing number of people choose this way of participating in business, and the characteristics that help entrepreneurs succeed.

2.0 Objectives

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

- Define management
- Explain what is meant by small Business and entrepreneurial ventures and their differences.
- Discuss management functions in small Business firms
- Identify the key variable in any business enterprise
- Identify the objectives in small business firms establishment
- Explain the salient role of small business in Nigerian economy.

3.0 Main Content

3.1 What is management?

3.1.1 *By definition management* consists of all activities undertaken to secure the accomplishment of work through the efforts of other people. Both large and small firms require good management in order to achieve success. In the typical small business that entails group effort, the manager provides direction by activities that are described as management functions(Drucker, 1985).

3.1.2 Definition of Small Business

Specifying any size standard to define small business is necessarily arbitrary, for people adopt different standards for different purposes. Legislators, for example, may exclude small firms from certain governmental regulations and may specify ten employees as the cut-off point. Moreover, a business may be described as "small" when compared to larger firms, but "large" when compared to smaller ones. Most people, for example, would classify independently owned gasoline stations, neighborhood restaurants, and locally owned retail stores' as small businesses. Similarly, most would agree that the major automobile manufacturers are big businesses. And the firms of in-between sizes would be classified by many people as large or small on the basis of their individual viewpoints.

3.1.3 The **small-business firm** could be defined as one that is independently owned and operated, not dominant in its field, and does not engage in innovative practices.

By SBA definition, Small Business is a firm that is independently owned and operated and is not dominant in its field.

Sometimes the question may arise. How do you distinguish a small business from a large one? Are sales the key indicator? What about market share or number of employees? The SBA, the federal agency described in Figure 4.1 as most directly involved with this sector of the economy, *considers a small business to be a firm that is independently owned and operated and is not dominant in its field.* The SBA also considers annual sales and number of employees to identify small businesses for specific industries, as well as the following:

Most manufacturing businesses are considered small if they employ fewer than 500 workers. To be considered small, wholesalers must employ no more than 100 workers. Most kinds of retailers and other services can generate up to $5 million in annual sales and still be considered a small business. An agricultural business is generally considered small if its sales are no more than N2, 500, OOO a year.

3.1.4 ***CRITERIA USED TO MEASURE SIZE OF BUSINESS***

Even the criteria used to measure the size of businesses vary. Some criteria are applicable to all industrial areas, while

Others are relevant only to certain types of business.

Examples of criteria used to measure size are:

- Number of employees.
- Sales volume
- Asset size
- Insurance in force.
- Volume of deposits

Although the first criterion listed above – number of employees – is the most widely used yardstick, the best criterion in any given case depends upon the user's purpose.

Another complicating factor in deciding what is small is the variation among industries. In some industries that are capital-intensive, such as steel making, the typical business is very large. In some types of service businesses, such as beauty shops, the typical firm is quite small.

3.2 ***GENERAL CRITERIA FOR DEFINING SMALL BUSINESS***

3.2.1 To provide a clearer image of the small firm discussed in this book, we suggest the following general criteria for defining a small business:

- Financing of the business is supplied by one individual or a small group. Only in a rare case would the business have more than 15 or 20 owners.
- Except for its marketing function, the firm's operations are geographically localized. Typically it operates in only one city or community.

- Compared to the biggest firms in the industry, the business is small.
- The number of employees in the business sis usually fewer than 100.

Definition of Entrepreneurship

The entrepreneurial venture**,** in contrast, is defined also by SBA as any business whose primary goals are profitability and growth and that can be characterized by innovative strategic practices.

3.2.2 ***Structural Overview of Small Business and Entrepreneurship***

Sexton, an authority on entrepreneurship, opined that most commonly accepted definition of a small-business firm is one that employs fewer than 500 people and that generates sales of less than N20 million annually.

Most firms start with just a single product. Those oriented towards growth immediately start looking for another one. It's that planning approach that separates the entrepreneur from the small-business owner. The most commonly accepted definition of a small-business firm is one that employs fewer than 500 people and that generates sales of less than N20 million annually. Although the meanings of the terms" small business" and" entrepreneurship" overlap considerably, the concepts are different.

3.2.3 The **entrepreneurial venture,** in contrast, is any business whose primary goals are profitability and growth and that can be characterized by innovative strategic practices. The basic difference between the small-business firm and the entrepreneurial venture, therefore, lies not in the type of goods or services provided, but in their fundamental views on growth and innovation. Sexton, further stated why strategic planning is more likely to be present in an entrepreneurial venture than in the typical small-business firm: Most firms start with just a single product. Those oriented toward growth immediately start looking for another one. It's that planning approach that separates the entrepreneur from the small-business owner.

3.2.4 Entrepreneurship

Entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods". This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity. The most obvious form of entrepreneurship is that of starting new businesses (referred as Startup Company); however, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. When entrepreneurship is describing activities within a firm or large organization it is referred to as intra-preneurship and may include corporate venturing, when large entities spin-off organizations.

According to Paul Reynolds, entrepreneurship scholar and creator of the Global Entrepreneurship Monitor, opined on entrepreneurs that "by the time they reach their retirement years, half of all working men in the United States probably have a period of self-employment of one or more years; one in four may have engaged in self-employment for six or more years. Participating in a new business creation is a common activity among workers over the course of their careers." [2] And in recent years has been documented by scholars such as David Audretsch to be a major driver of economic growth in both the United States, Western Europe and African Continent

Entrepreneurial activities are substantially different depending on the type of organization and creativity involved. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities. Many "high value" entrepreneurial ventures seek venture capital or angel funding (seed money) in order to raise capital to build the business. Angel investors generally seek annualized returns of 20-30% and more, as well as extensive involvement in the business.[3] Many kinds of organizations now exist to support would-be entrepreneurs including specialized government agencies, business incubators, science parks, and some NGOs. In more recent times, the term entrepreneurship has been extended to include elements not related necessarily to business formation activity such as conceptualizations of entrepreneurship as a specific mindset (see also entrepreneurial mindset) resulting in entrepreneurial initiatives e.g. in the form of social entrepreneurship, political entrepreneurship, or knowledge entrepreneurship have emerged.

The entrepreneur is a factor in microeconomics, and the study of entrepreneurship reaches back to the work of Richard Cantillon and Adam Smith in the late 17th and early 18th centuries, but was largely ignored theoretically until the late 19th and early 20th centuries and empirically until a profound resurgence in business and economics in the last 40 years. Donald Trump is one such example.

3.2.4 Dynamism of Entrepreneur

In the 20th century, the understanding of entrepreneurship owes much to the work of economist Joseph Schumpeter in the 1930s and other Austrian economists such as Carl Menger, Ludwig von Mises and Friedrich von Hayek. In Schumpeter, an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation.[4] Entrepreneurship employs what Schumpeter called "the gale of creative destruction" to replace in whole or in part inferior innovations across markets and industries, simultaneously creating new products including new business models. In this way, creative destruction is largely responsible for the dynamism of industries and long-run economic growth. The supposition that entrepreneurship leads to economic growth is an interpretation of the residual in endogenous growth theory and as such is hotly debated in academic economics. An alternate description posited by Israel Kirzner suggests that the majority of innovations may be much more incremental improvements such as the replacement of paper with plastic in the construction of a drinking straw.

For Schumpeter, entrepreneurship resulted in new industries but also in new combinations of currently existing inputs. Schumpeter's initial example of this was the combination of a steam engine and then current wagon making technologies to produce the horseless carriage. In this case the innovation, the car, was transformational but did not require the development of a new technology, merely the application of existing technologies in a novel manner. It did not immediately replace the horse-drawn carriage, but in time, incremental improvements which reduced the cost and improved the technology led to the complete practical replacement of beast drawn vehicles in modern transportation. Despite Schumpeter's early 20th-century contributions, traditional microeconomic theory did not formally consider the entrepreneur in its theoretical frameworks (instead assuming that resources would find each other through a price system). In this treatment the entrepreneur was an implied but unspecified actor, but it is consistent with the concept of the entrepreneur being the agent of x-efficiency.

3.2.5 Risk Bearer

Different scholars have described entrepreneurs as, among other things, bearing risk. For Schumpeter, the entrepreneur did not bear risk: the capitalist did. Some notable persons and their works in entrepreneurship history For Frank H. Knight (1984) and Peter Drucker (1985) entrepreneurship is about taking risk. The behavior of the entrepreneur reflects a kind of person willing to put his or her career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture. Knight classified three types of uncertainty.

3.3 Concept of Entrepreneurship

It has assumed super importance for accelerating economic growth both in developed and developing countries. It promotes capital formation and creates wealth in country. It is hope and dreams of millions of individuals around the world. It reduces unemployment and poverty and its a pathway to prosper. Entrepreneurship is the process of searching out opportunities in the market place and arranging resources required to exploit these opportunities for long term gains. It is the process of planning, organising, opportunities and assuming. Thus it is a risk of business enterprise. It may be distinguished as ability to take risk independently to make utmost earnings in the market. It is a creative and innovative skill and adapting response to environment.

3.3.1 ***Promotion of entrepreneurship***

Given entrepreneurship's potential to support economic growth, it is the policy goal of many governments to develop a culture of entrepreneurial thinking. This can be done in a number of ways: by integrating entrepreneurship into education systems, legislating to encourage risk-taking, and national campaigns. An example of the latter is the United Kingdom's Enterprise Week, which launched in 2004. Outside of the political world, research has been conducted on the presence of entrepreneurial theories in doctoral economics programs. Dan Johansson, fellow at the

Ratio Institute in Sweden, finds such content to be sparse. He fears this will dilute doctoral programs and fail to train young economists to analyze problems in a relevant way. Many of these initiatives have been brought together under the umbrella of Global Entrepreneurship Week, a worldwide celebration and promotion of youth entrepreneurship, which started in 2008. The charity The Aldridge Foundation sponsors Academies specialising in entrepreneurship, teaching core entrepreneurial attributes to young people with the aim of improving their life skills.

3.3.2 ***The concept of Entrepreneurial Ventures***

Entrepreneurship is defined as the act of being an entrepreneur, which can be defined as "one who undertake innovations, finance and business acumen in an effort to transform innovations into economic goods". This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity.

The most obvious form of entrepreneurship is that of starting new business (referred as start-up company); however, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. When entrepreneurship is describing activities within a firm or large organization it is referred to as intra-preneurship and may include corporate venturing, when large entities spin-off organizations.

Reynolds, entrepreneurship scholar and creator of the Global Entrepreneurship Monitor, opined that "by the time they reach their retirement years, half of all working men in the United States probably have a period of self-employment of one or more years; one in four may have engaged in self-employment for six or more years. Participating in a new business creation is a common activity among U.S. workers over the course of their careers."
The concept of **entrepreneurship** has a wide range of meanings. On the one extreme an **entrepreneur** is a person of very high aptitude. Who pioneers change, possessing characteristics found in only a very Small fraction of the population.

On the other extreme of definitions, anyone who wants to work for himself or herself is considered to be an entrepreneur.

The word *entrepreneur* originates from the French word *entrepreneurs*, which means "to undertake." In a business context, it means to start a business. The Merriam-Webster Dictionary presents the definition of an entrepreneur as one who organizes, manages, and assumes the risks of a business or enterprise.

3.3.3 Entrepreneur Vs Small Business

Many people use the terms "entrepreneur" and "small business owner" synonymously. While they may have much in common, there are additional significant differences between the entrepreneurial venture and the small business. Entrepreneurial ventures differ from small business in these ways:

- Amount of wealth creation - rather than simply generating an income stream that replaces traditional employment, a successful entrepreneurial venture creates substantial wealth, typically in excess of several million dollars of profit.
- Speed of wealth creation - while a successful small business can generate several million dollars of profit over a lifetime, entrepreneurial wealth creation often is rapid; for example, within 5 years.
- Risk - the risk of an entrepreneurial venture must be high; otherwise, with the incentive of sure profits many entrepreneurs would be pursuing the idea and the opportunity no longer would exist.
- Innovation - entrepreneurship often involves substantial innovation beyond what a small business might exhibit. This innovation gives the venture the competitive advantage that results in wealth creation.
- The innovation may be in the product or service itself, or in the business processes used to deliver it.

Self Assessment Exercise

If you were to choose an entrepreneur as a career path, using your immediate environment as a guide, what is the major challenge that you may face and what skills do you think are critical to your success? Do you possess them?

4. Conclusion

Entrepreneurship places an emphasis on innovation, such as: new products, new production methods, new markets, new forms of organization. Wealth is created when such innovation results in new demand. From this viewpoint, one can define the function of the entrepreneurs and small business as one of combining various input factors in an innovative manner to generate value to the customer with the hope that this value will exceed the cost of the input factors, thus generating superior returns that result in the creation of wealth.

5. Summary

Small business has assumed super importance for accelerating economic growth both in developed and developing countries like Nigeria and Ghana. It promotes capital formation and creates wealth in the country. It is the hope and dreams of millions of individuals around the world. It reduces unemployment and poverty and it is a pathway to prosper. Entrepreneurship is the process of searching out opportunities in the market place and arranging resources required to exploit these opportunities for long term gains. It is the process of planning, organizing, opportunities and assuming. Thus it is a risk of business enterprise. It may be distinguished as ability to take risk independently to make utmost earnings in the market. It is a creative and innovative skill and adapting response to environment.

6. TUTOR MARKED ASSIGNMENTS

What do you understand by the terms entrepreneur and small business owner? Is there any difference between an entrepreneurship and small business Discuss?

7. REFERENCES /FURTHER READINGS

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ANSWERS TO SELF ASSESSMENT EXERCISE

Using the environment as a guide, the greatest challenge will be the ability to take high business risk.

The critical entrepreneurial skills are:

Innovative skill

Creativity skill

Adaptation Skill (Ability to easily adapt to changing environment).

UNIT 2 THE PROCESS OF MANAGEMENT AND INFORMATION RESOURCE AND IT IN SMALL BUSINESS

CONTENT :

3.3 Commercial/Merchant Banks

3.3.1 Diplomatic Corps

3.3.2 IT/ Internet/Computer Information Resource

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 Reference/Further Reading

UNIT 2 THE PROCESS OF MANAGEMENT AND INFORMATION RESOURCE AND IT IN SMALL BUSINESS

CONTENT

1.0 Introduction

Although some large corporations experience poor management, small business seems particularly vulnerable to this weakness. Managerial inefficiency prevails in tens, or even hundreds, of thousands of small firms. Many small firms are marginal or unprofitable businesses, struggling to survive from day to day and month to month.

At best, they earn only a pittance for their owners. The reason for their condition is at once apparent to one who examines their operations.

2.0 Objective

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

- **Explain** management function & Stages of growth
- **Discuss** the management functions as it relates to small business
- **Explain** the role of small business managers in business planning
- **Identify** the business stages of Growth in small business
- **Enumerate** sources of information resource to small business
- **Understand** computer tools that aid decision making role of a manager

3.0 Main Content

3.1 The definition of management.

By definition management consists of all activities undertaken to secure the accomplishment of work through the efforts of other people. Both large and small firms require good management in order to achieve success. In the typical small business that entails group effort, the manager provides direction by activities that are described as management functions (Drucker, 1985).

3.1.1 Nature of management functions & Stages of growth

The general functions of management are: planning, organizing, directing, and controlling. Effective performance of these functions calls for the ability to lead and inspire other people. It is the manager who must integrate departmental and personal goals with those of the enterprise as a whole.

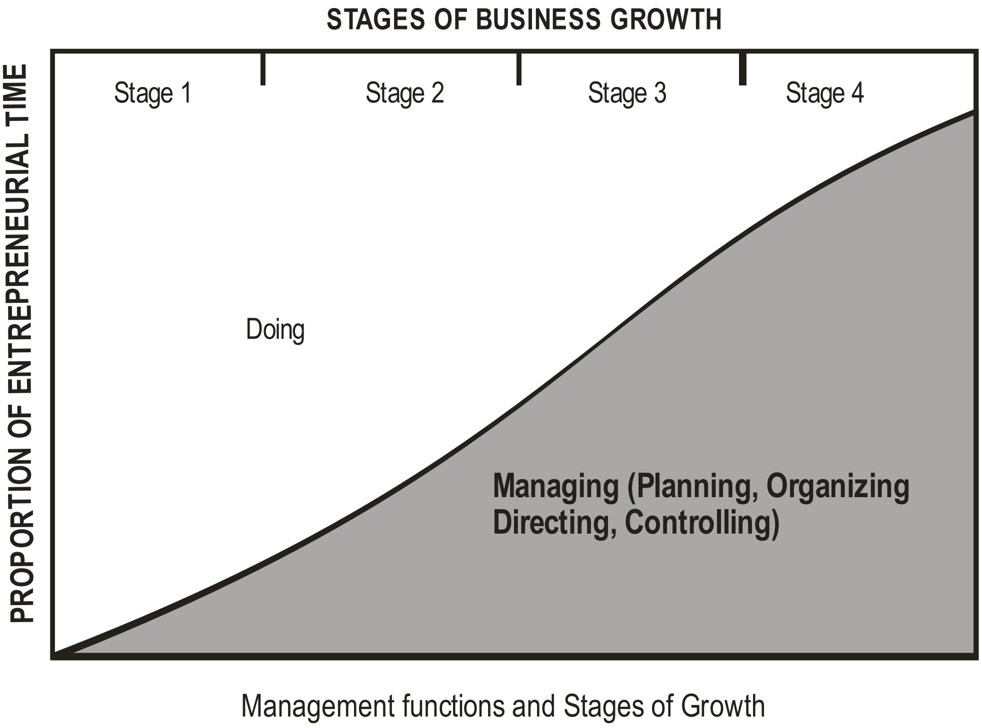
3.1.2 PLANNING

Planning is decision making regarding a future course of action. It is primarily the responsibility of the manager. This does not mean that employees never make decisions relative to their own daily tasks, but rather that their need to make decision is minimized by good managerial planning.

Planning in business is concerned with the following:

- Determination of company objectives.
- Formulation of policies, programs, and procedures designed for attainment of company objectives.
- Designation of performance and cost standards and their incorporation in a budget. This serves as a short-range plan of operations and as the basis for operating control during the budgetary period.
- Long-range development of the company's line of products, services, and processes.

Since planning is primarily a thinking process, action-oriented entrepreneurs sometimes postpone it in favor of activities more directly related to operations. Because of the great importance of planning in small business, Cha lot of time is devoted to a review of this function.



Source: NSE WSJ P.45. FIGURE1.1 A MANAGEMENT FUNCTION AND STAGES OF GROWTH

3.1.3 Organizing

Organizing involves the assignment of functions and tasks to departmental components and to individual employees. It includes the delegation of authority to subordinate managers and operating employees so that they can properly carry out their duties. Thus, organizing establishes the pattern of relationships observed by all members of the organization.

A formal statement of structure ordinarily takes the form of an organization chart that shows all the managerial levels and positions. An example of an organization chart is presented in Figure 12-1. Some companies also prepare a supporting organizational manual to show the detailed functions assigned to each member of the management team.

A study of the organization chart serves to clarify organizational arrangements that may otherwise be hazy in the minds of employees. Whether the organization structure is reduced to writing or not, it is desirable that relationships among members of the organization be logically conceived and thoroughly understood by all. In the very small business, of course, this may be satisfactorily accomplished without a written chart or manual.

For the typical small business, the management group may, and probably will, consist of very few persons. It will grow as the small business itself grows. Chapter 14 expands on the different forms of organization structure that the small firm may assume.

3.1.4 Directing

The directing function involves several activities whose purpose is to achieve the organization's objectives and at the same time build an organizational climate that is conducive to superior performance. The activities include order giving, supervising, leading, motivating, and communicating.

3.1.5 Order Giving. Orders may be given in person or in writing. Written orders may take the form of memos, notices on bulletin boards, or shop manuals. They may be addressed to a specific person or to groups of persons.

3.1.6 Supervising. Supervision is concerned with the training and discipline of the work force. It includes the checkups required to assure the prompt and proper execution of orders, and thus it is also a part of the controlling function. Supervising is performed by every member of a management team, from chief executive to first-line supervisors.

3.1.7 Leading. Leadership behavior serves to inspire and influence others to give maximum effort and cooperation, willingly and voluntarily, for the attainment of group objectives. The leader may find certain techniques helpful for getting people to do better work.
Among these are:

- Being a good listener and a ready, accurate communicator.
- Being considerate of others.
- Using suggestions or requests and explaining the reasons for the decisions reached.
- Criticizing and reprimanding in private, but praising promptly and publicly.
- Studying subordinates .to find the most effective type of motivation for each.
- Taking subordinates into plans and programs before decisions and commitments are made - and soliciting their suggestions and assistance, giving them credit for ideas used.
- Developing the ability and judgment of subordinates for independent decision making.
- Letting subordinates know where they stand.
- Expecting and tolerating some "griping."
- Admitting one's own mistakes promptly.

- Delegating functions to subordinates.

3.1.8 **Motivating**. Creating a good work climate is a natural by-product of good leadership. But it also contributes materially to motivation of better work performance. Most people respond to a clear challenge and take pride in accomplishment. A number of motivating factors exist, including loyalty, challenging work, job and old-age security, fair pay, fair treatment, training and promotional opportunities, and only the necessary minimum of disciplinary action. Real loyalty depends upon pride in one's job, in the firm's product or service, and upon a personal sense of belonging-of "being on the team."

3.1.9 Communicating

Communicating with employees is a necessary part of the directing function. Communication occurs not only through established channels for communicating-up and down the chain of command-but also through the grapevine. Good communication depends upon prompt transmission of all pertinent facts and upon being a good listener to the subordinate with a gripe or a suggestion. Managers also communicate by well-timed silences and by either extending status symbols to subordinates or withholding them.

3.2.0 .Controlling

Controlling involves the establishment of standards and the appraisal of operating results, followed by prompt remedial action when results deviate from the standard. Evaluation of operating results involves appraisal of managerial performance, audits of policy and employee relations, review of cost and performance control reports, and analysis of financial transactions.

Control is required in the areas of sales, costs, profits, output, quality, labor turnover, accidents, employee morale, and labor relations, among others. The cornerstone of financial control is the budget, in which accurately set cost and performance standards are incorporated. Cost and performance reports should go to all managerial personnel.

In the very small business, cost and performance standards may not be formally determined, and the budget may not always be reduced to writing. Nevertheless, the efficient manager will know what cost and performance should be, will keep track of actual results, and will investigate -looking toward prompt remedial action-whenever the actual results vary from what they should be.

3.2 Information Resource and Information Technology

There so many information Resource available to small business owners, provided free of charge, amongst others are:

3.1.1 National Library:

Small business would be owners can obtain viable and educative information and materials, including foreign trade magazines newspapers, opportunities and access resources at any national library. Library has archive of all business and commercial publication records and the chief librarian would be pleased to assist small business owners and aspirants with relevant information for business decision.

3.1.2 Federal Ministry of Information:

The above ministry provides a repository of data that are essential for business formation, activities and communication that are crucial for business operations. They provide both internal and external information.

3.1.3 Federal Ministry of Foreign Affairs:

They are also relevant to small and big business, in availing them with relevant and useful foreign business connections and appropriate assistance.

3.1.4 Federal Ministry of Trade and Tourism:

This federal ministry avails small business a lending hand on how to incorporate a business with the **Corporate Affairs Commission (CAC)** and would assist in providing guideline and Tax procedure and process information with regards to civic responsibilities and also provides *business directory manuals.*

3.1.5 Chamber of commerce and industry

They provide trade information both for local manufacturers and distributor with *business manuals* for registration, incorporation, importation and exportation businesses processes

3.1.6 Trade fair Organizers and Trade Fair Centres:

Trade fair centres are also resource centres. Companies representatives come to advertise and exhibit their business and products and seek distributors and credible importers representatives and trust worthy affiliate and associates to do business with,

3.1.7 Professional Bodies and Professional Associations/ Shipping Companies:

Professional bodies also provide links to other countries professional association and business connections and reliable banks.

Commercial Banks and Micro Finance Bank, assist with credible business dealership and financing and letter of credit necessary in importation and exportation Businesses. Shipping companies provide Bill of Lading on services they render to importers etc.

3.1.8 States Ministries of Trade and Commerce:

They provide information at state and foreign magnums involved in commercial activities and tourism. It also provides *business catalogues for business networking.*

3.3 Commercial Banks: Provide trade information, bills and credit information and the foreign customer banker and information. They provide letters of credit and other means of financing international and local trade.

3.3.1 Diplomatic Corps(Commercial Attachee) ;

Various Embassies have commercial units that disseminate trade and commercial businesses information about their countries and would be willing to assist with companies in their country.

3.3.2 IT/ Internet/ Computer Information Resource

Internet is another source of small business information. Small business owners should be computer literate and if not should be trained and be proficient on the use of appropriate hardware and software.

Small business owners and would be small business owners should know and familiarize themselves with the following computer components, applications and its usage**:**

-Computer Basics

-Hardware

-Software

-Programs

-Data

-Application Programs

-Word Processing

-Personnel and Procedures

-Types of computer and computer system: Micro computer and or Mainframe.

Self Assessment Question

As a manager of small business firm, how would you define planning to a new employee and how would you determine and achieve your firm's goal?

4.0 Conclusion

The management functions of planning, organizing, directing, and controlling are performed by all managers of both small and big businesses.

As small firms grow, they move from simple, informal management relationships to more complex, formalized management systems. This requires entrepreneurs to advance from "doers" to "player-coaches" to full-time managers.

A large proportion of small businesses is characterized by weak management. In part, this results from the lack of managerial expertise by entrepreneurs whose primary focus is creating a new business rather than managing. The managerial effectiveness of many family firms is also hampered by various family considerations which run counter to good management practice.

5.0 Summary

Small-business managers who are too busy to perform their managerial tasks efficiently should learn to delegate some duties to subordinates and to organize their work by careful planning.

Outside management assistance is provided by many types of consultants, including SBI student consultants, SCORE (retired executives), CPA firms, general management consultants, and various other organizations.

The use of management consultants may be thought of as an investment in cost reduction. They may be employed for single projects, or they may be retained on a continuing basis for use as necessary. Owner-managers of small businesses can locate and screen consultants by talking with business friends, accountants, clients of particular consultants, and other business leaders.

6.0 Tutor-Marked Assignment

What should some small-business managers do when they are too busy to perform their managerial tasks efficiently?

7.0 Reference/Further Reading

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Answer to Self Assessment Question.

In any business, planning is decision making regarding a future course of action. It is primarily the responsibility of the manager. This does not mean that employees never make decisions relative to their own daily tasks, but rather that their need to make decision is minimized by good managerial planning.

We formulate policies, programs, and procedures designed for attainment of company objectives.

UNIT 3 OBJECTIVE, STRATEGY AND OPERATIONAL PLANNING IN SMALL BUSINESS

CONTENT

1.0 Introduction

2.0 Objective

3.0 Main content

 3.1 Small Business Objective and Responsibilities

  3.1.1 Profit Objective

  3.1.2 Service Objective

  3.1.3 Growth Objective

  3.1.4 Variables that affect attitude towards growth

 3.2 Social Responsibilities

  3.2.1 Environmentalism & Small Business

  3.2.2 Consumerism & Small Business

  3.2.3 Ethical Practices & Small Business

  3.2.4 Consistency in Business ethics

  3.3.1 Formal and informal organization

 4.0 Conclusion

 5.0 Summary

 6.0 Tutor-Marked Assignment

 7.0 Reference/Further Reading

UNIT 3 OBJECTIVES, STRATEGY, AND OPERATIONAL PLANNING IN SMALL BUSINESS

CONTENT

1.0 Introduction

Every business in all affairs of life requires a sense of direction. Someone has said, "If you do not know where you are going, any path will get you there." Unfortunately that statement describes many small firms-they do not know where they are going. This introductory content directs attention to the planning process of deciding on objectives: formulating strategy, developing operating plans, and using quantitative tools to aid planning. The planning process enables the small firm to know *where* it is going and how it is going to get there.

2.0 Objective

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

Explain the Nature of profit, service, and growth objectives.
Discuss the role of Social responsibilities and ethical standards of small firms.
Define business strategy and know how to formulate strategy and finding the strategic niche.
Identify the planning processes that are crucial in small business.
Enumerate the quantitative tools to aid planning, and their limitations.

3.0 Main content

3.1 Small business Objectives and Responsibilities

All privately owned businesses, large or small, are presumed to have at least three main objectives: to earn a profit, to perform economic service, and to achieve continued growth. In addition to these main objectives, small firms also have a more general objective involving social responsibilities to the community.

3.1.1 Profit Objective

A primary goal of every privately owned business is profit. Profits must be earned to reward the entrepreneur's acceptance of business risks and to assure business continuity. Without profit, a business firm can make no long-run contribution to employees, suppliers, customers, or the community.

Profit making is not a short-range concern but rather a matter of long-range significance. Hence, the owner cannot be unduly concerned with the net profit reported on the income statement each month, each quarter, or each year unless this is part of a long-run trend or condition. Undue concern with short-range profit making is somewhat like clock watching on the part of the employee. Profit maximization over the long run should be the major goal, with the periodic income statement regarded as a progress report.

Profit goals must be made specific if they are to be useful. These goals are part of the operational plans described on pages 339-344 of this chapter. In these plans the profit objective must be specified in terms of so many dollars of profit in a particular year, quarter, or month.

3.1.2. Service Objective

Rendering economic service to the community means providing a flow of goods and/or services to the public. Providing such service is necessary to earn the profits desired by the owner. In a broader sense, the service objective is also an obligation of the privately owned firm to the society which permits its existence.

The service goals of a business firm must be modified as consumer tastes change and as competitive products and services are developed. The most basic service objectives are part of a firm's strategy, which is discussed on pages 334-339. In the process of formulating strategy, the entrepreneur must contemplate the basic mission of the firm and the extent to which it will be similar to or different from competitors in serving customers.

1.1.1 Growth Objective

A business philosophy concerned with profit making and economic service must also be concerned with enterprise growth. Some persons have gone so far as to suggest that a business must either grow or die. In an expanding economy, growth is normal for a healthy, successful business. Growth envisions the need for additional operating facilities and calls for retained earnings or new investment by the owners. Growth demands an awareness of technological advances. The importance attached to growth by different businesspersons varies. Some managers are inclined to accept the status quo and to feel little need for growth.

1.1.2 Variables that affect attitudes towards Growth

The entrepreneur's age is an example of one variable that may affect the attitude toward growth. There are undoubtedly other factors, some of which are rooted in the personalities of the individuals. One research study of a small sample of business firms suggests the following three viewpoints concerning growth:

The conservative operator's major goal is survival. Growth in terms of production, revenue, or profit is not an objective. This person believes that the best way to remain relatively stable is to maintain the status quo.

The industry stalwart's goal is to seek an *acceptable* rather than an *optimum* rate of profit. This person merely strives to keep up with the industry.

The aggressive, innovating operator's goal is to maximize profit. There is a danger in the assumption that all growth is good. Some owner-managers tend to prize growth for growth's sake without evaluating its' impact on the profits of the business. One analyst has highlighted the problem in this way: "The most common cause of trouble is the widely held belief that the only road to success is through growth. Many businessmen see growth of sales as the solution to all problems. It seldom is. Growth objectives become specific as particular goals are built into the operating plans for the business. Plans may be developed, for example, to call for a doubling of sales volume over the next five years.

1.2 SOCIAL RESPONSIBILITIES

In recent years public attention has been focused on the issue of social responsibilities of business organizations. Even business leaders have joined the chorus of those proclaiming the social obligations of the business community. These feelings of concern are seemingly rooted in a new awareness of the role of business in modern society. In a sense, managers now occupy a "trusteeship" position and must act accordingly to protect the new interests of suppliers, employees, customers, and the general public, along with making a profit for the owners of the business. Managers of small businesses have recognized the same responsibility as clearly, if not always as eloquently, as those who speak for big business.[3] In fact, many independent entrepreneurs speak of their satisfaction in serving the community as one of the major rewards from their businesses. Of course, this does not mean that all firms share this philosophy; some fail to sense or refuse to recognize any obligation beyond the minimum necessary to produce a profit. A sense of social responsibility may be perfectly consistent with the firm's long-run profit objective. The firm which consistently fulfills certain obligations makes itself a desirable member of the community and may attract patronage. Conversely, the firm which scorns social responsibilities may find itself the object of restrictive legislation and may discover its employees to be lacking in loyalty. It seems likely, however, that the typical independent entrepreneur contributes to the community and other groups simply because it is a duty and a privilege to do so, and not because the profit potential in each such move has been cunningly calculated. Recognition of a social responsibility does not change a profit-seeking business into a charitable organization. Earning a profit is absolutely essential. Without profits, the firm is in no position to recognize social responsibilities toward anyone. The point is that profits, although essential, are not necessarily the only factor of importance to the businessperson.

3.2.1 ***Environmentalism and Small Business.*** In recent decades the deterioration of the environment has become a matter of widespread concern. One source of pollution has been business firms that discharge waste into streams, contaminants into the air, and noise into areas surrounding their operations. Efforts to preserve and redeem the environment thus directly affect business organizations, including small-business firms. The interests of small-business owners and environmentalists are not necessarily or uniformly in conflict. Some business leaders, including those in small business, have worked and acted for the cause of conservation. For example, many small firms have taken steps to remove eyesores and to landscape and otherwise improve plant facilities. Others have modernized their equipment and changed their procedures to reduce air and water pollution. In a few cases, small business has been in a position to benefit from the emphasis on ecology. Those companies whose products are harmless to the environment gain an edge over competitive products that pollute. Also, small firms are involved in servicing pollution-control equipment. The auto repair shop, for example, services pollution-control devices on automobile engines. Some small firms are adversely affected by efforts to protect the environment. Livestock feeding lots, cement plants, pet-food processors, and iron foundries are representative of industries that are especially vulnerable to extensive regulation. The cost impact in businesses of this type is often severe. Indeed, the required improvements can force the closure of some businesses. The ability to pass higher costs on to customers is dependent upon the market situation and is ordinarily quite difficult for the small firm. Resulting economic hardships on small business must, therefore, be recognized as a cost of pollution control and evaluated accordingly. In some instances the controls are hardest on the small, marginal firm with obsolete equipment. Environmental regulation may merely hasten the inevitable demise of the firm. The level of government regulation poses another potential problem for small business. Legislation, whether state or local, may prove discriminatory by forcing higher costs on a local firm than on competitive firms outside the regulated territory. The immediate self-interest of a small firm, therefore, is served by regulations that operate at the highest or most general level. A federal regulation, for example, applies to all United States firms and thereby precludes competitive advantages to low-cost polluters in other states.

