

ENTREPRENEURSHIP THEORY AND PRACTICE

IN THE 21ST CENTURY

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ENTREPRENEURSHIP SYLLABUS COVERAGE

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14. Business competition
15. Financial management skills
16. Capital markets

Reference

- U.A.C.E Entrepreneurship education by GYZA AZEDT
- U.A.C.E Entrepreneurship by Phillip Mubiru and Omagor

INTRODUCTION TO ENTREPRENEURSHIP EDUCATION

The subject is designed with the aim of changing the learners' mind set from being a job seeker to being a job creator aiming at fighting a rampant unemployment in the developing countries and Uganda in particular.

Entrepreneurship education is developed from the term entrepreneurship which may literally refer to enterprising.

MEANING OF ENTREPRENEUR

An entrepreneur is a person who organizes, operates and assumes the risk for business ventures.

The word entrepreneur simply comes from the word enterprising therefore an entrepreneur - is the person with the ability to scan the environment, identify business opportunities, gather resources, open up a business and runs it to a success.

An entrepreneur can be any person who:

- i. Observes the economic, social and natural environment
- ii. Identifies opportunities in the business or non-business environment
- iii. Gathers the necessary resources for the activity
- iv. Implements the activity
- v. Receives financial or social rewards
- vi. Concerned about possible damages to the natural and social environment

ENTREPRENEURSHIP

This refers to one's ability and capacity required to generate business ideas, gathering resources to produce goods and services that are beneficial to an individual and society as a whole.

Entrepreneurship develops within an entrepreneur over time as a result of exposure to different business and non-business environments.

ENTREPRENEURSHIP EDUCATION

It refers to a study (subject) which aims at equipping students or learners with the knowledge and skills required to operate a business successfully using the available resources.

Entrepreneurship education trains, motivates and allows learners to develop and use their creativity, take initiatives, responsibilities and risks in order to encourage entrepreneurial success in a variety of settings. **It includes the following:**

Opportunity recognition. This refers to either the discovery of a clear business idea or development of an idea into a more feasible business concept over time

Commercial opportunity. This involves turning an idea into a commercial service or a saleable product

Allocating resources in the face of risk. This involves identifying an idea or an opportunity and committing resources (human, financial and physical) to turn the opportunity into a business, despite the presence of risks

Initiating a business venture. This involves starting a business through the established procedures

Instructions in traditional business disciplines such as management. This involves equipping learners with traditional business skills to empower them to manage their own businesses in a proper way

Marketing information systems and finance. This involves providing information on marketing and finance

THE IMPORTANCE OF STUDYING ENTREPRENEURSHIP DEVELOPMENT

1. Entrepreneurship education helps the learner to acquire skills that may be used in operating a business successfully.
2. It helps the learner to develop the negotiating skill which may be helpful in bargaining while purchasing business in put and at the time of selling the final product to the customer.
3. It enables the learners to develop a positive attitude and culture towards self employment and business in general.
4. It is taught for academic purposes i.e. it is examinable at the national level and also prepares learners for other academic and technical courses in different institutions of learning.
5. It enables a student to gain knowledge of scanning the environment and identifying the viable businesses that can be started using the available resources.
6. It instills the learners' self confidence and awareness and a spirit of working towards self reliance, this enables a learner to be able to set personal goals and evaluate them after a specified period.
7. It equips learners with the skills of knowledge used to open up and mobilize businesses successfully. This may be done through personal savings, borrowing from friends, relatives, financial institutions, selling personal property etc.
8. It helps learners to understand the need and help given by the community towards the business success.
9. Through studying entrepreneurship education, learners are able to crate personal employment opportunities and also employ other members of the community hence eliminating or reducing the un employment problem.
10. It enables a learner to develop proper financial management skills so as to be able to manage the finances of the business properly.

Characteristics of a Good Entrepreneur / Personal Entrepreneurial Characteristic (P.E.C's)

As earlier noted an entrepreneur is an individual with the ability to spot business activity in the environment, gather resources to manage the business and manages it successfully.

For an entrepreneur to fulfill the above he or she must have particular traits or characteristics which enable him to succeed in business and these are commonly known as the personal entrepreneurial characteristics and they include the following;

1. **Risk taking:** All businesses are risky regardless of the size and nature hence a good entrepreneur must have the ability to analyze the different risks facing a particular business and come up with appropriate remedies or solutions to the problems.
2. **Innovativeness and creativity.** A good entrepreneur should have the ability to come up with new ideas that will help to develop and expand his or her business.
3. **Self confidence:** this refers the belief in one's self that is for an entrepreneur to be successful; she or he must have a positive attitude towards himself and the business he/she is operating.
4. **Persistence.** A successful entrepreneur must continuously carry on with the business being operated regardless of the difficulties being faced.
5. **Hard work.** That is, she/ he must be able to serve the customers for long hours i.e. early in the morning to late evening.
6. **Goal setting.** For an entrepreneur to be successful, he/she must set targets to be achieved in the business in the given period of time. The goals set must be smart and within the limits of the resources available in the business.
7. **Accountability.** A business will help in planning for the development of an enterprise. It is also important that entrepreneurs keep their books of accounts for purpose of controlling finances of their business.
8. **Decision making.** Entrepreneurs must be able to make appropriate decisions at an appropriate time so as to promote business development.
9. **Net working.** Successful entrepreneurs normally work hand in hand with other entrepreneurs in the same field or line of business. This helps some one to be able to get new ideas to business as expansion hence good entrepreneurs should not look at competitors as rivals or enemies but rather partners in development.
10. **Leadership.** A successful entrepreneur should be a good leader to direct business resource (money and human resource towards the rightful direction).
11. **Concern for quality.** Entrepreneurs should provide services or produce goods that can meet the consumers' expectation so as to have a large market. This implies that entrepreneurs should take the relevant precautions to produce high quality products to the certification of the consumers' expectation.
12. **Builds for the future.** The goal for most successful business people is to build a secure and stable income for themselves and improved livelihood and wealth for their families based on their own abilities
13. **Copes with failure.** This involves recognizing the failure, learn from it and seeking new opportunities

14. **Responds to feed back.** An entrepreneur should obtain useful feedback and advice from others
15. **Demonstrates initiative.** Successful entrepreneurs take the initiative and put themselves in positions where they are personally responsible for the success or failure
16. **Willing to listen.** A successful entrepreneur has the ability to seek for help from other people such as bank officials, accountants and business advisers
17. **Sets own standards.** A successful entrepreneur sets his/her own performance standards and work towards achieving them
18. **Copes with uncertainty.** The business environment is uncertain in terms of sales, material delivery, prices and bank support
19. **Builds on strengths.** Successful entrepreneurs base their work upon the strengths they have such as manual skills, interpersonal skills, selling skills, organizational skills etc
20. **Committed.** A successful entrepreneur is committed in terms of time, money and lifestyle
21. **Reliability and integrity.** A successful entrepreneur is honesty, fair and reliable in terms of effects the promises made

MAJOR COMPETENCIES REQUIRED FOR SUCCESSFUL ENTREPRENEURSHIP

There are three major competencies for successful entrepreneurship namely

A body of knowledge

A set of skills

A cluster of traits

KNOWLEDGE.

It is a set or body of information stored, which may be recalled at an appropriate time

Knowledge in business is manifested in the following aspects:

- A business opportunity
- Customers
- Production process
- Business management assistance
- Market
- Competition
- Technical matters

SKILL.

This refers to the ability to apply knowledge acquired through practice. A skill can be technical or managerial

Examples of technical skills

- Engineering
- Computing
- Sewing
- Carpentry
- Mechanics
- Catering

Examples of managerial skills

- Marketing
- Time management
- Financial management
- Organizational
- Planning
- leadership

TRAITS

It is the aggregate/ totality of peculiar/unique qualities/ characteristics that constitute personal individuality

Challenges of an Entrepreneur

A challenge is difficult to which a business is exposed and disposes several tasks that an entrepreneur must accomplish so as to have a successful business. The major challenges of an entrepreneur therefore include the following:

1. **Sourcing for business capital.** Entrepreneurs are faced with a challenge of raising enough funds for finance activities in form of buying machinery and equipment, raw materials, paying human resources etc and as such they would be potential entrepreneurs who are limited by inadequate funds.
2. **Challenge of market.** Some times it becomes difficult for the entrepreneur to find quality customers to whom he / she can sale the products.
3. **Poor funds management.** Some times entrepreneurs tend to misuse business fund that is using business money for personal gains. Worse still entrepreneurs fail to distinguish between business capital and business profits there by consuming business capital mistakenly taking it to be profits of the business.
4. **Profit maximization.** Entrepreneurs face a challenge of maximizing profits amidst competitive market environment. In most cases, entrepreneurs tend to lower the prices of their products hence leading to low profits.
5. **Maintaining the stock level.** This is done by consumers at the same time and this causes a threat of loosing the would be potential customers due to inadequate stock.

6. Increasing business learning expenses such as payment for business consumables (electricity, water, insurance cover etc) is a major challenge to most entrepreneurs and as such it reduces the would-be business profits.
7. **Production and maintaining capital output.** At times it may be difficult for entrepreneurs to produce quality output because of factors that may be difficult to control.
8. **Challenge of acquiring and maintaining quality manpower in a business.** This may internally affect the quality of output.

Remedies / Solution to the Above Challenges

In an effort to address the above challenge, the entrepreneur follows the steps below;

1. The entrepreneur may apply for a bank loan or may resort to other sources of business funding such as selling personal property, fund raising, or begging from donors so as to overcome the challenge of inadequate capital.
2. The challenge of inadequate market may be addressed by intensifying sales promotion activities such as advertising i.e. giving free gifts, discounts customers etc.
3. Proper book keeping is an appropriate measure to poor funds management. In this case the entrepreneur may employ qualified financial managers and effectively supervise them to ensure that business funds are not misappropriated.
4. Purchase of quality inputs such as raw materials, machinery, human resource (labour) and the effective supervision of the product process will help to create quality output for consumers' satisfaction.
5. Profit maximization can be achieved through reducing business operation costs and proper handling of customers.

THE ROLE OF ENTREPRENEURSHIP IN THE ECONOMIC DEVELOPMENT OF OUR COUNTRY.

1. It helps to promote small scale enterprises in society since it emphasizes starting small businesses and developing them into bigger enterprises. Consequently, causing development both in urban centers and rural areas.
2. It helps to promote self employment within the economy where individuals can start businesses from which they earn a living, consequently helping to reduce the unemployment level.
3. It promotes self awareness of one's self (potentiality) and awareness of the environment around him or her and hence he / she can easily identify the resources available and uses to generate a business idea which leads to economic development.
4. Entrepreneur helps to collect / rectify regional imbalances especially where different entrepreneurs in different regions are sensitized of the importance of opening and running businesses.

5. It promotes increasing research into different business opportunities, their operation and ways of improving their productivity hence leading to growth and development of an economy.
6. It promotes creativity and innovativeness especially amongst the entrepreneurs operating small scale businesses hence leading to the expansion and accelerating the economic growth and development.
7. It helps in capacity building where individuals are equipped with the entrepreneur knowledge necessary to cause development.
8. It helps individuals especially students in schools to select career opportunities that is by identifying and concentrating on what one wants to become in future.
9. It assists in expanding and developing a business network locally and internationally by increasing the rate of development of the country's economy.

ENTREPRENEUR, INTRAPRENEUR AND ENTERPRISING PERSON

An entrepreneur is a person who conceptualizes/interprets/scans, implements, maintains and expands business in the face of risk and uncertainty. They achieve profit and growth by identifying opportunities and marshalling the necessary resources to capitalize on those opportunities

An entrepreneur can be described as someone who:

- i. Owns and manages his/her own business
- ii. Identifies new products/services or opportunities
- iii. He is creative and innovative
- iv. Organizes and controls resources to ensure a profit for the business
- v. Has the ability and insight to market, produce and finance a service or product
- vi. Has financial means or can obtain financing to support the business
- vii. Is willing to take calculated risks

The intrapreneur. An intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture, by operating within the organizational environment.