3.2.2 Consumerism and Small Business.

The concept of customer satisfaction has become increasingly critical in the last few years. At one time the accepted philosophy was expressed as "Let the buyer beware." In contrast, today's newer philosophy holds-"Let the seller beware." Today's sophisticated buyers feel that they should be able to purchase products that are safe, reliable, durable, and honestly advertised. This theme has influenced various types of consumer legislation. The Magnuson-Moss Warranty Act, for example, imposes special restrictions on sellers - such as requiring warranties to be available for inspection rather than be hidden inside a package.

Small firms are directly involved in the consumerism movement. To some extent they stand to gain from it. Attention to customer needs and flexibility in meeting these needs have traditionally been strong assets of small firms. Their managers have been close to customers and thus able to know and respond easily to their needs. To the extent that these potential features have been realized in practice, the position of small business has been strengthened. And to the extent that small firms can continue to capitalize upon customer desires for excellent service, they can reap rewards from the consumerism movement. Consumerism also carries threats to small business. It is hard to build a completely safe product and to avoid all errors in service. Moreover, the growing complexity of products makes their servicing more difficult. The mechanic or repairer must know a great deal more to render satisfactory service today than was needed two or three decades earlier. Rising consumer expectations, therefore, provide a measure of danger as well as opportunity for small firms. The quality of management will determine the extent to which opportunities are realized and dangers avoided.

3.2.3 Ethical Practices and Small Business.

The fact that an individual can enter business at will does not endow that person with the right to do anything and everything without restraints. Although our competitive system and governmental action are both policing' forces that tend to regulate business conduct, they are not enough. Society needs entrepreneurs who voluntarily observe ethical standards which exceed the requirements of the law.

Development of Business Ethics.

For years many business leaders failed to take seriously the matter of ethical business practice. Even now, some dismiss it as impractical for a firm seeking optimization of profits. Others consider ethical practices and governmental regulation to be virtually synonymous. Nevertheless, we have slowly attained a widespread acceptance of the view that business must act in the interest of its customers, employees, suppliers, and others affected by its operations, while also acting in its own interest.

In part, this moral progress has been fostered by competition. Ethical business practices, in other words, have been found to be good business. Enlightened self-interest has thus no doubt motivated much ethical behavior. It is true also that the government, through pure food and drug laws, Federal Trade Commission activities, and the like, has made a contribution to better business morals.

Nevertheless, much remains to be done. Our concern is not primarily with illegal practices. Legal conduct is assumed as the bare minimum for ethical behavior. In addition, management must be concerned with the borderline areas of ethical behavior. For example, the salesperson's expense account tends to become a "swindle sheet." Purchasing agents may accept expensive gifts from order-seeking firms. Unquestionably, this imposes some sense of obligation on their part and li!).ay create a conflict of loyalties.

3.2.4 Consistency in Business Ethics.

A manager cannot be honest in big things and dishonest in little things. If one tries this, the cumulative effect of little dishonesties will pervert one's perspective of life and management. The manager is in a position of power; business success generates a sense of power and infallibility of action. The manager is often tempted to engage in small violations of ethical practice for immediate gain. But taking advantage of others in the small case leads eventually to total moral irresponsibility and improper use of administrative power.

Self Assessment Question:

What is your primary goal for establishing small business and what is your reward for acceptance of business risk?

2.0 Conclusion

Small firms now have a somewhat smaller share of the market in some industries than they had earlier in the past decades. However, they have maintained great overall strength and still constitute an important segment of the economy.

The competitive strengths of small firms include knowledge of customers and markets, product and geographic specialization, and flexibility in management.

Problems of small business include lack of managerial skills and depth, personal lack and misuse of time, lack of financing, overregulation and taxes, difficulty in obtaining qualified personnel, and weaknesses in marketing.

3.0 Summary

A relatively small percentage of all businesses fail each year. The most important cause of failure is thought to be inadequate management. A business becomes insolvent when the aggregate value of its assets is insufficient to pay its debts. The debtor business firm may make voluntary agreements with creditors, or it may be treated under the Bankruptcy Act of 1978. In the latter case, the firm may be reorganized and continue to function, or it may be liquidated to payoff creditors.

Future prospects for small business are bright because of a number of factors. Some of these are the effects of the 1980 White House Conference on-Small Business, the shift to a service economy, the emphasis on small business courses and programs, the strength of small-business associations, the continued support of governmental programs, and the unflinching entrepreneurial spirit

4.0 Tutor- Marked Assessment

State the three major objectives for establishing a small business? Discuss their relevance in performing social responsibility in your local business community?

5.0 Reference/Further Readings

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Answer to Self Assessment Question.

A primary goal of every privately owned business is profit. Profits must be earned to reward the entrepreneur's acceptance of business risks and to assure business continuity.

UNIT 4 THE STAGES OF GROWTH CYCLE IN ENTREPRENEURIAL SET UP

CONTENT

UNIT 4 THE STAGES OF GROWTH CYCLE IN ENTREPRENEURIAL SET UP

CONTENT

1.0 Introduction

The functions of a manager are performed differently in different situations and growth stages cycle provides a guide to the managers. This is particularly true for very small firms. In this unit we will study the relevance and importance of the stages in small business development.

2.0 Objective

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

Explain the meaning of stages of growth cycle in small business

Identify each stages of growth cycle

Discuss the relationship each stage has with another

Describe the importance of each stage plays in small business

3.0 Main content

3.1 *The Stages of growth cycle in entrepreneurial and family Firm Issues*

3.1.1 Management Functions and Stages of Growth

In considering management functions, therefore, we should think about their relationship to stages of business growth. Figure 2.5 identifies four stages of small-business growth.

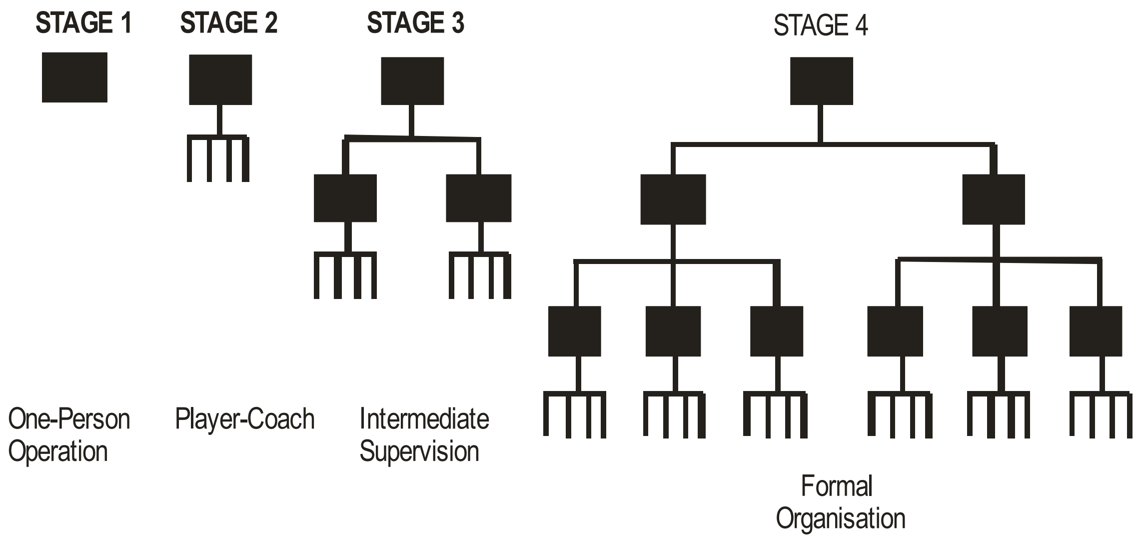

FIGURE 1.2 STAGES OF GROWTH IN SMALL BUSINESS

3.1.2 **In Stage 1** the firm is simply a one-person operation. Of course, not all firms begin at this level, but this situation is by no means rare.

3.1.3 {**In Stage 2** the entrepreneur becomes a player-coach, which implies extensive participation in the operations of the business. In addition to performing the basic work-whether it be production, sales, writing checks, or record keeping-the entrepreneur must also coordinate the efforts of others.

3.1.4 In **Stage 3** a major milestone is reached when an intermediate level of supervision is reached. In many ways this is a difficult, dangerous point for the small firm because the entrepreneur must rise above direct, hands-on management and work through an intermediate level of management.

3.1.5 **Stage 4,** the stage of formal organization, involves more than increased size and multi-layered organization. The formalization of management involves the adoption of written policies, preparation of plans and budgets, standardization of personnel practices, computerization of records, preparation of organization charts and job descriptions, scheduling of training conferences, institution of control procedures, and so on. Some formal management practices may be adopted prior to Stage 4 of the firm's growth. Nevertheless, the stages of management growth describe a typical pattern of development for successful firms. The early flexibility and informality may be functional at the beginning, but growth necessitates greater formality in planning and control. A tension often develops as the traditional easy-going patterns of management become dysfunctional. Great managerial skill is required to preserve the "family" atmosphere while introducing professional management. As shown in Figure 12-3, the entrepreneur's activities change drastically as the business grows from Stage 1 to Stage 4. In the very small firm, the entrepreneur is basically a "doer." As a firm grows, the entrepreneur must of necessity become less a doer and more a manager.

3.2 **Special management problems of small entrepreneurial and family firms.**

3.2.1 Small business vulnerable to weakness.

Although some large corporations experience poor management, small business seems particularly vulnerable to this weakness. Managerial inefficiency prevails in tens, or even hundreds, of thousands of small firms. Many small firms are marginal or unprofitable businesses, struggling to survive from day to day and month to month.

At best, they earn only a pittance for their owners. The reason for their condition is at once apparent to one who examines their operations. They "run," but it is an exaggeration to say that they are "managed."

Poor management appears up in the service observed and received by customers. For example, consider the following comments made about hotel

service: course; architecture, interior decoration, location, the nature of the clientele-all these doubtless figure into the equation. At bottom, I suspect, the difference between a poor hotel/motel and a good one lies in the experience, the attitude, and the personal attention of the
man or woman who runs the place. If a manager does a good job of training the maids, and pays them tolerable wages, and treats them with dignity, and praises them for doing well, that manager's rooms will be comfortable rooms-for the maids will have checked the light bulbs and tried the TV before they leave. If a manager insists upon friendly courtesy' on the part of his desk clerks, he can get it - or he can get some new desk clerks.

Even though management weakness is prevalent in small business, it is not universal. More important, poor management is by no means inevitable just because a firm is small.

3.2.2 Founders as Managers

The initial direction of a business by the founding entrepreneur is uniquely related to that entrepreneur and his or her interests. The entrepreneur's strengths may lie in production (in some cases the entrepreneur is basically a tradesman) or in sales. The new business is often launched and carried forward on the basis of these functional strengths. The founder's inclination toward production or sales is typically influential in shaping business operations. At the beginning, the entrepreneur may be the only employee in the business, and management may be largely self-management.

Moreover, those who create new firms - the pure entrepreneurs - are not always good organization members. They are creative, innovative, risk-taking individuals who have the courage to strike out on their own. Indeed, they are often propelled into entrepreneurship by precipitating events, some of which involve a difficulty in fitting into conventional organizational roles. As a consequence, management and organizational precepts and practices are often secondary concerns of entrepreneurs who are caught up in the excitement of creating a new business.

Although business firms of all sizes require management, the need for effective management becomes more acute as a firm grows. Very small firms may survive in spite of weakness in management. To some extent, the quality of their products or services may offset deficiencies in their management. In the early days of business life, therefore, the firm may survive and grow even though its management is less than professional. Even in very small businesses, however, defects in management place strains on the business and retard its development.

3.2.3 Managers of Family Firms

Family relationships introduce special complications into the management process of the family firm. Some business decisions are also family decisions, and nonfamily managers may be surprised at the way in which family interests influence business operations. Rene Plessner, whose executive search firm specializes in finding executives for family-owned companies, explains how family decisions dominate the business:

In a family company, you may have the title and the responsibility, and one day you walk into the office and you don't know that two cousins, a brother-in-law, sister, and the Papa had dinner over the weekend and made a decision upsetting what you expected to do. Nobody was out to get you; it's simply, to be trite about it, blood is thicker than water. The family members talk among themselves. You have to be flexible enough to handle that. 2 If In some family businesses, key positions are reserved for family members. This, in turn, reduces the attractiveness of the firm for nonfamily members who have ambition for advancement. Family members may also be retained in key positions because of their family relationship, even though they are professionally weak. One family entrepreneur's attempt to correct a lack of management skills is described below:

In one case the founder’s son, who was in command, diagnosed the business' problem as a lack of specialized talent. His solution was to become the firm's all-purpose expert-lawyer, accountant, and personnel specialist all wrapped into one. And to implement his solution, he went to night school. Little did he know that hiring someone outside the family who already had the necessary knowledge would have been better. His choice had several negative consequences, including his own physical exhaustion. The lesson here is that when the money is available or the need is critical there is no substitute for genuine expertise.[3]

Thus, decisions which sacrifice efficiency in the interest of preserving family interests can easily destroy the vitality of the family firm's management.

3.2.4 Managers and Decision Making

A manager constantly faces the necessity of making decisions. Proper guidance of the enterprise requires decisions on business objectives, scale of operation, marketing policies, products and product cost, product quality, work assignments, pay rates, and employee grievances, among many others. Virtually every managerial activity involves a choice among alternatives, thereby requiring a decision by the manager.

In making decisions, the business manager is often tempted to rely upon intuition. Indeed, one may be forced to do so because of the intangibles involved or the absence of necessary information. The intuitive decision may be criticized, however, if it disregards factual information that is already available or that is easy to obtain.' Another basis for decisions is past experience, which has both strength and weakness. There is an important element of practicality that comes from experience; but at the same time, past experience is no sure guide to the future. In making decisions, therefore, the manager should have a healthy respect for factual data and should utilize them as extensively as possible.

3.2.5 Time Management

Much of the' manager's time during the working day may be spent] on the firing line - meeting customers, solving problems, listening to employee complaints, seeing outsiders interested in getting contributions for charity, and the like. The manager of the small firm faces the problems of management with the assistance of only a small staff. All of this means that the manager's energies and activities are diffused more than those of managers in large firms.

3.2.6 Problem of Time Pressure

Many managers work from 60 to 80 hours per week. One frequent and unfortunate result of overwork is the inefficient performance of those tasks for which the managers are responsible X They may be too busy to see traveling salespeople who 'can supply market information on new products and processes. They may be too busy to read the technical or trade literature in order to discover what others are doing and the improvements being created that might be adapted to their own use. Because managers are too busy, they fail to listen carefully to employee opinions and grievances or to reach an understanding with employees. Because managers are too busy to give instructions in a proper manner, employees may not know what to do or how to do it correctly.

3.2.7 Time–Savers for Busy Managers

One important answer to the problem of lack of time is a good organization of the work. This permits delegation of duties to subordinates, who are then permitted to discharge those duties without close supervision. Of course, this requires the selection and training of individuals to assume responsibility for the delegated functions.

Sometimes a manager must see visitors who may overstay the necessary time. Various devices have been tried by managers who have faced this prob-lem/ including the use of secretarial interruptions with reminders of other appointments. A more direct approach is simply to tell the visitor in advance that the manager is busy and can allot at most ten minutes, and then stick to this time limit. 'Another means of conserving time is to provide dictating equipment which permits dictation at convenient times and transcription by the secretary without frequent interruptions. In addition, the secretary can sort out unimportant mail, screen incoming phone calls, and keep a schedule of appointments.

3.2.8 Another major time consumer is the **business conference with subordinates.** Often these meetings just happen and drag on without any serious attempt to control them. The manager should prepare an agenda for such meetings, set starting and ending times, hold the conferences to the subjects to be discussed, and assign the necessary follow-through to specific subordinates. In this way the contribution of business conferences may be maximized and the manager's own time conserved, along with that of subordinates.

Perhaps the greatest time-saver of all is the effective use of time. If an individual flits from one task to another and back again, it is likely that little will be accomplished. Effective, sustained effort requires some planning to prevent the haphazard use of time that occurs if there is no planning. The first step in planning one/s use of time should be a survey of time normally spent on various activities. Relying on general impressions is unscientific and is likely to involve considerable error. For a period of several days, or preferably several weeks, the manager should record the time spent on various types of activities during the day. Analysis of these figures will reveal the pattern of activities, those projects and tasks involving the greatest time expenditure, and factors responsible for waste of time.

Self Assessment Question.

In considering business growth stages, in which stage does the entrepreneur reach a major mile stone and how can he/she overcome it all?

4 Conclusion

The stages of management growth describe a typical pattern of development for successful firms. The early flexibility and informality may be functional at the beginning, but growth necessitates greater formality in planning and control. Weak management shows up in the service observed and received by customers

5 Summary

Great managerial skill is required to preserve the "family" atmosphere while introducing professional management. A tension often develops as the traditional easy-going patterns of management become dysfunctional. Great managerial skill is required to preserve the "family" atmosphere while introducing professional management. The entrepreneur's activities change drastically as the business grows from Stage 1 to Stage 4.

6 Tutor-Marked Assignment

Describe the four stages of growth, explain their relationship with one another and their significance to the development of small business?

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Answer to Self Assessment Question.

In Stage 3 a major milestone is reached when an intermediate level of supervision is reached. In many ways this is a difficult, dangerous point for the small firm because the entrepreneur must rise above direct, hands-on management and work through an intermediate level of management.

UNIT 5 ADVANTAGES AND DISADVANTAGES OF SMALL BUSINESS

1.0 Introduction

2.0 Objective

3.0 Main Content

3.1 The advantages of small business

3.1.1 Innovation

3.1.2 Superior Customer Service

3.1.2 Lower Cost

3.1.3 Filling Isolated Market Niches

3.2 Disadvantages of Small Business

3.2.1 Management Shortcomings

3.2.2 Inadequate Financing

3.2.3 Government Regulation

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 Reference/Further Reading

UNIT 5 ADVANTAGES AND DISADVANTAGES OF SMALL BUSNINESS

CONTENT

1.0 Introduction

Since some federal, state and international government agencies offer a number of benefits designed to help small businesses compete successfully with larger firms, operators of small businesses are interested in determining whether their company meets the standards for designation as a small business in their industry. If it qualifies, the company may be eligible for government loans or for government purchasing programs that encourage proposals from smaller suppliers. In this unit, will be studying the merit and demerit of small business ventures.

2.0 Objective

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

Distinguish between small and large businesses
Explain the industries in which most small firms are established.
Identify the advantages and disadvantages of small business
Discuss the compelling benefits for setting up a small business
Compare the advantages the Small business has over big business
Elaborate on reasons why small business may fail

3.0 Main Content

3.1 The advantages of Small Businesses.

One impressive contribution is the number of new jobs created each year by small businesses. Three of every four new jobs created over the past ten years were at small companies with fewer than 500 employees.

Small businesses are not simply smaller versions of large corporations. They differ greatly in forms of organization, market positions, staff capabilities, managerial styles, organizational structures, and financial resources. But these differences usually seem like strengths to small-business owners, who find many advantages in operating small businesses rather than working within large, powerful, multinational corporations. As Figure 4.3 indicates, the four most important advantages are innovation, superior customer service, lower costs, and opportunities to fill isolated niches.

3.1.1 Innovation

To compete effectively with giant corporations backed by massive resources, small firms' often have to find new and creative ways of conducting business. OfftheDeep-End.com is a good example. Founded by Steve and Sally Colby, developed a modestly successful e-store around a collection of tacky, silly products.
In a typical year, small firms will develop twice as many product innovations per employee as larger firms. They also obtain more per sales dollar than do larger businesses. Key 20th century innovations that were developed by small businesses include the airplane, the audiotape recorder, double-knit fabrics, the optical scanner, the PC, the soft contact lens, and the zipper.

3.1.2 Superior Customer Service

A small firm often can operate with greater flexibility than a large corporation, allowing it to tailor its product line and services to the needs of its customers. The Internet auction site eBay adapts its strategy according to demand. The company reviews how the site is being used and adjusts its services accordingly. Recently, eBay noted that the number of small businesses purchasing goods on the site had grown faster than overall auction traffic, and that purchase by small businesses tended to be larger than the average eBay purchase. Seeing this demand by small businesses, the company launched eBay Business Exchange, a service tailored to small business. A link to Business Exchange appears on eBay's home page, and the Business Exchange page lists items from trucks to computers that would be useful to small businesses.

3.1.3 Lower Costs

Small firms may be able to provide goods and services at prices that large firms cannot match. Small businesses usually minimize overhead costs-costs not directly related to providing specific goods and services- allowing them to earn profits on fewer sales or lower prices. Many small businesses avoid rent and utility expenses by operating out of owner's homes. In addition, these firms often carry little or no inventory, further reducing total operating costs. The Crafty Sisters' Boutique, described earlier, is an example. The partners operate out their homes to reduce their overhead expenses and keep prices low.

A typical small business sets up a lean organization with a small staff and few support personnel. The lower costs of maintaining a small permanent staff can be distinct advantage for a small business. Rather than hire high-income attorneys and accountants as permanent staff members, small-business owner-managers typically contract with these professionals when needed for special projects or as outside consultants. Another source of cost savings is the quantity and quality of work performed by the business owner. Entrepreneurs typically work long hours with no overtime or holiday pay. In addition, their family members may contribute services at little or no pay as bookkeepers, labourers, receptionists, production assistants, and delivery personnel.

3.1.4 Filling Isolated Market Niches

Large, growth-oriented businesses tend to focus on large segments of the overall market. The growth prospects of most market niches are simply too limited and the expenses involved in seving them too great to justify the time and effort. Because high overhead costs force large firms to set minimum sizes for their target markets, small, underserved market niches have always attracted small businesses that are willing and able to serve them, as does Concierge Services for Students.

The founders of the Hire Potential employment service determined that an unmet demand existed for an employment agency that specialized in placing as-yet-untapped segments of the workforce in jobs. Those workers include disabled and older workers, veterans, and welfare recipients. With highly qualified human resources already scarce and expected to become scarcer in the U.S., Hire Potential sees its role as helping employers expand their efforts at hiring diverse employees. As the firm's vice president point out, "Corporations [don't] necessarily know how to integrate and really accommodate the untapped workforce." Hire Potential steps in to assess its clients' work settings and technology, as well as their human resource needs. It assesses the skills and needs of the job candidates in its database and helps place them in positions for which they are qualified.

3.2 Disadvantages of Small Business

Although small businesses bring a number of strengths to the competitive market-place, they also have disadvantages in competing with larger, more established firms. A small business may find itself especially vulnerable during an economic downturn, since it may have accumulated fewer resources than its larger competitor to cushion a sales decline.

The primary disadvantages facing today's small businesses include management shortcomings, Inadequate financing, and government egulations. These issues- quality and depth of management, availability of financing, and ability to wade through government rules and requirements- are so important that firms with major deficiencies in one or more areas may find themselves in bankruptcy proceedings. Almost one new business in four will permanently close its doors within two years of opening them, and 62 percent will fail within the first six years of operations. Although highly motivated and well-trained business owner-managers can overcome these potential problems, they should thoroughly analyze whether one or more of these problems may threaten the business before deciding to launch the new company.

3.2.1 Management Shortcomings

Among the most common discoveries at a post mortem examination of a small-business failure is inadequate management. Business founders often possess great strengths in specific areas such as marketing or interpersonal relations, but they may suffer from hopeless deficiencies in others like finance or order fulfilment. Large firms employ trained specialists to manage individual functions; small businesses frequently rely on small staffs that must be adept at a variety of skills.

3.2.2 Inadequate financing, and

3.2.3 Government regulations.

Founders of new businesses frequently struggle with an ailment that might be called "the rose-colored glasses syndrome." Filled with excitement about the potential of a newly designed product, they may neglect important details like marketing research to determine whether potential customers share their excitement. Individuals considering launching a new business should first determine whether the proposed product meets the need of large enough market and whether they can convince the public of its superiority over competing offerings.

Self Assessment Question

Outline three major challenges facing today's small business in your business community?

4.0 Conclusion

If you are seriously contemplating starting a new business, heed a word of warning. Learn the basics of business first, and second, recognize your limitations. Although most small-business owners realize the need to seek out the specialized skills of accountants and attorneys for financial and legal assistance, they often hesitate to turn to consultants and advisers for assistance in areas such as marketing where they may lack knowledge or experience.

5.0 **Summary**

An even worse result frequently occurs when people go into business with little, if any business training. Some new businesses are begun almost entirely on the basis of what seems like a great idea for a new product. Managers assume that they will acquire needed business expertise on the job. All too often, the result is business bankruptcy.

6.0 Tutor-Marked Assignment

Identify and explain the advantages small businesses have over large businesses in our nation?

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Answer to Self Assessment Question.

The major challenges facing today's small businesses include management shortcomings, inadequate financing, and government regulations.

UNIT 6 CATEGORY OF ENTREPRENEUR AND CHARACTERISTICS

1.0 Introduction

2.0 Objective

3.0 Main Content

3.1 Category of Entrepreneur

3.1.1 Classic Entrepreneur.

3.1.2 Intrapreneur

3.1.3 Change Agent

3.2 Choosing Entrepreneur as a career path

3.2.1 Four Reasons for becoming an entrepreneur

3.2.2 Self-management

3.3 Characteristics of Entrepreneur and success trail

3.3.1 Vision

3.3.2 High Energy Level

3.3.3 Need to Achieve

3.3.4 Self-Confidence and Optimism

3.3.5 Tolerance for failure

3.3.6 Tolerance for Ambiguity

3.3.7 Creativity

3.3.8 Internal Locus of control

UNIT 6 CATEGORY OF ENTREPRENEURS AND CHARACTERISTICS

1.0 Introduction

Corporate giants often devise special programme aimed at solving small-business problems. In doing so, they are not acting out of humanitarian interests. Instead, they recognize the size of the small-business market, its growth rate and buying power, and the financial rewards for firms that support small businesses. UPS has broadened its package delivery service to help small businesses with the details of filling orders and processing returns. Figure 4.6 describes how UPS might help a small-business founder who has good idea for a product and Web site but lacks experience in other aspects of running business.

Small-Business Opportunities for women and Young People

The thousands of new business start-ups each year include growing numbers of women-owned firms as well as new businesses launched by Africa Americans, Hispanics, and members of other minority groups. The numbers of women-owned and minority-owned businesses are growing much faster than the overall growth in U.S. businesses.

2.0 Objective

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

Describe the role of an entrepreneur in your society

Identify the category of entrepreneur in your community

Discuss the characteristics of an entrepreneur

Explain why people choose entrepreneur as a career path

3.0 Main Content

3.1 Category of Entrepreneur

Entrepreneurs apply their talents in different situations. These differences give rise to a set of distinct categories of entrepreneurs. As figure 4.8 shows, *three basic categories exist: classic entrepreneurs, intrapreneurs and change agents.*

3.1.1 Classic Entrepreneurs

Classic entrepreneurs identify business opportunities and allocate available resources to tap those markets. The story of Ari B. Horowitz exemplifies the actions of a classic entrepreneur. Horowitz declares that he is "in the business of building businesses". In the first decade after earning his college degree, he started or led the growth of five companies, most of them serving high-tech industries. Horowitz looks for market that have large potential, then seeks an advantage through speed, rely

ing on his drive and sales ability to quickly assemble the money and people needed to serve those markets. For example, Horowitz started Gray Peak, a consulting firm specializing in high-tech businesses. While he was still managing that company, he realized that the demands of hiring and managing skilled employees presented another business opportunity: providing that service to her companies. So Horowitz launched an online service called FreeAgent.com, which matches independent consultants with clients and lets businesses track employees' work on individual projects. With a track record of success, he has been able to attract major investors who want to back start-ups.

3.1.2 *Intrapreneurs*

Intrapreneurs are entrepreneurially oriented people who seek to develop new product, ideas, and commercial ventures within large organizations. One leader in this area, 3M Co., has established companywide policies and procedures that give employees personal freedom to explore new products and technologies. Researchers are allowed to spend 15 percent of their time working on their own ideas without approval from management. Some of the company's most successful products began as inspirations of intrapreneurs. One such product, Post-It notes, was invented by 3M employee Art Frey.

3.1.3 *Change Agents*

Change agents, also called turnaround entrepreneurs, are managers who seek to revitalize established firms to keep them competitive in today's marketplace. Elisabeth Robert played this role at Vermont Teddy Bear Co. In the early 1990s, the maker of furry bears in fancy costumes was enjoying fast growth, fuelled by its Bear_Gram service, which delivers teddy bears nationwide. With millions of dollars pouring in, the company launched ambitious marketing plans including three stores, a variety of bear-branded goods from knapsacks to books, and sponsorship of a NASCAR driver.

3.2 Choosing Entrepreneur as a career path

If you want to start your own firm someday, you have plenty of company. As Figure 4.9 illustrates, roughly one in ten adults under the age 45 years is involved in starting a business with the expectation of owning at least part of it. A recent survey revealed that about half of Americans expressed interest in starting a business. This interest is especially strong among young adults. Three out of every ten people between the ages of 18 and 29 years want to run their own business. Since the early 1980s, a heightened interest in entrepreneurial careers has been observed, spurred in part by publicity celebrating the successes of entrepreneurs like Steve Case of AOL,

, Martha Stewart of the company bearing her name, and Bill Gates of Microsoft.

The popularity of entrepreneurship is evident on America's college campuses. Today, hundreds of U.S. colleges and universities offer classes in starting and managing a business, and many of them offer entrepreneurship curricula. Some of these schools, including Alfred University, Babson College, University of St. Thomas, and Miami University of Ohio, are adding entrepreneurship courses to programs outside the usual business curriculum. On the assumption that people in other disciplines might eventually start a business. Alfred University offers a course called Entrepreneurship and the Arts to help artists make their work a viable means of support. A student in a rock band applied what he learned by writing a business plan that enabled the band to become profitable.

3.2.1 Four Reasons for becoming an entrepreneur

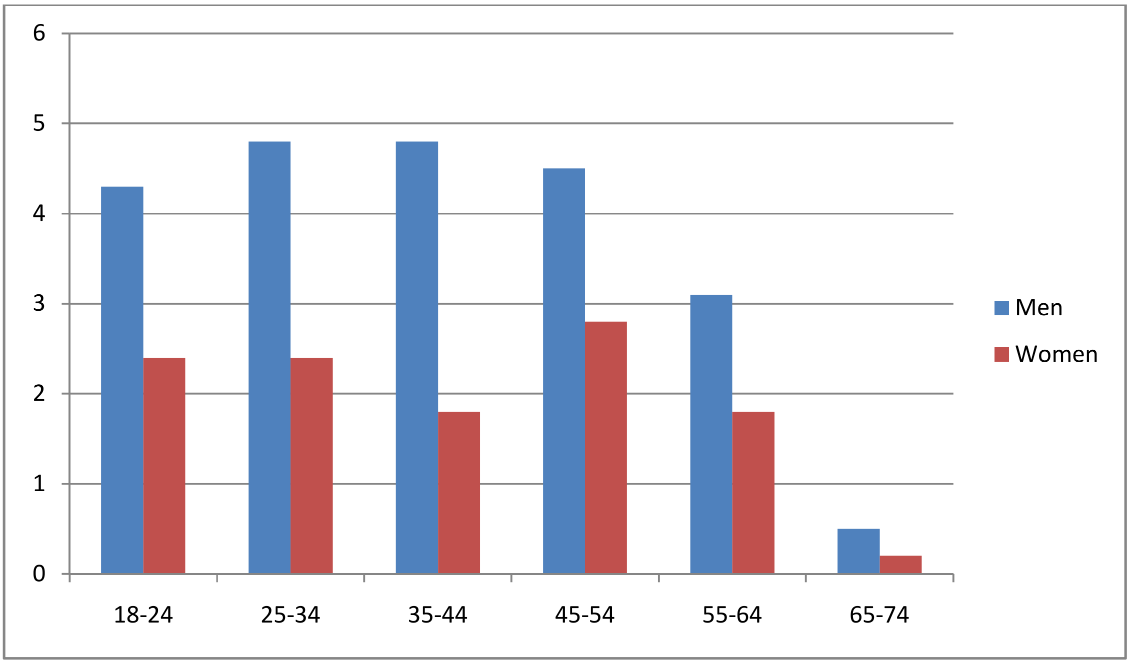
As figure 4.10 states, people become entrepreneurs for one or more of four major reasons, also generally known as 4 Ds of Entrepreneurship:

-Desire to be one's own boss

-Desire to succeed financially

-Desire to attain job security

-Desire to improve their quality of life



Source: Figure 4.9 Adults Currently Engaged in Starting a Business , P,33, Small Business Management.

website. Diners go to the web site to look for available tables, searching neighbourhood or cuisine, or looking up restaurants by name. OpenTable.com indicates the times at which tables are available, and the hungry consumer clicks to select a preferred restaurant, table, and desired time.

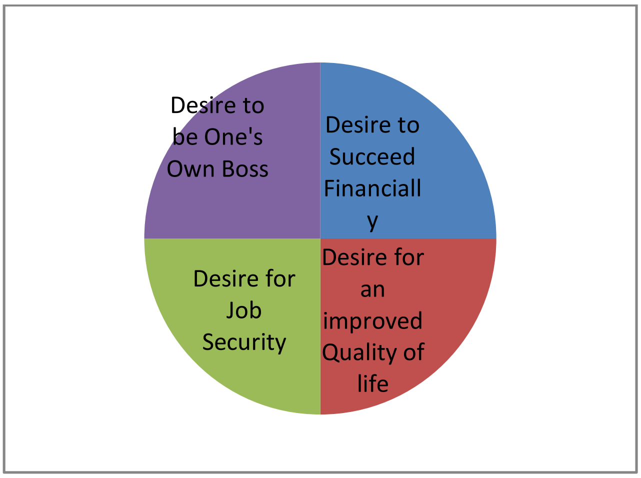


Fig. 4.10 Why People Become Entrepreneur

Source: Drucker (1984)Innovation & Entreprenuership p.145

Other entrepreneurs identify better way to serve business customers. Mini-Tanker was founded in Australia to provide superior service in the sale of diesel fuel.

3.2.3 Self-management – the desire to be one's own boss – is the motivation that drives many entrepreneurs.

Others seek financial success.

They launch their ventures with the specific goal of creating a profitable business and reaping its financial rewards.

Some entrepreneurs, concerned about downsizing practices of the past few years by major employers. Starting a business gives the founder some choice over when, where, and how to work.

Although entrepreneurs often mention financial rewards as a motive for starting their businesses, the path to riches can be long and uncertain. Among the Inc. 500 CEOs, almost one-fourth took no compensation at all from their business during its first five years of operation. Eric J. Ruff is an example of an entrepreneur who struggled financially during the first years following the launch of his software business, Poower Quest. One of Ruff's first goals appeared to be a modest one: to be able to afford to "supersize" his order of French fries when he took his family to McDonald's without worrying whether he could afford the price. He was surprised to discover that reaching this goal took four years.

3.3 Characteristics of Entrepreneur and success trail

The examples of entrepreneurship you've read so far may give the impression that people who strike out on their own are a different breed. In addition to having similar innovations, successful entrepreneurs are more likely than other people to have parents who were entrepreneurs. They also tend to have personality traits in common.

Researchers have associated many personality traits with successful entrepreneurship. They report that entrepreneurs are more likely to be inquisitive, passionate, self-motivated, honest, courageous, flexible, intelligent, and reliable people. The traits are especially important for people who want to succeed as entrepreneurs.

3.3.1 Vision

Entrepreneurs begin with a vision, an overall idea for how to make their business idea a success, and then they passionately pursue it. Bill Gates and paul Allen launched Microsoft with the vision of a computer on every desk and in every home, all running Microsoft software. Their vision helped Microsoft to become the world's largest marketer of computer software. It guided the company and provided clear direction for employees as Microsoft grew, adapted, and prospered in an industry characterised by tremendous technological change.

3.3.2 High Energy Level

Entrepreneurs willingly work hard to realize their visions. Starting and building company requires an enormous amount of hard work and long hours. Some entrepreneurs work full-time at their regular day jobs and spend weeknights and weekends launching their start-ups. Many devote 14-hour days seven days a week to their new ventures.

A major reason why entrepreneurship demands hard work is that start-up companies typically have small staffs and struggle to raise enough capital. Under these resource constraints, the entrepreneur has to make up the difference. When two engineers started Gilat Satellite Networks to build satellite systems, they had to work extremely hard to compete with giant corporations like EchoStar and Hughes Network Systems. They offered to do whatever was necessary to tailor a system to the clients's needs. Gilat's first customer was Rite Aid, the drugstore cahin. The company won the contract by agreeing to adapt its satellite system in significant ways. The two founders and four other members of the project's development team put in many nights and weekends to achieve their commitment. Cofounder Amiran Levinberg says simply, "In a high-tech start-up such as gilat it's a given that there will be some 12-hour days."

3.3.3 Need to Achieve

Entrepreneurs work hard because they want to excel. Their strong competitive drive helps them to enjoy the challenge of reaching difficult goals and promotes dedication to personal success. Entrepreneurship expert Amar Bhide says successful entrepreneurs have "an almost maniacal level of ambition. Not just ambition to make a comfortable living, to make a few million dollars, but someone who wants to leave a significant mark on the world.

Maria de Lourdes Sobrino's dream was to find success in the immigrant, Sobrino moved with her family to Los Angeles, where she opened a travel business concentrating on the market. But economic woes in Mexico ended demand for her services, and Sobrino neede a new way to support herself. Than an idea came to her : selling a new product she called Lulu's desserts. These small cups of flavoured gelatine, a common treat in Mexico, had not yet found their way to stores. Identifying retailers willing to make a chance on the new product required persistence. Sobrino first identified Latino communities and then visited independent stores in these communities. Finally, one allowed her to leave the gelatine cups, with payment contingent on sales. When Sobrino returned to her Spartan office, a message was waiting for her: "please come back, Senora. Your gelatins are sold." That was the turning point for LuLu's . When her product became popular in local stores, a food broker began to carry it, and Sobrino borrowed money to expand her facilities. Paying off the loans was difficult and took years, but today LuLu's is a $12 million company with 45 products offered in West Coast stores. Through hard work and determination, Sobrino is achieving her goals.

3.3.4 *Self-Confidence and Optimism*

Entrepreneurs believe in their ability to succeed, and they instill their optimism in others. Often, their optimism resembles fearlessness in the face of difficult odds. Sean Rones, founder of San Diego media firm called World Footprint, needed plenty of self-confidence to land the contract to sell all the outdoor advertising for dot.com businesses during the 200 Sydney Olympics. How did a small U.S. firm get such exclusive rights? First, Rones and his partner Eric Davis determined that the Olympics would be a great setting to advertise an Internet business. Rather than assuming that all advertising rights surely must have been sold, Rones flew to Sydney in 1999. There, he pursued negotiations, undaunted by local media firms and other business people hoping to scare him into giving up a share of World Footprint. Within a year, Rones had a contract for his company to sell ad space on billboards and on signs placed on buildings and in buses and taxis.

3.3.5 Tolerance for failure

Entrepreneurs view setbacks and failures as learning experiences. They are not easily discouraged or disappointed when things do not go as planned. For Robert Luster, a major setback involved making a transition from his role as Army officer to civilian entrepreneur. His first construction management firm, Athena Management Engineers, failed after two years, as Luster got used to the subtleties of communication in the private sector. He then formed Luster Construction Management and won his first client by promising he could have someone on site the next day. While he was waiting for a reply, Luster began screening candidates, so when the client called and asked Luster to start the next morning, he was ready. Today Luster's business is generating $10 million in sales and has over 100 employees.

3.3.6 Creativity

Entrepreneurs typically conceive new ideas for goods and services, and they devise innovative ways to overcome difficult problems and situations. Al Gross may have helped Allied Forces gain strategic advantage during World War II by developing the walkie-talkie. Gross recognized that his product actually presaged the wireless revolution, and he later produced early – model cell phones and pagers. Another product of his creative mind was a solution to one of suburbia's problems- the garage –door opener.

Entrepreneurs often achieve success by making creative improvements, rather than single-handedly revolutionizing an industry. Entrepreneurship researcher Amar Bhadi has identified a substantial amount of creativity among entrepreneurs "at the tactical leve" – in other words, in the ways entrepreneurs built their businesses, more so than in the product itself. Steve Madden, of Steve Madden Ltd. Shoe fam, built a fashion empire by bringing back platform shoes, as described in the "Clicks and Mortar" box.

3.3.7 Tolerance for Ambiguity

Entrepreneurs take in stride the uncertainties associated with launching a venture. Dealing with unexpected events is the norm for most entrepreneurs. With limited funding, the typical entrepreneur cannot afford to stockpile resources to prepare for the future but must act quickly as orders come in. That was seth Goldman's experience when he founded a company to market Honest Tea. Goldman experimented with a variety of ingredients until he created a flavour he thought would taste good either hot or cold, then lined up an appointment with buyers at the Fresh Fields/Whole FOODS CHAIN OF NATURAL-FOODS GROCERS. He brewed his original flavour of Honest Tea in his home kitchen and took a thermos full of the tea to his appointment. The buyers were delighted and ordered 15,000 bottles. Now Goldman had a problem: he still needed a way to produce all that tea. Undaunted, he found help from an expert in the bottling industry. He arranged to have the tea produced at a factory in Buffalo. AS demand for the tea grew and the company diversified into eight varieties of bottled teas plus tea bags, Goldman's company purchased part ownership of a bottling facility in New Kensington, Pennsylvania.

Tolerance for ambiguity is different from the love of risk taking that many people associate with entrepreneurship. Successful entrepreneurship is a far cry from gambling, because entrepreneurs look for business strategies that they believe have a good chance of success, and they quickly make adjustments when a strategy isn't working.

3.3.8 Internal Locus of Control

Entrepreneurs believe that they control their own fates, which means they have an internal locus of control. You won't find entrepreneurs gazing into a crystal ball or looking for a four-leaf clover – they take personal responsibility for the success or failure of their actions rather believing in luck or fate. They neither make excuses for their shortcomings nor blame others for their setbacks and failures. Figure 4.14 appeals to this self-sufficiency by offering businesspeople a Web site at area.... Subway Sandwiches recently generated considerable ill will among its franchised outlets when it began setting up operations in retail gas stations.

Self Assessment Question

As a potential entrepreneur, how would you view setbacks and failure in business operation?

4.0 Conclusion

Entrepreneurial opportunities are unlimited, as evidenced by various dramatic success stories of successful entrepreneurs.
Entrepreneurial rewards include profits, independence, and a satisfying way of life.
Individuals who become entrepreneurs have a high need for achievement, a willingness to take moderate risks, and a high degree of self-confidence.

5.0 Summary

The period between a person's mid-twenties and mid-thirties is described as the "free-choice period" in which entry into entrepreneurial careers tends to be easiest. The specific step into many entrepreneurs' businesses is often triggered by a "precipitating event" such as losing a job.
Entrepreneurship includes a variety of entrepreneurial roles (founding versus managing, for example); types of ventures (marginal firms versus high potential ventures, for example); and management style (craftsman versus opportunistic entrepreneur, for example).
One specific type of entrepreneurial venture is the family firm, in which family considerations affect management in various ways. Another distinctive type of entrepreneurship is the entrepreneurial team, in contrast to the individual entrepreneur, which provides leadership for the firm.

6.0 **Tutor-Marked Assignment**

Itemize major characteristics of an Entrepreneur and explain the importance and the role they play in their drive to financial success

7.0 Reference/Further Readings

Alan, M.S., Haccoun, R.R., & Belcourt, M.(2008). Managing Performance

through Training and Development (4th ed.).Toronto, Canada: Nelson Education Ltd.

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Answer to Self Assessment Question.

Tolerance for failure. Entrepreneurs view setbacks and failures as learning experiences. They are not easily discouraged or disappointed when things do not go as planned.

UNIT 7 Small Business as vital component of the economy

1.0 Introduction

2.0 Objective

3.0 Main Content

3.1 Effect of Small business on the economy

3.1.1 Creating major inventions and Innovations

3.1.2 Creating New Jobs

3.1.3 Providing opportunities for diversity

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 Reference/Further Reading

UNIT 7 Small Business as vital component of the economy

1.0 Introduction

Entrepreneurs play a significant role in the economy, and expanding opportunities for the weak and the strong.

From Thomas Edison's development of the electric light bulb to the birth of Apple Computer in Steve Jobs's garage, American entrepreneurs have the world goods and services that have changed the way people live, work, and play. The list includes ballpoint pens, Netscape, Navigator software, fibreglass skis, Vecro fasteners, the Yahoo!, Internet directory, FedEx delivery service, and Big Mac hamburgers.

2.0 Objective

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

Explain how entrepreneur innovate great ideas

Enumerate on ability of entrepreneur invent ideas.

Identify the role of job creation by entrepreneur

Discuss importance of small business in the economy

3.0 Main Content

3.1 Effect of small business on the economy

3.1.1 Creating Major inventions and Innovation-

Entrepreneurs create new products, build new industries, and bring new life to old industries . By one count, entrepreneurs are the force behind two-thirds of the inventions and 95 percent of major innovations made since World War II. As Amar V. Bhide points out in his widely acclaimed book The Origin and Evolution of New Businesses, innovation rarely takes place in major leaps but moves in small steps, as entrepreneurs try out small modifications of the status quo and abandon any ideas the market rejects. For example, Netscape Navigator was not the first Web browser, but it was the first to be relatively easy to use. This ease of the use translated into market acceptance, and the World Wide Web went from an obscure government-sponsored technology to a major link among individuals and businesses. As figure 4.11 describes.

3.1.2 Creating New Jobs

Some innovations are born of personal experiences.

Chuck templeton watched his wife make last-minute dinner reservations over the phone and thought there must be an easier way to find a table at a good restaurant. He drew an analogy to online reservations for airline tickets and came up with the idea for OpenTable.com. The service signs up restaurants and provides the hardware and software to link them to its website.

Dinners go to the web site to look for available tables, searching neighbourhood or cuisine, or looking up restaurants by name. OpenTable.com indicates the times at which tables are available, and the hungry consumer clicks to select a preferred restaurant, table, and desired time. Other entrepreneurs identify better way to serve business customers. Mini-Tanker was founded in Australia to provide superior service in the sale of diesel fuel. Construction firms and highway contractors often works late into evening, but if they run out fuel at night, they can't buy from the major oil companies, which generally close in the evening. Not only is Mini-Tankers open around the clock, but the company sends a truck right to the customer's site. In addition, each truck is equipped with a computer taht generates a receipt containing information to help customers analyze the efficiency of their diesel-burning machinery. This successful concept is now improving service in the U.S. market for diesel fuel, with Mini-Tankers trucks operating in Seattle, Portland, Chicago and St. Louis.

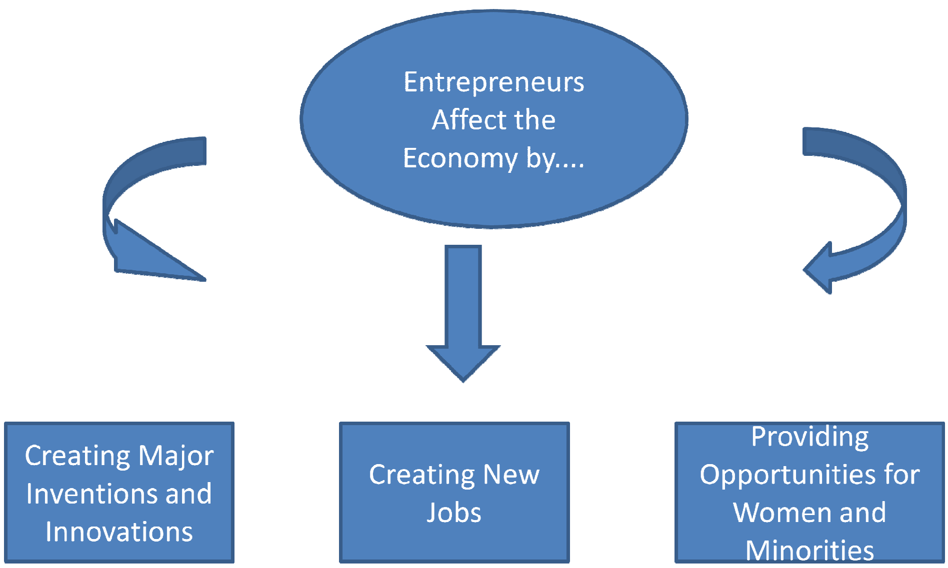

Figure 4.11 Influence of Entrepreneurs on the Economy. Source : Small Business Management, p.137

3.1.3 Providing Opportunities for Diversity

Entrepreneurship offers excellent economic opportunities for women and minorities. The number of women – and minority owned start-ups has grown tremendously in recent years. Also, women are the entrepreneurs behind almost half of the millions of business start-ups in the U.S.

The variety of businesses they operate defeats the usual stereotypes. Female entrepreneurs are engaged in service and manufacturing businesses ranging from Sheila Thompson's 70-employee manufacturer of wooden..

Realizing the value of both women-and minority-owned start-ups in creating jobs and promoting diversity, many large companies have developed diversity programs that help these entrepreneurs get start-up capital, subcontracts, and other assistance. Eastman Kodak, General Motors, JCPenney, Toyota, United Airlines, and Pacific Gas & Electricity are all large firms that offer supplier diversity programs. Large companies frequently advertise in magazines like Black Enterprises, Hispanic, and Working Mother, encouraging readers to contact their directors of supplier diversity for information about their diversity programs.

Self Assessment Question

How does entrepreneur play a significant role on the economy?

4.0 Conclusion

It has assumed super importance for accelerating economic growth both in developed and developing countries. It promotes capital formation and creates wealth in country. It is hope and dreams of millions of individuals around the world.It reduces unemployment and poverty and its a pathway to prosper. Entrepreneurship is the process of searching out opportunities in the market place and arranging resources required to exploit these opportunities for long term gains.

5.0 Summary

Given entrepreneurship's potential to support economic growth, it is the policy goal of many governments to develop a culture of entrepreneurial thinking. This can be done in a number of ways: by integrating entrepreneurship into education systems, legislating to encourage risk-taking, and national campaigns. It is the process of planning,organising,opportunities and assuming. Thus it is a risk of business enterprise. It may be distinguished as ability to take risk independently to make utmost earnings in the market. It is a creative and innovative skill and adapting response to environment.

6.0 Tutor-Marked Assignment

Discuss in detail how the small business becomes a vital component of the economy?

7.0 Reference/Further Reading

Alan, M.S., Haccoun, R.R., & Belcourt, M.(2008). Managing Performance through Training and Development (4th ed.).Toronto, Canada: Nelson Education Ltd.

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Nenger, C. Reynolds, P. , et al (2004). Small Business Management and Entrepreneurial Spirit(4th ed.). Manhattan, New York Press.

Answer to Self Assessment Question.

Entrepreneurs play a significant role in the economy by expanding opportunities for the weak and the strong.

UNIT 8 INCREASING LIKELIHOOD OF BUSINESS SUCCESS

1.0 Introduction

2.0 Objective

3.0 Main Content

- 3.1 Developing a Business Plan
  - 3.1.1 What is a business plan
  - 3.1.2 Creating a business plan
  - 3.1.3 Writing a Business Plan
- 3.2 Conduct Adequate Research
  - 3.2.1 Component of a business plan
  - 3.2.2 Business plan essentials for securing outside funds
  - 3.2.3 Small business administration
  - 3.2.4 Business Incubator
  - 3.2.5 Large corporation assisting small business

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 Reference/Further Reading

UNIT 8 INCREASING LIKELIHOOD OF BUSINESS SUCCESS

1.0 Introduction

Perhaps the most important task an entrepreneur faces is creating a business plan. An effective business plan can mean the difference between a company that succeeds and one that fails.

In spite of some challenges, many small businesses do succeed. This unit introduces us to looking into how a prospective small business owner can gain the numerous advantages of running a smaller firm while also overcoming the disadvantages.

2.0 *Objective*

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

Identify the characteristics that qualify you to run a business plan.

Explain your idea a business plan to a friend

Discuss the purpose that a business plan serves. How does your idea differ from those behind existing businesses?

Describe the state of the industry you are entering, customers or clients.

Enumerate how you will finance your business.

3.0 Main Content

3.1 Developing a business plan

3.3.3 What is a business Plan?

By definition a business plan is a written document that provides an orderly statement of a company's goals, the methods by which it intends to achieve these goals, and the standards by which it will measure achievements.

Most successful entrepreneurs believe that two recommendations are critical:

-Develop a business plan.

-Use the resources provided by such agencies as NERFUND, CBN’s Entrepreneur development Assistance, Micro Finance Banks, chamber of commerce and industry, the SBA and local business incubators for information, advice, funding, and networking opportunities.

3.3.4 Creating a Business Plan

Perhaps the most important task an entrepreneur faces is creating a business plan. An effective business plan can mean the difference between a company that succeeds and one that fails. A business plan is a written document that provides an orderly statement of a company’s goals, the methods by which it intends to achieve these goals, and the standards by which it will measure achievements.

Plans give the organization a sense of purpose. They provide guidance, influence, and leadership, as well as communicating ideas about goals and the means of achieving them to associates, employees, lenders, and others. In addition, they set standards against which organization participates in the process. Planning can combine good ideas presented by employees and communicate information while making everyone feel a part of the team.

Although no one format best suits all situations, a good small-business plan will include a detailed time frame for achieving specific goals, projections of money flows (both income received by the business and funds disbursed to pay expenses), and units for measuring achievement (sales, profits, or changes in market share). A business plan should also cover the methods by which the firm will achieve specific goals, procedures it will follow, and values that define important standards for conduct. Perhaps most important, the plan should always be open to revision.

3.3.5 Writing a Business Plan

Before writing a business plan, a business owner should answer some questions: Give special attention to the name of your proposed business. Does the name reflect the firm's goals? Is it already registered by someone else? Does it convey any hidden meanings to other people? What does it mean phonetically in other languages? Is it offensive to any religious or ethnic groups? Inc. Technology magazine recently sponsored an entrepreneurship competition to select effective company names. But several of the suggestions sounded more like "What Not to Name Your Company." One entry, NuGoo.com, sounded more like a high-tech adhesive – even sounded like a place to go to do nothing online – it's supposed to be a site where businesses trade with one another. And if you want to find love at 888meet.com, you'll be sorry to hear that the site is planned as a system for managing teamwork in companies.

3.4 Conduct Adequate Research

Be sure to do adequate research. Trade journals are excellent sources of industry-related information. The Small Business Development Centres (SBDC) on many college campuses, the SBA in Washington, D.C., many local chambers of commerce, and your local library can also assist in this research. You may gain useful insights by talking to suppliers in the industry and to local licensing authorities. How many similar businesses have succeeded? How many have failed? Why? What risks are specific to your industry? What mark-ups are typical in the industry's pricing structure? What are common levels of expenses and profit percentages? Another way to gather information is to shop the competition. When she was planning a day-care facility, Tonya Davis quickly learned that she had been planning to charge too little. Armed with that information, she met with an accountant at her city's chamber of commerce to compare how various prices would affect her profits.

3.4.1 Components of a Business Plan.

A business plan typically includes the following components:

Business Plan Executive Summary
An EXECUTIVE SUMMARY should answer the who, what, why, when, where, and how questions for the business in brief. Although the summary appears early in the plan, it probably should be the last element written. Introduction
An INTRODUCTION should give a general statement of the concept, purpose, and objectives of the proposed business, along with an overview of the industry. This element should include a brief description of the owner's education, experience, and training, with references to a resume included later in the plan. Marketing
A MARKETING section should describe the firm's target market, its anticipated competitors, and plans for distribution, advertising, pricing, and locations of facilities. This section should cover the background of the industry and industry trends as well as the potential of the new venture. It should also point out any unique or distinctive features of the business, including industry cycles such as busy and slow seasons, and explain the reasons for choosing a particular start-up date. The MARKETING section should also cover equipment rental, leasing, or purchase costs, and the influences of traffic volume, neighbouring businesses, demographics, parking, accessibility, and visibility. Further discussion should review labour costs, utility access and rates, police and fire protection, zoning restrictions, and other government rules and regulations. Financials
The FINANCIAL section should detail an operating plan forecast, a plan

for obtaining capital, and a description of plans for spending funds. The FINANCIAL section should also estimate assets and liabilities and analyze when the firm will reach the breakeven point- the level of sales at which revenues equal costs. Resumes of Principals
RESUMES OF THE PRINCIPALS of the business should be included in a plan written to obtain funding.

Source: Small Business Management, p.322

3.4.2 Business Plan Essentials for securing outside funds.

Within the specific sections, a business plan should cover some other topics. It should indicate whether the firm will be organized as a sole proprietorship, partnership, or corporation, and it should identify when it will need to hire employees. Other important facts are job descriptions for employees; the line of authority in the business; a risk management plan, including detailed information on insurance; a list of suppliers with methods for assessing their reliability and competence; and a policy for extending credit to customers.

Since business plans are essential tools for securing outside funds, the financial section requires particular attention to detail. KnowledgeWorks, a developer of sophisticated databases, updated its business plan when it was preparing to incorporate. To appeal to bankers' conservative mind -sets, chief executive officer (CEO) Gerald Whitson started with a conservative estimate of revenue, then cut about 10 percent off the top. With expenses, he inflated his estimate by 7 percent. That look good, and knowledge Works would have cushion that would allow it to keep promises it made to lenders. With that approach, it was surprise that Knowledge works was able to negotiate a bank loan to help it expand as a corporation.

If, like the Knowledge Works plan, a business plan becomes part of request for financing, the lender will examine the owner's management skills and experience, the major risks associated with the enterprise, available collateral, and the firm's ability to repay the loan. Potential outside investors are more likely to evaluate its potential for profits and growth and place less emphasis on downside risks.

If certain assumptions underlie the body of the plan, tie them into the finance section. A plan for two outlets, for example, should provide cash-flow projection that shows how the firm will cover the costs involves with each. Deal with both significant and insignificant variables. Carelessness with seemingly insignificant variable can undercut credibility.

3.4.3 Small Business Administration

Small businesses can also benefit from using the resources provided by the Small Business Administration (SBA), The SBA is the principal government agency concerned with helping small U.S. firms, and it is the advocate for small businesses within the federal government. Over 3,000 employees staff the SBA's Washington, D.C, headquarters and its regional and field offices. The primary operating functions of the SBA include providing financial assistance, aiding in government procurement matters, and providing management training and consulting.

Financial Assistance from the SBA

Contrary to popular belief, the SBA seldom makes direct business loans. Its major financing contributions are the guarantees it provides for small-business loans made by private lenders, including banks and other institutions. Direct SBA loans are available in only a few special situations, such as natural disaster recovery and energy conservation or development programs. Even in these special instances, a business applicant must contribute a portion of the proposed project's total cost in cash, home equity, or stocks in order to qualify.

Other Specialized Assistance: Although government purchases represent a sizable market, small companies have difficulty competing for this business with giant firms, which employ specialists to handle the volumes of paperwork involved in preparing proposals and completing bid applications. Today, many government procurement programs specifically set aside portions of these orders for small companies; an additional SBA role involves assisting small firms in securing these contracts. With set-aside programs, certain government contracts (or portions of those contracts) are restricted to small businesses. Every federal agency with buying authority must maintain an Office of Small and Disadvantaged Business Utilization to ensure that small businesses receive a reasonable portion of government procurement contracts.

To help connect small businesses with government agencies, the SBA's Web site offers the Procurement Marketing & Access Network (PRO-Net & trade), which includes a search engine for finding business opportunities as well as a chance for small businesses to provide information about themselves.

3.4.4 Business Incubators

In recent years, local community agencies interested in encouraging business development have implemented a concept called a business incubator to provide low-cost, shared business facilities to small start-up ventures. A typical incubator might section off space in an abandoned plant and rent it to various small firms. Tenants often share secretaries, toll-free WATS lines, copiers, and other business services. The objective is that, after a few months or years, the fledging business will be ready to move out and operate on its own.

3.4.5 Large Corporations Assisting Small Businesses

Corporate giants often devise special programme aimed at solving small-business problems. In doing so, they are not acting out of humanitarian interests. Instead, they recognize the size of the small-business market, its growth rate and buying power, and the financial rewards for firms that support small businesses. UPS has broadened its package delivery service to help small businesses with the details of filling orders and processing returns. Figure 4.6 describes how UPS might help a small-business founder who has good idea for a product and Web site but lacks experience in other aspects of running business.

3.4.6 Small-Business Opportunities for women and minorities

The thousands of new business start-ups each year include growing numbers of women-owned firms as well as new businesses launched by Africa Americans, Hispanics, and members of other minority groups. The numbers of women-owned and minority-owned businesses are growing much faster than the overall growth in U.S. businesses.

Self - Assessment Question.

Can a business plan be part of request for financing and how? What will lender look for in considering small business for a loan?

4.0 Conclusion

Perhaps the most important task an entrepreneur faces is creating a business plan. An effective business plan can mean the difference between a company that succeeds and one that fails.

5.0 Summary

In spite of some challenges, many small businesses do succeed. This unit introduces us to looking into how a prospective small business owner can gain the numerous advantages of running a smaller firm while also overcoming the disadvantages and business plan give a general statement of the concept, purpose, and objectives of the proposed business, along with an overview of the industry.

6.0 Tutor-Marked Assignment

Using your a familiar enterprise in your local community, illustrate and explain the content of a good business plan and why is it important

7.0 Reference/Further Reading

Alan, M.S., Haccoun, R.R., & Belcourt, M.(2008). Managing Performance through Training and Development (4th ed.).Toronto, Canada: Nelson Education Ltd.

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Nenger, C. Reynolds, P. , et al (2004). Small Business Management and Entrepreneurial Spirit(4th ed.). Manhattan, New York Press.

Answer to Self Assessment Question.

A business plan becomes part of request for financing. The lender will examine the owner's management skills and experience, the major risks associated with the enterprise, available collateral, and the firm's ability to repay the loan.

UNITS 9 ROLES AND TYPES OF ENTREPRENEURS

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main content

 3.1 Entrepreneurial Roles, Venture and Styles

  3.1.1 Founding Entrepreneurs

  3.1.2 General Managers

  3.1.3 Franchisee

 3.2 Types of entrepreneurial ventures

  3.2.1 Importance of small venture

  3.2.2 Marginal Firms

  3.2.3 The craftman entrepreneurs

  3.2.4 The opportunistic entrepreneur

  3.2.5 Types of Entrepreneur Roles

  3.2.6 Types of Entrepreneur Ventures

  3.2.7 Strategy Formulation

  3.2.8 Strategy implementation Entrepreneur

4.0 Conclusion

5.0 Summary

6.0 Tutor-market Assignment

7.0 References/ Further readings

UNITS 9 ROLES AND TYPES OF ENTREPRENEURS

CONTENT

1.0 Introduction

The field of small business encompasses a great variety of entrepreneurship roles, ventures, and styles. Entrepreneurial roles refer to the type of activity in which entrepreneurs are involved. Entrepreneurial ventures refer to types of businesses in terms of their potential for growth and profits. Different entrepreneurial styles usually result from the varied personal back-grounds of entrepreneurs.

2.0 Objectives

At the end of this unit, you will be able to:

Describe different types of entrepreneurial roles

Define with example, founding entrepreneur

Explain what entrepreneurial venture is all about

Identify the significance of entrepreneurial styles and ventures

3.0 Main content

ENTREPRENEURIAL ROLES, VENTURES, AND STYLES

3.1 Types of entrepreneurial Roles

Although categories tend to overlap, entrepreneurial roles may be classified into three types: founders, general managers, and franchisees.

3.1.1. Founding entrepreneurs **-** generally considered to be the "pure" entrepreneurs. Founders may be inventors who initiate businesses on the basis of new or improved products or services. They may also be craftsmen who develop skills and then start their own firms. Or they may be enterprising individuals, often with marketing backgrounds, who draw upon the ideas of others in starting new firms. Whether acting as individuals or in groups, these people bring firms into existence by surveying the market, raising funds, and arranging for the necessary facilities. After the firm is launched, the founding entrepreneur may preside over the subsequent growth of the business.

3.3.9 *General Managers.*

As new firms become well-established,

founders become less innovators and more administrators. Thus, we recognize another class of entrepreneurs called **general**

managers. General managers preside over the operation of successful ongoing business firms. They manage the week-to-week and month-to-month production, marketing, and financial functions of small firms. The distinction between founders and general managers is often hazy. In some cases, small firms grow rapidly, and their orientation is more akin to the founding than to the management process. Nevertheless, it is helpful to distinguish those entrepreneurs who found and substantially change firms (the "movers" and "shakers") from those who direct the continuing operations of established firms.

3.3.10 *Franchisees.*

It is also helpful to recognize a third category of entrepreneurial role – that of the franchisee. Franchisees differ from general managers in the degree of their independence. Because of the constraints and guidance provided by contractual relationships with franchising organizations, franchisees function as limited entrepreneurs.

3.4 *Types of Entrepreneurial Venture*

3.4.1 Importance of Small business venture.

Small-business ventures differ greatly in terms of their potential for growth and profits. To account for such variation, Patrick R. Lileas has suggested the following categories: marginal firms, attractive small companies, and high-potential ventures. In thinking about small business, however, one can easily fall into the trap of considering only one end of the spectrum. Some writers treat only the tiny, marginal firms whose owners barely survive, while others focus entirely on high-growth, high-technology firms. A balanced view must recognize the entire range of ventures with the varied problems and rewards presented by each point on the spectrum.

3.4.2 *Marginal Firms.*

The very small dry cleaners, independent garages, beauty shops, service stations, appliance repair shops, and other small firms which provide a very modest return to their owners are the

Marginal firms. we do not call them "marginal" because they are in danger of bankruptcy. Some marginal firms, it is true, are on "thin ice" financially, but their distinguishing feature is their limited ability to generate significant profits. Entrepreneurs devote personal effort to such ventures and receive a profit return that does little more than compensate them for their time. Part-time businesses typically fall into this category of marginal firms.

3.4.3 The Craftsman entrepreneur.

According to Smith, the education of the **craftsman entrepreneur** is limited to technical training. Such entrepreneurs have technical job experience, but they lack good communications skills. Their approach to business decision making is characterized by the following features:

(1)(They are paternalistic. (This means they direct their businesses much as they might direct their own families.)

(2)They are reluctant to delegate authority

(3)They use few (one or two capital sources to create their firms.

(4)They define marketing strategy in terms of the traditional price, quality, and company reputation.

(5)Their sales efforts are primarily personal.

(6)Their time orientation is short, with little planning for future growth or change.

3.2.4 The Opportunistic Entrepreneur.

Smith’s definition of the opportunistic entrepreneur is one who has supplemented technical education by studying such nontechnical subjects as economics, law, or English. Opportunistic entrepreneurs avoid paternalism, delegate authority as necessary for growth, employ various marketing strategies and types of sales efforts, obtain original capitalization from more than two sources, and plan for future growth. An example of the opportunistic entrepreneur is the small building contractor and developer who uses a relatively sophisticated approach to management. Because of the complexity of the industry, successful contractors use careful record keeping, proper budgeting, precise bidding, and systematic marketing research.

In Smith's model of entrepreneurial styles, we see two extremes of managerial approach. At the end, we find a craftsman in an entrepreneurial.

Self Assessment Question.

How does small business differ from other business within your community?

4.0 Conclusion

The field of small business encompasses a great variety of entrepreneurship roles, ventures, and styles. Entrepreneurial roles refer to the type of activity in which entrepreneurs are involved. Entrepreneurial ventures refer to types of businesses in terms of their potential for growth and profits. Different entrepreneurial styles usually result from the varied personal back-grounds of entrepreneurs.

5.0 Summary

In thinking about small business, however, one can easily fall into the trap of considering only one end of the spectrum. Some writers treat only the tiny, marginal firms whose owners barely survive, while others focus entirely on high-growth, high-technology firms. A balanced view must recognize the entire range of ventures with the varied problems and rewards presented by each point on the spectrum.

6.0 **Tutor-Marked Assignment**

Identify and describe the role of an entrepreneur in the economy?

7.0 References/ Further readings

Alan, M.S., Haccoun, R.R., & Belcourt, M.(2008). Managing Performance through Training and Development (4^{th} ed.).Toronto, Canada: Nelson Education Ltd.

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Answer to Self Assessment Question.

Small-business ventures differ greatly in terms of their potential for growth and profits.