Intrapreneurs identify opportunities within an existing business and create profits for the business from this opportunity

Features of an intrapreneur.

- i. Work in an existing business
- ii. Is hired to manage the business
- iii. Identifies new products/services or opportunities for an existing business
- iv. Is creative and uses ability/insight to market/produce/finance a service/product
- v. Organizes and controls resources to ensure a profit for the existing business

- vi. Prefers benefits of an existing business such as a salary and available resources

An enterprising person.

Is a person who takes on imaginative and risky projects. An enterprising person is ambitious and energetic

Features of an enterprising person

ENTREPRENEURIAL CULTURE

This refers to a culture that encourages the whole population to take advantage of the abundant opportunities in the environment. The promotion of the entrepreneurial culture involves the development of attitudes, beliefs and value that enable or encourage individuals to;

- Build capacity for living with uncertainty and ambiguity
- Familiarize themselves with small business tasks
- Be in contact with very many successful role models
- Embrace opportunities to practice entrepreneurial competencies
- Link with a wide network of independent family/business contacts
- Acquire formal/informal managerial knowledge and practice in business

OBJECTIVES OF ENTREPRENEURIAL CULTURE

- To acquire formal / informal managerial knowledge and practice in business.
- To link with a wider network of independent family / business contracts.
- To embrace opportunities to practice entrepreneurial.
- To be in contact with numerous familiar successful role models.
- To familiarize themselves with small business tasks during youth
- To build capacity for living in uncertainty and ambiguity.

STAGES OF ENTREPRENEURIAL PROCESS

There are three stages of employment generation/entrepreneurial process

1. Income generation. Is the initial stage in the entrepreneurial process in which one tries to generate surplus or profit e.g. opening up a fixed deposit account in a bank for interest
2. Self-employment. Is the second stage in the entrepreneurial process. It refers to an individual's full time involvement in his own occupation
3. Entrepreneurship is the terminal stage of the entrepreneurial process. This involves diversification and growth in business. It necessitates the entrepreneur to search for new opportunities, opening up new branches etc

CAREER OPPORTUNITIES IN UGANDA

A career is an occupation / work that one does over a period of time for personal survival and the survival of the family.

A career may also be defined as an undertaking by an individual requiring specific training from he/she attains a job for survival.

There are different careers that can be obtained on different under taking (course of students) examples of career may include; business person, being a teacher, lawyer etc.

Note: There are different fields that provide different career options and these include.

- The health sector (Nursing, pharmacists, doctor, midwives etc)
- Education sector (teachers, professors, nursery teachers etc)
- Business sector (accounts, a business administrator, an entrepreneur)
- Engineering sector (surveyor engineer, petroleum engineer etc)

FACTORS CONSIDERED BEFORE SELECTING A CAREER

Before deciding on ones under taking for survival, the following should be put into consideration;

1. **Ability.** In individual must select a career where he / she will be sure of excelling during the course of training.
2. **Interest.** Before selecting a career option, an individual should develop love and desire towards that career.
3. **Job security.** Individuals choose careers where there is relatively good job security i.e. career where they will not easily use their employment opportunity.
4. **Peer pressure.** Some times the choice of ones' career is of influence form friends i.e. an individual would prefer pursuing a career where most of his friends are. This may be mainly of purposes of strengthening the relationship or getting connections to different jobs after study.
5. **Family back ground.** Some times individuals' careers are determined by their parents who dictate on what one should become regardless of his / her interest or ability.
6. **One's talent.** Careers may be developed form an individual's talent for example becoming a good musician, good foot ballers, good theatre artists (amarula).
7. **Government policy.** The government influences careers of individuals by dictating the subject and content that may be covered when designing the curriculum and it also influences career option by dictating on which courses to be sponsored and courses not to have the government sponsorship.
8. **Influence from external donors.** Career options are in most cases determined indirectly by foreigners.
9. **Careers must be selected depending on the satisfaction that one may derive by doing a particular job e.g. some individuals become teachers because of the satisfaction they get when relating with students at a teacher learners' level.**

Note: The different careers selected by different individuals may either lead to self employment of paid employment.

THE CONCEPT OF PAID EMPLOYMENT

Paid employment refers to a situation where an individual is employed by another person, organization or government and he / she is paid a salary or wage for the work done or accomplished.

Advantages of paid employment

1. There is assured and constant income to an individual regardless of the performance of the business.
2. There is a specific timetable followed by the employee hence he / she is supposed to work for specific hours in a day.
3. There is specified peace of work for the employee therefore she / he may not get tired.
4. The employee is not responsible for big losses.
5. There is time for leisure since the employee has a specific number of hours to work.
6. Sometimes the employee may dictate his or her work to another employee which is not the case with self employment.

Disadvantages of paid employment

1. There is unnecessary pressure exerted on the employees in the process of performing their tasks to the employer. Some times the employee may be given a task over and above his capacity to handle.
2. There is a strict time table to be followed by employees and where the employee fails to follow, he / she loses his or her job. Strictness in the time table to be followed also kills creativity and innovativeness among employees.
3. There is lack of job security where the employee may be dismissed on short notice.
4. There is limited respect given to the paid employee by both the employer and society around.
5. Some times there is resource wastage by careless employees especially where there is no effective supervision.
6. Due to limited money earned or limited income paid employment is always persevered because of poor standards of living. In most cases an individual can only have a few basic necessities of life.
7. There is limited commitment to work by the employee.

SELF EMPLOYMENT

Self employment refers to a situation where an individual gathers resources to start a business with the aim of creating a job for him / her self and the community around.

Advantages of Self Employment

1. It promotes an independent decision making where an entrepreneur gets freedom to make his / her decisions in a business.
2. It promotes confidence in one's self i.e. an individual develops trust in himself / herself and can be able to carry out certain activities successfully.
3. Self employment promotes self respect where the entrepreneur is respected by both the worker and the society around.
4. With self employment, there is assured job security where the owner does not fear losing a job at any one time.
5. Self employment is also associated with freedom of work where the entrepreneur can decide on what to do and when to do it.
6. It is associated with quality output as a result of increased supervision by the entrepreneur.
7. Since the entrepreneur is the owner of the production resources, he / she will struggle to promote efficient and effective resource utilization hence avoiding resource wastage in the business.
8. There is personal commitment and love for what one does.
9. It promotes good standards of living due to high income earned hence the entrepreneur is able to afford the basic necessities of life and leisure.

Disadvantages of Self Employment

1. Some employment is associated with long and irregular working schedule or time.
2. Some times self employment is associated with a low life style especially at the initial stages where the entrepreneur will have less time for leisure and where he / she will be re – investing the profits.
3. It is also associated with uncertainty in one's income i.e. one may not be assured of his or her monthly earnings.
4. There are unlimited liabilities especially when the business being operated is not incorporated (joint stock company). This implies that in case the business fails to pay the creditors, the entrepreneurs personal property may be sold to clear debts of the business.
5. Risks in the business are suffered by one person hence this may cause panic, tension and stress to the entrepreneur hence resulting into stress related diseases such as high blood pressure, constant forgetting, and brain failure.
6. It is not associated with any employment benefits such as pension or national social security fund (NSSF) at the time of retirement.
7. It is associated with a high tax burden where the entrepreneur is taxed by the government.
8. There is uncertainty of the business features especially where the entrepreneur is not hard working.

9. In self employment, delegation of responsibility is very difficult since a delegate may not know the way things are done.

UNEMPLOYMENT

Unemployment is a condition where an individual member of the labour force fails to find work at the prevailing / ruling wage rate. It is a state in which some members of the labour force are not having jobs at the prevailing wage rate.

CAUSES

1. Rapid population growth rate as compared to the slow growth in the creation of employment opportunities.
2. Inappropriate education system
3. Discrimination in the labour market on the basis of age, sex, religion, tribe etc.
4. Political instability/ turmoil.
5. Rural – urban migration which results into open – urban unemployment.
6. Technological advancement.
7. Deficiency of co-operant factors like capital, land & entrepreneurship.
8. Ignorance of people about available job opportunities.
9. Physical and mental disabilities or incapacitation.
10. Seasonal changes especially in the agricultural sector.
11. Changing jobs in the short run
12. Expiry of contracts
13. Decline in demand for products that labour produces
14. Poor land tenure system
15. Negative attitude towards work/High degree of conservatism/cultural rigidities
16. Structural Adjustment Programs/International monetary fund conditionality which require reduction in the number of people employed in the government sector. As a result, some people are laid off from work and they become unemployed.

SOLUTIONS

1. c) **Improving investment climate / providing tax incentives to investors.** This promotes private investment because such incentives reduce the costs of production. As investment expands, more jobs are created in the country and hence reducing unemployment.
2. **Implementing education reforms with emphasis on practical skills to the school leavers.** The government is setting up vocational institutions and community polytechnics to train people in practical skills like carpentry, construction and building work, metal work, agri-

business, tailoring e.t.c. These skills are intended to create job makers other than job seekers so that unemployment is reduced.

3. **Undertaking further privatization.**

Public (government enterprises) are being diverted to the ownership of private investors to create efficiency. This efficiency enables firms to expand their scale of production and they generate more jobs for the people in the long – run.

4. **Encouraging reduction in population growth rate.** Birth control methods are being encouraged in the country. This is intended to reduce the population growth rate so that its proportionate to the rate at which jobs are being created. This helps to reduce excess labour supply in relation to the available job vacancies thereby reducing unemployment.

5. **Improving the political climate / atmosphere.** This gives the investors confidence to set up production units or enterprises since they are assured of security for their lives and property. As more enterprises are established, more jobs are created thus reducing the problem of unemployment.

6. **Encouraging / promoting small scale industries.** Such industries create linkages in the economy and they are mainly labour intensive. Therefore, many people get employed in those small-scale industries thereby reducing unemployment in the country.

7. **Modernizing agriculture.** This involves changing agriculture from subsistence production to commercialized high yielding agriculture. As agriculture is being modernized, there is an increase in output and income in the sector. Commercialized agriculture creates more jobs for the people (farm owners and workers) hence reducing unemployment.

8. **Advertising existing jobs (creating job centres).** Employers are being encouraged to advertise job opportunities or job vacancies in the Newspapers and other media to create awareness to the job seekers. Job seekers are able to apply for the existing jobs. Some of them are taken up for employment and this reduces unemployment.

9. **Diversifying the economy.** A number of activities like agriculture, industry, tourism are being encouraged and supported by government. Due to diversification, investment expands. The expansion in investment helps to create more jobs for the people thereby reducing unemployment.

10. **Setting up and improving basic infrastructure.** By improving basic infrastructure like roads and communication facilities, investment is promoted. This expansion in investment increases production and more jobs are created for the people thereby reducing unemployment.

11. **Widening markets through joining economic integration.** Uganda has become a member in regional economic groupings like East African Customs Union, COMESA e.t.c. This increases investment to produce goods and services for the regional markets which finally leads to the creation of more job opportunities in the country.

12. **Encouraging the use of appropriate technology.** Firms are being encouraged to apply methods of production which are mid- way capital intensive and labour intensive. This helps to keep many workers in active employment instead of laying them off.

13. **Providing affordable credit or start –up capital.** Micro-Finance Institutions are being encouraged to extend affordable credit to the people. The affordable credit enables people to start or expand business enterprises or projects. Such projects are providing or creating more jobs for the people who would have remained unemployed.
14. **Carrying out further trade liberalization.** Trade liberalization is widening the range of economic or business activities carried out in Uganda. The expansion in business activities creates more jobs and consequently unemployment is being controlled.
15. **Reforming the land tenure system.** Government is carrying out reforms in the Land Act to allow investors get access to more land for expanding their enterprises. Investors are empowered to have their land registered and they acquire land titles. Business enterprises expand and more jobs are created in the country.
16. **Supporting the disadvantaged groups of people /providing programmes for persons with disability.**

The government is giving financial support to income generating projects for the disabled people. Such income- generating projects include, shoe making, tailoring, poultry farming, making of crafts e.t.c. This helps to reduce (residual) unemployment.

ENTREPRENEURIAL SKILLS

1. THE ENTREPRENEURIAL MOTIVATION

A motive

This is one's strong desire to do something. **Motivation** therefore refers to the process of arousing one's interest or desire towards doing a particular activity so as to achieve the pre determined goal. Or is an inner state that activates or moves the intervening variables. Intervening variables are internal and psychological processes which are not directly observable and in turn account for behavior of individuals

Motivation may also refer to the process of indirectly forcing some one to conduct him or herself in the accepted manner so as to achieve the goals in life.

Entrepreneurial motivation therefore refers to an individual's strong desire, drive and dedication towards work so as to achieve the intended business goals and objectives.

Entrepreneurial motivation may also refer to an inner dynamic force that makes an entrepreneur and consequently leading to business success.

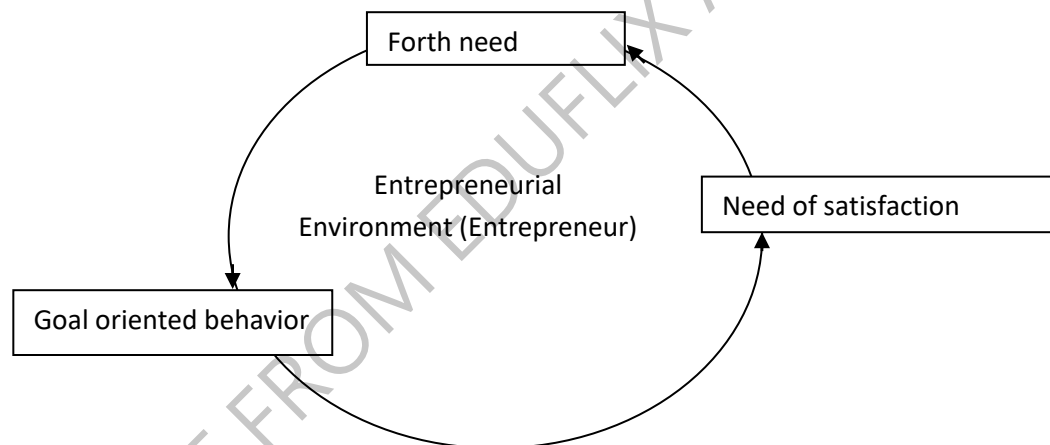
In short, entrepreneurial motivation is a result of having a desire to achieve recognition and self esteem (self respect) in society.

The Process of Entrepreneurial Motivation

There are three major steps or ways towards achieving entrepreneurial motivation and these include;

1. **The felt need.** This involves identifying or determining what is to be achieved or accomplished i.e. an entrepreneur must identify specific goals in a specific field or area.
2. **Goal oriented behavior.** The entrepreneur is expected to live a goal driven or directed life, this involves making necessary preparation towards achieving goals achieved in the first stage. It may also include having constant reference to the set goal while carrying out business activities he / she is also makes constant review of a set goal. This will help him or her to remain focused, work hard and become a successful entrepreneur.
3. **The need for satisfaction.** This involves removing all the destructions that may hinder the entrepreneur to achieve the set goals. It involves removing all obstacles that may destroy the ability to remain focused and concentrate on the set goals. Such obstacles may include; discouragement from friends, cultural or traditional thinking perception, distrust of ones' self etc.

An Illustration of Entrepreneurial Motivation



The Classical Approach of Entrepreneurial Motivation

The classical psychologists try to explain the concept of entrepreneurial motivation basing on the fact that, individuals have personal motives which forces them to act or behave in a particular way.

According to this theory therefore, entrepreneurial motivation comes as a result of developing personal or individual motives which helps one to concentrate on particular tasks so as to achieve the pre – determined goals. These motives can be divided into four major categories.

- a) The unconscious motive. This theory asserts / assumes that some times individuals are not aware of what they want to achieve hence they keep trying different options until they achieve their goals.
- b) Power motive. Power refers to one's ability to influence individualsWhich is helpful in achieving one's purpose or objective? Where the entrepreneur has the power he / she will be motivated to open up business and run it there by leading to entrepreneurial motivation.

- c) The affiliation motive. This refers to the desire to work with other people or to work with others. Entrepreneur must have the affiliation motive if they are to be successful in business. Through working and cooperating with other individuals, one may benefit from their expertise or skills hence promoting the success of his or her own business.
- d) The competence or achievement motive. This refers to the desire to have excellent performance and uniqueness in doing things. If one is to become a successful entrepreneur, he or she must have a strong desire or drive towards having an excellent performance.

ACHIEVEMENT MOTIVATION

This refers to an intense urge to excel and do something unique. People with a strong need to achieve have an intense desire for success. They want to be challenged, so they set moderately difficult goals for themselves, take realistic risks and prefer to assume personal responsibility to get a job done

Behavioral characteristics associated with the strong need for motivation

Formulation of a concrete goal

Goals are formulated in such a way that they strengthen one's ability and efforts

Goals set are not impossible or too difficult but are not too easy

Developing a strong, internal commitment or involvement with the goal

Taking personal responsibility for the outcome

Analyzing the environment to create opportunities for achievement, rather than passively waiting for chances to come one's way

Experimenting with novel activities to reach the goal

Seeking help from experts rather than from friends to overcome both external blocks and internal or personal limitations

Deriving maximum satisfaction from the achievement itself, and less from other factors like recognition and money

Learning from feedback, analyzing whether the goal set was too high to be realistically attainable, or whether the right methods were employed or changes should be carried out

CHARACTERISTICS OF STRONG ACHIEVERS

Achievers in life are characterized by the following features;

1. They work for long hours thus having limited time for resting, gossiping or paying visits (leisure).
2. They demand for specific and prompt feedback for what is being done.
3. They are not afraid of any possible failure. To them, failure creates an opportunity for future achievements.
4. They have strong desire for success and they only love sharing their success with others, hence, strong achievers are not selfish.

5. They set goals periodically and carry out periodical assessment or appraisal to determine the extent to which the goals have been achieved.
6. They normally take realistic risks and take up personal responsibility for any failure as a result of their decisions. They normally don't blame anyone or any situation in case of any failure.

Advantages of Achievement Motivation/motivation

1. It increases self confidence among entrepreneurs and hence creating self drive and desire to achieve more.
2. It helps the entrepreneur to calculative take up bearable risks so as to avoid big losses that may hinder business progress.
3. It promotes creativity and desire to start other businesses with the confidence that they will succeed.
4. It provides a basis for measuring the extent to which the entrepreneur is achieving the goals set i.e. it forms a basis for performance judgment.
5. It creates self interest among the entrepreneurs hence promoting hard work and commitment to the business established.
6. It helps to solve the problems encountered during business operations, this is due to the strong desire one may have towards achieving something.
7. It helps to build the culture of personal responsibility for any failure encountered during business operation other than blaming other individuals.
8. With the help of achievement motivation, the entrepreneur is able to set realistic goals that will be attained with the business for a given period of time.
9. It helps the entrepreneur to realize the importance of working together with other people so as to achieve highly.

Disadvantages of Achievement Motivation

1. Sometimes it leads to setting of un realistic goals due to too much enthusiasm there by causing failure and discouragement to the would be potential entrepreneurs.
2. Sometimes, individuals are reluctant to accept responsibility for business failure, hence, Failure to accept personal responsibility for business failure or problems encountered makes it difficult to promote or develop the achievement motivation among entrepreneurs.
3. Individuals lack competence in setting goals and determining what they wish to achieve in future. Hence limiting the level of developing achievement motivation. It encourages negative thinking where the entrepreneur will always think of the weaknesses and threats instead of business strength and opportunities.

Hindrance or Obstacles of Entrepreneurial Motivation

The process of enhancing entrepreneurial motivation is limited by the following factors;

1. Limited education or sensitization. Most Ugandans are either illiterates or semi – literate and worse still they are not well sensitized on how to carry out business hence their degree of creativity and self motivation is low.
2. Inadequate provision of physical economic infrastructure such as banks, roads, electric dams etc discourages entrepreneurial motivation since the would be potential entrepreneurs are lacking access to resources that promotes business activities.
3. Social or cultural and religious rigidities hinder entrepreneurial motivation i.e. in some cultures women are not allowed to carry out businesses and yet other individuals are looked upon as inferiors, this discourages them to get involved in productive activities.
4. Insecurity and political instability. Individuals may not easily be motivated to do things where they are leaving in a politically unstable or insecure environment this is because they are not sure of what is to happen next.
5. Limited time for leisure. Some individuals are over worked hence having no time to refresh their minds, reflect on their activities and build the interest to do more work.
6. Economic instabilities in the community. The increase and fall in factor prices and prices of final goods limits entrepreneurs from achieving the set goals hence an obstacle of entrepreneurial motivation
7. Unfavorable government policy of taxation and subsidization. High taxes charged on entrepreneurs and low subsidies granted on them hinder them from achieving the set goals
8. Inadequate capital needed to facilitate business activities hinders entrepreneurs from achieving motivation
9. Limited role models to arouse interests of entrepreneurs limits them to achieve their goals

Ways of Promoting Entrepreneurial Motivation

1. Developing a positive attitude towards business and entrepreneurship as a whole. This can be achieved by associating with the positive side of the business and neglecting negative comments about business.
2. Setting realistic goals to be achieved and these must be inline with the available resources struggle to use the available resources to make ends meet i.e. achieve the set goals and objectives.
3. Carrying out periodical evaluation of yourself and the business operated to determine the level of achievement and draw other plans to achieve more in future.
4. Having trust in one's self, bearing in mind that success comes to those who believe in getting it. Believing in one's self will assist in concentrating on what is to be achieved and hence promoting personal motivation.
5. Opportunity seeking, individuals must search for opportunities if they are to achieve entrepreneurial motivation. Always take advantage of any chance which comes your way.
6. Being creative i.e. always develop ways of doing things in a unique way.
7. Learning from past experiences

8. Networking with successful entrepreneurs to acquire their thinking, mannerisms and characteristics
9. Being result oriented. This involves focusing on specific problems and taking actions to solve the problem
10. Setting work objectives that are achievable with an impact

2. THE CONCEPT OF CREATIVITY IN BUSINESS.

Creativity refers to one's ability to come up with new or unique ideas, concepts and solutions and market them within the community hence the entrepreneur's level of creativity determines his success or failure.

Features of Creative People

Creative thinkers are characterized by the following;

1. Sensitivity. They are usually sensitive to the environment around them. They critically assess the environment to find out what is beneficial to them and the possible dangers they are likely to face, they don't take things for granted.
2. They are driven by the concept or originality i.e. they believe in doing things in a unique way. They generate ideas, redesign them and come up with completely new item.
3. They normally have independent thinking. They observe the prevailing situation, gather information and come up with a personal judgment and conclusion.
4. They are quick to ask questions and quite 'slow' to react to the questions asked unto them hence they have an inquisitive mind.
5. They normally want to carry out research so as to establish new ideas.
6. Flexibility. They can easily change with the changing circumstances hence they are not rigid to particular situations.
7. They have a strong desire to change for better with a purpose of growing richer and acquiring property.