UNITS 10 IMPORTANCE OF STRATEGIC MANAGEMENT IN SMALL BUSINESS

CONTENT

UNITS 10 IMPORTANCE OF STRATEGIC MANAGEMENT IN SMALL BUSINESS

CONTENT

1.0 Introduction

Strategic management as a field of study typically deals with large, established business corporations. However, small business cannot be ignored. There are 22 million small businesses-over 95% of all businesses in the United States. According to Dun & Brad· street, 170,475 entrepreneurial ventures created 846,973 new jobs in the United States during 1996.[2] Research reveals that not only do small firms spend almost twice as much of their R&D money on fundamental research as do large firms, but also that small companies are responsible for a high proportion of innovations in products and services. For example, new small firms produce 24 times more innovation per research dollar than do the much larger Fortune 500 firms. The National Science Foundation estimates that 98% of "radical" product developments result from the research done in the labs of small companies.

Despite the overall success of small businesses, however, every year tens of thousands of small companies fail. According to the U.S. Small Business Administration, 24% of all new businesses fail within two years and 63% fail within six years. Similar failure rates occur in the United Kingdom, The Netherlands, Japan, Taiwan, and Hong Kong. Although some studies are more positive regarding the survival rate of new entrepreneurial ventures, new businesses are definitely considered risky. The causes of small business failure (depending on the study cited) range from inadequate accounting systems to inability to cope with growth. The underlying problem appears to be an overall lack of strategic management-beginning with an inability to plan a strategy to reach the customer, and ending with a failure to develop a system of controls to keep track of performance.

2.0 Objectives

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

Explain what strategy is all about

Identify kinds of strategies and their functions

Differentiate between Corporate, business and functional strategies

Understand how to apply strategy in small business scenario.

3.0 Main content

3.1 Use of strategic planning in strategic management in Small Business

3.1.1 ***What is Strategy?*** **Definition of strategy**

Strategy is the formulation of organizational missions, goals and objective, as well as action plan for achievement that explicitly recognize the competition and impact of outside environmental forces. It maximizes competitive advantage and minimizes competitive disadvantage.

3.1.2 Structure and kinds of strategy

After Rockwell International Corporation disclosed that it could no longer achieve its objectives by continuing with its strategy of diversification into multiple lines of businesses, it sold its aerospace and defense to Boeing. Rockwell instead chose to concentrate on commercial electronics, an areas that management felt had greater opportunities for growth. The typical business firm usually considers three types of strategy: ***corporate, business, and functional***.

3.1.3 *Corporate strategy* describes a company's overall direction in terms of its general attitude toward growth and the management of its various business and product lines. Corporation strategies by acquiring other appliance companies in order to have a full line or major home appliances.

3.1.4 *Business strategies* usually occurs at the business unit or product level, and it emphasizes improvement of the competitive position of a corporation's products or services in the specific industry or market served by that business unit. Business strategies may fit within the two overall categories of competitive or cooperative strategies. For example Maytag Corporation uses a differentiation competitive strategy that emphasizes quality for its Maytag brand appliances but uses a low cost competitive strategies for its Magic chef bran appliances so that it can sell these appliance to cost-conscious home builders.

3.1.5 *Functional strategy* is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resources productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business until unit with a competitive advantage. Example of functional strategies within an R&D department are technological followership (imitate the products of other companies) and technological leadership (pioneer an innovation). To become more efficient throughout the corporation, Maytag

Corporation is converting from a manufacturing strategy of making different types of home appliances under the same brand name in one plant to a more cost-effective strategy of making only one type of appliance (for example, dishwashers) for many brands in a very large plant. Another example of a functional strategy is America Online's marketing strategy of saturating the entire market with a low-priced product (as contrasted with selling a higher prices product to a particular market segment).

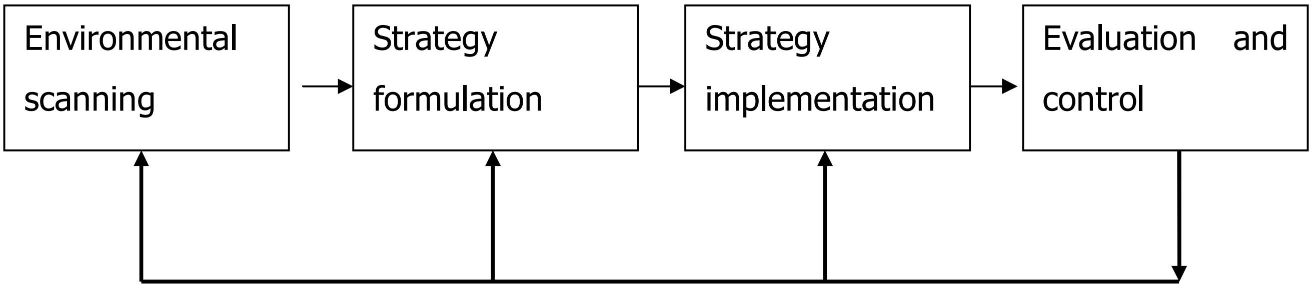
Business firms use all three types of strategy simultaneously. A hierarchy of strategy is a nesting of one strategy within another so that they complement and support one another. Functional strategies support business strategies, which, in turn, support the corporate strategy (ies).

3.2 **BASIC MODEL OF STRATEGIC MANAGEMENT**

3.2.1 Elements of Strategic Management

Strategic management consists of four basic elements

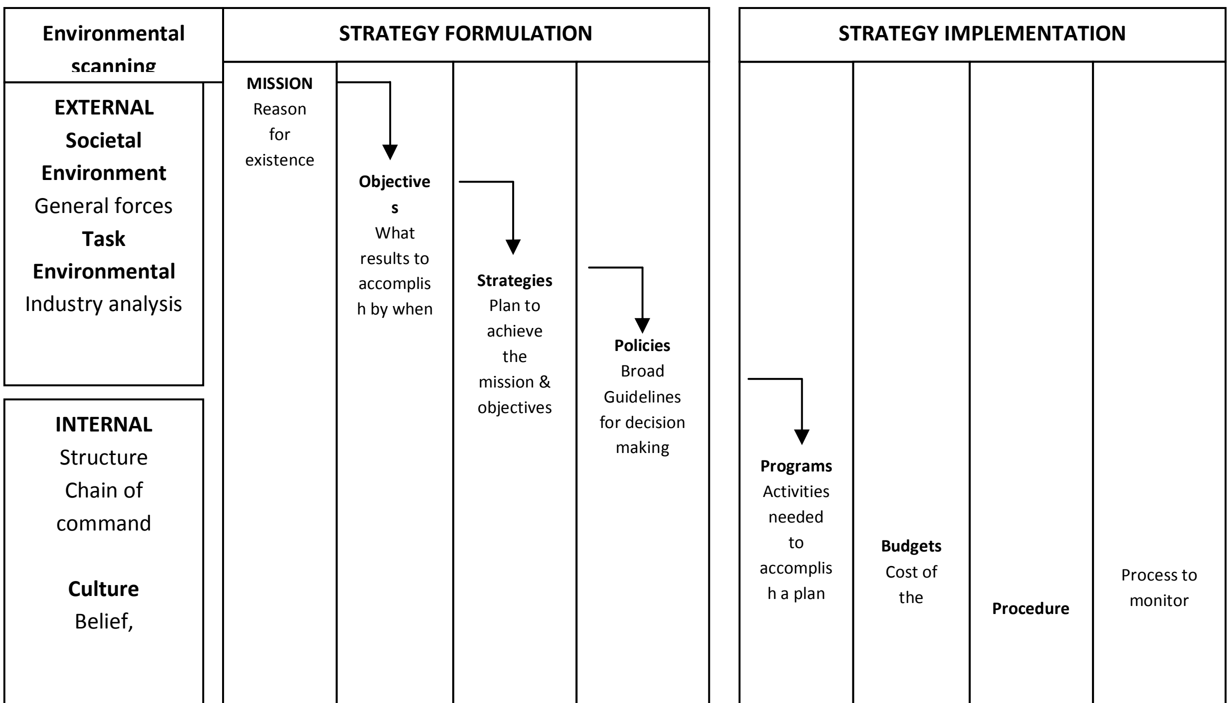
- Environmental scanning
- Strategy formulation
- Strategy implementation
- Evaluation and control

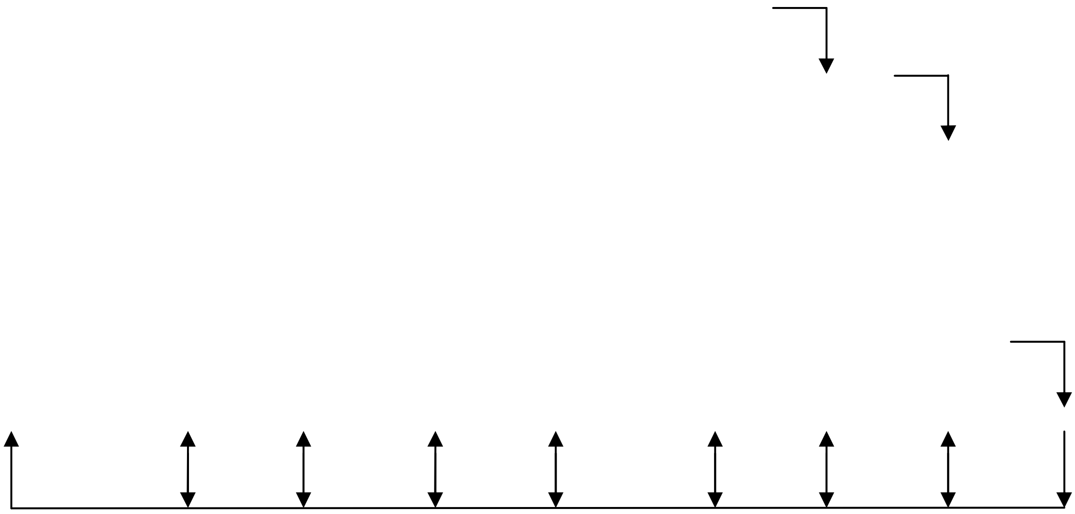


Source: Figure 3.5 Basic strategic management model, Small Business Management, p.122

3.2.2 Environment scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the cooperation. Its purpose is to identify strategic factors those external and internal elements that will determine the future of the cooperation. The simplest way to conduct environmental scanning is through SWOT Analysis.

3.2.3 SWOT is an acronym used to describe those particular strengths, Weaknesses, opportunities, and threats that are strategic factors for a specific company. The external environment consists of variables (opportunities and Threats) that are outside the organization and not typically within the short-run control of top management. These variables form the context within which the corporation exists. Figure 1.3 depicts key environmental variables. They may be general forces and trends within the overall societal environment or specific factors that operate within an organization's specific task environment or specific factors that operate within an organization's specific task environment often called its industry.





Source: Figure 3.6 Strategic Business Management P.234

The internal environment of a corporation consist of variables (Strengths and weaknesses) that are within the organization itself and are not usually within the shorts run control of top management. These variables form the context in which work is done. They include the corporation's structure, culture, and resources. Key strengths form a set of core competencies which corporation can use to gain competitive advantages. These internal variables and core competencies are defined and discussed more defined in chapter 4).

3.2.4 Strategy formulation

Strategy formation is the development of long-range plans for the effective management of environmental opportunities and threats in light of cooperate strengths and development strategies, and setting policy guidelines.

3.2.5 MISSION

An organization mission is the purpose or reason for the organizations existence. It tells what the company is providing to society ether a service like housecleaning or a product like automobiles. A well-conceived mission statement defined the fundamental, unique purpose that sets a company apart from other firms of its types and identified the scope of the company's operations in terms of products (including services) offered and markets served. It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but what it wants to become-management's strategic vision of the firm's future. (Some people like to consider vision and mission as two different concepts: a mission statement describes what the organization is now; a vision statement describes what the organization would like to become. We prefer to combine these ideas into a single mission statement). The mission statement promotes sense of shard expatiations in employees and communicates public image to important stakeholder groups in the company's task environment. It is tells who we are and what we do as well as what we'd like to become.

One example of mission statement is that of Maytag Cooperation: To improve the quality of home life by designing, building, marketing and servicing the best appliances in the world.
Another classic example is that etched in bronze at Newport News Shipbuilding, un changed since its founding in 1886. We shall build good ships here at a profit it we can at a lost if we must but always good ships.

A mission may be defined narrowly or broadly in scope. An example of a broad mission statement is that used by many corporations: serve the best interests of shareowners, customers, and employees. A broadly defined mission statement such as this keeps the company from restricting itself to one field or product line, but it fails to clearly identify either what it makes or which product/markets it plans to emphasize. Because this broad statement is so general, a narrow mission statement, such as the preceding one by Maytag emphasizing appliances, is more useful. A narrow mission very clearly states the organization's primary business, but it may limit the scope of the firm's activities in terms of product or service offered, the technology used, and the market served.

3.2.6 OBJECTIVES

Objectives are the end result of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objective should result in the fulfillment of a corporation's mission. Minnesota mining & Manufacturing (3M), for example, has set very specific financial objectives for itself:

- To achieve 10% annual growth in earnings per share.
- To achieve 20% - 25% return on equity.
- To achieve 27% return on capital employed

The term "goal" is often used interchangeably with the term "objective". In this book, we prefer to differentiate the two terms. In contrast to an objectives, we consider a goal as a open-ended statement of what one what to accomplish with no quantification of what is to be achieved and no time criteria for completion. For example, a simple statement of "increased profitability" is thus a goal, not an objective, because it does not state hoe much profit the firm the firm wants to make the next year.

Some of the areas in which an organization might establish its goals and objectives are:

- Profitability (net profits)
- Efficiency (low costs, etc)
- Growth (increase in total assts, sales, etc)

- Shareholder wealth (dividedness plus stock price appreciate).
- Utilization of resources (REO or ROI)
- Reputation (being considered a "top "firm)
- Contribution to employees (employment security, wages, diversity)
- Contributions to society (taxes paid, participation in charities, providing a needed product or service).
- Market leadership (market share)
- Technological leadership (innovations, creativity).
- Survival (avoiding bankruptcy)
- Personal needs of top management (using the firm for personal purpose, such as providing jobs for relatives).

3.2.7 POLICIES

A policy is a broad guideline for decision making that links the formation of strategy with its implementation. Companies use polices to make sure that employees throughout the firm make decisions and take actions that support the corporation mission, objects, and strategies. For example, consider the following compa ny Polices:

- **Maytag Company:** Maytag will not approve any cost reduction proposal if it reduces product quality in any way. (This policy support Maytag's strategy for Maytag brands to compete on quality rather than on price).
- **3M:** Researchers should spend 15% of their time working on something other than their primary project. (This supports 3M strong product development strategy).
- **Intel:** cannibalize your product line (undercut the sales of your current products) with better products before a competitor does it to you. (this

supports Intel's objective of market leadership).

- **General Electric:** GE must be number one or two where never it competes. (This supports GE's objective to be number one in market capitalization).
- **America Online:** The company could have used a policy stating that a new marketing program would not be implemented until proper support was in place. Policies like these provide clear guidance to managers throughout the organization.

3.3 STRATEGY IMPLEMENTATION

3.3.1 Process of strategy and program Implementation

Strategy implementation is the process by which strategies and polices are put into action in the development of programs and budgets procedures.

Two key implementation issues in small companies are *organizing and staffing* the owing company and the transferring ownership of the company to the next generation.

This process might involve changes within the overall culture, structure, and/ or management system of the entire organization. Except when such drastic corporate wide changes are needed, however, the *implementation of strategy is typically conducted by middle and lower level managers with review by top management.* Sometimes referred to as operational planning strategy implementation often involves day-to-day decisions in resources allocation.

3.3.2 Programs. What is a program?

A program is a statement of the activities or steps needed to accomplish a single use plan. It makes the strategy action-oriented. It may involve restructuring the corporation changing the company’s internal cultural, or beginning a new research effort. For example, consider Intel corporation, the microprocessor manufacturer. Realizing that Intel would not bale to continue is corporate growth strategy without the continuous development of new generations of microprocessors management decided to implement a series of programs.

- The formed an alliance with Hewlett-Packard to development the successor to the Pentium Pro chip.
- They assembled an elite team of engineers and scientists to do long-term, original research into computer chip design.

Another example is AMR's SABRE Group (the computer reservations unit developed by American Airlines), world, forged alliances with Microsoft and Time Warner to start selling airline ticket directly to customers on the Internet. Keep in mind, however, America On line’s experience. Be carful of introducing a new program without ensuring its fit with the organization's overall strategic and objectives as well as its impact on the rest of the firm.

3.3.3 Budgets

A budget is a statement of a corporation's programs in tem)s of dollars. Used in planning g and control, a budget lists the detailed cost of each program. Many corporations demand a certain percentage return on investment, often called a "hurdle rate," before management will approve a new program. This ensures that the new program will significantly add to the corporation's profit performance and thus build shareholder value. The budget thus not only serves as a detailed plan of the new strategy in action, it also specifies through pro forma financial statements the expected impact on the firm's financial future.

For example, to become significant global competitor in cars and trucks, the

Daewoo Group of Korea budgeted $11 billion over the four-year period from 1996 to 2000 to quadruple its annual production of automobiles to two million vehicles (more than Chrysler Corporation produced). In addition to spending on its new plants in the Czech Republic and Romania, Daewoo budgeted $300 million and $650 million, respectively, to build new plants in Poland and Uzbekistan as part of its European expansion program.

3.3.4 Procedures

Procedures, sometimes termed Standard Operating Procedures (SOP), are a system of -sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete the corporation's program. For example, Delta Airlines used various procedures to cut costs. To reduce the number of employees, Delta asked technical experts in hydraulics, metal working, avionics, and other trades to design cross-functional work teams. To cut marketing expenses, Delta instituted a cap on travel agent commissions and emphasized sales to bigger accounts. Delta also changed its purchasing and food service procedures. See the Strategy in a Changing World feature to see how these procedures supported Delta's objectives and strategy.

3.3.5 EVALUATION AND CONTROL

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems. Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

For evaluation and control to be effective, managers must obtain clear, prompt, and unbiased information from the people below them in the corporation's hierarchy. Using this information, managers compare what is actually happening with what was originally planned in the formulation stage. For example, the success of Delta Airlines's turnaround strategy was evaluated in terms of the amount spent on each airplane seat per mile of flight

3.4 Model of strategic decision making in Small Businesses

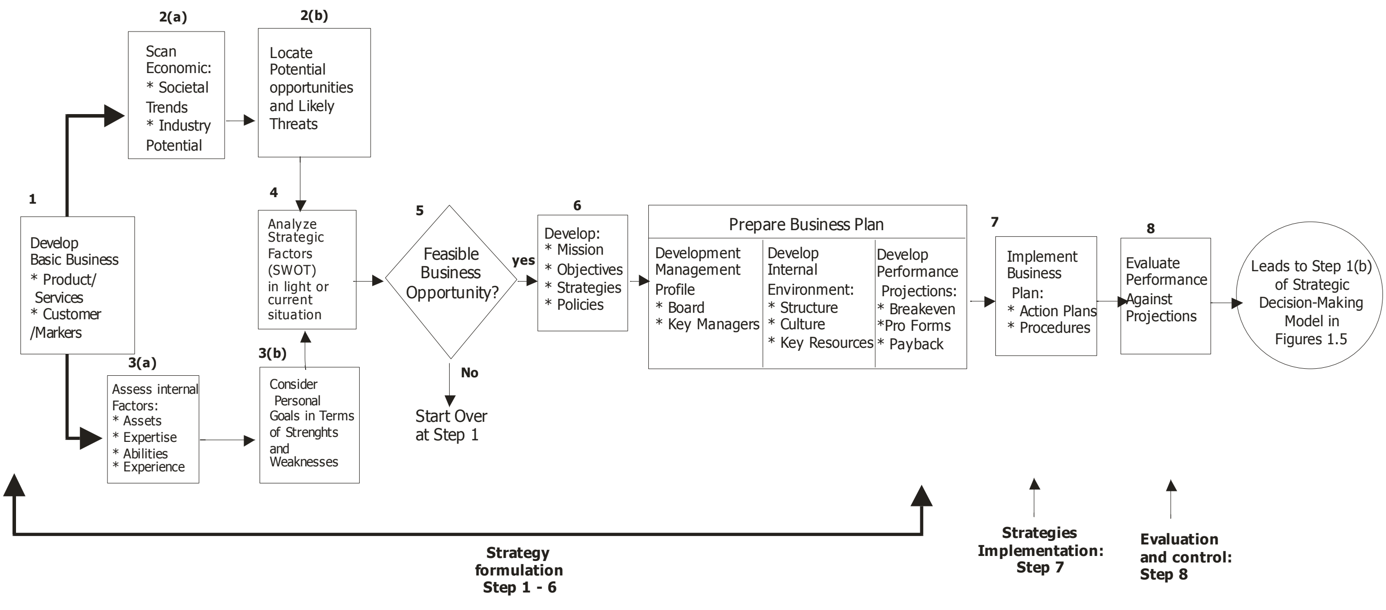
The model of strategic management is also relevant to entrepreneurial ventures and small businesses. This basic model holds for both an established small company and a new entrepreneurial venture. As the research mentioned earlier concluded, small and developing companies increase their chances of success if they make a serious attempt to work through the strategic issues embedded in the strategic management model. The key is to focus on what's important-the set of managerial decisions and actions that determines the long-run performance of the company. The list of informal questions presented in Table 12.1 may be more useful to a small entrepreneurial company than their more formal counterparts used by large established corporations

3.4.1 Usefulness of Strategic Decision-Making Process

Boom opined that , one way in which the strategic management model can be made action oriented is to follow the strategic decision-making model presented in Figure 1.5. The eight steps presented in that model are just as appropriate for small companies as they are for large corporations. Unfortunately the process does not fit new entrepreneurial ventures. *These companies must develop new missions, objectives, strategies, and policies* out of a comparison of its external opportunities and threats to its potential strengths and weaknesses. Consequently we propose in Figure 12.1 a modified version of the strategic decision-making process; this version more closely suits the new entrepreneurial business.

3.4.2 *Eight interrelated steps in strategic decision making for entrepreneurial ventures.* The proposed strategic decision-making process for entrepreneurial ventures is composed of the following eight interrelated steps:

3.4.3 Develop the basic business idea-a product and/or service having target customers and/or markets. The idea can be developed from a person's experience or generated in a moment of creative insight. For example, Debbie Giampapa conceived of the beverage-holding party



Source: Managing Performance through Training and Development, p.177. Figure 5.2 Strategic model depicting tray long before such a product was feasible.

3.4.3 *Scan and assess the external environment***,** to locate factors in the societal and task environments that pose opportunities and threats. The scanning should focus particularly on market potential and resource accessibility.

3.4.4 Scan and assess the internal factors relevant to the new business. The entrepreneur should objectively consider personal assets, areas of expertise, abilities, and experience, all in terms of the organizational needs of the new venture.

3.4.5 Analyze the strategic factors in light of the current

situation using SWOT. The venture's potential strengths and weaknesses must be evaluated in light of opportunities and threats. Develop a SFAS Table (Figure 5.1) of the strategic factors.

3.4.6 *Decide go or no go***.**

If the basic business idea appears to be a feasible business opportunity, the process should be continued. Otherwise, further development of the idea should be canceled unless the strategic factors change.

3.4.7 *Generate a business plan*

specifying how the idea will be transformed into reality. See Table 12.2 for the suggested contents of a strategic *business plan.* The proposed venture's mission, objectives, strategies, and policies, as well as its likely board of directors (if a corporation) and key managers should be developed. Key internal factors should be specified and performance projections generated. The business plan serves as a vehicle through which financial support is obtained from potential investors and creditors. Starting a business without a business plan is the quickest way to kill a new venture. For example, one study of 270 clothing retailers found that 80% of the successful stores had written a business plan, whereas 65% of the failed businesses had not. Implement the Business Plan through the use of action plans and procedures.

3.4.8 Implement the Business Plan through the use of action plans and procedures.

The strategic audit (see Table 10.5 on pages 252-259) can be used to develop a formal business plan. The audit's sections and subsections, along with the questions within them, provide a useful framework. Instead of analyzing the historical events of an existing company, use the questions to project the proposed company's future. The questions, can be reoriented to follow the outline in Table 10.5. A crucial building block of a sound business plan is the construction of realistic scenarios for the pro forma financials. The pro formats must reflect the impact of seasonality on the cash flows of the proposed new venture.

3.4.9 Evaluate the implemented Business Plan, through comparison of actual performance against projected performance results. This step leads to Step 1 (b) of the strategic decision-making process shown in Figure 1.5 on pages 20-21. To the extent that actual results are less than or much greater than the anticipated results, the entrepreneur needs to reconsider the company's current m0ission, objectives, strategies, policies, and programs, and possibly make changes to the original business plan.

3.5 Importance of Small Business and Entrepreneurial venture

3.5.1 *Survival of small business*

Strategic management as a field of study typically deals with large, established business corporations. However, small business cannot be ignored. There are 22 million small businesses-over 95% of all businesses in the United States. According to Dun & Brad· street, 170,475 entrepreneurial ventures created 846,973 new jobs in the United States during 1996.[2] Research reveals that not only do small firms spend almost twice as much of their R&D dollars on fundamental research as do large firms, but also that small companies are responsible for a high proportion of innovations in products and services. For example, new small firms produce 24 times more innovation per research dollar than do the much larger Fortune 500 firms. The National Science Foundation estimates that 98% of "radical" product developments result from the research done in the labs of small companies.

3.5.2 Despite the overall success of small businesses, however, every year tens of thousands of small companies fail. According to the U.S. Small Business Administration, 24% of all new businesses fail within two years and 63% fail within six years. Similar failure rates occur in the United Kingdom, The Netherlands, Japan, Taiwan, and Hong Kong, South Africa, Nigeria and Ghana. Although some studies are more positive regarding the survival rate of new entrepreneurial ventures, new businesses are definitely considered risky. The causes of small business failure (depending on the study cited) range from inadequate accounting systems to inability to cope with growth. The underlying problem appears to be an overall lack of strategic management-beginning with an inability to plan a strategy to reach the customer, and ending with a failure to develop a system of controls to keep track of performance.

3.5.3 The Entrepreneur as a Strategist

An Entrepreneur is often defined as a person who organizes and manages a business undertaking and who assumes risk for the sake of a profit. The entrepreneur is the ultimate strategist. He or she makes all the strategic as well as operational decisions. All three levels of strategy corporate, business, and functional-are the concerns of this founder and owner- manager of a company. As one, entrepreneur puts it: "Entrepreneurs are strategic planners without realizing it." The founding of FunZone described earlier captures the key elements of the entrepreneurial venture:

A basic business idea that has not yet been successfully tried and a gutsy entrepreneur who, while working on borrowed capital and a shoestring budget, creates a new business through a lot of trial and error and persistent hard work. Similar stories can be told of other people, such as Debbie Fields, who created Mrs. Fields Cookies, and Will Parish, who founded National Energy Associates. Both were ridiculed at one time or another for their desire to start a business. Friends and family told Debbie Fields that starting a business to sell chocolate chip cookies "was a stupid idea." Will Parish, who built a power plant in California's Imperial Valley that burns "pasture patties," is called an "entre-manure."Every day the plant burns 900 tons of manure collected from nearby feedlots to generate 15 megawatts of electricity-enough to light 20,000 homes. The power is sold to Southern California Edison. Parish got the idea from a trip to India where the fuel used to heat a meal was cow dung. Now that the plant is earning a profit, Parish is building a larger plant nearby that will burn wheat straw and other crop wastes. The plants provide an environmentally sound as well as profitable way to dispose of waste. Very interested in conservation, Parish says, "I wanted to combine doing well with doing good."

3.5.5 Initiation of Strategy- Triggering Events

Most large organizations tend to follow a particular strategic orientation for about 15 to 20 years before making a significant change in direction. After this rather long period of fine-tuning an existing strategy, some sort of shock to the system is needed to motivate management to seriously reassess the corporation's situation.

3.5.6 What is a triggering event?

A triggering event is something that acts as a stimulus for a change in strategy.

Some possible triggering events are:

3.5.7 New CEO. By asking a series of embarrassing questions the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation's existence.

3.5.8 External intervention

The fim1's bank suddenly refuses to approve a new Joan or suddenly demands payment in full on an old one.

3.5.9 Threat of a change in ownership. Another firm may initiate a takeover by buying the company's common stock.

3.6. Performance gap. A performance gap exists when perfom1ance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.

Iomega Corporation is an example of one company in

Which a triggering event forced its management radical l rethink what it was doing, See the Strategy in a Changing World feature to show how one simple question from the new CEO stimulated a change in strategy at Iomega.

3.6.1 Strategic Decision Making

3.6.2 **What Makes a Decision Strategic?**

Unlike many other decisions, Strategic decisions deal with long-Run future of the entire organization and have three characteristics:

i. Rare: Strategic decisions are unusual and typically have no procedure to follow:

ii Consequential: Strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels.

3.6.3 Directive: Strategic decisions set precedents for lesser decisions and future action throughout the organization.

3.6.4 Mintzberg's Modes of strategic Decision making.

Some strategic decisions are made in a flash by one person (often an entrepreneur or a powerful chief executive officer) who has a brilliant insight and is quickly able to convince others to adopt his or her idea. Other strategic decisions seem to develop out of a series of small incremental choices that over time push the organization more in one direction than another. According to Henry Mintzberg, the most typical approaches, or modes, of strategic decision making are:

3.6.4 Entrepreneurial Mode: Strategy is made by one powerful individual. The focus is on opportunities; problems are secondary. Strategy is guided by the founder's own vision of direction and is exemplified by large, bold decisions. The dominant goal is growth of the corporation. America Online, founded by Steve Case is an example of this mode o strategic decision making. The company reflects his vision of the Internet provide industry AOL's clear growth strategy is certainly an advantage of the entrepreneurial mode, it tendency to market its products before the company is able to support them is a significant disadvantage.

3.6.5 **Adaptive Mode**. Sometimes referred to as "muddling through, "thus decision making modes is characterized in reactive solutions to existing problems, rather than a proactive search for new opportunities. Much bargaining goes on concerning priorities of objective. Strategy is fragmented and is developed to move the corporation forward incrementally. This mode is typical of most universities, many large hospitals, a large number of governmental agencies, and a surprising number of large corporations. Encyclopedia Britannica, Inc., operated successfully for many years in this mode, but continued to rely on the door-to-door selling of its prestigious books long after dual career couples made this marketing approach obsolete. Only after it was acquired in 1996 did the company changes its marketing strategy to television advertising, and internal marketing. It now offers CD-ROMs in addition to the printed volumes.

3.6.6 Planning Mode: This decision-making mode involves the systematic gathering of appropriate information for situation analysis, the generation of feasible alternative strategies, and the rational selection of the most appropriate strategy, it includes both the proactive search for new opportunities and the reactive solution of existing problems. The J. C Penney Company is an example of the planning mode. After a careful study of shopping trends in the 1980s, the retailing company discontinued its sales of pain, hardware, major appliances, automotive items and electronics to concentrate on apparel and home furnishings. Declining personal incomes and greater uncertainly in the 1990s led Penney's to emphasize private brands. This new merchandising strategy allowed the company to offer the high quality of goods often found in better department stores at a competitively lower price. Logical incrementalism- In some instances a corporation might follow a fourth approach called *logical incrementalism*, which is a synthesis of the planning, adaptive, and, to a lesser extent, the entrepreneurial modes of strategies decision making. As described by Quinn, top management might have a reasonably clear idea of the corporation's mission and objectives, but in its development of strategies, it chooses to use" an interactive process in which the organization probes the future, experiments and learns from a series of partial (incremental) commitments rather than through global formations of total strategies. This approach appears to be useful when the environment is changing rapidly and when it is important to build consensus and develop needed resources before committing the entire corporation to a specific strategy.

3.6.7 **Strategic Decision-making process: *Eight-step strategies for improving strategic decisions***

Aid to better decision, good arguments can be made for using either the entrepreneurial or adaptive modes (or logical incrementalism) in certain situations. This course proposes, however, that in most situations the planning more, which includes the basic elements of the strategic management process, is a more rational and thus better way of making strategic decisions. The planning mode is not only more analytical and less political than are the other modes, but it is also more appropriate for dealing with complex, changing environments.

We therefore propose the following eight-step strategies decision-making process to improve the making of strategic decisions.

3.6.7 Evaluate current performance results in terms of (a) return on investment, profitability, and so forth, and (b) the current mission, objectives, strategies, and policies

3.6.8 Review corporation governance, that is the performance of the firm's board of directors and top management.

3.6.9 Scan and assess the external environment to determine the strategic factors that pose opportunities and Threats.

3.7 Scan and assess the internal corporate environment to determine the strategic factors that are strengths (especially core competencies) and Weaknesses.

3.7.1 Analyze strategic (SWOT) factors to (a) pinpoint problems areas, and (b) review and revise the corporate mission and objective as necessary.

3.7.2 Generate, evaluate, and select the best alternative strategy in light of the analysis conducted in step 5.

3.7.4 Implement selected strategies via programs, budgets, and procedures

3.7.5 Evaluate implemented strategies via feedback systems, and the control of activities to ensure their minimum deviation from plans.

The rational approach to strategic making has been used successfully by corporations like Warner-Lambert; Dayton Hudson; Avon Products; Bechtel Group, Inc.; and Tasei Coorporation.

3.8 Issues in Environmental Scanning and Strategy Formulation

A fundamental reason for differences in strategy formulation between large and small entrepreneurial companies lies in *the relationship between owners and managers.* The CEO of a large corporation has to consider and balance the varied needs of the corporation's many stakeholders. The CEO of a small business, however, is very likely also to be the owner-the company's primary stakeholder. Personal and family needs can thus strongly affect the company's mission and objectives and can overrule other considerations. For example, the 21st Century Global Society feature illustrates how Anita Roddick's personal social and environmental values determined the policies and mission statement of her entrepreneurial venture, The Body Shop.

3.8.1 Growth Strategy. Size can affect the selection of and appropriate corporate strategy. Large corporations often choose *growth strategies* for their many side benefits for management as well as for shareholders.

3.8.2 Stability Strategy. A small company may, however, choose a *stability strategy* because the entrepreneur is interested mostly in ;

3.8.3 Generating employment for family members,

3.8.4 Providing the family a" decent living," and

3.8.5 Being the "boss" of a firm small enough that he or she can manage it comfortably. Thus the goals of a small business are likely to be the same as the goals of the owner-manager.

3.8.6 The basic SWOT analysis is just as relevant to small entrepreneurial businesses as it is to established large ones. Both the greatest strength and the greatest weakness of the small firm, at least in the beginning, rest with the entrepreneur-the owner-manager of the business. The entrepreneur is *the* manager, the source of product/market strategy, and the dynamo who energizes the company. That is why the internal assessment of a new venture's strengths and weaknesses focuses in Figure 12.1 on the founder's personal characteristics-his or her assets, expertise, abilities, and experience. Just as an entrepreneur's strengths can be the key to company success, personal weaknesses can be a primary cause of failure. For example, the study of clothing retailers mentioned earlier showed that the owner-managers of 85% of the failed stores had no prior retailing experience.

3.9 *REASONS FOR APPARENT LACK OF STRATEGIC PLANNING PRACTICES IN MANY SMALL BUSINESSES*

3.9.1 **Strategic Planning related to financial Performance**. Research shows that strategic planning is strongly related to small-business financial performance. A survey of the high growth *Inc.* 500 firms revealed that 86% performed strategic planning. Of those performing strategic planning, 94% reported improved profits. Nevertheless, many small companies still do not use the process.

3.9.2 *Not enough time. The reasons often cited for the apparent lack of strategic planning practices in many small-business firms are fourfold:* **Not enough time.** Day-to-day operating problems take up the time necessary for long-term planning. It's relatively easy to justify avoiding strategic planning on the basis of day-to-day crisis management. Some will ask: "How can I be expected to do strategic planning when I don't know if I'm going to be in business next week?"

3.9.3 **Unfamiliar with strategic planning.** The small- business CEO may be unaware of strategic planning or may view it as irrelevant to the small-business situation. Planning may be viewed as a straitjacket that limits flexibility.

3.9.4 **Lack of skills.** Small-business managers often lack the skills necessary to begin strategic planning and do not have or want to spend the money necessary to import trained consultants. Future uncertainty may be used to justify a lack of planning. One entrepreneur admits, "Deep down, I know I should plan. But I don't know what to do. I'm the leader but I don't know how to lead the planning process."

3.9.5 **Lack of trust and openness.** Many small-business owner-managers are very sensitive regarding key information about the business and are thus unwilling to share strategic planning with employees or outsiders. For this reason, boards of directors are often composed only of close friends and relatives of the owner manager-people unlikely to provide an objective viewpoint or professional advice.

Self Assessment Questions

Self Assessment Questions

1. Why is the entrepreneur described as a strategist?

2 What are the fundamental reasons for differences in strategy formulation between large and small entrepreneurial companies.

4.0Conclusion

The model of strategic management is also relevant to entrepreneurial ventures and small businesses. This basic model holds for both an established small company and a new entrepreneurial venture. As the research mentioned earlier concluded, small and developing companies increase their chances of success if they make a serious attempt to work through the strategic issues embedded in the strategic management model. Environmental scanning in small businesses is much less sophisticated than it is in large corporations. The business is usually too small to justify hiring someone to do only environmental scanning or strategic planning. Top managers, especially if they are the founders, tend to believe that they know the business and can follow it better than anyone else Environmental scanning in small businesses is much less sophisticated than it is in large corporations. The business is usually too small to justify hiring someone to do only environmental scanning or strategic planning. Top managers, especially if they are the founders, tend to believe that they know the business and can follow it better than anyone e

5.0Summary

A typical organizational strategy maximizes competitive advantage and minimizes competitive disadvantage. One way in which the strategic management model can be made action oriented is to follow the strategic decision-making model. The eight steps presented in that model are just as appropriate for small companies as they are for large corporations. Unfortunately the process does not fit new entrepreneurial ventures. *These companies must develop new missions, objectives, strategies, and policies* out of a comparison of its external opportunities and threats to its potential strengths and weaknesses. Consequently the modified version of the strategic decision-making process version more closely suits the new entrepreneurial business. Size can affect the selection of an appropriate corporate strategy.

Large corporations often choose growth strategies for their side benefits for management as well as for shareholders. A small company may, however, choose a stability strategy because the entrepreneur is interested mostly in generating employment for family members, Providing the family a" decent living," and Being the "boss" of a firm small enough that he or she can manage it comfortably. Thus the goals of a small business are likely to be the same as the goals of the owner-manager. The basic SWOT analysis is just as relevant to small entrepreneurial businesses as it is to established large ones. Both the greatest strength and the greatest weakness of the small firm, at least in the beginning, rest with the entrepreneur-the owner-manager of the business.

Size can affect the selection of an appropriate corporate strategy. Large corporations often choose growth strategies for their may side benefits for management as well as for shareholders. A small company may, however, choose a stability strategy because the entrepreneur is interested mostly in generating employment for family members, Providing the family a" decent living," and Being the "boss" of a firm small enough that he or she can manage it comfortably. Thus the goals of a small business are likely to be the same as the goals of the owner-manager. The basic SWOT analysis is just as relevant to small entrepreneurial businesses as it is to established large ones. Both the greatest strength and the greatest weakness of the small firm, at least in the beginning, rest with the entrepreneur-the owner-manager of the business.

6.0Tutor-Marked Assignment

(a)State and explain the apparent reasons for lack of strategic planning practices in many small businesses?

(b) Identify and describe eight interrelated steps in strategic decision making for entrepreneurial ventures?

© State and explain the apparent reasons for lack of strategic planning practices in many small businesses?

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Answer to Self Assessment Question.

(a)An Entrepreneur is often defined as a strategist because he organizes and makes all critical and strategic decision and assumes high risk for the sake of profit.

Answer to Self Assessment Question.

According to Hofer and Sandberg, the key to success for most new ventures is his decision and assume his risk for the sake of profit.

(1) to differentiate the product from those of other competitors in the areas of quality and service and

(2) to focus the product on customer needs in a segment of the market in order to achieve a dominant share of that part of the market.

UNITS 11 KEY TO SUB-STAGES OF SMALL BUSINESS DEVELOPMENT

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main content

3.1 **Entrepreneurial Characteristics**

3.1.1 The ability to identify potential venture opportunities

3.1.2 A sense of urgency that makes them action oriented.

3.1.3 A detailed knowledge of the keys to success

3.1.4 Access to outside help to supplement their skills,

3.1.5 In summarizing their conclusions regarding factors

3.2 Sub-stages of Small Business Development

3.2.1 Five Sub-stages of small business development:

3.2.1 Stage A: Existence

3.2.2 Stage B: Survival

3.2.3 Stage C: Success

3.2.4 (C1) Disengagement.

3.2.5 Stage D: Take-On

3.2.6 Stage E: Resource Maturity

4.0 Conclusion

5.0 Summary

6.0 Tutor-market Assignment

7.0 References/ Further readings

UNITS 11 KEY TO SUB-STAGES OF SMALL BUSINESS DEVELOPMENT

CONTENT

1.0 Introduction

The implementation problems of a small business change as the company grows and develops over time. Just as the decision-making process for entrepreneurial ventures is different from that of established businesses, the managerial systems in small companies often vary from those of large corporations. Those variations are based on their stage of development.

2.0 Objectives

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

Identify good entrepreneurial characteristics

Discuss potential venture opportunities for entrepreneur

Describe Sub-stages of small business development

Understand the difference between corporate goal and corporate development

3.0 Main content

3.1 Entrepreneurial Characteristics:

Four **entrepreneurial characteristics** are keys to a new venture's success. Successful entrepreneurs have:

3.1.1 The ability to identify potential venture opportunities better than most people. They focus on opportunities-not on problems-and try to learn from failure. Entrepreneurs are goal oriented and have a strong impact on the emerging culture of an organization. They are able to envision where the company is going and are thus able to provide a strong overall sense of strategic direction. See the Strategy in a Changing World feature for Cherrill Farnsworth's ability to spot new entrepreneurial opportunities.

3.1.2 A sense of urgency that makes them action oriented. They have a high need for achievement, which motivates them to put their ideas into action. They tend to have an internal locus of control that leads them to believe that they can determine their own fate through their own behavior. They also have a significantly greater capacity to tolerate ambiguity and stress than do many in established organizations.[25] They also have a strong need for control and may even be viewed as" misfits who need to create their own environment. They tend to distrust others and often have a need "to show others that they amount to something, that they cannot be ignored."

3.1.3 A detailed knowledge of the keys to success in the industry and the physical stamina to make their work their lives. They have better than average education and significant work experience in the industry in which they start their business. They often work with partners to form a new venture. (70% of new high-tech ventures are started by more than one founder.) 27 More than half of all entrepreneurs work at least 60 hours a week in the start-up year, according to a National Federation of Independent Business study

3.1.4 Access to outside help to supplement their skills, knowledge, and abilities. Over time, they develop a network of people having key skills and knowledge whom the entrepreneurs can call upon for support. Through their enthusiasm, these entrepreneurs are able to attract key investors, partners, creditors, and employees. For example, Mitch Kapor, founder of Lotus Development Corporation, did not hesitate to bring in Jim Manzi as President because Manzi had the managerial skills that Kapor lacked.

3.1.5 In summarizing their conclusions regarding factors affecting the success of entrepreneurial ventures, Hofer and Sandberg propose the guidelines presented in Table 12.3.

3.2 Sub-stages of Small Business Development

3.2.1 **Five Sub-stages of small business development:**

The stages of corporate growth and development discussed in earlier unit suggest that all small businesses are either in Stage I or trying to move into Stage **II.** These models imply that all successful new ventures eventually become Stage II, functionally organized companies. This is not always true, however. In attempting to show clearly how small businesses develop, Churchill and Lewis propose;

3.2.2 **(A)**existence, (b) survival, (c) success, (d) take-off, and (e) resource maturity. A review of these small-business sub-stages shows in more detail how a company can move through the entrepreneurial Stage I into a functionally oriented, professionally managed Stage II.

3.2.3 **Stage A: Existence** At this point, the entrepreneurial venture faces the problems of obtaining customers and delivering the promised product or service. The organizational structure is simple. The entrepreneur does everything and directly supervises subordinates. Systems are minimal. The owner is the business.

3.2.4 **Stage B: Survival** Those ventures able to satisfy a sufficient number of customers enter this stage; the rest close when their owners run out of start-up capital. Those reaching the survival stage are concerned about generating the cash flow needed to repair and replace capital assets as they wear out and to finance the growth to continue satisfying the market segment they have found. At this stage, the organizational structure is still simple, but it probably has a sales manager or general supervisor to carry out the owner's well-defined orders. A major problem of many small businesses at this stage is finding a person who is qualified to supervise the business when the owner can't be present, but who is still willing to work for a very modest salary. Entrepreneurs usually try to use family members rather than hiring an outsider who lacks the entrepreneur's dedication to the business and (in the words of one owner-manager) "steals them blind." A company that remains in this stage for a long time is often called a "mom and pop" firm. It earns marginal returns on invested time and capital (with lots of psychic income!) and eventually goes out of business when "mom and pop" give up or retire. This type of small business is viewed more as a lifestyle company in which the firm is purely an extension of the owner's lifestyle. Over 94% of small private companies are in this category.

3.2.5 Stage C: Success By this point, the company's sales have reached a level where the firm is not only profitable, but has sufficient cash flow to reinvest in itself. The key issue at this stage is whether the company should be used as a platform for growth or as a means of support for the owners as they completely or partially disengage from the company. The company is transforming into a functionally structured organization, but it still relies on the entrepreneur for all key decisions. The two options are disengagement and growth.

3.2.6 **(C1) Disengagement.** The company can now successfully follow a stability strategy and remain at this stage almost indefinitely-provided that environmental change does not destroy its niche or poor management reduce its competitive abilities. By now functional managers have taken over some of the entrepreneur's duties. The company at this stage may be incorporated, but it is still primarily owned by the founder or founder's family. Consequently the board of directors is either a rubber stamp for the entrepreneur or a forum for family squabbles. Growth strategies are not pursued because either the market niche will not allow growth or the owner is content with the company at a size he or she can still manage comfortably.

3.2.7 **C(2) Growth.** The entrepreneur risks all available cash and the established borrowing power of the company in financing further growth. Strategic as well as operational planning is extensive and deeply involves the owner. Managers with an eye to the company's future rather than for its current situation are hired. This is an entrepreneurial high-growth firm aiming to be included in the *Inc. 500.* The emphasis now is on teamwork rather than on the entrepreneur's personal actions and energy. As noted in the **Company Spotlight on Maytag Corporation** feature, a corporate culture based on the personal values and philosophy of the founder begins to form as the founder hires and trains a dedicated team of successors.

3.2.8 **Stage D: Take-On** The key problems in this stage are how to grow rapidly and how to finance that growth. By now the firm is incorporated and has sold or is planning to sell stock in its company via an initial public offering (IPO) or via a direct public offering (DPO). The entrepreneur must learn to delegate to specialized professional managers or to a team of managers who now form the top management of the company. A functional structure of the organization should now be solidly in place. Operational and strategic planning greatly involve the hired managers, but the company is still dominated by the entrepreneur's presence and stock control. Vertical and horizontal growth strategies are 15eing seriously considered as the firm's management debates when and how to grow. The company is now included in the *Inc.* 500 select group of firms.

3.2.9 At this point, the entrepreneur either is able to manage the transition from a small to a large company or recognizes personal limitations, sells his or her stock for a profit, and leaves the firm. The composition of the board of directors changes from dominance by friends and relatives of the owner to a large percentage of outsiders with managerial experience who can help the owner during the transition to a professionally managed company. The biggest danger facing the firm in this stage is the owner's desire to remain in total control (not willing to delegate) as if it were still a small entrepreneurial venture, even though he or she lacks the managerial skills necessary to run an established corporation.

3.3.0 Stage E: Resource Maturity. It is at this point that the small company has adopted most of the characteristics of an established, large company. It may still be a small-to-medium-sized company, but it is recognized as an important force in the industry and a possible candidate for the *Fortune* 500 someday. The greatest concerns of a company at this stage are controlling the financial gains brought on by rapid growth and retaining its flexibility and entrepreneurial spirit. In terms of the stages of organizational growth and development discussed in Chapter 8, the company has become a full-fledged Stage II functional corporation.

Self Assessment Question

Assuming you are an entrepreneur of a newly established business, how would you explain entrepreneurial mode to a friend?

4 Conclusion

After much research, Henry Mintzberg discovered that strategy formulation is typically not a regular, continuous process: "It is most often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of groping, of piecemeal change, and of global change." This view of strategy formulation as an irregular process can be explained by the very human tendency to continue on a particular course of action until something goes wrong or a person is forced to question his or her actions. This period of "strategic drift" may simply result from inertia on the part of the organization or may simply reflect management's belief that the current strategy is still appropriate and needs only some "fine-tuning."

5 Summary

The distinguishing characteristic of strategic management is its emphasis on strategic decision making. As organizations grow larger and more complex with more uncertain environments, decisions become increasingly complicated and difficult to make. This unit proposes a strategic decision-making framework that can help people make these decisions regardless of their level and function in the corporation.

6 Tutor-Marked Assignment

List and evaluate the importance of 8 steps strategies decision-making process to improve the making of strategic decisions in any small business you may have visited?

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Nenger, C. Reynolds, P. , et al (2004). Small Business Management and Entrepreneurial Spirit(4th ed.). Manhattan, New York Press.

Answer to Self Assessment Question.

An entrepreneur mode is a given business scenario, where strategic decision is made by one powerful individual. The focus is on opportunities; problems are secondary. Strategy is guided by the founder's own vision of direction and is exemplified by large, bold decisions.

UNITS 12 Transfer of Power and Wealth in Family Businesses

CONTENT

1.0 Introduction
2.0 Objectives
3.0 Main content
    3.1 **Transfer of Power and Wealth in Family Businesses**.
        3.1.1 Small businesses are often family businesses.
        3.1.2 Sooner or later, the founder's spouse and children are drafted into business
        3.1.3 Some of the reasons why family business may fail to transfer power
    3.2 Issues in evaluation and control
        3.2.1 The line between debt and equity is blurred.
        3.2.2 Lifestyle is a part of financial statements.
        3.2.3 Standard financial formulas don't always apply.
        3.2.4 Personal preference determines financial policies.
        3.2.5 Banks combine personal and business wealth.
4.0 Conclusion
5.0 Summary
6.0 Tutor-market Assignment
7.0 References/ Further readings

UNITS 12 Transfer of Power and Wealth in Family Businesses

CONTENT

1.0 Introduction

Even though the spouse and children might have no official stock in the company, they know that they will somehow share in its future and perhaps even inherit the business. The problem is that only 30% of family firms in the United States make it to the second generation, and just 13% survive to the third generation.

2.0 Objectives

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

Explain transfer of power and wealth in Family business

Identify reasons why family business may not succeed to transfer power and wealth.

Discuss inherent benefits of running a family business

Understand issues and evaluation of family business

3.0 Main content

3.1 **Transfer of Power and Wealth in Family Businesses**.

3.1.1 Small businesses are often family businesses. Even though the founders of the companies are the primary forces in starting the entrepreneurial ventures, their needs for business support and financial assistance will cause them to turn to family members, who can be trusted, over unknown outsiders of questionable integrity, who may demand more salary than the enterprise can afford.

3.1.2 Sooner or later, the founder's spouse and children are drafted into business operations either because the family standard of living is directly tied to the business or the entrepreneur desperately needs help just to staff the operation. The children are guaranteed summer jobs, and the business changes from dad's or mom's company to" our" company. The family members are extremely valuable assets to the entrepreneur because they are often also willing to put in long hours at low pay to help the business succeed. Even though the spouse and children might have no official stock in the company, they know that they will somehow share in its future and perhaps even inherit the business. The problem is that only 30% of family firms in the United States make it to the second generation, and just 13% survive to the third generation.

3.1.3 Churchill and Hatten propose that family businesses go through four sequential phases from the time in which the venture is strictly managed by the founder to the time in which the next generation takes charge. These phases are detailed in Table 12.4. Each of these phSooner or later, the founder's spouse and children are drafted into business operations either because the family standard of living is directly tied to the business or the entrepreneur desperately needs help just to staff the operation. The children are guaranteed summer jobs, and the business changes from dad's or mom's company to" our" company. The family members are extremely valuable assets to the entrepreneur because they are often also willing to put in long hours at low pay to help the business succeed asses must be well managed if the company is to survive past the third generation.

3.1.4 Some of the reasons why family business may fail to transfer power to another generation are as follows:

- inherited wealth destroys entrepreneurial drive,
- the entrepreneur doesn't allow for a changing firm,
- emphasis on business means the family is neglected,
- the business' financial growth can't keep up with rising family lifestyles,
- family members are not prepared to run a business, and
- the business becomes an arena for family conflicts in addition, succession planning may be ignored because of the founder's or

family's refusal to think about the founder's death, the founder's unwillingness to let go of the firm, the fear of sibling rivalry, or intergenerational envy.

3.2 Issues in Evaluation and Control

3.2.1 As a means by which the corporation's implementation of strategy can be evaluated, the control systems of large corporations have evolved over a long period of time in response to pressures from the environment (particularly the government). Conversely the entrepreneur creates what is needed as the business grows. Because of a personal involvement in decision making, the entrepreneur managing a small business has little need for a formal, detailed reporting system.

3.2.2 Thus the founder who has little understanding of accounting and a shortage of cash might employ a bookkeeper instead of an accountant. A formal personnel function might never appear because the entrepreneur lumps it in with simple bookkeeping and uses a secretary to handle personnel files.

3.2.3 As an entrepreneurial venture becomes more established, it will develop more complex evaluation and control systems, but they are often not the kind used in large corporations and are probably used for different purposes.

3.2.3 Financial statements, in particular, tell only half the story in small, privately owned companies. The formality of the financial reporting system in such a company is usually a result of pressures from government tax agencies, not from management's desire for an objective evaluation and control system. For example, the absence of taxes in Bermuda has been given as the reason why business owners keep little documentation-thus finding it nearly impossible to keep track of inventory, monitor sales, or calculate how much they are owed.

3.2.4 Because balance sheets and income statements do not always give an accurate picture, standard ratios such as return on assets and debt-equity are unreliable. Cash flow is widely regarded as more important for an entrepreneurial business than is the traditional balance sheet or income statement. Even though a small business may be profitable in the accounting sense, a negative cash flow could bankrupt the company.

3.2.5 Levin and Travis provide ***five reasons*** financial

Methods may not indicate the health of a small, privately

owned company.

3.2.6 The line between debt and equity is blurred. In some instances, what appears as a loan is really an easy-to-retrieve equity investment. The entrepreneur in this instance doesn't want to lose his or her investment if the company fails. Another condition is that retained earnings seldom reflect the amount of internal financing needed for the company's growth. This account may merely be a place in which cash is left so that the owner can avoid double taxation. To avoid other taxes, owner-managers may own fixed assets that they lease to the corporation. The equity that was used to buy those assets is really the company's equity, but it doesn't appear on the books.

3.2.7 Lifestyle is a part of financial statements.

The lifestyle of the owner and the owner's family is often reflected in the balance sheet. The assets of some firms include beach cottages, mountain chalets, and automobiles. In others, plants and warehouses that are used for company operations are not shown because they are held separately by the family. Income statements may not reflect how well the company is operating. Profitability is not so important in decision making in small, private companies as it is in large, publicly held corporations. For example, spending for recreation or transportation and paying rents or salaries above market rates to relatives put artificially high costs on the books of small firms. The business might appear to be poorly managed to an outsider, but the owner is acting rationally. The owner-manager wants dependable income or its equivalent with the least painful tax consequences. Because the standard profitability measures such as ROI are not useful in the evaluation of such a firm, Levin and Travis recommend return on current assets as a better measure of corporate productive.

3.2.8 Standard financial formulas don't always apply. Following practices that are in contrast to standard financial recommendations, small companies often use short-term debt to finance fixed assets. The absence of well-organized capital markets for small businesses, along with the typical banker's resistance to making loans without personal guarantees, leaves the private owner little choice.

3.2.9 Personal preference determines financial policies. Because the owner is often the manager of the small firm, dividend policy is largely irrelevant. Dividend decisions are based not on stock price (which is usually unknown because the stock is not traded), but on the owner's lifestyle and the tradeoff between taking wealth from the corporation and double taxation.

3.3.0 **Banks combine personal and business wealth.** Because of the large percentage of small businesses that go bankrupt every year, bank loan officers are reluctant to lend money to a small business unless the owner also provides some personal guarantees for the loan. In some instances, part of the loan may be composed of a second mortgage on the owner's house. If the owner does not want to succumb to this pressure by lenders to include the owner's personal assets as part of the collateral, the owner-manager must be willing to pay high interest rates for a loan that does not put the family's assets at risk.

What do you understand by **Banks combine personal and business wealth.** Because of the large percentage of small businesses that go bankrupt every year, bank loan officers are reluctant to lend money to a small business unless the owner also provides some personal guarantees for the loan. In some instances, part of the loan may be composed of a second mortgage on the owner's house. If the owner does not want to succumb to this pressure by lenders to include the owner's personal assets as part of the collateral, the owner-manager must be willing to pay high interest rates for a loan that does not put the family's assets at risk.

Self Assessment Question.

What do you understand by the phrase "The line between debt and equity is blurred"**?**

4 Conclusion

Small businesses are often family businesses. Even though the founders of the companies are the primary forces in starting the entrepreneurial ventures, their needs for business support and financial assistance will cause them to turn to family members, who can be trusted, over unknown outsiders of questionable integrity, who may demand more salary than the enterprise can afford.

5 Summary

Sooner or later, the founder's spouse and children are drafted into business operations either because the family standard of living is directly tied to the business or the entrepreneur desperately needs help just to staff the operation. The children are guaranteed summer jobs, and the business changes from dad's or mom's company to" our" company. The family members are extremely valuable assets to the entrepreneur because they are often also willing to put in long hours at low pay to help the business succeed

6 Tutor-Marked Assignment

Clearly state why some family companies may not succeed in transferring wealth and power to another generation?

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Answer to Self Assessment Question:

In some instances, what appears as a loan is really an easy-to-retrieve equity investment. The entrepreneur in this instance doesn't want to lose his or her investment if the company fails. Another condition is that retained earnings seldom reflect the amount of internal financing needed for the company's growth. This account may merely be a place in which cash is left so that the owner can avoid double taxation.

UNITS 13 Sources of Innovation and Entrepreneurship

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main content

3.1 ***Sources of Innovation***

3.1.1 *The unexpected.*

3.1.2 *The incongruity.*

3.1.3 Innovation based on process need.

3.1.4 Changes in industry or market structure.

3.1.5 Demographics.

3.1.6 Changes in perception, mood, and meaning.

3.1.7 New knowledge.

4.0 Conclusion

5.0 Summary

6.0 Tutor-market Assignment

7.0 References/ Further readings

UNITS 13 Sources of Innovation and Entrepreneurship

CONTENT

1.0 Introduction

In this unit we shall study the entrepreneur who provides a great source of creativity and innovations in the business community. They have contributed in no small measure so many inventions through creativity and discoveries. New entrepreneurial ventures are emerging daily in Nigeria and all over the world.

2.0 Objectives

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

Identify sources of innovative opportunity in entrepreneurial venture

Discuss the first four sources of innovation that lie within industry

Explain other sources of innovation in the societal environment

Understand the importance of innovation and creativity in small business

3.0 Main content

3.1 Sources of Innovation

Drucker, opined and proposes seven sources for innovative opportunity that should be monitored by those interested in starting an entrepreneurial venture, either within an established company or as an independent small business (Drucker,1980). The first four sources of innovation lie within the industry itself; the last three arise in the societal environment. These seven sources are:

3.1.1 The unexpected.

An unexpected success, an unexpected failure, or an unexpected outside event can be a symptom of a unique opportunity. When Don Cullen of Transmet Corporation spilled a box of very fine aluminum flakes onto his company's parking lot, he discovered that their presence in the asphalt prevented it from turning sticky in high temperatures. His company now produces aluminum chips for use in roofing. Sales have doubled every year since the product's introduction and his company will soon dominate the business.

3.1.2 The incongruity.

A discrepancy between reality and what everyone assumes it to be, or between what is and what ought to be, can create an opportunity for innovation. Realizing that the real costs of ocean freighter haulage were not in crew wages but in the time spent loading and unloading at port, Sea-Land changed the entire industry by introducing efficient containerized shipping to reduce handling time and costs.

3.1.3 **Innovation based on process need.** When a weak link is evident in a particular process, but people work around it instead of doing something about it, an opportunity is present for the person or company willing to forge a stronger one. For example, Alcon Laboratories was developed based on the discovery that a specific enzyme could enable doctors to avoid cutting a particular ligament when performing eye surgery.

3.1.4 **Changes in industry or market structure.** A business is ready for an innovative product, service, or approach to the business when the underlying foundation of the industry or market shifts. Black Entertainment Television, Inc. (BED, was born when Robert Johnson noticed that no television programmer was targeting the increasing number of black viewers. Johnson then successfully expanded into print with Young Sisters & Brothers, a monthly magazine aimed at black teenagers.

3.1.5 **Demographics.** Changes in the population's size, age structure, composition, employment, level of education, and income can create opportunities for innovation. For example, Pam Henderson started a company called Kids Kab to shuttle children and teenagers to private schools, doctor and dental appointments, lessons, and extracurricular activities. With the trend to dual careers, parents were no longer always available to provide personal transportation for their own children and needed such a service.

3.1.6 **Changes in perception, mood, and meaning.** Opportunities for innovation can develop when a society's general assumptions, attitudes, and beliefs change. For example, the increasing dominance of a few national brewers have caused beer drinkers to look for alternatives to the same old national brands. By positioning Yuengling, a local Pennsylvania beer, as a full-flavored beer and providing it with an artsy, nostalgic-looking label, the small company was able to catch the fancy of young, trendy consumers who viewed it as Pennsylvania's version of Anchor Steam, the successful San Francisco beer.

3.1.7 **New knowledge.** Advances in scientific and nonscientific knowledge can create new products and new markets. Advances in two different areas can sometimes be integrated to form the basis of a new product. For example, Tuck Rickards opened The Virtual Emporium in Santa Monica's trendy Third Street Promenade shopping area to combine retailing excitement with information technology.

Self Assessment Question.

How can demographics of members of your community impact sources of innovation?

4.0 Conclusion

Entrepreneurship is becoming increasingly important throughout the world. They provided a great source of creativity and innovations. They have contributed in no small measure to so many inventions through creativity and discoveries. New entrepreneurial ventures are emerging daily in Nigeria and all over the world.

5.0 Summary

Opportunities for innovation can develop when a society's general assumptions, attitudes, and beliefs change. Advances in scientific and nonscientific knowledge can create new products and new markets. Advances in two different areas can sometimes be integrated to form the basis of a new product.

6.0 Tutor-Marked Assignment

Outline and discuss the first four sources of innovation that lie within the industry?

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Answers to Self Assessment Question.

Changes in the population's size, age structure, composition, employment, level of education, and income can create opportunities for innovation.

UNITS 14 SMALL BUSINESS IN THE MAJOR INDUSTRIES.

CONTENT

6.0 Tutor-market Assignment

7.0 References/ Further readings

UNITS 14 SMALL BUSINESS IN THE MAJOR INDUSTRIES.

CONTENT

1.0 Introduction

Small firms operate in all industries, but they differ greatly in their nature and importance from industry to industry. In thinking about their economic contribution, therefore, we need first to identify the eight major industries and to note the types of small firms that function in these industries.

2.0 Objectives

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

Identify the major industry where small business are located

Explain the industry where small businesses flourish more.

Discuss which industry is most unfavourable to small business

Explain why small business do not excel well in some industry

3.0 Main content

3.1 SMALL BUSINESS IN THE MAJOR INDUSTRIES

3.1.1 There are eight major industries viz: wholesale trade; contract construction; retail trade; services; finance, insurance, and real estate; mining; transportation and other public utilities; and manufacturing.

3.1.2 *Service Industries*

Any attempt to catalogue service firms immediately reveals their diversity. For example, there are business services such as accounting firms, advertising agencies, private employment agencies, blueprint services, and managerial consultants. Personal services include barber and beauty shops, dry cleaners, photographic studios, funeral homes, travel agencies, and so on. Then there are automobile repair services, entertainment and recreational services, hotels, and motels.

3.1.3 *Finance, Insurance, and Real Estate*

Small banks, loan companies, pawnbrokers, real estate brokerage firms, and insurance agencies illustrate the types of small firms which operate in the industrial category of finance, insurance, and real estate. The insurance agency, for example, is an independent business which sells insurance policies for large insurance companies. Insurance and real estate brokerage services are often combined in the same organization

3.1.4 *Mining*

Small-scale mining involves many types of minerals. There are thousands of small bituminous coal mines for example. Some of them are strip mines operated with only a few employees. Similarly, wildcatters who operate on a shoestring have brought in many an oil well. Some small quarries and sand and gravel companies also belong to the mining industry.

3.1.5 Transportation and Other Public Utilities

The required investment is so great in the industry of transportation and other public utilities that big business is dominant in this field. Even so, some small firms find a niche in which to operate. Examples of such firms include taxicab companies, local bus lines, privately owned water systems, chartered flight services, local radio and television stations, and community newspaper publishers.

3.2 SMALL-BUSINESS STRENGTH IN NUMBERS

A number of measures can be used to evaluate the relative numerical strength of small business.

3.2.1 Paid Employees in Small Business.

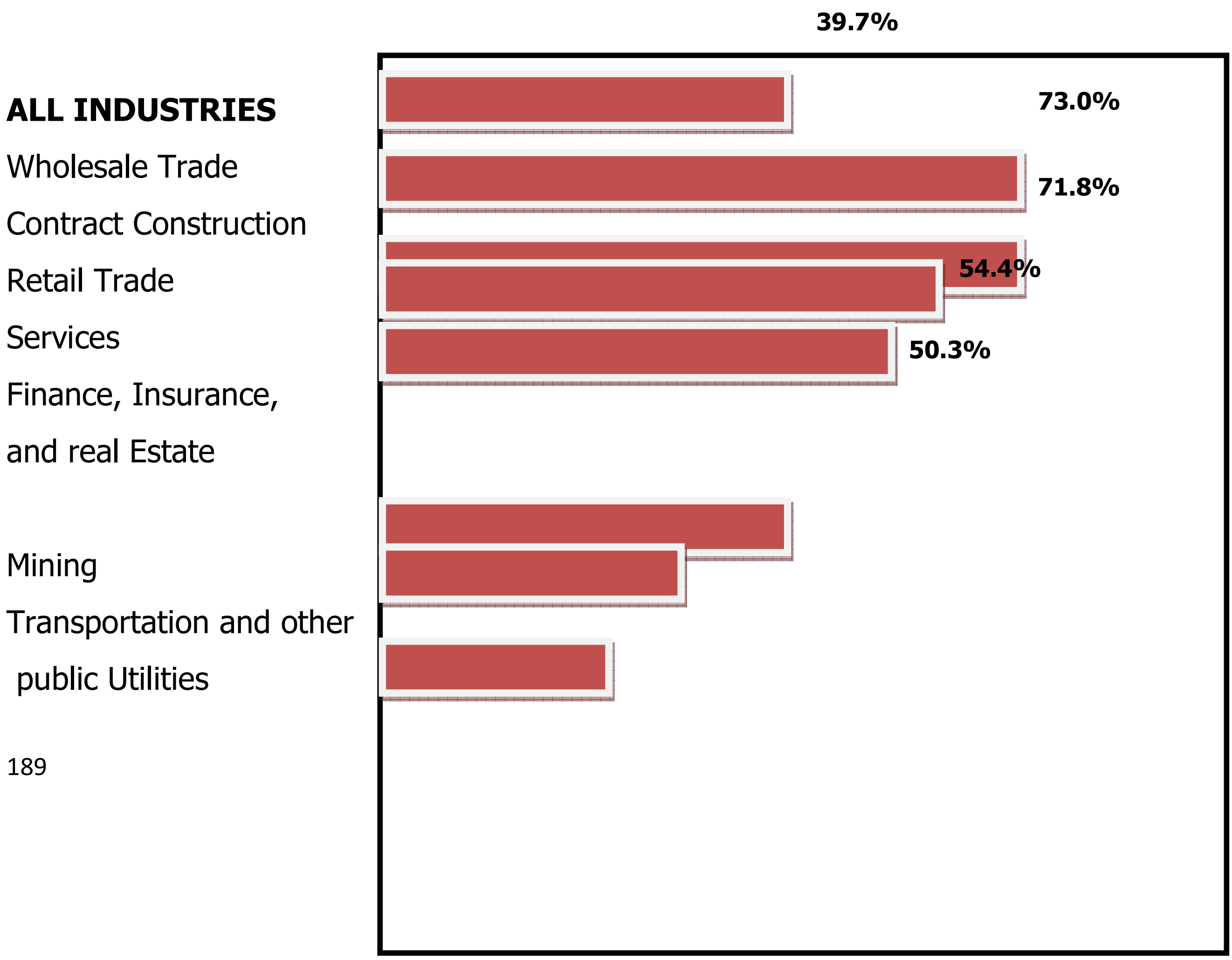
One of these classifies business firms in terms of the number of employees on their payroll. Figure 2-2 shows the percentage of paid employees working in small business – that is, in firms with fewer than 100 employees. Using this criterion, we can see that small-business firms employ almost 40 percent of all employees in all industries.