Obstacles to Creativity In Business

1. Negativity of individuals. This refers to the tendency of focusing on negative outcome rather than the concentration on the positive aspects of the business hence failing individuals to think creatively about the prosperity of his or her business.
2. Lack of self confidence and self will. This hinders creativity because so many people underestimate their potential to do certain things.
3. Fear or anxiety. Some individuals have the fear to venture into particular aspects or businesses. They fear taking up risks there by reducing their level of creativity.

4. Limited time. Some individuals are too busy that is, they have a lot of work to do and less time is set for leisure. Hence pre occupying their minds with too much work gives them less time for creativity.
5. Unfriendly environment characterized by noise, sickness etc hinders creative thinking because it interrupts the individuals mind towards generating ideas and solution to particular problems.
6. Cultural or religious hindrances. Some cultures and religions hinder people from being creative especially where some one is required to follow pre established norms or beliefs.
7. Competition: Business men are out competed and pushed out of business by their competitors. Hence hindering their creativity.
8. Pressure or stress. Creativity in business is reduced by too much pressure causing stress and desire to give up.
9. Conflicting goals or objectives. Where the entrepreneur set goals that conflicts with the business established the level of creativity will be lowered.

Solutions for the Above Obstacles

1. An individual should concentrate on positive aspects of the business than negative ones in order to overcome the problem of negativity.
2. An individual should create the positive attitude towards business by coping with the modern way of operating business than depending on traditional ones. Hence eradicating rigidity.
3. An individual should have a time table to follow while working in order to avoid over working and avoid occupying their minds with too much work.
4. An individual should select a good or friendly environment in order to think creatively for example a place that has no noise.
5. An individual should avoid clinging on business unfriendly religious and cultural practices so as to promote creativity and development of his or her business.
6. An individual should seek for advice from other people who are already prominent by avoiding stressing themselves due to over thinking.
7. An individual should set realistic goals which can help him or her to achieve what he or she may want to achieve in future.

TECHINICS FOR DEVELOPING CREATIVE ABILITY

Below is a list of things that one has to do in order to be creative.

1. Thinking beyond the invisible frame work that surrounds the problems or situations.
2. Recognizing when assumptions are being made and challenge them. So as to come up with realistic or practical ways of doing things.

3. Developing ideas from more than one source i.e. gather views from different areas so as to come up with a unique way of doing things.
4. Transferring technology from one field to another.
5. Drawing on the experiences of other individuals or business to widen the field or vision.
6. Being open and prepared to use chance and predict things or events to the advantage of the prevailing situation.
7. Exploring thought processes and okay elements of the mind at work in analyzing evaluating and synthesizing, practicing fortune i.e. have a wide attention span and range of interest.
8. Noting down thoughts and ideas that apparently drop into the mind so that they are not forgotten.
9. Using analogy i.e. improving imaginative thinking to find models or solutions in nature, in existing products, services or in the organization.
10. Trying as appropriate to sometimes make the stranger familiar and the familiar stranger to spark new ideas.
11. Making connections with points that apparently irrelevant outside sphere of experts, lacking authority or disguised.
12. Suspending judgment to encourage the creative process and avoid premature criticism
13. Stimulating curiosity in everything and the skills of observation, listening, reading and recording.
14. Spotting narrow minded thinking and widening the field of vision to draw on experiences of other individuals

STAGES OF CREATIVE PROCESS

1. **Preparation.** This involves information gathering, analysis and exploring solutions
2. **Incubation.** This involves letting the mind work to continue the process
3. **Illumination.** This involves inspiration i.e. an individual is not thinking about a problem but is in a relaxed frame of mind
4. **Verification.** This involves testing ideas, solutions to problems, insights for applicability. If the solutions to problems are slow to come, there is need to leave the matter alone. However the entrepreneur should re-assess with
 - A new starting point
 - A different perspective
 - Fresh motivation
 - Further consultation

IMPORTANCES OF CREATIVITY

Creative ideas are needed any where when there is problem without un known solution in the business world it is used for the following;

1. It leads to development of new and original ideas by using the existing ideas as a starting point.
2. Its used to update products and services
3. It enables an entrepreneur to make proper use of limited sources.
4. It's used to promote products and services of the business.
5. It's used to solve every problem in the business.

3. INNOVATION

It is the way of transferring the resources of an enterprise through creative people (persons) into new resources and wealth. This is the act of introducing something new. *It results into new product categories and increases the firm's productivity*

TYPES OF INNOVATIONS

Innovation is often divided into the following types;

1. **Business model innovation.** This involves changing the way business is being done in terms of capturing value e.g. Nile breweries verses Uganda breweries.
2. **Supply chain innovation.** This is where innovation occurs in the sourcing of input products from supply and delivery of out put products to customers (consumers).
3. **Marketing innovation.** This is developing of new marketing method with improvement in product designing or packaging product promotion or pricing.
4. **Organizational innovation.** This involves the creation of new business structures, practices and models.
5. **Process innovation.** This involves the implementation of new or significantly improved production or delivery method.
6. **Product innovation.** This involves the introduction of new goods or services that are improved for resistance in terms of ease or views.
7. **Financial innovation.** This involves the development of new financial product and service, combining basic financial attributes i.e. risk sharing, liquidity and crediting innovative ways as well as exploiting the weakness of the tax law.

SOURCES OF INNOVATION

There are 7 sources of innovation; out of which 1st four sources of innovation come from within the industry and the last three lies in the societal environmental.

1. **Unexpected occurrences,** unexpected success, failure or unexpected outside event can be a symptom of unique opportunity for an innovative person to exploit. It's often through such an expected occurrence that new ideas are got and new information brought to light.

2. **Incongruities.** Is a difference between reality and what companies or industries assumed to be or between what is and what ought to be. This creates and innovates opportunity. This promotes innovation because the difference between estimates and realities forces one to think innovatively for better results.
3. **Process need.** Sometimes there may exist a gap (missing link) in the production processor in the process of operating a business. This provides an opportunity for an innovative person to think positively so as to come up with an idea to fill the missing link.
4. **Industry and market changes.** Here, the opportunity of an innovative product / service or business approach occurs when the underlying foundation of industry or market shifts.

The external sources of innovations include;

1. **Demographic changes.** Changes in population size, age structure, sex composition, employment, levels of education and income can generate innovative opportunities for example an increase in the levels of education in Uganda has created more innovative members of society there by leading to a strong private sector personal employment.
2. **Changing perception mood and meaning.** Innovative opportunities can develop a society's general assumption, attitudes and beliefs change for example, despite the fact that health care in Uganda is continuously becoming better and more accessible, people have become increasingly concerned about their health and the need for better and more accessible health care.
3. **New knowledge.** Advances in sciences and scientific knowledge can create new products and new markets.

NB: If you are looking for a new business opportunity, monitoring those seven sources may provide you with an innovation opportunity.

CHARACTERISTICS OF INNOVATION / AN INNOVATOR

1. A compelling vision. Innovative people believe that they are part of something better to come and that their willingness to contribute to the vision will make it happen. They have the ability to formulate and articulated compelling vision for their organization to people who can make it happen.
2. Opportunity oriented, an innovator is constantly thinking about new ways of doing things and is not afraid to know that if this does not work out, there is always another way to do it.
3. Self disciplined, an innovator is able to take his time so that he is doing something important first. They have the ability to do the hard work to make it happen.
4. Inner directed (personal motivation). Innovators are inner directed and goal oriented and do not need any one else to motivate them. Because of the self discipline and ability to focus, innovators get up in the morning and get going. No body tells them what to do.
5. Extra ordinary persistent. An innovator is committed to achieving his / her goals. He keeps going and does not let any obstacles get in the way.
6. Passionate about beliefs. Innovative people are truly passionate about what they believe. They give it every thing they are, they are passionate about one another and they go after that

with all their hearts and soul. They put all their efforts in achieving that one thing and are totally focused on that.

7. Trend spotter. An innovator is a trend spotter; he or she is able to identify something new and its social responsibilities.
8. Associates with positive people. Innovative people usually surround themselves with positive people towards creating something new.

PRINCIPLES OF INNOVATION

There are five principles that can help you to take advantages of new innovation that you may have discovered.

1. Begin with an analysis of the opportunity.
2. Analyze the opportunity to see if people would be interested in using the innovation.
3. To be effective, the innovation must be simple and clear focused on a specific need.
4. Effective innovation starts small by appealing to a small limited market, product or service requires little money and few to people to produce and sell it. As the market grows, the company has time to find its processes and stay ahead of the imaging competitions.
5. Leadership in the beginning, it's unlikely to be innovative enough too successfully established itself.

WAYS TO FOSTER INNOVATION IN SMALL BUSINESSES

Innovation can be promoted through the following;

1. Being a fast thinker i.e. Innovative entrepreneur must be fast in thinking and judging the environment with in which he / she operates.
2. Learning new things, innovative individuals must always accept to learn new things or ideas as they come their way hence should be able to adopt him self or her self to a new environment.
3. Generate new rules aiming at competitive advantage over other entrepreneurs.
4. Expecting change i.e. innovative people must accept to be changed with change hence he / she should avoid being rigid in the way of doing things.
5. Setting goals. Innovative entrepreneurs must set goals (perform parameters) which will assist them to think creatively and innovatively.
6. Avoiding barriers to development i.e. entrepreneurs must work hard to dissolve or fight any internal or external hindrances to his or her innovation such hindrances may include inadequate finances, discouragement from friends etc.
7. Thinking global. Think of operating business on a global/ international basis
8. Implementing new rules. This makes the entrepreneur achieve competitive advantage and profits

9. Developing innovative strategies. This involves developing mechanisms to promote persistent innovation
10. Doing well for others, success will be easier to attain

ADVANTAGES OF INNOVATION IN BUSINESS

1. It helps to improve on the products quality hence attracting more customers, increasing business sales and productivity.
2. It helps to promote persistent growth and development of the business hence ensuring business expansion.
3. Through innovation technological transformation can be achieved in the business.
4. Innovation helps the entrepreneurs to achieve the set goals and objectives with a short period of time.
5. It helps to remove barriers to development with in the enterprise.
6. It creates a reputation to the business hence attracting more customers.
7. It helps to lower the operational costs especially were technological transformation has been achieved in the enterprise.
8. Innovation helps the entrepreneur to come up with a range of products hence enabling consumers to exercise their choice.
9. Innovativeness helps the entrepreneur to develop new ways of distributing his or her products so as to reach customers in different areas.

Why small businesses respond to innovation successfully more than the large businesses

- i. Most small business owners are willing to try new approaches to make their businesses more successful
- ii. Small businesses understand customer needs, identify new opportunities and fix problems quickly and effectively
- iii. Small businesses can quickly implement new business practices and adapt to changing market conditions
- iv. Small businesses traditionally rely on strong local social networks to share information needed for innovative thinking

4. COPYING WITH CHANGE IN BUSINESS

Change refers to the process of coming up with a completely different method of doing things. It may also involve transforming an object into a different item.

It is inevitable to avoid change in business since the activity its self is dynamic hence an entrepreneur needs to embrace change if he or she is to remain competitive in business.

FORMS OF CHANGE

There are mainly three major types of change namely;

1. **Development change.** This is the type of change which involves general improvement in the business's way of doing things e.g. change in the production method, processes, packaging of products etc.
2. **Transitional change.** Refers to a change which replaces existing processes or procedure with something completely new to the company for example merging, or creating new products, and new technology. This involves a complete change in the way things are done in a business. It is a gradual process aimed at changing the different departments within an enterprise.
3. **Transformational change.** It refers to a change which involves both transitional and developmental change. This is the drastic change that involves the general change in methodology or ideologies of the business.