3.2.2 Wholesale Trade. Of course, in some fields small business is much stronger. Figure 2-2 shows that small firms account for 73 percent of all employees in wholesale trade,

3.2.3 Construction Industry. 71.8 percent of all employees in contract construction,

3.2.4 Retail Industry. 54.4 percent of all employees in retail trade,

3.2.5 Service Industry. And 50.3 percent of all employees in the services industry.



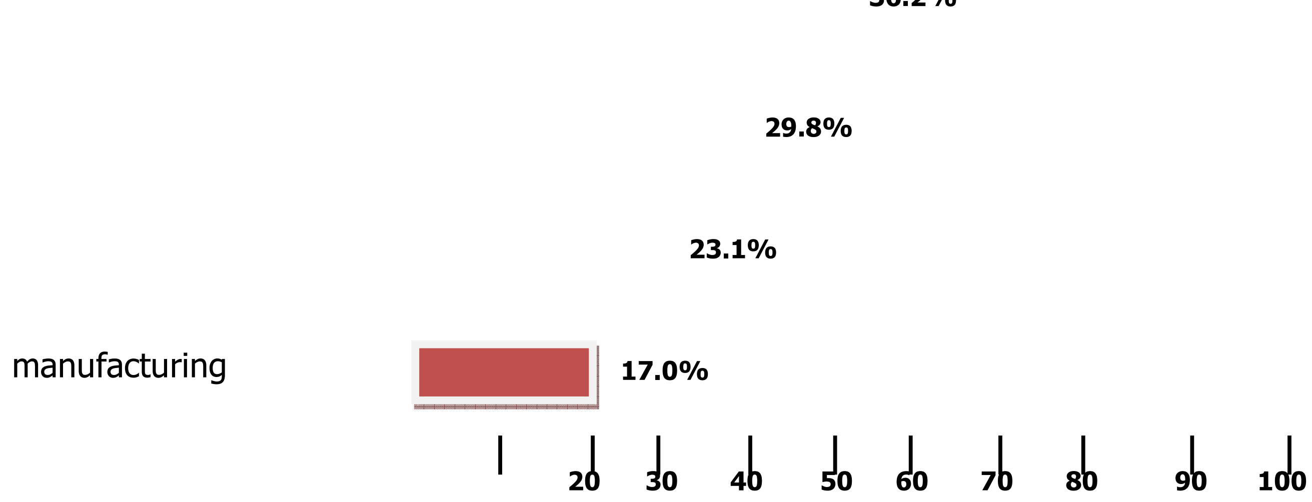


Figure 2.6 Small Businesses in Major industries

Source: P.57 Strategic Business Management, Principles and Practice.

Figure 2-2 Percentage of paid employees in small business.

Self-Assessment Question.

A relatively small percentage of all businesses fail each year, what is the major cause of this failure?

4.0 **Conclusion**

Small firms now have a somewhat smaller share of the market in some industries than they had earlier. However, they have maintained great overall strength and still constitute an important segment of the economy.

The competitive strengths of small firms include knowledge of customers and markets, product and geographic specialization, and flexibility in management.

Problems of small business include lack of managerial skills and depth, personal lack and misuse of time, lack of financing, overregulation and taxes, difficulty in obtaining qualified personnel, and weaknesses in marketing.

5. Summary

A relatively small percentage of all businesses fail each year. The most important cause of failure is thought to be inadequate management. A business becomes insolvent when the aggregate value of its assets is insufficient to pay its debts. The debtor business firm may make voluntary agreements with creditors, or it may be treated under the Bankruptcy Act of 1978. In the latter case, the firm may be reorganized and continue to function, or it may be liquidated to payoff creditors.

Future prospects for small business are bright because of a number of factors. Some of these are the effects of the 1980 White House Conference on-Small Business, the shift to a service economy, the emphasis on small business courses and programs, the strength of small-business associations, the continued support of governmental programs, and the unflinching entrepreneurial spirit.

6 Tutor-Marked Assignment

Which of the industry (ies) does the small business excel more and Profitably and why is it so? Which of the industry (ies) recorded lowest impact for small business and why is it so, explain your answer with examples?

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Answer to Self-Assessment Question

The major cause of failure is thought to be inadequate management.

UNITS 15 SPECIAL CONTRIBUTIONS OF SMALL BUSINESS TO THE ECONOMY

CONTENT

UNITS 15 SPECIAL CONTRIBUTIONS OF SMALL BUSINESS TO THE ECONOMY

CONTENT

1.0 Introduction

As part of the business community, small firms unquestionably contribute to our nation's economic welfare. They produce a substantial portion of our total goods and services. Thus, their general economic contribution is similar to that of big business.

2.0 Objectives

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

Explain how small business create new jobs

Discuss entrepreneur introduce innovations with examples

Identify goods and services small business produce efficiently

Enumerate how small business aid big business

Know how small business stimulate competition

3.0 Main content

3.1 *SPECIAL CONTRIBUTIONS OF SMALL BUSINESS*

Small firms, however, possess some qualities which make them more than miniature versions of big business corporations. They provide new jobs, introduce innovations, stimulate competition, aid big business, and produce goods and services efficiently.

3.1.1 *Providing New Jobs*

As the population and the economy grow, small businesses must provide many of the new job opportunities. Some persons feel, indeed, that small business must produce the "lion's share" of the new jobs. For example, in hearings before the U.S. House Subcommittee on Antitrust, Consumers, and Employment, Carter Henderson, co-director of the Princeton Center for Alternate Futures, testified as follows on the role of small business in providing jobs:

3.1.2 *Introducing Innovation*

New products which originate in the research laboratories of big business made a valuable contribution to our standard of living. There is a question, however, as to the relative importance of big business in achieving the truly significantly innovations. The record shows that many scientific break-through originated with independent inventors and small organizations. Below are some twentieth-century examples of new products created by small firms:

- Xerography
- Insulin
- Vacuum tube
- Penicillin
- Cotton-picker
- Zipper

- Automatic transmission
- Jet engine
- Helicopter
- Power steering
- Kodachrome
- Ball-point pen.

3.1.3 Increase Productivity.

Innovation contributes to productivity by providing better products and better methods of production. A slowing of innovation has been blamed for our nation's recent sluggish rate of growth in productivity." The millions of small firms that provide the centers of initiative and sources of innovation are thus in a position to help improve American productivity.

3.1.4 *Stimulating Economic Competition*

Many economists, beginning with Adam Smith, have expounded the values inherent in economic competition. In a competitive situation, the individual businessperson driven by self-interest is motivated to act in a socially desirable manner. It is competition that acts as the regulator to transform selfishness into service. However, there is no guarantee of competition in numbers alone. Many tiny firms may be no match for one large firm or even for several firms that dominate an industry. Nevertheless, the existence of many healthy small business in an industry may be viewed as a desirable bulwark of the American capitalistic system.

3.1.5 *Aiding Big Business*

The fact that some functions are more expertly performed by small business enables small firms to contribute to the success of larger ones. If small businesses were suddenly removed from the contemporary scene, big businesses would find themselves saddled with a myriad of activities that they could only inefficiently perform. Two functions which small business can perform more efficiently than big business are the distribution function and the supply function.

3.1.6 *Distribution Function.*

Few large manufacturers of inexpensive consumer products find it desirable to own wholesale and retail outlets. Take, for example, the successful small-business operation of Genesco retail cast-offs. Genesco, Inc. a $1 billion manufacturer of footwear and clothing, sold off a number of its lackluster retail divisions to entrepreneurs who changed them into thriving businesses. One of its retail divisions – Gidding Jenny, a fashionable women's store in Cincinnati, OH – was sold in July, 1978, to Barry

Miller, a former executive with Federated Department Stores. Genesco's main problem, according to Miller, was that "they couldn't adjust to stores that were atypical, that served a select trade." It looks as if he will double the sales volume in only three years after taking over from Genesco.

3.1.7 Supply Function**.**

Small businesses act as suppliers and subcontractors for large firms. general Motors, for example, purchases goods and services from more than 37,000 small businesses. Over three fourths of these small firms employ fewer than 100 persons.

Table 2-2 Earnings, including compensation of officers, per naira of assets for corporations with and without net income, by asset class, 1972

	Earning per Naira of Assets				
Asset Class (Thousands of Naira	**Manufacturing**	**Services**	**Construction**	**Transportation**	**Wholesale and Retail Trade**

Under 5	0.49	2.42	0.85	0.42	0.49
25-50	.39	1.03	.53	.26	.34
50 – 100	.35	.53	.40	.26	.29
100-250	.28	.29	.30	.23	.24
250-500	.24	.19	.23	.18	.21
500-1,000	.22	.13	.19	.15	.20
1,000-2,500	.18	.11	.16	.13	.17
2,500-10,000	.16	.09	.13	.11	.15
10,000-25,000	.14	.09	.09	.10	.12
25,000-100,000	.12	.09	.08	.08	.12
Over 100,000	.10	.07	.05	.05	.09

Note: Figure Income = Total receipts – (Total deductions + Officers' compensation + Charitable contributions).

Source: Small Business Management: *The Role of Small Business in the Economy: Tax and Financial Problems on Compensation* p. 39. (Primary source: Office of Tac Analysis, Office of the Commercial and Enterprises Director).

3.1.8 *Producing Goods and Services Efficiently*

In considering the contributions of small business, we are concerned with an underlying question of small-business efficiency. Common sense tells us that the efficient size of business varies with the industry. We can easily recognize, for example, that big business is better in manufacturing automobiles but that small business is better in repairing them.

Self Assessment Question:

What are the two functions which small businesses in your community can perform more efficiently than big business?

4.0 Conclusion

The continued existence of small business in a competitive economic system is in itself evidence of efficient small-business operation. If small firms were hopelessly inefficient and making no useful contribution, they would be forced out of business quickly by stronger competitors. Additional evidence for the operating efficiency of small business is found in some studies of profitability.

These studies compare small firms and large firms according to profits earned per dollar of assets.

5.0 Summary

We expect highly efficient companies to earn higher profits than less efficient companies from dollars invested in plant, equipment, and inventory. And according to Table 2-2, small firms have significantly better earnings than larger firms. in manufacturing, for example, the smallest firms earned 49 cents per dollars of assets, whereas the largest firm earned only 10 cents per dollar of assets. In fact, smaller companies have higher earnings in every industry group. Contrary to a common misconception, therefore, earnings per dollar of assets are inversely related to size of firm. This supports the conclusion that small business contributes in a special way to the economic welfare of our society.

6.0 Tutor-Marked Assignment

Identify and explain with examples, the contributions the small business can make to our nation's welfare?

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Answer to Self Assessment Question

The functions are distribution and supply functions

UNITS 16 PREPARING A NEW-VENTURE PLAN & FRANCHISE

CONTENT

3.3.6 Standard Operating manual & continuity

34 Limitations of Franchising

3.4.1 Cost of Franchise & Restriction on Growth

3.4.2 Loss of absolute Independence

4.0 Conclusion

5.0 Summary

6.0 Tutor-market Assignment

7.0 References/ Further readings

UNITS 16 PREPARING A NEW-VENTURE PLAN & FRANCHISE

CONTENT

1.0 Introduction

As part of the preparation for launching a new venture, the prospective entrepreneur should prepare a written business plan. This plan describes the new-venture idea and projects the marketing, operation, and financial aspects of the proposed business for the first three to five years. Some franchise terminologies will be reviewed in this unit. Entrepreneurial enthusiasm should not cloud the eyes to the realities, both good and bad, of franchising. We shall first look at the advantages of buying a franchise and then examine the weaknesses of this decision. Read these topics carefully, and remember them when you are evaluating a franchise.

2.0 Objectives

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

Explain the meaning of franchise

Identify different kinds of franchise system

Discuss the role of franchisor and franchisee

Describe the importance franchise system in the economy.

Explain the operational planning advantage of a franchise

Differentiate between a Franchisor and a Franchisee

Identify the benefits a franchisor offers to a franchisee

3.0 Main content

3.1 *SCOPE AND DEVELOPMENT OF FRANCHISING*

3.1.1 What is Franchising?

The term franchising is defined in many ways. In this text we use a broad definition to encompass its wide scope. **Franchising** is a marketing system that revolves around a two-party legal agreement whereby one party is granted the privilege to conduct business as an individual owner but is required to operate according to certain methods and terms specified by the other party.

3.1.2 Franchise Contract. The legal agreement is known as the franchise contract.

3.1.3 Franchise The privileges that franchise contract contains are called the franchise.

3.1.4 Franchisor- The sponsor of the privileges is called the

Franchisor.

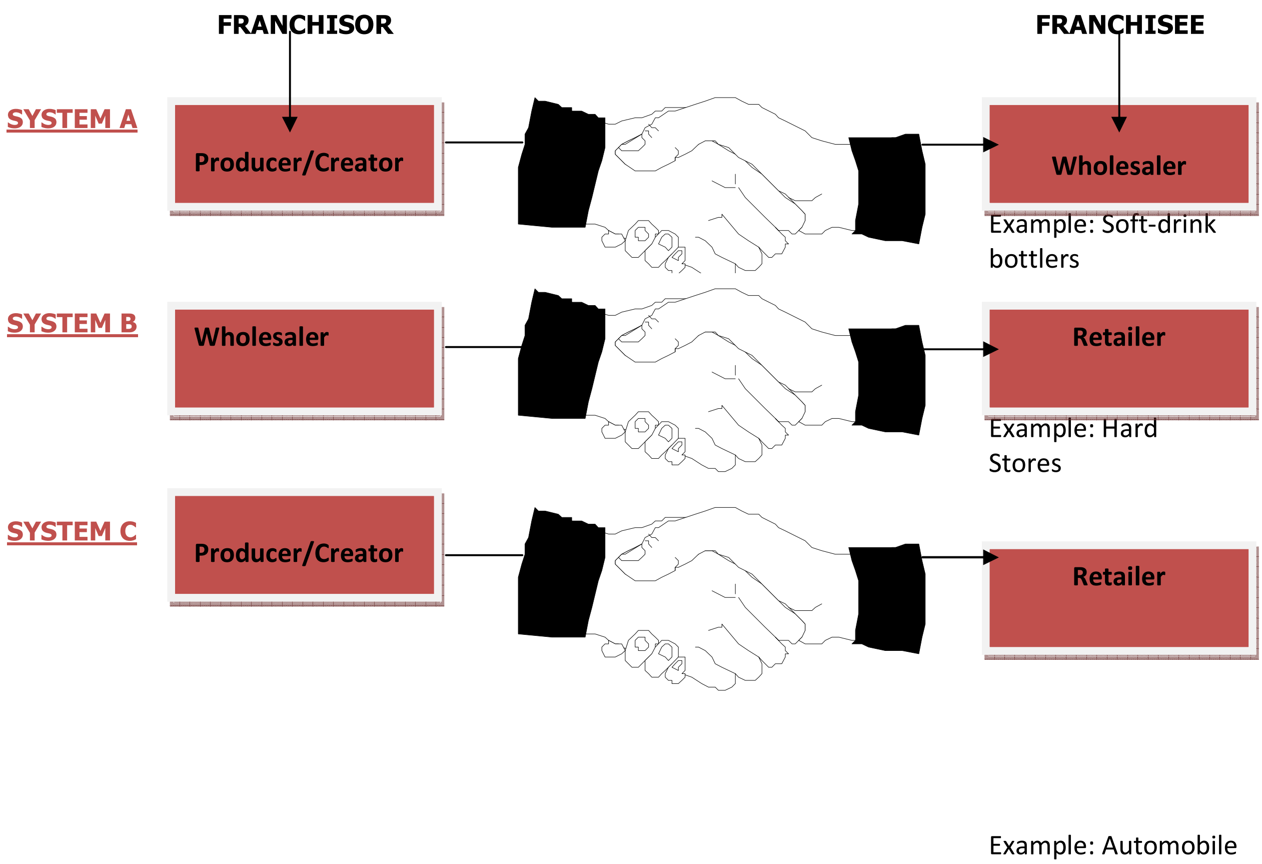
3.1.5 Franchisee The party receiving the privileges is called the

Franchisee. The potential value of any franchising arrangement is determined by the rights contained in the franchise contract, and the extent and importance of these rights are quite varied. For example, a potential franchisee may desire the right to use a name. Alternatively, the potential franchisee may need and entire marketing system, often with a new retail store and a standardized method of operation. Regardless of the specific need, a franchise is the mechanism which gives birth to an independently owned business, with the franchisee hiring the employees and assuming the operating responsibilities.

3.2 Types of Franchising Systems

Three types, or levels, of franchising systems offer opportunities for entrepreneurs.

Figure 4-1 depicts each of these systems and provides examples. In system A, the producer/creator (the franchisor) grants a franchise to a



Source: P.75, Small business Management ***Figure 4-1 Alternative Franchising System***

3.2.1 System A. Wholesaler (the franchisee). This system is often used in the soft-drink industry. Dr. Pepper and Coca-Cola are examples of System A. Franchisors.

3.2.2 System B. In the second level, designated as system the wholesaler is the franchisor. This system prevails among supermarkets and general merchandising stores. Ben Franklin, Gamble-Skogmo, and Ace Hardware are examples of System B franchisors.

3.2.3 **System C** The third type, system C is the most widely used. This system finds the producer/creator as franchisor and the retailer as franchisee. Automobile dealerships and gasoline service stations are prototypes of this system. In recent years this system also has been used successfully by many fast-food outlets and printing services. Notable examples of System C. franchisors are Buyer Chef and Kwik-Kopy. The Kwik-Kopy Corporation has enjoyed tremendous growth and success as shown by the increase in the cost of its franchise. To illustrate, in the middle 1970s a franchise for this fast-printing service cost about $15,000. Five years later, a potential franchisee needed to invest $54,500!.

3.2.4 The Franchise Boom

Franchise Principle.

The Post-World War II franchise boom was based on the expansion of the franchising principle into many different types of businesses. Some of these are franchised motels, beauty parlors, equipment-renting outlets, book-keeping and tax services, variety stores, drugstores, brake and muffler repair shops, dry cleaning services, employment agencies, Laundromats, and carrental services. In addition, there has been a great expansion of franchised fast-food outlets that sell ice cream, hamburgers, pizza, root beer, fried chicken, doughnuts, and other food products. No doubt some of this growth is explained by the increased income and mobility of the population, as well as by the promotion of brand names associated with many of these products.

McDonald’s growth.

The franchise boom may be illustrated by the growth of McDonald’s, one of the sensationally successful fast-food franchisors. The first two units of McDonald's chain opened in 1955 and grossed $235,000. This hamburger chain expanded so rapidly that it grossed more than $2 billion in 1980. The individual who acquires a McDonald's franchise today must make an initial investment of approximately $300,000. As of 1980, the company had 3,340 franchised outlets.

3.3 Franchising vs. Starting an Independent Business

On way to compare the advantages of franchising with the alternative of launching an independent business is to look at a side-by-side comparison. Figure 4-2 isolates eight major differences between buying a franchise and starting an independent business. Neither approach is a winner in all cases. However, in their particular circumstances many people find the franchise form of business to be better.

3.3.1 Advantages of Franchising

A franchise is attractive for many good reasons. Three advantages in particular warrant further analysis. A franchise can offer

3.3.2 Managerial guidance and formal training.

Generally glaring weakness in managerial ability of small entrepreneurs. To the extent that this weakness can be overcome, therefore, the training program offered by the franchisor constitutes a major benefit. The value and the effectiveness of training are evident from the records of business failures, a large majority of which is caused by deficiencies in management. For example, franchisors such as McDonald's and Kentucky Fried Chicken have reputedly never experienced a failure. There appears to be little question that the failure rate for independent small businesses in general is much higher than for franchised businesses in particular. Operating as a franchisee, however, in no way guarantees success. A particular franchisor may offer unsatisfactory training, or the franchisee may not apply the training or fail for some other reason.

3.3.3 Financial Assistance, The costs of starting a new business are often high and the prospective entrepreneur's sources of capital quite limited. The entrepreneur's standing as a prospective borrower is weakest at this point. But by teaming up with a national franchising organization, the aspiring franchisee will enhance the likelihood of obtaining financial assistance. If the franchising organization considers the applicant to be a suitable prospect with a high probability of success, it frequently extends a helping hand financially. For example, the franchisee seldom is required to pay the complete cost of establishing the business. In addition, the beginning franchisee is normally given a payment schedule that can be met through successful operation. Also, the franchisor may permit delay in payments for products or supplies obtained from the parent organization, thus increasing the franchisee's working capital. Association with a well-established franchisor may also, improve the new franchisee's credit standing with a bank. The reputation of the national franchising organization and the managerial and financial controls that it provides serve to recommend the new franchise to banker. Also, the franchisor frequently will cosign notes with a local bank, thus guaranteeing the franchisee's loan.

3. 3.3 ***Marketing benefits.*** Naturally all franchises may not equally be strong on all these points. But it is these advantages which cause many persons to consider the franchise arrangement Most franchised products and services are widely known and accepted. For example, customers will readily buy McDonald's hamburgers or Baskin-Robbins ice cream because they know the reputation of these products.

Or travelers who recognize a restaurant or a motel because of its name, type of roof, or some other feature may turn into a Denny's Restaurant or a Holiday Inn Motel because of their previous experience and the knowledge that they can depend upon the food and service that these outlets provide. Thus, franchising offers both a proven successful line of business and product identification.

3.3.4 Franchise maintains value of its name

The entrepreneur who enters a franchising agreement acquires the right to use the franchisor's nationally advertised trademark or brand name. this serves to identify the local enterprise with the widely recognized product or service. Of course, the value of product or service and he extent to which it has received widespread promotion. In any case, the franchisor maintains the value of its name by continued advertising and promotion.

3.3.5 Standard Operating Manual

In addition to offering a proven successful line of business and readily identifiable products or services, franchisors have developed and tested their methods of operation. The standard operating manuals and procedures they supply have permitted other entrepreneurs to operate successfully. This is one reason why franchisors insist upon the observance of standardized methods of operation and performance.

If some franchisees were allowed to operate at substandard levels, they could easily destroy the customer's confidence in the entire system. Without well standardized operating methods, an independent business owner is often inclined to do what comes naturally and throw effective management to the wind. Recall that many small-business owners tend to disregard financial planning, records, and control. Observing operating methods that have proven successful elsewhere, therefore, should strengthen the new franchisee and offer some assurance of success.

Figure 4-2 *Major Considerations in Deciding Between a Franchise and Starting an Independent Business*

1.	Right to use a known trademark or brand	1.	Requires time, effort, and cost to establish a new name in the market.
2.	Availability of operational training usually provided by franchisor	2.	Managerial ability based on entrepreneur's expertise.
3.	Possibility that sales territory is restricted by franchisor.	3.	Sales territory as large as entrepreneur can serve.
4.	Benefits from the franchisor's advertising program.	4.	Advertising load carried by entrepreneur but permits freedom in advertising.
5.	More accurate forecasts of financial needs and greater ease in obtaining initial capital.	5.	More difficult to plan and obtain financing needs.
6.	Franchisor often the sole source of supplies.	6.	May obtain supplies anywhere at the best available prices.
7.	Fixtures, equipment, and other premises-related assets often specified by franchisor.	7.	Freedom to develop the store image that entrepreneur feels is most appropriate.
8.	Possible restrictions in contract on franchisee's decisions to sell or to expand	8.	Total freedom to operate as entrepreneur sees it.

Source: Small Business Management p. 177

3.3.6 Continuing Guidance

Initial training is ordinarily supplemented with subsequent continued training and guidance. This may involve refresher courses and/or training by a traveling representative who visits the franchisee’s business from item to time. The franchisee may also receive manuals and other printing materials that provide guidance for the business. However, guidance shades into control so that in particular cases it may be difficult to distinguish the two. The franchisor normally places a considerable emphasis upon observing strict controls. Still, much of the continued training goes far beyond the application of controls. While some franchising systems have developed excellent training programs, this is by no means universal. Some unscrupulous promoters falsely promise satisfactory training. The following account illustrates the unfortunate consequences of a franchise arrangement which lacked a properly organized training program:

3.4 Limitations of Franchising

Franchising is like a coin – It has two sides. Given the positive side of the coin, the negative side should not be flipped over hurriedly, but rather examined with the same detail. A few limitations to franchising keep it from being a business panacea. In particular, three shortcomings permeate the franchise form of business. These are: the cost of a franchise, the restrictions on growth which can accompany a franchise contract, and the inherent loss of absolute independence on the part of the franchisee.

3.4.1 **Cost of a Franchise.** Fees of various types must be paid to the franchisor. Generally speaking, the higher fees will be asked by the more successful and well-known franchisors. For example, Tidy Car in Buffalo, NY asks for a franchise fee of only $1,500 and a royalty of $2 for each car serviced. On the other hand, the Sheraton Corporation charges a $15,000 franchise fee plus a royalty of 4 percent of gross room sales. If entrepreneurs could earn the same income independently, they would save the amount of these fees and royalties. However, this is not a valid objection if the franchisor provides the benefits previously described. In that case, franchisees are merely paying for the advantages of their relationship with the franchisor. And this may be a good investment, indeed.

3.4.2 Restrictions on Growth. A basic principle of business growth is to expand the existing sales territory. Obviously this is easier said that done. Competition is always a compelling force that works against this objective. Or a firm's own resource limitations can also be restrictive. Additionally, many franchise contracts restrict the franchisee to a defined sales territory, thereby eliminating this form of growth. However, the franchisor usually will agree not to grant another franchise to operate within the same territory. The potential franchisee, therefore, should weigh this limitation against the advantages.

3.4.3 Loss of Absolute Independence. Frequently individuals leave salaried employment for entrepreneurship because they dislike working under the direct supervision and control of others. By entering into a franchise relationship. Such individuals may simply find that a different pattern of close control over personal endeavors has taken over. The franchisee does surrender a considerable amount of independence upon signing a franchise agreement. Even though the franchisor's regulation of business operations may be helpful in assuring success, it may be unpleasant to an entrepreneur who cherishes independence. In addition, some franchise contracts may go to extremes by covering unimportant details or specifying practices that are more helpful to others in the chain than to the local operation. Thus, as an operator of a franchised business, the entrepreneur occupies the position of a semi independent businessperson.

3.4.4 Locate the Right Franchise Opportunity

With the proliferation of franchising over the years, the task of locating the most suitable opportunities has become difficult. Sources of franchise opportunities are not always obvious. Yet one source that is readily available to anyone is the advertisements in newspapers and trade publications. For example, in any issue of the wall street journal numerous franchise opportunities are advertised. Franchising today and venture magazines also include information on many franchise opportunities. In following up these advertisements, the prospective franchisee needs to beware of advertising claims that are misleading or that promise more than is warranted.

Self Assessment Question.

What determines the potential value of any franchising arrangement?

Self Assessment Question.

What are the three limitations of franchise form of business?

4.0 **Conclusion**

Three basic types of franchising systems are: System A, where the producer is the franchisor and the wholesaler is the franchisee; System B, where the wholesaler is the franchisor and the retailer is the franchisee; and System C, where the producer is the franchisor and the retailer is the franchisee. The most widely used is System C. Franchising provides three main advantages to the franchisee. These are: formal training and managerial guidance, financial assistance, and marketing expertise – all provided by the franchisor.

5.0Summary

Three shortcoming permeate the franchise form of business. These are: the cost of a franchise, the restrictions on growth which can accompany a franchise contract, and the inherent loss of absolute independence on the part of the franchisee.

The task of locating the right franchise opportunity has become difficult. Helpful guides in locating franchise opportunities are Franchise Opportunities Handbook, The 1981 Directory of Franchising Organizations, and various publications of the International Franchise Association. A potential franchisee should examine a franchise opportunity to be sure that it is a legitimate franchise. An attorney should be consulted for aid in examining the franchise contract. Selling a franchise can be advantageous to a franchisor because it provides a source of capital, increases motivation, and reduces susceptibility to labour problems.

Operating as a franchisee, however, in no way guarantees success. The costs of starting a new business are often high and the prospective entrepreneur's sources of capital quite limited. The entrepreneur's standing as a prospective borrower is weakest at this point. But by teaming up with a national franchising organization, the aspiring franchisee will enhance the likelihood of obtaining financial assistance. If the franchising organization considers the applicant to be a suitable prospect with a high probability of success, it frequently extends a helping hand financially. Association with a well-established franchisor may also, improve the new franchisee's credit standing with a bank. The reputation of the national franchising organization and the managerial and financial controls that it provides serve to recommend the new franchise to banker. Also, the franchisor frequently will co-sign notes with a local bank, thus guaranteeing the franchisee's loan.

6.0Tutor-market Assignment

What do you understand by Franchisee? What is the difference between a Franchisee and a small business owner and what are their advantages?

Tutor-market Assignment: If you are considering moving into Franchise business, how would you go about obtaining your start-up capital? What factors should a would be small business owner consider a franchise entrepreneurship?

7.0References/ Further readings

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Answer of Self Assessment Question.

The rights contained in the franchise contract, determines the potential value of any franchising arrangement and the extent and importance of these rights are quite varied.

Answer to Self-Assessment Question.

1. The Three limitations are: the cost of a franchise, the restrictions on growth which can accompany a franchise contract, and the inherent loss of absolute independence on the part of the franchisee.

UNITS 17 THE ROLE OF MARKETING & DISTRIBUTION IN SMALL BUSINESS FIRMS

CONTENT

4 Conclusion

5 Summary

6 Tutor-market Assignment

7 References/ Further readings

UNITS 17 THE ROLE OF MARKETING & DISTRIBUTION IN SMALL BUSINESS FIRMS

CONTENT

1.0 Introduction

In this unit, we shall examine the marketing concept and philosophies of small business.

2.0 Objectives

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

Discuss the types of marketing management philosophies.

Define a market and marketing concept.

Explain the meaning of market segmentation

Identify Purpose of marketing-information systems.

Understand the importance of marketing to small business owners.

3.0 Main content

3.1 Scope of Marketing Activities in Small Business: What is a Market?

The term market means different things to different people. Sometimes it simply refers to a location where buying and selling take place, as when we hear, "she went to the market." On other occasions the term is used to describe selling efforts, as when business managers say, "We must market this product aggressively." Still another meaning is the one we use in this unit. We define a **market** as a group of customers or potential customers who have purchasing power and unsatisfied needs.

3.1.1 **Marketing.** Marketing has been defined as "the performance of business activities that affect the flow of goods and service from producer to consumer or user. (Kotler, 2001) "We can notice that this definition emphasizes distribution. Many people, view marketing in this manner. Actually marketing is much more. Many marketing activities occur even before a product is produced! In an effort to portray the complete scope of marketing and to make our discussion useful for small business, we will propose a definition for small-business marketing which focuses on marketing actives. Marketing consist of those business activities which relate directly to determining target markets and preparing, communicating, and delivering s bundle of satisfaction to these markets. Every small business should initially engage in marketing to determine its target markets. Then, and only then, can final preparation of the "product" be achieved. Communication and delivery of the "product" are the remaining purposes of marketing.

From the definition of marketing given above, we can identify the marketing activities which are essential to every small business. These activities, called core marketing activities, are depicted in Figure 9-1. Notice that the core marketing activities have been appropriately matched with the key terms in our definition of marketing. The activities numbered 1 through 3 constitute the process of market analysis. The activities numbered 4 through 7 comprise a firm's marketing mix and are the focal points in part C of this text.

Obviously the sophistication of the marketing effort in a small business will vary from situation to situation. Financial conditions often restrict the resources devoted to these activities. However, these realities in no way lessen the important of understanding the benefits of executed marketing activities.

3.1.2 CONCEPTS OF CONSUMER BEHAVIOR

Having adopted the marketing concept and a market segmentation strategy, the small-business manager is started on the road to successful sales.

KEYS TERMS FROM OUR DEFINITION	CORE MARKETING ACTIVITIES	
"…determining target markets…"	1. Market segmentation	Market Analysis
Market. . ."	2. Marketing research	
"…preparing. . . a bundle	3. Consumer-behaviour analysis	
of satisfaction . . ."	4. Product strategy	Marketing Mix
"…communicating….a	5. Pricing	
bundle of satisfaction. .."	6. Promotion	
"…delivering a bundle		
Of satisfaction…"	7. Distribution	

Source: Figure 9-1 Core Marketing Activities for Small Business

Small Business Management, P.213

Before proceeding to develop a marketing program, however, one must first understand the realities of consumer behavior. We will begin this analysis by touching on the economic, psychological, and sociological aspects of consumer behavior.

3.1.3 **Traditional Economic Concepts**

Traditional economic theories visualize the consumer as a rational buyer who possesses perfect information. "Rational" means that emotional buying factors are not considered. Maximization of value is an assumed goal for the consumer. Price, therefore, becomes the sole mediator between supply and demand.

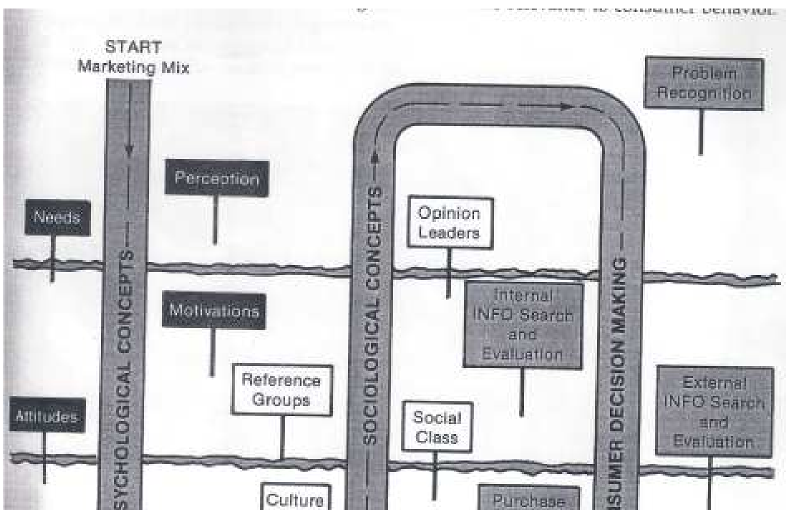
The entrepreneur should not totally ignore these economic theories because they can help explain types of behavior. For example, if a consumer sees a half-price special on a nationally branded grocery product, she or he may buy more at the lower price. This buying decision follows the classic economic theory of consumer behavior.

Another assumption of classic economic theory is the existence of a homogeneous market where consumers behave in a fairly similar manner. Recall the total-market approach in our earlier discussion on market segmentation in

Chapter 5. The total-market view has roots in the economic concept of consumer behavior. While recognizing the contribution of economic theories, the entrepreneur should bear in mind that they are overly restrictive and lacking in scope. There is much consumer behavior that cannot be captured by the traditional image of the "economic man." A fuller explanation is needed.

3.1.4 **A Modern Consumer-Behavior Roadmap**

The complexity of consumer behavior is staggering. Exploration of this world of behavior requires a model, or "roadmap." Many models exist in the literature of consumer behavior, but our version is intended for the small business situation. The roadmap in Figure 9-2 has a psychological, a sociological, and a decision-making phase. Study it carefully. When the totality of the trip is seen first, each leg of the journey should then become clearer. We will examine each "roadsign" and show its relevance to consumer behavior.



Source: Small Business Management, (Road Map)p. 300

3.1.5 Psychological Concepts. Psychological factors may be labeled as hypothetical because they cannot be seen or touched. By process of inference, however, several factors have been "identified." The four factors that have the greatest relevance to small business are perception, needs, motivations, and attitudes.

3.1.6 Perception. Our initial psychological roadsign in Figure 9-2 is perception.

Perception describes those individual processes which ultimately give meaning to the stimuli that confront consumers. The "meaning" is not easily transferred, however. It may be severely distorted or entirely blocked. Perception can screen a firm's marketing effort and make it ineffective. Perception is a two-sided coin. It depends on the characteristics of both the stimulus and the perceiver. For example, it is known that consumers attempt to manage huge quantities of incoming stimuli by a process of perceptual categorization. Things which are similar are perceived as belonging together. If a small business attempts to position its product alongside an existing brand and to have it accepted as a comparable product, its marketing mix should reflect an awareness of perceptual categorization. A similar price can be used to communicate similar quality. A package design with a similar color scheme may also be used to convey the identical meaning. These techniques will help the customer fit the new product into the desired product category. Firms that select a family brand name for a new product rely on perceptual categorization to "presell" the new product. On the other hand, if the new product is generically different or of a different quality, a unique brand name may be selected to avoid perceptual categorization.

If an individual has strong brand loyalty to a product, it is difficult for other brands to penetrate that person's perceptual barriers. Competing brands

3.2 What are market components?

- Notice carefully the three components of our definition of a market. First, a market must have a buying unit, or customers. These units may be individuals or business entities. For example, consumer products are sold to individuals and industrial products are bought for use by businesses. Thus, a market is more than a geographic areas. It must contain potential customers.
- Second, customers in a market must have purchasing power. Assessing the level of purchasing power in a potential market is very important. Customers who have unsatisfied needs but who lack the money and/or credit are poor markets because they have nothing to offer in exchange for a product or service. In such a situation, no transactions can occur.
- Third, a market must contain buying units with unsatisfied needs. Final consumers, for instance, will not buy unless they are motivated to do so. Motivation can occur only when an individual has unsatisfied needs. It would be difficult, for

example, to sell tent dehumidifiers to desert nomads! In light of our definition of a market, therefore, analyzing a market is the process of locating and investigating buying units that have purchasing power and needs that can be satisfied with the product or service that the entrepreneur has to offer.

3.2.1 What is marketing concept and Market Analysis?

Marketing concept is focusing marketing activities to discover customer needs and preferences before making and trying to sell products.

Analyzing a market is particularly important prior to starting a business. Without it, the entrepreneur enters the marketplace much like a higher diver who leaves the board without checking the depth of the water. Many types of information from numerous sources are required for a marketing analysis. Proper techniques for gathering market information must be understood. Therefore, marketing research methods and forecasting techniques are explained in this unit also.

A good market analysis is predicated on certain key concepts. Three of these concepts are:

- Marketing management philosophies,
- Market segmentation strategies, and
- Consumer behavior. Since consumer behavior affects all marketing efforts – including

pricing, promotion, and distribution.

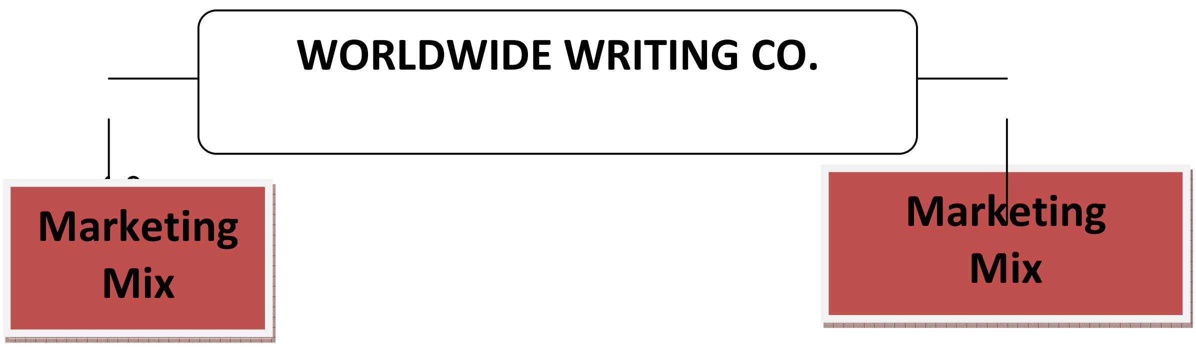
3.2.2 Types of Marketing Management Philosophies

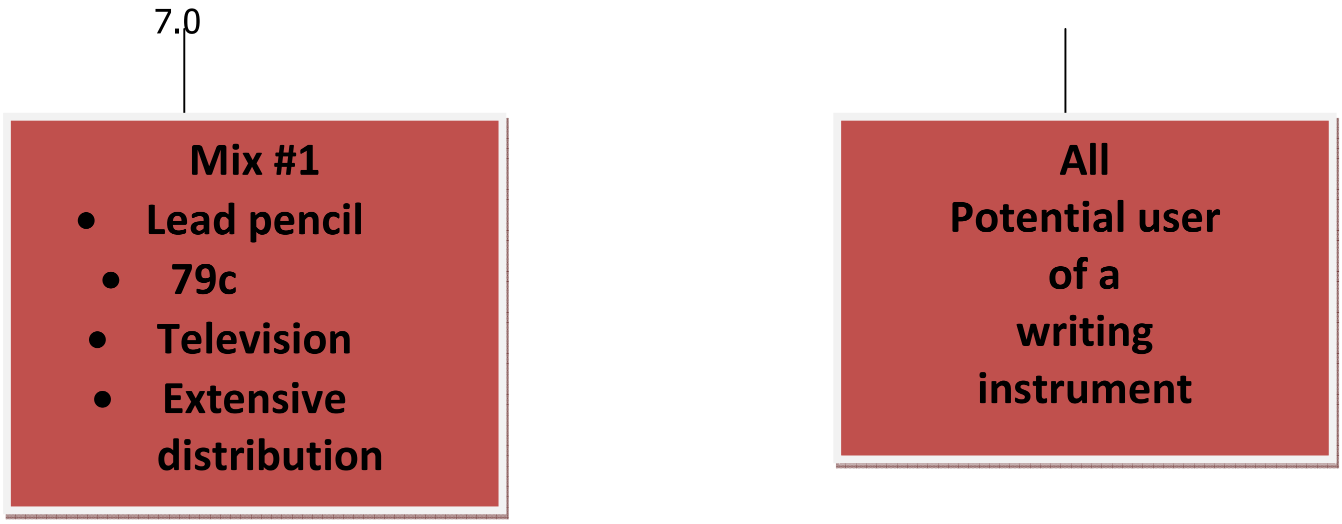
Three distinct philosophies are evident among small firms. These are commonly referred to as production oriented, sales-oriented, and consumer-oriented philosophies.

A consumer oriented philosophy is the essence of what is called the **marketing concept.** Over a period of time from the late nineteenth century to the present, big business has shifted its marketing emphasis from production to sales to consumer satisfaction. The production-oriented philosophy associated with the Industrial Revolution created a period of very limited "marketing." Later, emphasis was placed on sales, so marketing managers concentrated on personal selling and advertising as the major marketing activities. Finally, businesses turned to the marketing concept, which required marketing activities to discover customer needs and preferences before making and trying to sell products.

3.2.3 The Need for Marketing Segmentation:

If a business had control of the only water supply in the world, its sales volume would be huge. This business would not be concerned about differences in personal preferences for taste, color, or temperature. It would consider its customers to be one market. As long as the water product was "wet," it would satisfy everyone. However, if someone else discovered a second water supply, the view of the market would change. The first business sight discover that sales were during up and turn to a modified strategy. The new approach could well emerge from an understanding of consume behaviour. In the real world, a number of preferences for liquid drinks exist. What may seem to be a homogeneous market is actually heterogeneous. The different preferences may take a number of forms. Some preferences may relate to the way consumers react to the taste or to the container. Other preferences may relate to the price of the liquid drink or to the availability of "specials". Preferences might also be uncovered with respect to different distribution strategies or to certain promotional tones and techniques. In other words, markets may actually be composed of several submarkets.





3.3 DISTRIBUTION ACTIVITIES Source: P.456 Small Business Management.

3.2.4 The term **distribution** in marketing includes both the physical movement of products and the establishment of intermediary (middleman) relationships to guide and support the movement of the product. The physical movement activities form a special field called 'Physical distribution or logistics. The intermediary system is called a "channel of distribution.

Distribution is critical for both tangible and intangible goods. Since distribution activities are more visible for tangible goods, our discussion will concentrate on them. Most intangible goods (services) are delivered directly to the user. An income tax pre parer, for example, serves a client directly. But even a person's labor can involve channel intermediaries as when, for example, an employment agency is used to find an employer.

3.3. Channels of Distributions.

A channel of distribution can be either direct or indirect. If it is a direct channel, there are no intermediaries. The product goes directly from producer to user. If the channel is indirect, one or more intermediaries may exist between the producer and the user.

Figure 10-1 depicts the basic ABCs of options available for structuring a channel of distribution. "Channel A has no intermediaries. Door-to-door retailing is a familiar form of this channel system for consumer goods. Channel B incorporates one intermediary. The B-type channels are used for both consumer and industrial goods. As final consumers, we are all familiar with retailers. Industrial purchasers

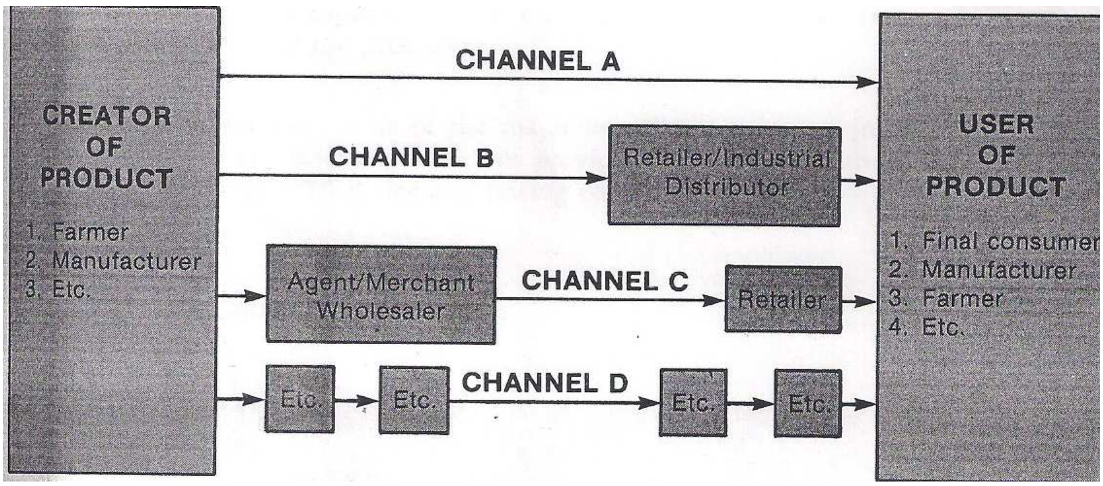


Figure 10-1 Alternative Channels of Distribution

Source: P.344, Small Business Management.

intermediaries. This is probably the most typical channel for small businessethat have a large geographic market. The last channel in Figure 10-1 is labeled D. This represents the many other extensions of Channel C. For example, there may be three or more separate intermediaries in the channel.

3.3.1 Justifying Channels of Distribution. The small-business manager is often puzzled over the use of intermediaries in a channel of distribution. Are they really necessary? What kinds of small businesses really need them? The answer to the first question is "yes," and to the second, "maybe yours."

Intermediaries exist to' carry out marketing functions which must be performed and which they can perform better than the producer or the user of a product. Small businesses cannot always perform these necessary functions as well as the intermediaries. This is why intermediaries are necessary. Four main functions of channel intermediaries are: breaking-bulk, assorting, providing information, and shifting risks.

As an example of the need for intermediaries, consider the small producers. The small producer can perform the four functions mentioned above if the geographic market is extremely small, if customers' needs are highly specialized, and if risk levels are low. Otherwise, the producer may find intermediaries to be a more efficient means of performing distribution activities. Of course, many types of small firms also function as intermediaries - for example, retail stores.

3.3.2 Breaking-Bulk. Very few individual customers demand quantities which are equal to the amounts produced. Therefore, there must be channel activities which will take the larger quantities produced and prepare them for individual customers. Breaking-bulk is the distributi6n term used to denote these activities. Wholesalers and retailers purchase large quantities from manufacturers, store these inventories, and sell them to customers in the quantities

they desire.

3.3.3 **Assorting.** Customers' needs are diverse, requiring many different products to obtain satisfaction. Intermediaries facilitate shopping for a wide assortment of goods through the assorting process. Assorting consists of bringing together homogeneous lines of goods into a heterogeneous assortment. For example, a small business producing a special golf club can benefit from an intermediary who carries many other golf-related products and sells to a retail pro shop. It is much more convenient for the pro shop manager to buy from one supplier than from all the producers.

3.3.4 **Providing Information.** One of the major benefits of using an intermediary is information. Intermediaries can provide the producer with extremely helpful data on market size and pricing considerations.

3.3.5 **Shifting Risks.** By using intermediaries, the small-business manager can often share or totally shift business risks. This is possible by using merchant middlemen, who take title to the goods they distribute. Other intermediaries, such as agents and brokers, do not take title to the goods.

3.3.6 **Choosing a Distribution System**. One alternative for the small-business producer, as it decides on a distribution system, is to look at the competition. Some useful ideas about distribution are obtained from observing what others do. In all likelihood the competition will have made their decisions on the basis of practical considerations. At least their distribution system model can be used as a starting point.

Self Assessment Question.

What is marketing concept and why is it relevant and importance in small business.

4.0 Conclusion

A small business can be successful only if a market exists for its product or service. Therefore, one would expect every entrepreneur to be knowledgeable about his or her market.

5.0 Summary

A consumer oriented philosophy is the essence of what is called the marketing concept. Over a period of time from the late nineteenth century to the present, big business has shifted its marketing emphasis from production to sales to consumer satisfaction. The production-oriented philosophy associated with the Industrial Revolution created a period of very limited "marketing." Later, emphasis was placed on sales, so marketing managers concentrated on personal selling and advertising as the major marketing activities. Finally, businesses turned to the marketing concept, which required marketing activities to discover customer needs and preferences before making and trying to sell products.

6.0 Tutor-market Assignment

What do you understand by market analysis?

A good market analysis is predicated on certain key concepts. Explain the key concepts?

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Alan, M.S., Haccoun, R.R., & Belcourt, M.(2008). Managing Performance through Training and Development (4th ed.).Toronto, Canada: Nelson Education Ltd.

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Answer to the Self Assessment.

A consumer oriented philosophy is the essence of what is called the marketing concept. Over a period of time from the late nineteenth century to the present, big business has shifted its marketing emphasis from production to sales to consumer satisfaction.

UNITS 18 MAJOR CONSIDERAITION IN ESTABLISHING AN ACCOUNTING SYSTEM

CONTENT

3.2.2 **The Master Budget**

3.2.3 **Elasticity of demand**

3.2.4 **Break-even Analysis in pricing**

3.2.5 **Cost –adjusted break- even stage.**

3.2.6 Price Cutting

3.2.7 *Cost and performance Standard.*

3.2.8 Controllable vs. Non-controllable Expenses.

3.2.9 Sales Budget and Purchase Budget

4.0 Conclusion
5.0 Summary
6.0 Tutor-market Assignment
7.0 References/ Further readings

UNITS 18 MAJOR CONSIDERAITION IN ESTABLISHING AN ACCOUNTING SYSTEM

CONTENT

1.0 Introduction

A strong accounting system provides valuable information for planning, controlling, and evaluating the performance of a small business. Outwardly a business may appear sound, but actually it may be in poor health. Accounting information is the firm's X ray which allows the entrepreneur to monitor the "medical condition" of the business. Accounting statements, financial ratios, and budgets are important aspects of a complete accounting system. We will examine each of these in this unit.

2.0 Objectives

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

Explain the value of accounting information to small business owner

Define budgeting and explain its importance to small business

Identify different kinds of budgets

Discuss the meaning of break-even analysis in small business

Explain what profit is and ratio analysis in small business

3.0 Main content

3.1 Establishing accounting Statements, Financial Ratios and Budgets.

3.1.1 Most modern accounting systems are based on an accrual, rather than a cash, system. In a cash system the accounts are debited and credited as cash is received and paid out. In the accrual system the income earned and the expenses incurred. The use of the accrual method is preferable because it provides a more nearly accurate and up-to-date statement of profits. Any accounting system should accomplish the following objectives for a small businesses:

3.1.2 The system should yield an accurate, thorough picture of operating results.

The records should permit a quick comparison of current data with prior year's operating results and with budgetary goals

3.1.3 The records should provide financial statements for use by management, bankers, and prospective creditors.

3.1.4 The system should facilitate prompt filing of reports and tax returns to regulatory and tax collecting agencies of the government.

3.1.5 The system should reveal employee frauds, thefts, waste, and record-keeping errors.

3.1.6 Although numerous financial statement ratios can be computed, only those that are the most practical and widely used for small business will be explained here. These ratios will be grouped into four classifications, using the financial statements of the BLM Manufacturing Company for illustrative purposes. It must be emphasized that a careful interpretation of ratios is required to make them useful to a particular firm. A ratio may indicate potential trouble, but it cannot explain either the causes or the seriousness of the situation.

3.1.7 Most small firms find it profitable to compare their ratios with their own past experience and with industry standard ratios.

$$\frac{\text{Current assets less inventories}}{\text{Current liabilities}} \quad \frac{\$347,730-\$211,450}{\$101,0201} = 1.35 \text{ times}$$

3.1.8 Return on Total Asset.

The return on total assets, or asset earning power, measures the return on total investment in the business. To compute this ratio, divide net profit by total assets. The BLM Manufacturing Company's return on total assets is:

$$\frac{\text{Net profit}}{\text{Total assets}} = \frac{\$61,710}{\$927,530} = .0665 \text{ or } 6.65 \text{ percent}$$

If the industry average is 8 times, it is obvious that BLM's position is strong and that it can cover its interest charges even with a substantial decline in its earnings. This reinforces the previous conclusion that BLM should have little difficulty if it tries to borrow additional funds.

3.2 **BUDGETING**

3.2.1 The budget is the principal short-range plan for any business. When a business is departmentalized, it usually has a master budget which covers the departmental budgets that constitute the component parts of the master budget. The departmental budgets include those for sales, production, purchases, and so on. The master budget yields budgeted financial statement covering the expected operating results and shows the impact of operations upon the firm's asset values and equity interest.

3.2.2 The Master Budget.

An entrepreneur must predetermine expected normal performance in order to establish performance standards for the firm's various divisions and departments. Performance standards make possible the evaluation of operating results. To be functional for such evaluations, the standards must reasonable and attainable in the light of expected business conditions. The only alternative is the creation of ideal standards, envisioning optimum operating conditions. But ideal standards would be difficult to attain because actual business conditions are seldom ideal. Hence, ideal standards must be rejected in favour of expected attainable performance.

3.2.3 **Elasticity of Demand.** The effect that a change in price has on the quantity demanded is called elasticity of demand. If a change in price produces a significant change in the quantity demanded, the product is said to have an elastic demand. On the other hand, if a price change does not bring about a significant difference in the quantity demanded, the product is considered to have inelastic demand.

3.2.4 BREAK – EVEN ANALYSIS IN PRICING

Break –even analysis entails a formal comparison of cost and demand for a purpose of determining the acceptability of alternative prices. There are two stages of a complete break-even analysis. Cost break –even and cost – adjusted break-even analysis can be explained via formulas or graphs. We will use the graphic presentation.

3.2.5 Cost –adjusted break- even stage. The indirect impact on quantity sold is a confounding problem for pricing decisions. Occasionally more of a product is demanded as it price increases. This was the situation with a small poodle – grooming service. Business was slow with the original pricing. A friend suggested an increase in price. The owner heeded the advice and business grew immediately. Usually, however, a smaller quantity is demanded at higher prices. Break-even analysis can incorporate the estimated demand and greatly increase its usefulness.

3.2.6 A cost – adjusted break- even chart is built by using the cost break – even data and adding a demand schedule. A demand schedule showing the estimated number of units demanded and total revenue at various prices is listed below at the bottom of page 249. Special considerations in pricing. Additional pricing considerations for the small business are; price – cutting, variable pricing, flexible pricing, price lining, and what the traffic will bear. This are discussed below.

3.2.7 Price –cutting. Once a product is produced and efforts to sell it are under way, the price may have to lowered. The probable reaction of competitors is a critical factor in determining whether to cut prices below a prevailing level. A small business in competitors with larger firm seldom is in a position to consider itself the price leader. If competitors view the small firm's pricing as relatively unimportant, they may permit a price differential. This may well be the reaction if the price-cutting firm is sufficiently small. On the other hand, established firms may view a smaller price -cutter as a direct threat and counter with reductions of their own. In such a case, the smaller price –cutter accomplishes very little.

3.2.8 Cost and performance Standard.

In view of the central role of standards in budgeting, attention is directed at this point to the process of constructing cost and performance standards. These standards should be developed for the areas of production, sales, and administrative management.

3.2.9 Manufacturing Standards.

In manufacturing, certain items can be subjected to objective cost and performance standards. Some of these are:

- Raw materials
- Finished products
- Manufacturing methods or processes.
- Plant equipment
- Product designs

- Labour- The dollar cost budgeted for materials depends upon the quality and quantity required for the entire production, as well as the cost of each type of material. The dollar cost budgeted for labour depends upon the standard hourly rates that are paid to machine operators on the various processing operations. Some manufacturing overhead expenses, such as depreciation and utility costs, are less susceptible to objective standards. But the proper dollar amounts for these items can be determined in the light of past experience and of the percentage of capacity operation expected,

3.3.0 Selling and Administrative Standards.

In the area of selling and administration, various expense items can be predetermined according to standards which are reasonably accurate and capable of attainment. Such expense standards might be based on the firm's past experience or on industry standards compiled by several agencies, notably Dun & Bradstreet. The traditional accounting breakdown of selling and administrative expenses has been by kind, such as taxes, interest, office supplies, rent and so on. Such a breakdown of expenses is imperfect because it does not provide a basis for functional expense control. Logically, a retailer requires the following: Merchandising.

- Buying Selling.
- Sales Promotion.
- Advertising.
- Window display
- Point-of-purchase display
- Store operation
- Store protection
- Employee training
- Switchboard operation
- Cashiering
- Delivering
- Receiving, checking, and marking
- Warehousing

- Elevator operation
- Utilities
- Control
- Accounting
- Statistical tabulations
- Payroll preparation and distribution
- Auditing
- Credit investigation
- Collections

Management (only those portions of the expenses which cannot be allocated to other categories).

Executive Salary

Rent

Taxes

Insurance

Depreciation

In setting standards for selling and administrative expenses, several rules must be observed. First, the units of measurement used must be objective and clear cut. For example, the expense standard for procuring orders by a salesperson might be expressed in terms of the dollars spent per sales call. Second, a separate classification should be made for each expenses item, accumulating these items in terms of functional categories. Finally, expense classification should not be carried too far – that is, to the point where each minute kind of expense is identified and the amount separately accumulated regardless of its importance. A miscellaneous classification should be established for minor expenses. *Variables in Selling Standards***.**

In manufacturing, the volume of production is obviously a major factor affecting cost, frequently, however, the budget is constructed as though volume were the sole determinant of cost variation. It is not. For example, the following are sources of cost variation for a given accounting period.

3.*3 COMPONENTS OF THE MASTER BUDGET*

3.3.1 Even in a small firm, the master budget is not prepared by one person alone, nor is it a task which is accomplished quickly. Weeks or months of effort are required. The small manufacturer should meet with heads of departments frequently before the amounts and standards to be incorporated in the budget are determined. Then the budget must be broken down by months. Finally, it must be typed, with copies for distribution to the department heads, each of whom will also have reviewed and agreed in advance to the annual and monthly figures.

3.3.2 **Sales Budget,**

Since most business activities must be geared to the level of expected sales, it I customary to begin with the sales budget, which serves are the cornerstone of the master budget. The sales budget, which serves as accurate as care and good judgment can make it because all of the other departmental budgets depend on the sales budget.

Suppose a small firm manufacturing a single product is preparing a sales budget for its eighth year of operations. By years, the firm's market share has been .05, .055, .06, .065, .07, 0.75, and .08. Accordingly, the firm estimates a market share for year 8 of .085 since its market share has been growing by .005, or .5 percent every year. Industry sales in the latest year were 4,159,934 units, and the industry has also reflected a.5 percent annual growth for the last decade. Since the industry sales anticipated for the next year are expected to coincide with the past sales trend, the business cycle index (or ratio) is expected to be 100 percent, or 1. to budget the firm's sales (in units) for year 8, the following formular is applied

Year 8 sales in units = Estimated market share x (1 + Annual trend increase) X Latest industry sales x Estimated business cycle ratio.

= 085 x 1.005 x 4.159,934 x 1.0

= 355,334

3.3.3 **Purchases Budget.**

Differences between monthly materials requirements and materials available in the storeroom will necessitate a purchases budget. The formula for determining the units of each kind of raw material to be purchased is Units of each raw material = Units of material required for production to be purchased plus Planned ending inventory of raw materials less Expected starting inventory of raw material.

3.3.4 **Direct-Labor Budget Schedule.**

In the direct-labor-budget, estimates of direct labour to be used in production during the coming 12 months are made. Time and motion studies provide a standard rate of output per hour. To find the standard hours of direct labor, divide the number of budgeted production units by the standard hourly output rate. If time and motion studies have not been used, the total labour hours required must be estimated on the basis of past experience.

3.3.5 **Selling-and Administrative-Expense Budget Schedules.**

The selling-and administrative expense budget schedules should be separately prepared by month and by year. The selling-expense budget schedule covers salespersons' salaries and commissions, travel expenses, sales promotion and advertising, and the like. The amounts budgeted for each item tend to vary with business volume to a greater extent than those for administrative expenses. For example, assuming that prices are constant , greater expenditures for both advertising and personal selling are normally required to achieve a higher level of sales. The administrative expenses budget schedule covers such items as salaries of administrative and clerical personnel, payroll taxes, office supplies, contributions, telephone and telegraph, depreciation of office equipment, and other office administrative expenses.

3.3.6 Flexible Budgets.

As an alternative to the "static" budget procedures described above, it s possible to ultilize a "flexible" budget plan. This entails a series of monthly budgets for each of several volume levels – for example, 50 percent, 60 percent, 70 percent, 80 percent, 90 percent, 100 percent, 110 percent, and 120 percent of normal capacity. Monthly normal capacity equals one twelfth of the average annual sales in units, attained over a complete business cycle. Typically the physical capacity of a plant is about 120 percent of normal capacity, which is why we stop at 120 percent. For each such level, a master budget and supporting budget schedules are prepared as in the case of the static budget. Data in units must be translated into dollar data. The annual budget is 12 times the monthly budget for any volume level. Seasonality of sales and production is ignored, except in selecting the appropriate budget level for each month. One weakness in flexible budgeting lies in the fact that it presumes that volume change is the only cost-differentiating factor acting on a budget. This is untrue, as has already been noted.

3.3.7 Using the Budget to Control and Reduce Expenses.

The budget, when properly used is perhaps the most effective tool in controlling expense. By providing a set of standards for expenses of each kind, the budget points up overspending or under spending. To examine the possibilities for controlling expenses, we must first understand the different classifications of expenses discussed below.

3.3.8 Functional Expenses.

Functional expenses are those that relate to specific selling and administrative activities of a business if the amounts recorded by kinds of expense in the books of account can be equitably distributed to the functional – expense categories, then expense control can be achieved. Consider, for example, the expense of "payroll preparation," which is charged to the functional category of "control". This expense does not include the production payroll itself; rather, it involves costs of payroll preparation, distribution of paychecks, and audit. (The payroll cost itself would be distributed to the various pertinent categories). A unit of measurement is required for control; this is afforded best, perhaps, by the number of payroll checks written. If the average payroll preparation expense over the past year is taken as standard for budgeting purposes, the actual expense for a given pay period can be compared and discrepancies evaluated. Certainly total payroll expense is not controllable as such, but it can be controlled if allocated equitably to various functional-expense categories.

3.3.9 Controllable vs. Non-controllable Expenses.

It is important that managers of small firms stress controllable expenses almost to the exclusion of non-controllable expenses. Consider a lease with a flat rental. One a lease has been signed, rental expense is not controllable during the life of the lease. Hence, attention should then be directed to other items of expense which are controllable. In the small factory, for example, if a further mechanization of materials handling is possible and the capital expenditure is not prohibitive, the necessary equipment can be installed to reduce expenses. For a given system, however, expense control means that the system must be used more efficiently. For example, employees on hourly rates may be sent home when work is light. Similarly, delivery expense is controllable to some extent. The truck driver's salary, truck depreciation, and operating cost can be more effectively used and better controlled if the truck is provided with a two-way radio. In contrast, a retailer subscribing to a delivery service at a fixed amount per month is committed to a non-controllable expense. Accordingly, there is little need for attention to it until time to renegotiate the delivery service contract.

3.4 **Expense Reduction.**

3.4.1 Expense control is frequently more important than expense reduction. Expense control may include expense reduction, but it may also involve the increase of expenditures for a given type of expense rather than either constant outlay or reduced outlay. However, a program of expense reduction, superimposed upon one of expense control, is invaluable if it can be achieved without reducing sales volume, eliminating customer services, or losing operating efficiency. Expense reduction can make possible price reductions or profit expansion, or both. Most business executives and management consultants will admit that a 5 percent or greater reduction in expenses could be achieved by almost any business, large or small. Expense reduction may be achieved by recruitment and retention of superior personnel perhaps more effectively than by any other means. Even at a higher salary cost, superior employees more than make up the difference by their greater efficiency, expense per unit of product or service or per item solid is reduced. Even though budgets are designed to facilitate effective management, they sometimes fail to do so, particularly in the small business.

3.4.2 **Peril of small Business unsatisfactory Budget Control.** Here are several reasons why small businesses suffer from unsatisfactory budgetary control.

3.4.3 *Inaccurate determination of budget standards.* When inaccurate budget standards are set, comparisons of actual results with budgeted amounts are misleading. Management may be lulled into the belief that all is well when, as a matter of fact, costs are uncontrolled and performance is inefficient.

3.4.4 *Failure to include all key business activities in the budget.* If desired overall results are to be attained, all business activities of the firm must be incorporated in the budget.

3.4.5 *Lack of full support for the budget.* When preparing the budget, managers should consult their subordinates so that the latter will feel that the budget is theirs, too. And when the budget is completed, top management must back it up and convince all employees of the value of the budget as a control system. Subordinates can show their full support by promptly submitting control reports, especially when the budget needs to be revised. Of course, any budget revisions should also be communicated promptly to the subordinates.

3.4.6 *Inability to interpret control reports.* Sometimes the manager and the employees find control reports difficult to interpret. Thus, they may fail to detect and to act on controllable expenses that have significant variations between actual and budgeted amounts. The budget, when properly used, is an effective tool in controlling expenses. In this regard, first it is important to know which expenses can be controlled and/or reduced. Second, the standards for expenses of each king must be set so that the manager will know whether overspending or under-spending is occurring. Greater attention should be given to major items of expense rather than to minor items.

Self Assessment Question

If you are about starting your own small business, how would go about it and what constitutes your capital requirements?

4.0 Conclusion

The naira amounts of initial capital requirements can be estimated by using industry ratios and cross-checking with empirical investigation. A small business should be careful to avoid a disproportionately small investment in current assets relative to fixed assets.

Individual investors as sources of funds include the owner(s) of the business, friends, relatives, and local people. The capital stock of the business may be sold by private placement or by a public sale. The condition of the financial markets at any particular time has a direct bearing on the feasibility of a public sale of capital stock. Business suppliers as sources of funds include suppliers who provide trade credit and manufacturers/wholesalers who provide equipment loans and leases.

5.0 Summary

By extending credit, sellers can increase sales volume and expect the increased revenue to more than offset credit costs so that their profits will increase. Benefits from the use of credit by buyers consist of deferred payment privileges, convenience, and a supply of working capital. The small business should consider several factors, such as the type of business, the credit policy of competitors, the income level of customers, and the availability of adequate working capital, before deciding to sell on credit. It should evaluate the credit standing of applicants in terms of the four C’s of credit – character, capital, capacity, and conditions.

6.0 Tutor-market Assignment

What is most effective tools used in controlling expenses?

Explain with example the difference between controllable and non-controllable expenses?

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Answer to Self Assessment Question.

Current-asset capital, fixed-asset capital, promoter-expense capital, and funds for personal expenses constitute the capital requirements in staring a new business.