Causes of change in a business.

1. Change in the level of competition. Due to a competitive environment with which business operates, change becomes inevitable because the entrepreneur must think innovatively so as to outcompete others.
2. Change in technology. Technological changes force the entrepreneur to change the way he or she does things in a business e.g. advertisement in technology forces the entrepreneur to abandon the out date or obsolete methods of production.
3. Change in the level of efficiency. The need for effective performance may cause several changes in an enterprise so as to be able to perform effectively and efficiently.
4. Change in the environmental factors. Some times change may be brought as a result of existing environment within which the entrepreneur operates e.g. fencing the business premises may be as a result of encroachment by intruders.
5. Change of desire. Change may be brought about as a result entrepreneurs need to change.

Reasons for resisting change

Some individuals fear changes because of the following;

1. It is costly i.e. it requires large initial financial requirements. comes with several costs.
2. Change is time consuming hence individuals reluctantly accept to change.
3. Change benefits a few at the expense of the majority hence creating reluctance among the individual to embrace it.
4. Inadequacy, people fear to change because of their inability to cope with the new changes that is individuals have a general belief that they lack personal ability to cope with the new changes.

5. Insecurity associated with change, that people fear change because of the insecurity which may come along with the changes encountered such insecurity may either be financial or social in nature.
6. Individual stubbornness. This may mainly be due to rigidities of individuals or different societies.

Importance of change in the business

Change may be useful to an entrepreneur in the following ways;

1. It leads to the production of good quality products hence leading to consumer satisfaction and creation of a big market.
2. Change leads to the development of new techniques of the production within the enterprise hence helping the entrepreneur to transform his or her technology.
3. It leads to creation of business opportunities hence helping the entrepreneur to explore his or her potential in different businesses.
4. It leads to the total transformation of an individual's life and the society in general.
5. It leads to the growth and development of an enterprise hence helping the entrepreneur to earn more income.

CRITICAL CHANGE AREAS

The outline of what the future may hold for change in small business operates in the future includes:

- i. Capital will be more difficult and expensive to obtain and might become virtually unavailable to many small businesses
- ii. Raw materials will be increasingly costly and difficult to obtain. Small firms will rely on large inventories or switch to other substitutes
- iii. Labour is likely to be abundant. Abundant labour will be substituted for scarce capital
- iv. Technology will be more important to small businesses in future. They will continue to profit from technological advancement
- v. Market based on products which consume large amounts of increasingly costly resources will tend to decline while those which make smaller demands on irreplaceable resources or actually conserve them will tend to flourish
- vi. Government regulation is almost certain to increase, as elected officials struggle to keep the country prosperous
- vii. Entrepreneurs will have to exhibit greater professionalism and foresight if they are to guide the small business sector through a period of economic scarcity which is now underway

EFFECTS OF CHANGE ON BUSINESS

- i. It leads to increased complexity of methods of production
- ii. It leads to redundancy for many workers due to reliance on technology

- iii. It enables employees to upgrade their skills or acquire new skills
- iv. It leads to geographical relocation of industries and workers

WAYS OF COPYING WITH CHANGE/TECHNIQUES FOR COPYING WITH CHANGE

- i. *Understanding the situation.* There is need to understand the driving and restraining forces whether they are increasing or decreasing and their effect to the business in the short and long run
- ii. *Defining the problem.* This involves finding out the real cause for change and its effects
- iii. *Finding alternatives.* It involves exploring the potential of each realistic alternative, its advantages and disadvantages so as to choose the best alternative
- iv. *Selecting action.* After spelling out the alternatives and carefully studying their impact and potential, the entrepreneur selects the best action that suits the goals and objectives

5. NEGOTIATION SKILLS

Negotiation refers to the process of bargaining so as to reach an agreement over something or over a situation. Or it is process of bargaining that precedes an agreement. It involves a meeting between two or more parties to bargain over something so as to reach a compromise.

Basic concepts of negotiation

Negotiation can prevent the “zero sum perception” which is the winner takes it all view”. By using negotiation as a tool, one produces a “positive sum” situation in this case; no party comes out exclusively the best

“Home theorem” implies that items are evaluated differently by different parties. These evaluations can undergo a change by negotiation devices such as inducement, alternatives and re-organization of ideas

“Toughness or softness” means holding out or giving in. this has two aspects

Deciding when to hold out or give in. this depends on value of item at stake and ability of a party to knock off a bit in order to achieve a compromise

There are valuable moments, meanings, measures and manipulate effects of toughness and softness

Nature of negotiation

Negotiation is a balanced process i.e. both parties are on an equal level in terms of information, facts or approach

Negotiation is not finite. Moves can go in all directions. This means that there is no determined winning strategy especially when various elements of the situation are not known and are not fixed. This requires the leader to be persistent and tolerant

Both learners parties anticipate and react during the process of negotiation resulting in double motivations

Principles of Negotiation

Negotiation skills are built on the following principles;

1. Be focused. That is, always look at the future prospects and avoid looking at what happened in the past because it will distort or hinder the negotiation process and hence failing to reach a compromise.
2. Avoid being too rigid, that is always give room to views of other individuals, evaluate them and come up with a fair conclusion.
3. Set goals to be achieved during the negotiation process.
4. Prepare to negotiate that is make the research about the commodities to be sold and the customers to whom to sale before engaging the negotiation process.
5. Always create an option (plan B) to act as a fall back in case the negotiation process fails to materialize.
6. It doesn't require all parties or sides to be right for negotiations to take place
7. Set the tone and look apart. When you come into a room for the first time, you should look the part i.e. wear professional clothes, avoid wearing distracting jewellery, maintain eye contact and be a good listener
8. Know what you want and what the other side wants. You should have a detailed plan of what you want and what you are willing to give up to get what you want i.e. the price

Key to successful negotiation

- i. Negotiating outcomes should be a win-win for both parties
- ii. Both parties should feel satisfied with the results
- iii. Do not become emotional
- iv. Focus on solving problems
- v. Use the negotiation style of other party to achieve positive outcomes
- vi. Be flexible in your demands
- vii. Be prepare to comprise i.e. do not expect all your demands to be met
- viii. Ask relevant questions and be a good listener. You can not learn anything when you are talking

The Characteristics of the Good Negotiator / Attribute

1. Integrity. A good negotiator must be honest to the parties / party with whom she or he is negotiating. This will help to build trust in him or her.
2. Empathy. This refers to one's ability and understanding the views of others. This will help to create a fair ground for the negotiation process.
3. Patience. Negotiators should endure all challenges that come up during the negotiation process. This will help an individual to accommodate the views of others in the negotiation exercise.

4. Self confidence. A good negotiator should have confidence in himself and the subject matter upon which negotiation is best.
5. Persistence. Negotiators do not give up easily that is they should persistently continue with the negotiation process until the objective is achieved.
6. Ingenuity. Good negotiators should have the ability to endure and influence the negotiation process.

The basic rules of negotiating.

The following forms the possible rules followed, when negotiating with customers or workers in the business.

1. Listen actively to the views presented by one party while giving less attention to non issue and more attention to the crucial views. In this way, the entrepreneur should distinguish between issues and mere conversation. (jokes)
2. Balance the strength and the weaknesses and in the negotiation process so as to come up with a fairly compromising situation.
3. In case of negotiating for salaries with wages always have a fall back. This is because some times workers tend to demand more than what enterprises can offer thus the entrepreneur should be flexible enough to compromise with the workers situation.
4. Make a joint concession i.e. use visibly convincing examples to make an individual accept what is offered.

Challenges Faced in the Negotiation Process

1. Time pressure. In most cases time may not be enough to allow the two parties to negotiate favourably so as to reach a fair compromise. This may be due to varying urgency of the matter under negotiation.
2. Influence from other decision makers. Some times individuals may not exercise the negotiating skills fully due to the influence exerted on them by their superiors or senior administrators.
3. Delayed tactics. Some time negotiators tend to delay the negotiation exercise so as to make the other party impatient and give up with the negotiation exercise.
4. Making early joint concessions. This is where the negotiators make a premature agreement during the negotiation process hence this may lead to an unfair compromising situation to one of the parties. Some negotiators begin with early concession and then wait for you to reciprocate the spirit of relationship-building you probably will and later thank them and continue exploring
5. Aggressive behavior. Some times some individuals are too aggressive thereby causing an undue influence in the negotiating process.
6. Letting the positions over ride the interest. Some times individuals tend to allow the prevailing position or situation to over shadow their personal interest hence leading to unfair compromise.
7. Negotiator's personal problems may make it difficult to carry on with the negotiation process. Such problems may be personal sickness, marital problems, financial problems etc.

8. Linking logic. This is based on the assumption of a person being correct in one thing, he/she must be correct in another. It is important to understand the other person's point to see whether the logic he/she is applying is sound or correct
9. Price only negotiation. Some negotiators pay attention to only price and ignore non price factors like short and long term relations and larger interests
10. **Last-minute wavering**, some negotiators tend to squeeze several additional concessions as the negotiation nears completion which may lead to disagreement

Solutions to the above challenges.

1. Time pressure. This can be solved by allowing a considerably long period of time to both parties involved in the negotiation exercise.
2. The challenge of the influence from other decision makers may be solved by consulting superiors before entering into any negotiation.
3. Delaying tactics. This can be solved by adding exercise in order to give another party an opportunity.
4. Being emotionally balanced to overcome aggressive behavior. This can be solved by being emotionally balanced and psychologically composed during the negotiation process i.e. never allow emotions to overshadow personal reasoning or intellectualism.
5. Neglecting the negotiator's personal problems. This can be solved by cooperating each other during the negotiation process.
6. Making joint concession. This can be solved by negotiating with individuals and get a good agreement that may bring in sales and products.
7. Letting the position override the interest. This can be solved by not allowing prevailing situations to overshadow the personal interests hence leading to failure to compromise.

Ways of overcoming challenges in negotiation

a) If the work load is increasing

- i. Look for tasks to eliminate
- ii. Review work you could handle yourself
- iii. Review ways to combine similar
- iv. Consider use of temporary or part time

b) If there are problems of turnover

- i. Help new employees identify with their group
- ii. Develop stable work groups with members who can identify

c) If the work load is declining

- i. Work on improving efficiency
- ii. Do house keeping that has been postponed
- iii. Start projects that could generate

- iv. Start projects that could generate new work

d) If there is a group of employees who are controlling production

Remove misunderstandings, if any

Find out if it to the group's advantage to slow down

Find out and deal with the real problems

e) if employees are dissatisfied with their pay

- i. review bench mark jobs compared with similar jobs in other enterprises
- ii. compare pay with comparable jobs in the area
- iii. adjust inequalities, if there are any
- iv. adjust assignments
- v. communicate on the broad pay issue
- vi. if workers are spending too much time on any one job
- vii. review managements' objectives and standards for this job
- viii. clarify the degree of perfection needed and why
- ix. ask the group for ideas on cost reduction and work simplification
- x. set specific targets and follow up on them

if you go over budget

- i. Identify the sources of increased cost or expense
- ii. Ask for suggestions on cost reduction and waste control
- iii. Get explanations of increased cost
- iv. Curtail or freeze some activities
- v. Review the results expected from this activity

Preparing for negotiation

Good negotiation requires advance preparation, understanding of the underlying assumptions and needs to be satisfied on both sides, a basic knowledge of human behavior and mastery of a range of negotiating techniques

- i. *The first step is to "do your home work" about the other sides i.e. make research*
- ii. *Decide whether to use an individual or a team as your representative. This enables consultations to be made*
- iii. *Select the meeting site i.e. is it in the business premises for a small business or any other place. This saves transport costs and time*

Negotiation skills

- i. Clarity in communication is essential. Do not engage in long paragraphs
- ii. Stick to objectives and avoid personalizing situations

- iii. Control your emotions
- iv. Occasionally showing anger may be effective but never lose your temper

TECHNIQUES OF COMMUNICATING WITH CUSTOMERS

The following are techniques of communicating with customers tactfully

1. Communicating frequently to customers. It is important to communicate frequently to customers through e-mail, direct mail, phone contacts, face to face etc so as to keep a close contact with them.
2. Offering customer rewards. This involves reducing prices for commodities, giving T-shirts etc these enable customers to remember business products
3. Holding special events. This helps to keep business employees and customers in close contact for example organizing visitation days, parents' meetings, anniversaries etc
4. Promoting a two-way communication in negotiation. This involves allowing both the staff and customers to participate in the decision-making process
5. Ensuring customer care services. This involves performing business tasks with a high degree of dedication and solving their problems immediately.
6. Visiting customers. This involves designing a marketing tool to build relationship between employees and customers
7. Launching multicultural programs. This involves communicating in more than one medium for example on radios, televisions, internet etc

BASIC RULES IN NEGOTIATING WITH EMPLOYEES

1. Balancing both strengths and weaknesses. It is important to know what we want and get ways of achieving it
2. Listening actively to your employees. It is important to listen to employees' concerns because it is from such concerns that solutions are generated.
3. Having a fallback position. This involves determining the maximum salary the company can offer to employees
4. Making concessions together. It should be a win-win situation i.e. as the employee is demanding salary increment tie it with performance related expectations.