UNITS 19 CREDIT IN SMALL BUSINESS

CONTENT

UNITS 19 CREDIT IN SMALL BUSINESS

CONTENT

1.0 Introduction

Credit involves a sale on the basis of trust. In a credit sale, the seller conveys goods or services to the buyer in return for the buyer's promise to pay. The major objective in granting credit is an expansion of sales by attracting new customers and an increase in volume and regularity of purchases by existing customers.

2.0 Objectives

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

Explain what small business credit means.

Identify the 4 Cs of Credit and why willingness is evaluated in terms of 4 C's of Credit.

Discuss the reason, small would like to extend credits to customers

Outline the sources of credit information for small business

3.0 Main content

3.1 CREDIT IN SMALL BUSINESS

3.1.1 Some retail firms- furniture stores, for example – cater to new – customs in the city, newly married couples and others by inviting the credit business or individuals with established credit rating. In addition credit records may used for purposes of sales promotion by direct mail appeals to credit customers. Adjustments exchanges of goods are also called facilitated through credit operations.

3.1.2 KINDS OF CREDIT.

There are two broad classes of credit: consumer credit and Trade credit. Consumer credit is granted by retailers to final the consumers who purchase for personal or family use. Trade credit is extended by nonfinancial firm, such as manufacturers or wholesalers, to consumers which are other business firms. Consumer credit and trade credit differ as to types of credit instruments used and sources for financing receivables. Another important distinction is the available of credit insurance for trade credit only. They also differ markedly as to terms of sale.

3.1.3 CHARGE ACCOUNTS

Under the ordinary charge account, the customer obtains possession of good (or services) when purchased, with payment due when billed. Stated terms typically call for payment at the end of the month, but customary practice allows a longer period for payment than that stated. The charge account is best used for recurring family expenses some accounts at department store are a good example if such use. Three types of credit cards are issued today by businesses organizations. One type is issued by major department stores and oil companies to customers with proved credit standings. Another type is issued by businesses engaged in the area of travel and entertainment such as American express company. Other popular credit card is visa and master card which are issued by a network franchise – holding banks and can be used for virtually any good or service. In the case of visa and master the bank collects from the card holding consumer and remits the amount to the participating retailer, less commission. Participating retailers also pay certain fees for joining, cash accommodation, Merchant membership advertising, and rental for imprinting machines. The advantages of participating are increased sales volume and elimination of some record –keeping costs.

3.1.4 INSTALLMENT ACCOUNTS.

The instalment account is the vehicle of long – term consumer credit. A down payment is normally required, and it is typically 20 percent or more of the purchase price. Finance charges must be disclosed in accordance with the truth - in – lending act. The most common payment periods to 60 months. An instalment account is useful for large purchases such as automobiles, washing machines, and television set.

3.1.5 Trade Credit.

Business firms may sell good subject to specified terms of sale, such as 2/10, n/30. This means that a 2 percent discount is given by the seller if the buyer pays within 10 days. Failure to take this discount makes the full amount of the invoice due in 30 days. Sales terms and trade credit depend on the kind of product sold and the buyer's and seller's circumstances. The credit period often varies directly with the length of the buyer's turnover period, which obviously depends on the type of product sold. The large the order and the higher the credit rating of the buyer, the better the sales terms that can be granted if individual sales terms are fixed for each customer. The greater the financial strength and the more adequate and liquid the working capital of the seller, the more generous.

3.1.6 The Decision to Sell on Credit.

Nearly all small businesses can sell on credit if they wish, and so the entrepreneur must decide whether to sell for cash or on credit. In some cases this is reduced to the question, “can the granting of credit to customers be avoided?” credit selling is standard trade practice in many lines of business, and in other businesses credit-selling competitors will always outsell the cash selling firm.

3.1.7 Factors That Affect the Credit Decision.

Numerous factors bear on the decision concerning credit extension. The seller always hopes to increase profits by credit sales, but each firm must also consider its own particular circumstances and environment.

3.1.8 Type of Business

Retailers of durable goods, for example, typically grant credit more freely than small grocers who sell perishables. Indeed, most consumers find it necessary to buy big-ticket items on an installment basis, and the product’s life makes installment selling possible.

3.1.9 Availability of Adequate Working Capital.

There is no denying the fact that credit sales increase the amount of working capital needed by the business. Money that the business has tied up in open-credit and installment accounts cannot be used to pay business expenses. Before credit is approved, the answers to questions 1, 2, and 4 must be "yes:; to question 3, "on schedule." The answers depend in part on the amount of credit requested and in part on the seller's estimate of the buyer's ability and willingness to pay. Such an estimate constitutes a judgment of the buyer's inherent credit worth.

3.2 **FOUR C's OF CREDIT**

3.2.1 Every credit applicant possesses credit worth in some degree so that extended credit is not necessarily a gift to the applicant. Instead, a decision to grant credit merely recognizes the buyer's earned credit standing. But the seller faces a possible inability or unwillingness to pay on the buyer's part. In making credit decisions, therefore, the seller decides the degree of risk of non-payment that must be assumed.

Willingness to pay is evaluated in terms of the four C's of credit: character, capital, capacity, and condition

3.2.2 **Character.**

Character refer to the fundamental integrity and honesty which should underlie all human and business relationships.

In the case of a business customer, it takes shape in the business policies and ethical practices of the firm. Individual customers who apply for credit must also be known to be morally responsible persons.

3.2.3 Capital consists of the cash and other assets owned by the business or individual customer. In the case of a business customer, this means capital sufficient to underwrite planned operations, including adequate owner capital.

3.2.4 **Capacity.**

Capacity refers to the business customer's ability to conserve assets and faithfully and efficiently follow financial plans. The business customer with capacity utilities the invested capital of the business firm wisely and capitalizes to the fullest extent on business opportunities.

3.2.5 **Conditions** refer to such factors as business cycles and changes in price levels which may be either favorable or unfavourable to the payment of debts. Other adverse factors which might limit a customer's ability to pay include fires and other natural disasters, new legislation, strong new competition, or labor problems.

3.2.6 Credit Limits.

Perhaps the most important factor in determining a customer's credit limits is the customer's ability to pay the obligation when it becomes due. This is turn requires an evaluation of the customer's financial resources, debt position, and income level.

3.2.7 **Sources of Credit Information.**

One of the most important and frequently neglected sources of credit information is found in the accounts-receivable records of the seller. Properly analyzed, these records show whether the customer regularly takes cash discounts and, if not, whether the customer's account is typically slow.

Another source of credit data, on commercial accounts particularly, is the customer's banker. Some bankers are glad to supply credit information about their depositors, considering this a service in helping them to obtain credit in amounts they can successfully handle. Other bankers feel that credit information is confidential and should be disclosed in this way.

Organizations that may be consulted with reference to credit standings are trade-credit agencies and local credit bureaus.

3.2.8 **Trade-credit agencies** are privately owned and operated organizations which collect, credit information on business firms. after they analyze and evaluate the data, they make credit ratings available to client companies for a fee. These agencies are concerned with trade-credit ratings only, having nothing to do with consumer credit. Dun & Bradstreet, Inc., is a general trade-credit agency serving the nation. Manufacturers and wholesalers are especially interested in its reference book and credit reports. The reference book covers all United States businesses and shows credit rating, financial strength, and other key credit information. It is available to subscribers only.

3.2.9 Micro Finance Banks.

These are financial institutions that finance small scale business and charges interest on loans made out to eligible small businesses.

3.3.0 A **credit bureau** serves its members – retailers and other firms in a given community – by summarizing their credit experience with particular individuals. A local bureau can also broaden its service by affiliation with either the National Retail Credit Association or the Associated Credit Bureaus of America. This makes possible the exchange of credit information on persons who move from one city to another. A business firm need not be a member of some bureau in order to get a credit report. The fee charged to non-members, however, is considerably higher than that charged to members. A credit bureau can be found in North African countries, South Africa and Western world of America, Canada and Europe.

3.3.1 WORKING-CAPITAL MANAGEMENT

The excitement of day-to-day business operations can isolate a small-business management from potential working-capital problems. Failure to manage working capital usually has devastating consequences for example, Dun & Brasdstree's 1975 study of business failures found that more than one in three had mismanaged operating expenses. Receivables, and inventory accounts. Working capital is a concept representing the net value of tangible current assets since, by definition, working capital is current assets minus current liabilities. Therefore, the most logical approach to understanding working capital management is one which analyses the individual components of working capital: cash, account receivable, inventory, an accounts payable.

3.3.2 CAPITAL BUDGETING IN SMALL BUSINESS.

The manager of a going concern must find time to search for alternative prospective investments if the business is to grow. After assessing the availability of expansion capital, the manager must determine the most profitable use of such funds by appraising the alternative investment opportunities open to the small firm. Capital budgeting assumes that the firm's supply of capital is limited and that it should be rationed in such a way as to provide funds for the best investment proposals. In its broadest sense, capital budgeting includes investments of both a long-range and a short-range nature. In this chapter, however, our concern is with long-range financial commitments; and the discussion that follows deals exclusively with long-range movements of funds.

3.3.3 Approach to Financing the Expansion.

The financing of expansion is usually a major consideration in growth plans. Financing can be internal or external. Many of the sources of initial financing discussed in Chapter 7 also provide expansion funds. An entrepreneur's past success with a new venture will usually make the financing of expansion easier than start-up financing. However, there can be constraining factors which limit full funding of expansion opportunities. Harold Heinold, now a major marketer of hogs, grew from a small buyer by rapid and aggressive expansion. But still he says, "I never could raise enough money to do the things I wanted to do, never enough to take advantage of all the opportunities that came along”.

3.3.4 Retained Earnings.

Realized profits that are plowed back into the business, or **retained earnings,** constitute a major source of funds for financing small business expansion. Such internally generated funds may be invested in physical facilities or used to expand the firm’s working capital. It is likely that the majority of small firms experience an annual growth in net worth as a result o retained earnings. Financing through retained earnings provides a conservative approach to expansion. The dangers of overexpansion or expansion that is too rapid are largely avoided. Because the additional funds are equity, the firm has no creditors threatening foreclosure and no due dates by which repayment must be made. Small business has various expansion philosophies. Expansion success is facilitated by proper search activity and available financing. Most sources of initial financing can also be approached for expansion support. Retained earnings can be used to finance expansion.

SELF ASSESSMENT QUESTION

What are the competitive strengths of a small business within your community?

4 Conclusion

Cost considerations in pricing involve an understanding of the components of total variable costs and of total fixed costs. Demand considerations involve such factors as product appeal, marketing effort, and product price, all of which exert an influence on demand. An understanding of elastic demand and inelastic demand is also important.

Break-even analyze in pricing entails a formal comparison of cost and demand for purposes of determining the acceptability of alternative prices.

Fixed and variable costs are used to construct a cost break-even chart. Demand factors can be incorporated to construct a cost-adjusted break-even chart.

5 Summary

By extending credit, sellers can increase sales volume and expert the increased revenue to more than offset credit costs so that their profits will increase. Benefits from the use of credit by buyers consist of deferred-payment privileges, convenience, and a supply of working capital. The small business should consider several factors, such as the type of business, the credit policy of competitors, the income level of customers, and the availability of adequate working capital, before deciding to sell on credit. It should evaluate the credit standing of applicants in terms of the four C's of credit – character, capital, capacity, and conditions.

6 Tutor-market Assignment

What is credit and why would small business contemplate of extending credit to its customers?

Are there benefits from use of credit by buyers, or if not, why and how, explain?

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Answer to Self Assessment Question:

The competitive strengths of small firms include knowledge of customers and markets, product and geographic specialization, and flexibility in management.

UNITS 20 PROBLEMS FACING SMALL BUSINESS & CAUSES OF FAILURE

CONTENT

3.3.2 **Lack of capital also contributes to business failures**.

3.3.3 **Some Businesses expand prematurely**

3.4 Failure Symptoms

3.4.1 Deterioration of Working-Capital Position

3.4.2 Declining Sales

3.4.3 Declining Profit

3.4.4 Increasing Debt

3.4.5 Insolvency and Bankruptcy

4.0 Conclusion

5.0 Summary

6.0 Tutor-market Assignment

7.0 References/ Further readings

UNITS 20 PROBLEMS FACING SMALL BUSINESS & CAUSES OF FAILURE

CONTENT

1.0 Introduction

In this unit, we shall study the problems confronting small businesses. A balanced review of future prospects requires us to consider also the darker side of the small-business scene. Small firms face problems, and small firms fail. While we wish to avoid pessimism, we must deal realistically with these matters. In this unit, we shall discuss the nature of their problems, their record of failure, and the bankruptcy for those who fail.

2.0 Objectives

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

Identify shortcomings of small business operation

Describe problems confronting small business

Explain probable causes of small business failure and solution

Discuss kind of losses the small suffers in event of failure

3.0 Main content

3.1 PROBLEMS OF SMALL BUSINESS

Although researchers have established no "official list" of uniformly recognized group of difficulties for small business, they have detected a number of recurring problem area discussed below.

3.1.1 Lack of Managerial Skills and Depth. Perhaps the greatest problem of small-business management is the lack of necessary skills in the management group. In a very small business, the owner is a one-person management team.

Top-level decisions, together with all the lesser tasks of management that assistants cannot accomplish, become the owner-manager's sole responsibility. Unfortunately this requires a diversity of talents-and no individual has superior ability in all areas of management.

The management process is hampered not only by a lack of diversified talents but also by the manager's frequently casual or superficial approach to management problems. The manager often does not understand the intricacies of maintaining adequate business records or of preparing financial statements. Or, if financial data are available, the manager may lack the necessary knowledge or appreciation of their value to interpret and use them effectively.

Personal Lack and Misuse of Time. As mentioned earlier, the owner manager of a small business frequently bears the management burden alone. In a very small firm, the manager may even help out at the worker level on occasion, packing a rush order or delivering merchandise to a valued customer who insists on immediate service. This means that the manager does not have the opportunity to operate solely at the executive level. This lack of time to manage is accentuated by participation in civic affairs and time devoted to the family, hobbies, and recreational activities. To help overcome part of the total time pressure, the small-business manager should budget time and exercise reasonable restraint over participation in community affairs.

3.1.3 Lack of Financing.

A major problem for many small businesses are lack of capital and credit. Long-term capital is a particular need of many small firms. It is obtained by personal investment or by long-term borrowing. Borrowing money to be paid back over a period of ten years or more is difficult for small firms. The banker ordinarily expects funds of this type to come from equity capital. Borrowing from relatives or friends, as an alternative, may present problems because they often expect some voice in the management of the business. And this type of credit can jeopardize the relationship of both parties. Still another source of long-term capital is the capital markets that are open to large businesses. However, the small firm has only limited access to these markets. Moreover, accepting partners or selling stock may involve the surrender of absolute control over the business, a condition that the original owner may reject. Expansion capital typically must come from personally invested funds or from profits retained in the business.

3.1.4 Overregulation and Taxes. Many surveys of small-business problems report governmental regulation and taxation as troublesome areas. The top-priority recommendations of the 1980 White House Conference on Small Business dealt with income taxes, estate taxes, tax incentives to help small firms raise capital, and various other tax and regulatory issues. In Chapter 22, we discussed the burdensome nature of regulation and the attempt to reduce this burden by increasing flexibility in regulation. A major problem created by corporate income taxation is the reduction of funds available for reinvestment in the business. This reduction especially hampers small firms because they must rely on earnings as their primary source of expansion capital. Large firms, in contrast, have access to other sources of capital. Even though this principle is recognized in a graduated tax rate system, the impact is still serious for firms which must depend heavily on retained earnings.

3.1.5 Difficulty in Obtaining Qualified Personnel.

Many small-business managers identify personnel as a major problem area. In most cases, union relationships are not specified as the primary difficulty. Instead, managers often report difficulty in locating properly qualified personnel. Securing well trained automobile mechanics, television technicians, or pharmacists may pose real problems. For example, the manager of a diesel engine service shop searched for six months to locate a well-qualified parts manager who could also learn to supervise the office and record-keeping activities. Even more difficult for the small business is the recruitment of managerial and professional personnel. This is not to say that the need to recruit and train competent personnel is unique with the small firm. But the small-business owner often has little knowledge of selection techniques and sources of applicants used by large firms. Also, the small-business owner typically lacks a well-developed personnel program and has little grasp of its significance. There are numerous other ways in which small-business personnel problems are different. In some industries, for example, the practice of "pattern" bargaining with labor unions tends to impose big-business labor requirements upon small firms. This practice often appears unreasonable to managers of small firms. To illustrate, consider a contract provision limiting employees to a specified type of work. The small firm has greater difficulty in adhering closely to rigid job definitions of this type and needs considerable flexibility in shifting employees from one type of work to another. Some union contracts, it should be noted, have recognized such unique problems of personnel management in small firms.

3.1.6 Weaknesses in Marketing.

When the small-business owner speaks of the problem of "competition," some aspect of selling is usually stressed. In most small firms the rigors of competition make the manager painfully conscious of marketing weaknesses. Difficulties in managing the firm's advertising illustrate the nature of the marketing problem. How much should the firm spend on advertising? What media should be used? How can the effectiveness of advertising be measured? For small firms, many of these questions are particularly difficult to answer, and their owners must often guess at the right answer. Channels of distribution, product differentiation, marketing strategy, and other issues likewise constitute significant problems for the small firm.

3.2 Failure and the Small Firm.

Some unqualified entrepreneurs are doomed from the start. Others who are reasonably well-qualified encounter problems which are too much for them. In either case, the result is failure.

10.1.1 Rate of Small-Business Failure.

The rate of small-business failure fluctuates from year to year with changes in general economic conditions and other factors. Figure 23-4 shows the rate of failure each year from 1920 to 1979.[5] An examination of fluctuations in the rate of failure reveals that the rate within the last four decades is significantly lower than that of the 1920s and early 1930s. Note that the failure rate reached its highest point in the depression of the early 1930s. In the prosperous years following World War II, the rate dropped sharply. Since 1945, the consistently high level of economic activity has been accompanied by a lower failure rate than existed in earlier decades. However, the 1970 and 1975 recessions showed perceptible increases. The failure rate also increased sharply in the recession of 1982, but detailed data were not available at the time of publication of this text. In view of the long-term record, one may be more optimistic about the chances for small-business survival. Even though many businesses die each year, the problem appears less serious when viewed in this historical perspective.

10.2 ***Root Cause- Inadequate Management***.

In small business especially, management seems to be the number-one problem of the enterprise. The able manager utilizes his or her time wisely and gives proper attention to the various managerial functions. This includes careful attention to customer and public relations, financial planning, employee relations, production control, selling, and other key factors of a business.

10.2.1 ***Surface Causes***.

Even though we recognize that management is basically at fault, it is nevertheless profitable to note those areas in which management most frequently finds itself in trouble. For example, a frequently alleged cause of failure is the intensity of competition. Independent grocery stores may be run out of business by the advent of efficient chain or supermarket competition. Manufacturers might also encounter new, efficient, well financed competition for the first time. An efficiently managed existent business, however, is a tough foe for any competitor. Perhaps too much stress has been placed on competition as a cause of failure, although it must be given proper consideration.

10.2.2 **Lack of capital also contributes to business failures**.

Starting a business on the proverbial shoestring is generally unwise and often leads to failure. Even when initial capital is adequate, the entrepreneur may misuse it. The result is the same - a lack of capital. Sometimes the lack of capital may be only temporary, but the results of over borrowing may still cause failure.

10.2.3 Poor location also causes problems for small firms.

The choice of a successful location is partly a science and partly an art. Too many locations are chosen without serious study, careful planning, or adequate investigation. For example, in a particular shopping center three eating establishments were opened in succession. Each one failed, partly because of its choice of location.

10.2.4 Some businesses expand prematurely.

In periods of prosperity, with reasonable certainty of continued demand, a manufacturer might successfully expand physical facilities through mortgage loans. In any case, expansion calls for careful advance planning. An expanding business should never be top-heavy with debt.

10.2.5 **Failure Symptoms**.

The symptoms of impending business failure are the red flags that alert the entrepreneur. Anyone of them may point to trouble. If any of these symptoms are detected, the firm's financial position may be assessed by computing some ratios and comparing them with industry standards.

10.3 Deterioration of Working-Capital Position

10.3.1 When a firm's working capital position is deteriorating, its working capital is becoming inadequate and illiquid. The factors that contribute to declining adequacy and liquidity of working capital include the following:

10.3.2 Continuing operating losses.

10.3.3 Unusual, nonrecurring losses such as those due to theft, flood, tornado, and adverse court judgments.

10.3.4 Payment of excessive managerial bonuses and unearned dividends.

10.3.5 Frozen loans to officers, subsidiaries, and affiliates.

10.3.6 Overinvestment in fixed assets from working-capital funds.

10.3.7 Long-term loan payments in excess of a proper share of annual profits.

10.3.8 ***Declining Sales***.

Sales decline represents a serious situation for any business, large or small. This is true because operating expenses - particularly fixed overhead expenses-do not decline in proportion to sales. Hence, prolonged sales declines result in reduced profits or actual losses. Controllable factors that may contribute to sales decline include:

- Inadequate market research to measure sales potentials by sales areas or customer groups.

- Poorly planned advertising and promotional activities.
- Obsolescent products and product packaging.

10.3.9 ***Declining Profits.***

Profits that go downward from month to month or year to year may be attributed to many factors, the most important of which are:

- Declining sales.
- Increasing costs of merchandise or raw materials.
- Higher labor costs.
- **Higher taxes.**

3.3.0 ***Increasing Debts.***

If current liabilities get out of hand and bills or payrolls due for payment cannot be paid, the firm's situation might deteriorate into involuntary bankruptcy. Nor should a company's fixed, long-term liabilities be allowed to become excessive.

3.3.1 Insolvency and Bankruptcy.

A business becomes insolvent when the aggregate value of its assets is not sufficient to pay its debts. There are two major courses of action to take. When insolvency exists: to salvage the Business through voluntary creditor agreements or creditor arrangements under the Bankruptcy Act of 1978, or to liquidate the business by declaring bankruptcy.

3.3.2 Voluntary Creditor Agreements.

If the creditors of an insolvent firm believe that the business can be profitable

again, an arrangement permitting continuance of the firm can be made. Such an arrangement may be initiated by either the debtor or a group of its major creditors. The arrangement may take either the form of an extension agreement, a composition settlement, or a combination of both.
Under an extension agreement the creditors of the insolvent business agree to postpone the debtor's payment of obligations for some stipulated period of time. The agreement becomes legally binding upon each of the parties to it. Creditors who do not participate in the extension agreement are not bound by its terms. Therefore, most of the firm's major creditors must become parties to such an agreement if it is to succeed.

In a composition settlement the creditors agree to accept reduced amounts due them, on a pro rata basis. The settlement may be either made in cash immediately or postponed to a later date.

3.4. Erroneous Impressions from Failure Data.

The extensive use of Dun & Bradstreet's failure data has tended to create an erroneous impression about the likelihood of failure.[6] Figure 23-4 shows that 28 firms out of 10,000 failed in 1979, which which means that only 28 percent (less than one half of one percent) failed, viewed in this way, one can conclude that changed for success are excellent! The prospective entrepreneur should be encouraged to consider business ownership because of its bright prospects, rather than to shun it because of fear of failure. Of course, the failure rate would be higher if all discontinuances reflecting unsatisfactory operating results were added to those involving loss to creditors. And it is desirable that we should learn from the experiences of those who failed, caution and apprehension of failure, however should not be permitted to stifle inclinations toward independent business careers.

10.3.10 The Costs of Business failure.

The costs of business failure involve more than financial costs. They include costs of a psychological, social, and economic nature too.

3.4.1 Loss of entrepreneur's and Creditors' capital.

The owner of a business that fails suffers a loss of invested capital, either in whole or in part. This is always a financial setback to the individual concerned. In some cases, it means the loss of a person's lifetime savings! The entrepreneur's loss of capital is greater than the sum of the entrepreneurial losses in any one year.

3.4.2 Injurious Psychological Effects.

Individuals who fail in business suffer a real blow to their self-esteem. The business creditors. Hence, the total capital loss is greater than sum of the entrepreneurial losses in any one year. Injurious Psychological Effects: Individuals who fail in business suffer a real blow to their self-esteem. The business they started with enthusiasm and high expectations of success have "gone under". Older entrepreneurs, in many cases, lack the vitality to recover from the blow. Most unsuccessful entrepreneurs simply relapse into employee status for the balance of their lives. This too, may constitute a serious loss, as many of these "failures" possess managerial ability that is not utilized fully in an employee status. However, failure need not be totally devastating to entrepreneurs. They may recover from the failure and try again. Albert Shapero has offered these encouraging comments: "Many heroes of business failed at least once. Henry Ford failed twice. Maybe trying and failing is a better business education than going to a business school that has little concern with small business and entrepreneurship". The key, therefore, is the response of the one who fails and that person's ability to learn from failure.

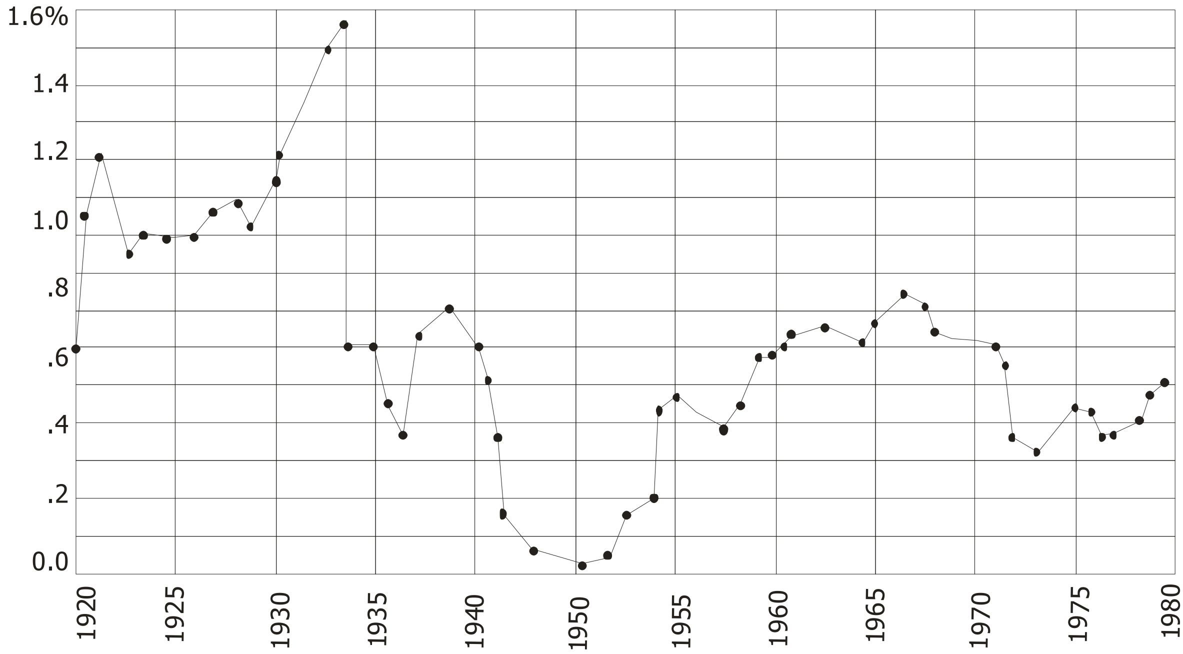

Figure 23.4 , Dun and Breath Failure Data Rate of Small Businesses Source: Small Business Management, p.377

3.4.3 Social and economic Losses.

Assuming that a business opportunity existed, the failure of a firm means the elimination of its goods and services that the public needs and wants. Moreover, the number of job available in the community is reduced. The resulting unemployment of the entrepreneur and employees, if any, causes the community to suffer from the loss of a business payroll. Finally, the business that failed was a taxpayer which contributed to the tax support of schools, police and fire protection, and other governmental services.

3.4.4 **Causes of failures in 1979**

Neglect Fraud			1.1%
Inexperience, incompetence			0.6%
Inadequate sales			91.9%
Heavy operating expenses	52.3%		
Receivables difficulties	28.9%		
Inventory difficulties	9.8%		
Excessive fixed assets	3.1%		
Poor location	2.2%		
Competitive weakness	26.2%		
Other	1.7%		
Disaster		0.6%	
Reason unknown		5.8%	

100.0%

Since some failures are attributed to a combination of causes, percentages for the items in the inset column do not add to 91.9%.

Self Assessment Question

(1)Visiting any small business concern located in your environment, what do you think may be the greatest problem of small-business management?

Self Assessment Question

(2)What do you understand by deterioration of working capital?

What is the first factor that contributes to the deterioration?

4 Conclusion

Top-level decisions, together with all the lesser tasks of management that assistants cannot accomplish, become the owner-manager's sole responsibility. Unfortunately this requires a diversity of talents-and no individual has superior ability in all areas of management.

The management process is hampered not only by a lack of diversified talents but also by the manager's frequently casual or superficial approach to management problems. The manager often does not understand the intricacies of maintaining adequate business records or of preparing financial statements.

Aside from the relatively few cases of fraud, neglect, and disaster, the root cause of business failure is found in managerial incapacity. The weaknesses of management manifest themselves in various ways, however. These manifestations might be thought of as the apparent, or surface, causes of failure.

5 Summary

Big-business managers either know how to use the records and statements properly to guide decision making, or they employ experts to do so for them. Small businesses alone are plagued by inadequacy and serious misuse of business records and business information.

Small-business managers also fail to exercise the highest quality of management in so far as they are bound by tradition and are insensitive to the need for change in policies and practices. They often are severely limited in terms of both education and experience.

Ordinarily business expansion should be financed from retained earnings or capital contributions of the owners.

The symptoms of impending business failure are the red flags that alert the entrepreneur. Anyone of them may point to trouble. If any of these symptoms are detected, the firm's financial position may be assessed by computing some ratios and comparing them with industry standards.

6 Tutor-market Assignment

(1)What are major causes of small business failure? Discuss what can be done in order to ameliorate future disaster of small business?

(2) **Tutor-Marked Assignment**

What do you understand by small business insolvency? What are the

Symptom of Small business failure and how can potential business failure be avoided?

7 References/ Further readings

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Entrepreneurial Spirit(4th ed.). Manhattan, New York Press.

Answer to self Assessment Question

(1)Perhaps the greatest problem of small-business management is the lack of necessary skills in the management group. In a very small business, the owner is a one-person management team.

(2) Answer to Self Assessment Question.

Working capital deterioration means that working capital is becoming inadequate and illiquid. The first factor that contribute to declining adequacy and liquidity of working capital include- Continuing operating losses, which is the first signal of illiquidity.

UNITS 21 PROSPECTS FOR THE FUTURE OF SMALL BUSINESS

CONTENT

UNITS 21 PROSPECTS FOR THE FUTURE OF SMALL BUSINESS

CONTENT

1.0 Introduction

In this final unit, we turn to the brighter prospects for small business. This involves a review of some of the factors contributing to the survival and continued growth of small firms.

2.0 Objectives

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

Understand the meaning of small business future prospect

Discuss factors responsible better future of small business

Identify the significant contributions of prosperous small business

Describe sources of vital information to aid better business practice

Explain the areas of business that small business has been strong

3.0 Main content

3.1 Shift to a Service Economy

3.1.1 Emphasis on Small-Business Courses and Programs.

Colleges and universities have greatly expanded their educational emphasis on small business. The teaching of small-business management courses has grown in popularity during the past few years. This emphasis has been encouraged by the Chamber of Commerce and industry, Micro Finance Banks, CBN Small Business Entrepreneurial Support Program, SBA-sponsored students consulting programs. The academic field of entrepreneurship and new-venture management has also emerged in recent years. During the 1970s, the colleges offering courses in this field grew from about a dozen to more than 130. Many of the nation's leading schools now offer entrepreneurship courses and programs.

3.1.2 Growth of Small-Business Periodicals.

Many periodicals devote special attention to the needs of small business. *Nation's Business,* for example, is published by the Chamber of Commerce and industry, and places great emphasis on small-business news and programs. Evidence of a growing interest in small business is found in the **launching of new publications.** Three new monthly periodicals, *Inc., Venture,* and *In Business,* started publication in the late 1970s, bringing news and stories of new ventures and entrepreneurship. The fact that three such publications could be launched successfully suggests a widespread interest in entrepreneurship and small business.

3.1.3 Continued Support of Governmental Programs.

In the preceding unit we described many programs of government aid for small business. These aid programs, along with the steps taken by Congress to modify regulatory and tax policies to adapt them to the needs of small firms, represent public policy in support of small business. They reflect an awareness on the part of the public of the vital role played by small firms.

3.1.4 Emergence of Private-Sector Programs and Initiatives.

One of the most encouraging factors in thinking of the future prospects of small business is the various initiatives undertaken by private business institutions. Such efforts are diverse, and we can do no more than provide two examples. The National Minority Purchasing Council provides an example of cooperative effort among private business concerns. When large corporations become members of this organization, they join a group which attempts to purchase an equitable percentage of services and supplies from minority enterprises. They recognize that minority-owned businesses deserve a chance to compete, and the group strives to make sure they have that opportunity. (The address is: National Minority Purchasing Council, 6 North Michigan Avenue, Room 1104, Chicago, IL 60602.).

3.1.5 The Unflinching Entrepreneurial Spirit.

Perhaps the strongest force in achieving a bright future for small business is the unflinching spirit of the entrepreneur. We recognized the crucial role played by the entrepreneur-the one who brings new firms into existence and provides leadership for them. Entrepreneurs are creative, talented individuals who provide the backbone for the small-business system. They are also tough individuals who face business problems but who look beyond those problems to find solutions and success in economic endeavor.

Self Assessment Question.

How did educational institutions assist in molding the prospect and success of small businesses?

1.0 Conclusion

One major structural change that favors small business is the shift from a manufacturing to a service economy. The manufacturing segment, in which big business predominates, is currently declining in relative importance. On the other hand, services, retailing, and wholesaling are growing in relative importance. These areas are fields in which small business has traditionally been strong.

2.0 Summary

Perhaps the strongest force in achieving a bright future for small business is the unflinching spirit of the entrepreneur. One major structural change that favors small business is the shift from a manufacturing to a service economy. The manufacturing segment, in which big business predominates, is currently declining in relative importance. On the other hand, services, retailing, and wholesaling are growing in relative importance. These areas are fields in which small business has traditionally been strong.

3.0 Tutor-market Assignment

Enumerate the factors that are responsible for growth and progress of small businesses in the recent time?

4.0 References/ Further readings

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Answer to Self Assessment Question.

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