TECHNIQUES FOR NEGOTIATING WITH EMPLOYEES OVER SALARY

1. Setting a maximum wage (a ceiling) this involves determining the maximum salary the business offer to employees. This saves time during negotiation.
2. Setting a minimum wage (a floor). This is a wage below which the business cannot employ workers. It is the minimum salary/wage the business can offer to employees

3. Determining the mode of payment. This involves determining whether employees are to be paid weekly, monthly or hourly. Hourly payments are suitable for temporary jobs or workers while a fixed payment is suitable for collared employees
4. Making the payment attractive. This involves accompanying salary with benefit packages like bonuses and allowances inform of housing, insurance etc.
5. Avoiding legal tussles. It is important to first consider the laws related to payment of workers, amount to pay, mode of payment before you decide to avoid legal tussles.
6. Being sensitive. This involves keeping employees' personal needs in mind before determining their payment packages e.g. for working mothers make sure that the benefits you are giving can enable them meet day care services

EMPLOYEES

EMPLOYEES ABOUT WAGES

6.RISK TAKING

A risk is the possibility of suffering harm, loss or danger. A business risk is a factor(s) that may have a negative impact on the profitability or success of a company

A risk situation occurs when a choice is required between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated

The greater the possible loss or gain, the greater the risk involved and the reverse is true. Risk takers make decisions in conditions of uncertainty and balance potential success against potential loss

FACTORS THAT INFLUENCE RISK TAKING

1. Degree of attractiveness of the risk/level of returns
2. The extent to which the risk taker is prepared to accept the potential loss
3. Degree of probability of success and failure
4. The degree to which one's own efforts increase the likelihood of success and decrease the likelihood of failure

TYPES OF RISKS

There are basically three types of risks.

1. Low risks
2. Moderate risks
3. High risks.

1. Low risks.

These are very minimal risks that do not yield a lot of benefits with an entrepreneur in case he or she succeeds, however, such risks tend to discourage entrepreneur from investing into new business businesses for fear of failure. This type of risk usually makes entrepreneurs to only invest in similar business.

2. Moderate risks

These are risks which can be forecasted, managed and calculated by an entrepreneur. This means that there is a high chance that such risks will not happen or may not affect the business so much for example bad debts, death, fire, accidents etc.

3. High risks

These are risks whose chance of happening is very high and yet the entrepreneur has very little control over it. If such a risk happens, the business will fail and collapse and there will be no chance of recovering.

However, if it succeeds, then the entrepreneur is likely to get very high profits for example smuggling goods, selling prohibited goods.

EXAMPLES OF RISKS FACING ENTREPRENEURS IN UGANDA

- (i) Death
- (ii) Fire outbreak
- (iii) Theft and burglary
- (iv) Smuggling of goods
- (v) Bad debt
- (vi) Accident
- (vii) Natural calamities e.g. earth quakes, landslides, lightening, floods
- (viii) Competition.
- (ix) Poaching
- (x) Changes in technology
- (xi) Change in customers, tastes, fashion, preference and demand.

- (xii) Poor working conditions resulting into strikes, reduction in the number of employees.

ASSESSING OF RISK

This involves determining the potential success or loss arising from the risk i.e. what will be out of risk in case it happens or not.

FACTORS TO CONSIDER WHEN ASSESSING THE RISKS OR INFLUENCING RISK ASSESSMENT.

1. Experience and ability. This determines whether the person involved in the business has the required knowledge and experience to run and manage the business (risks).
2. Viability of the business idea. This is based on whether the business idea chosen would be profitable in a given area. It is viable the business will get profits if it is not viable, the business will get losses.
3. Availability of market. If the people in an area are in need, willing and able to buy the business products out of the risk, the business will get profits. But there is no market. The business will make losses out of you.
4. Flexibility of the business. It will be less risky, if the choices and decisions of the business can easily be changed one to another.
5. Honest and reliability. It is important to know whether the people the business is dealing with i.e. suppliers, employee's customers etc are honest and reliable but if they are not, then assessing of risks will be very difficult.
6. Cash flow. It is important to establish whether the business will generate enough cash to finance the business expenditure or not easy but if the cash is not readily available, risk assessment will be difficult.
7. Pricing policy. It is important to know how much to sell your products because high prices are relatively low, then the business can compete with others hence a risk of profits.

PROCEDURES FOR ANALYSING A RISK SITUATION

The following are steps involved in analyzing a risk situation

1. Assessing the risk. This is the first step and it involves establishing whether the risk can happen or not. The entrepreneur can decide to maintain the current status/level of demand, purchase more equipment to meet the demand etc

2. Determining goals and objectives. This involves considering company's policies and objectives in undertaking a risk. This helps to find out whether the risk is in line with the goals and objectives of the company or not
3. Clarifying the alternatives. This involves surveying the various alternatives so as to assess the costs involved effectively
4. Gathering information and weighing the alternatives. This involves intensive information gathering on each alternative to make appropriate choices. It involves carrying out cost-benefit analysis
5. Minimizing risks. This involves realistic assessment of the extent to which the entrepreneur can effect the risks. It includes clear awareness of the entrepreneurial abilities and the company's capacities, forming strategies and ways of affecting change
6. Planning and implementing the best alternative. This involves designing a time table, defining goals and getting feedback

7. BUSINESS ETHICS

Business ethics refers to the generally accepted ways in which businesses do conduct themselves towards their customers, employees, government and society in general. It is important for businesses and business men to conduct themselves in a generally accepted way so as to be pleasing to the general public. Hence in its day to day running of its activities, the business should aim at attracting customers, employees, government and general public.

Business ethics towards customers.

1. Honesty. Entrepreneurs are to be as honest as possible to their customers that is, by selling the right commodity in the right quantity at the right price.
2. **Responsibility.** Business enterprises should endeavour or try to meet their obligations as agreed upon with the customers. They should understand their customer's needs and strive to satisfy them.
3. Businesses should be polite, patient and sincere to their customers which will help to attract more consumers.
4. Businesses should be considerate in their dealings with customers for example where a customer requests for credit always be considerate and extend the credit facilities to him or her.
5. **Geniality.** That is business men should always be kind and passionate to customers and should balance their temper when dealing with customers.
6. **Courtesy.** Business men or women individuals should be welcoming to the customers so as to promote repeated purchase and consumer loyalty to the business.
7. Business should always offer after sale services especially the technical assistances their customers need i.e. should be able to direct the customers on applicability of the item or product bought.

Business ethics towards employees.

Most businesses do employ workers to assist in day to day running of activities. It is therefore important that businesses conduct themselves appropriately towards the employees. Hence businesses are required to observe the following;

1. Businesses are required to give a fair and timely pay (salary / wage) to the employees so as to enable them to meet their life requirements.
2. Business should provide fair and clear working terms and conditions to the employees (fair job description) this enables the employees to perform their tasks appropriately.
3. They should ensure job security to their employees so as to enable them settle on the job given and to perform to the expectation of the enterprises.
4. Empathy. Business men and women should be supportive to their employees especially those facing different challenges e.g. sickness, loss of loved ones etc.
5. Businesses should provide good / friendly working environment to their employees for example providing protective gear such as head caps, nasals caps etc.
6. They should provide good welfare facilities to the employees especially good breakfast, lunch and evening tea.
7. Businesses should provide business facilities to their employees either by using a company vehicle or tangible cash. Where possible, they should provide accommodation especially around the business premises.
8. Businesses / employers should respect the employees in all ways i.e. they should not despise any worker or use their position to make un fair claims from the workers.
9. Businesses should allow employees to participate in the decision making process.
10. Where possible, business should provide periodical certificate of recognition, appreciation and encouragement to workers who perform their duties excellently.
11. They should provide on job training so as to enable the employees to acquire basic skills for effective performance.

Business ethics towards Society

It's important that businesses conduct themselves well towards the society and the general public, in so doing; they are required to observe the following;

1. Protecting people's lives whereby in its daily activity, a business should ensure that individuals' lives or members of society are protected. Hence they should avoid the poor disposal of industrial wastes and other effluents that may endanger lives of members of the society.
2. Conserving the environment. Businesses are required to participate in protecting and improving on the nature of vegetation. This should be done through planting trees and giving environmental knowledge to the members of the society.

3. Businesses are required to provide for the society needs where possible especially to the needy, poor or displaced members of the society.
4. Businesses should get involved in community development activities like constructions of roads, bridges etc
5. Giving members of the society employment opportunities so as to fight unemployment and disguised employment.
6. The business must always observe preserved and up hold, the norms of the society i.e. the business established should not conflict with existing society or religious norms, values and beliefs.

Business ethics towards the government.

Businesses are required to conduct themselves in following ways towards the government.

1. All business should comply with the established laws governing business activities. Such laws may include a business registration law, business hygiene law, the labour laws etc.
2. Enterprises should observe their obligations regarding tax payment that is they are regularly required to pay the tax as assessed to them.
3. Businesses are required to possess appropriate documents before starting their operations. Such documents may vary from one business to another and may include trading license, certificate of incorporation, partnership deed etc.
4. Businesses must meet the required minimum quality standards as laid down by the government quality monitoring body, Uganda national bureau of standards (UNBS).
5. Government also requires all enterprises to actively get involved in protecting the environment.

Benefits or importance of practicing business ethics.

1. It helps to protect consumers from consuming undesirable products or poor quality items since the government makes it a requirement that business should provide quality items.
2. It enables the business to acquire and retain quality human resource (labour) since individuals (employees) are well protected by the enterprise.
3. Proper practicing of business ethics helps to promote and protect the environment.
4. It helps the business to reduce on the marketing and sales promotion expenses since members of the society will automatically advertise the business because of its good deeds.
5. It helps to safeguard the lives of workers and the society in general.
6. It helps the business to gain reputation and good will and hence attracting members of the society. Hence, gaining a large market.
7. Through observing proper business ethics the business would be able to operate without any interference from the government.

Qn: Explain the objectives of business ethics

- (a) Entrepreneur
- (b) The society

7.COMMUNICATION SKILLS

Communication refers to giving and receiving information and receiving feedback. It is a two way process used to exchange information and ideas, pass on knowledge and share thoughts and feelings, for example, when a prospective buyer sends an inquiry letter, he / she wishes to know about the goods or services available for sale. If an intending seller replies to the inquiry with quotation, this shows that the goods or services being inquired about are available. In this way, both the intending buyer and seller have shared information through communication.

IMPORTANCE OF COMMUNICATION

Effective communication is necessary for the manager of an enterprise to successfully perform his / her roles because of the following.

- (i) It helps an entrepreneur to pass on relevant information all the time to his or her staff, the customers, government and public in general. This is particularly important where the entrepreneur wants one of these parties to act or behave in a specific way.
- (ii) Communication helps the entrepreneur to recruit and select workers for his or her business by publishing the advertisement. In so doing, interested people can send in application letters. The entrepreneur would then short list interviews after which suitable candidates are selected.
- (iii) It helps the entrepreneur to implement his or her policies by giving instructions to subordinates and their supervisors.
- (iv) Communication helps in keeping good relationships with old customers and creating new ones through sales promotion.
- (v) Communication helps the entrepreneur to make decisions from an informed position. This happens when an entrepreneur risks or consults different stake holders.
- (vi) It helps in creating good understanding between the entrepreneur and his or her employees. Most especially when both parties get feedback.
- (vii) Communication helps the entrepreneur to coordinate operations of his or her business that are executed by different departments i.e. through sending memos to those departments.
- (viii) It helps the general public to get information about the business. This improves the image of the organization.
- (ix) It helps the government and other regulatory organizations to monitor, guide or direct business operations.

Questions

Of what necessity is communication in an enterprise?

Explain the purpose of communication in an enterprise

Why is there need for effective communication in an enterprise?

Justify the need for effective communication in an enterprise

Why is it necessary to carry out effective communication in an enterprise?

Explain the rationale for effective communication

Approach

Use to/in order to/so as to/ ing tense

The following are objectives of effective communication in an enterprise:

- To help an entrepreneur to pass on relevant information all the time to his or her staff, the customers, government and public in general.
- To enable the entrepreneur/enterprise to recruit and select workers for his or her business by publishing the advertisement.
- To enable the entrepreneur to implement his or her policies by giving instructions to subordinates and their supervisors.
- To keep good relationships with old customers and creating new ones through sales promotion.
- To enable the entrepreneur to make decisions from an informed position. This happens when an entrepreneur risks or consults different stake holders.
- To create good understanding between the entrepreneur and his or her employees. Most especially when both parties get feedback.
- To enable the entrepreneur to coordinate operations of his or her business that are executed by different departments i.e. through sending memos to those departments.
- To inform the general public about the business. This improves the image of the organization.
- To enable the government and other regulatory organizations to monitor, guide or direct business operations.

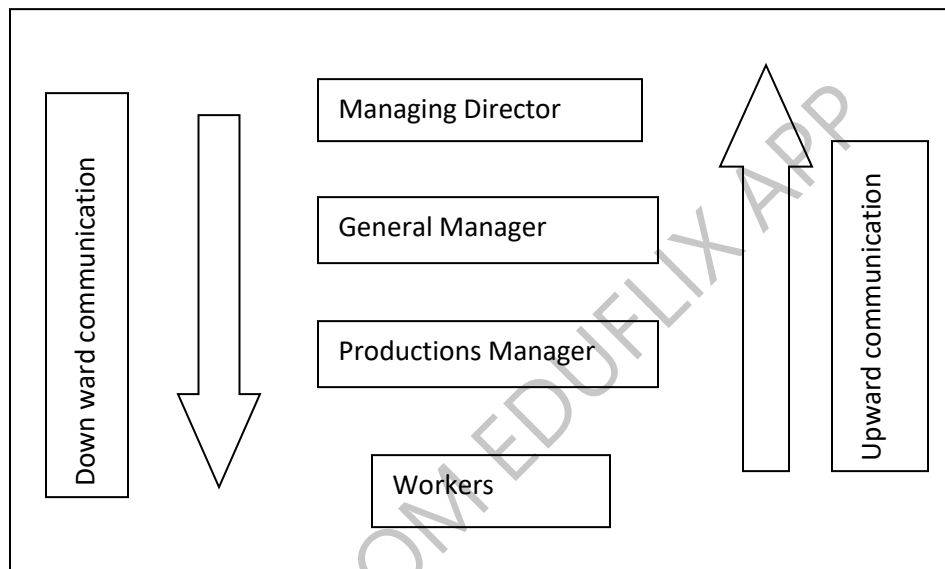
The process of communication

Communication flows in different directions depending on what is sending it.

- (i) **Downward** communication flows from top to bottom, which is from managers down to the subordinates.
- (ii) **Upward communication** flows from bottom to top, which is from subordinates to superiors.

- (iii) **Horizontal and diagonal** communication takes place between different functional departments of the organization.

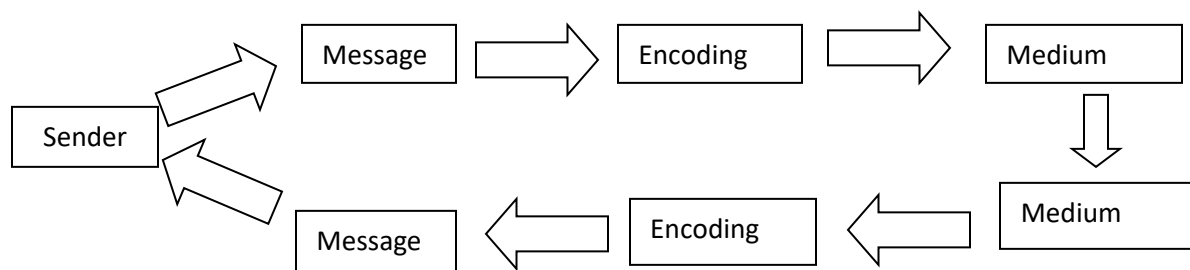
Flow of communication



Communication process.

This refers to the various steps followed to convey a message between different parties.

Illustration of communication process.



Effective communication in business.

This refers to when the message is perceived by the receiver in the same way the sender intended and is received in time.

ESSENTIALS OF EFFECTIVE COMMUNICATION IN BUSINESS.

- (i) Completeness. The message should include all the facts the receiver needs to know about the subject matter which is being communicated to him or her. The sender should try to answer all the questions the receiver may ask.
- (ii) Conciseness. The sender should give the message in the fewest words possible but still ensure that it is complete. A message should not be very wordy otherwise it will confuse the receiver.
- (iii) Courtesy. The sender should be as sincere as possible when giving the message and should avoid hurting the receiving party but should not shy away from addressing the issues of concern.
- (iv) Accuracy / correctness. The message given should be as accurate as possible to avoid any losses that may be incurred due to any smaller errors.
- (v) Consideration. The sender should have the receiver in mind when sending a message. It is better to use positive words rather than negative words or sentences.
- (vi) Clarity. The message should be as clear as possible. The sender should choose words and language that the receiver is familiar with.
- (vii) Timing. The message should be conveyed or communicated at a time when the receiver is able to receive it.
- (viii) Environment. The environment within which the communication is being made should enable the intended target to receive the message.
- (ix) Media. The sender must use a medium that the target recipients use for example, when communicating to villagers, it is more effective to use a radio and newspapers (since most villagers do not know how to read).

Features/characteristics of effective communication

- (x) Complete. The message should include all the facts the receiver needs to know about the subject matter which is being communicated to him or her. The sender should try to answer all the questions the receiver may ask.
- (xi) Concise. The sender should give the message in the fewest words possible but still ensure that it is complete. A message should not be very wordy otherwise it will confuse the receiver.
- (xii) Courteous. The sender should be as sincere as possible when giving the message and should avoid hurting the receiving party but should not shy away from addressing the issues of concern.
- (xiii) Accuracy / correctness. The message given should be as accurate as possible to avoid any losses that may be incurred due to any smaller errors.

- (xiv) Considerate. The sender should have the receiver in mind when sending a message. It is better to use positive words rather than negative words or sentences.
- (xv) Clear. The message should be as clear as possible. The sender should choose words and language that the receiver is familiar with.
- (xvi) Timing. The message should be conveyed or communicated at a time when the receiver is able to receive it.
- (xvii) Environment. The environment with in which the communication is being made should enable the intended target receive the message.
- (xviii) Media. The sender must use a medium that the target recipients uses for example, when communicating to villagers, it is more effective to use a radio and news papers (since most villagers do not know how to read).
- (xix) **NB A student should use should/must when identifying these features**

FACTORS CONSIDERED WHEN CHOOSING A CHANNEL/MEDIUM OF COMMUNICATION

- i. The language used in the message should be made in a language which the receiver uses and can easily understand
- ii. Message performance. An entrepreneur should choose a medium that makes the message last for a long period of time e.g. letters, emails etc
- iii. Nature of the message to be communicated. For messages that require giving detailed information, letters are more effective. However, messages can be sent through the use of faxes, email and telegram
- iv. The speed and urgency of the message. Urgent information should be sent through the fast media like telephone, telegram or e-mails etc
- v. Coverage of the media. For messages to be conveyed to wide geographical are, then news papers, radios and televisions are more appropriate, however, messages that are intended for individuals in a small area, notices/posters are more effective
- vi. Cost of the communication channel. An entrepreneur should choose the most cost effective channel in relation to the value of the product
- vii. Availability of the medium. Entrepreneurs should use means that are in their reach or readily available than those means which are not readily available for example use of radios than faxes
- viii. Secrecy of the media. Confidential information is normally sent through letters as compared to other means of communication like notices, radio etc
- ix. The age group of the recipients. Information to the teenagers and youths should be communicated through internet, magazines televisions etc since they appeal to them. However, old people or adults should be conveyed through the radio and news papers

- x. Personality of the recipient. Communication to people with hearing disabilities is normally done through the use of sign language, gestures, facial expressions, eye movements etc while verbal communication is ideal for the blind

BARRIERS TO EFFECTIVE COMMUNICATION

A communication barrier is any hindrance that prevents the receiver from getting the intended message from the sender. Some of the barriers to effective communication include;

b) The following are barriers to effective communication in an enterprise:

- Wrong choice of the channel of communication
- Emotional barrier
- Poor preparation of the content to deliver
- Use of wrong address
- Physical barriers in form of distractions in the environment like noise
- Use of unfamiliar terminologies/complicated language
- Communicating at wrong time e.g. during lunch time to students
- Lack of interest in the message communicated
- Poor packaging of the message i.e. when it is not attractive
- Poor listening and premature evaluation
- Information overload
- Communication to a wrong target group
- Poor handwriting in case of written communication
- Bad appearance of the sender
- Faults in transmission

SOLUTIONS TO BARRIERS

c) The following are solutions to barriers of effective communication

- Using clear and simple language. Avoid trying to impress the audience or target group with jargons, vocabularies, long words and elaborate sentences which may not be understood.
- Using feedback. Ensure that you get a message from the receiver which tells you how much has been understood. It may be in form of a comment, question or facial expression.
- Knowing and adjusting to the nature of the recipient. The sender should study and understand the nature of the target group and therefore choose an appropriate communication channel, language and vocabulary for that target group.
- Using different communication channels. Some communication have to be in written form in order to be understood well without variation but whenever its possible, supplement written communication with oral message.
- Reducing the distance between the sender and receiver and whenever possible use face to face communication which also ensures feedback and reduces levels of management of the message.

- Using reinforcement. Repeat the message as often as possible and present it using different media emphasizing the important points and follow up.
- By planning the message in advance before making the communication
- Eliminating noise/ by communicating in a noise free environment.
- Communicating a reasonable amount of information that can easily be received by the receiver to avoid information overload.
- Training the receiver to develop good attitude towards becoming a good listener to avoid information blockage due to poor listening and differing perception.
- Ensuring proper packaging of the message being communicated to ensure that it is interesting to the receiver

FORMS OF COMMUNICATION IN BUSINESS

These refer to the methods or manner through which the entrepreneur can communicate his or her message. The methods of communication include;

1) Oral communication. An entrepreneur can communicate orally by word of mouth, either face to face or by telephone. Oral communication is often used when bargaining, during interviews, training and meeting. It is the commonest form of communication in business and it will normally involve the entrepreneur and customers, workers, colleagues, suppliers and bankers among others.

2) Written communication. Entrepreneurs can communicate by sending written messages. This involves writing business letter, memorandums, circulars, reports, notices, bulletins, business manuals, business journals, minutes etc.

Forms of written communication

- i. **A business letter.** Is a written correspondence from one organization to another. A business may write to another inquiring about goods or services available for sale and the terms and conditions of sales.
- ii. **A memo.** Is a written communication from one office to another within the same organization (upward, downward and horizontal communication or branch office). The internal manager may use memos to inform staff about the new performance standards, business rules and regulation etc.
- iii. **Circulars.** The entrepreneur may use circulars when he or she wishes to give the same information to different persons. One document is prepared and then duplicated. An entrepreneur may use circulars to inform customers about changes in the price structures or business location or about new products.
- iv. **Action or circulation slips.** May be used by an entrepreneur to give information for action or for noting by an officer who may also pass it on to another person named on the slip.
- v. **Reports.** These can be used by an entrepreneur to give conclusions and recommendations based on investigated facts and situations. A report must be accurate, clear, complete, concise, and logically arranged. Examples of business reports may be annual reports,

which show the business annual financial performance, or reports on the feelings of the customers regarding a particular good or service.

- vi. **Notices.** These can be used by an entrepreneur to give short messages to concerned persons.
- vii. **Bulletins, business manuals and house journal.** These can be used by entrepreneurs to give information on its operations, products or results of its operations both internal and external customers. Minutes are used by entrepreneurs to keep brief records of resolutions of connecting, keeping records important for future reference.
- viii. **Minutes** should be organized and written immediately after meeting when the subject is discussion and conclusions reached are still fresh in the writers' mind.

3.) **Visual communication.** An entrepreneur can communicate by presenting information using diagrams and pictures without necessarily using words. Examples include organizational charts, photographs, posters, graphs or pie charts, which may depict different situations in a business such as business growth, trends, product performance etc.

- (i) **Organizational charts** can be used to show the organization structure of the business. It shows how different sections or staff relate to each other or report to each other.
- (ii) **Photographs** can be used to illustrate given information so as to increase the reader's appreciation and understanding. Most business organization use captive photographs to advertise how efficiently and effectively their goods and services are and why customers need them.
- (iii) An entrepreneur can use **films or documentaries** to give information about his or her business operations. They are effective in delivering messages to the target groups. The films could be on customer care activities or new products and their applications. Films can also be used for training purposes, documentaries etc can be used to enable entrepreneurs to present a positive image and target customers and the general public.
- (iv) **Posters and wall charts** can be used to represent or illustrate certain information in the business and serve as an important method of advertising the informing target groups.
- (v) **Graphs** can be used by an entrepreneur to present information about the business performance. Bar charts, line graphs or pie charts can be used to compare different periods' sales or profits.

TECHNIQUES OF COMMUNIATING WITH CUSTOMERS

- a) **How to present a product.** When presenting a product to a customer, an entrepreneur should consider.
 - (i) The customer's privacy, convenience, ability to use the product and so on.
 - (ii) The target customer's needs
 - (iii) Giving samples and guarantees to back up the product.
 - (iv) Presentation aids like photographs, catalogues, and charts to back up the product.

- b) **How to bargain with customers.** In bargaining with customers, the entrepreneur should be a good communicator, and should avoid being domineering. He or she should try to convince the customer why the product is being sold at the other price, give counter offers like reduction in price or offer additional services.
- c) **How to give personal attention to customers.** In order to follow up on suppliers, the entrepreneur should understand the customer's needs and wants and bring products that satisfy them. The products need to be at the right price and in the right quantity and quality. They should be given the rights promotion and should be in right place at the right time in order to meet the customers' needs and wants as identified by the entrepreneur.
- d) **How to follow orders from suppliers.** The entrepreneur should ensure that he or she has the supplier's physical and postal addresses and telephone numbers. He or she should also have the means to contact them. In following up an order, the entrepreneur can visit the supplier's premises or use other methods of contact. For example writing a reminder letter, making a telephone call or sending an e-mail or fax
- e) **How to collect overdue accounts.** In order to collect overdue accounts, the entrepreneur should;
 - (i) Send polite reminders to customers with overdue accounts suggesting dates for settling the debt.
 - (ii) If no response received within the specified time, a more strongly worded reminder should be sent
 - (iii) If there is still no positive response, employ courts of law to recover the debt.
- f) **How to handle difficult customers.** in order to handle difficult customer objections fairly;
 - (i) Acknowledge and evaluate customer objections.
 - (ii) Listen carefully to the words being used and feeling being expressed.
 - (iii) Get the customers to open up so that you can understand the basis for their being difficult. The customer may raise some important points however,
 - (iv) Buy time by suggesting that you will look at the issue or suggest matter later.
 - (v) When you try to convince the customer from your view of point, hold your argument until the customer is ready for them.
 - (vi) Compensate customers by price reductions or refund i.e. replacement of goods in case the previous purchases had problems.

WRITING SKILLS

- (a) **Business letter.** A business letter is used to send information from the business organization to an individual or another business organization on specific areas of interest between the business and the address.

Contents of a business letter.

A business letter must be clear, complete, and timely and be able to promote the image of the business organization.

(i) ***The letter head.***

A business organization usually has pre – designed and printed papers called letter heads, which show its name, address, telephone number and e-mail address. The letter head may also have the organization’s vision, mission, bakers and nay other information deemed necessary. Business letters will be written on these letter heads listed off on plain paper.

(ii) ***Reference.***

This is used to identify the subject matter and the recipient of the letter. Each business organization adopts a unique and convenient referencing system for its letters and documents. The reference can include the addressee, the subject and the date, for example L2/M/10/02 2008. Ls stands for letters, M stands for the recipient’s initial (for example Margaret) and the date – 10 February 2008.

(iii) ***Date:*** All letters should have a date. The date can be written as 22 February 2002, or February, 22nd 2008.

(iv) ***Inside address.*** This shows the name and address of the person or organization. The letter is addressed to. Each item should have a separate line.

(v) ***Salutation.*** This is a general greeting used to commence the letter. For example “Dear Madam” is normally used if the letter is addressed to an organization and the addressee is known to be a lady. A personal name can also be used for example, “Dear James”, if the writer knows the addressee.

(vi) ***Subject heading.*** A subject heading gives a brief indication of the content of the letter using capital letters or bold print.

(vii) ***Body of the letter.*** The body of the letter communicates the intended information to the addressee (recipient). Paragraphs are used to show different ideas in the letter.

(viii) ***Complimentary close.*** This is a general closing to the letter. It is common to end with “Yours faithfully” (if Dear Sir or Madam has been used) or “Yours sincerely”, (if **Dear** and Name of recipient have been used.)

(ix) ***Signatory.*** All business letters should be signed.

(x) ***Enclosures:*** if the letter has any other document enclosed, it should be stated by using the abbreviation ‘Enc’.

(xi) ***Copy.*** A copy should be kept for the file to distribute to different officers who may need to know about the information communicated.

FORMAT OF THE BUSINESS LETTER.

Modern business organizations use blocked style which all parts of the business letter begin from the left margin as illustrated below;

USING BLOCKED STYLE

ST. MARY'S COLLEGE LUGAZI (SMACOL)
P.O BOX 336, LUGAZI, TEL: 0772 490205

Ref. No. L1/MI12/02/08

12th February 2008

Marketing Officer
Musoke Farmers Ltd
P.O box 234
Kampala
The

Dear Sir,

SUBJECT: GOODS SUPPLIED.

I wish to inform you that the bananas which you supplied to us on 9th February 2008 were poorly packed and as a result, most of the consignment got spoilt.

You will recall that we have in the past sent you communication on the same issue, a copy of which is here by enclosed for ease of reference.

This is therefore, to request you to maintain high packing standards so that we can receive quality bananas that will appeal to our standards.

.....
Yours faithfully,
Opere Simon
Purchasing Officer.

Enc:

A BUSINESS LETTER USING INDENTED FORMAT / STYLE

ST. MARY'S COLLEGE LUGAZI (SMACOL)

P.O BOX 336, LUGAZI, TEL: 0772 490205

Ref. No. L1/MI12/02/08

12th February 2008

Marketing Officer
Musoke Farmers Ltd
P.O Box 234
Kampala
The

Dear Sir,

SUBJECT: GOODS SUPPLIED.

I wish to inform you that the bananas which you supplied to us on 9th February 2008 were poorly packed and as a result, most of the consignment got spoilt.

You will recall that we have in the past sent you communication on the same issue, a copy of which is here by enclosed for ease of reference.

This is therefore, to request you to maintain high packing standards so that we can receive quality bananas that will appeal to our standards.

.....
Your s faithfully,
Opere Simon
Purchasing Officer.

Enc:

- (ii) **To** : to show to whom the memo is addressed.
- (iii) **Date** : to show the date on which the memo was written
- (iv) **Reference** : to give it a reference.
- (v) **Subject heading** : to show the main idea in the memo.
- (vi) **The body** : to show the details of the content of the memo in a paragraph.

Unlike the business letter, a memo has no salutation or complementary close.

FORMAT OF A MEMO

A memo with blocked format;

MEMO

FROM : Marketing Officer
 TO : Production Officer
 DATE : 12th February 2008
 REF : M/P0/12/02/08

SUBJECT : QUALITY OF GOODS.

I wish to bring to your attention the view of our customers in respect to the quality our products. They strongly believe that the quality of our products has gone down.

You should, therefore, investigate this matter and take corrective actions to enable our products meet our customers' quality expectations.

Thank you

.....
 Kagumba Mathew
 Marketing Officer

Enc :
Cc :

MEMO

FROM : Marketing Officer
 TO : Production Officer
 DATE : 12th February 2008
 REF : M/P0/12/02/08

SUBJECT : QUALITY OF GOODS.

I wish to bring to your attention the view of our customers in respect to the quality our products. They strongly believe that the quality of our products has gone down.

GOT FROM EDUFLIX APP

INVITATION LETTER

A letter inviting share holders to an annual general meeting.

SUUBI INVESTMENT LTD

P.O.BOX 248 MITYANA

TEL: 0773 216593

REF: No. L1/SH/17/07/2012

GOT FROM EDUFLIX APP

DISMISSAL LETTER TO A WORKER WHO HAS BEEN INDISCIPLINE

MUSONSO MOTOR GARAGE
P.O BOX 77, MUKONO
TEL: 0702 171272

5

REF. No. L1/M/20/06/2012

20th July 2012

GOT FROM EDUFLIX APP

A WARNING LETTER

To an employee whose performance is not to the set standards.

MUNAABI SECONDARY SCHOOL
P.O BOX 212 MANAFA
TEL. 0754 448102

Ref. No. L1/B/20/06/2012

GOT FROM EDUFLIX APP

RECOMMENDATION LETTER

**SSUUBI INVESTMENT 2TA
P.O BOX 142 LUGAZI
TEL: 0140042364**

28th June 2012

GOT FROM EDUFLIX APP

LETTER APPRECIATION / CERTIFICATE OF APPRECIATION

MUSONSO MOTOR GARAGE

P.O BOX 77, MUKON

TEL: 0782 779140

GOT FROM EDUFLIX APP

LETTER REQUESTING FOR INFORMATION

BULAGA TRADING CENTRE

P.O BOX 345 KAMPALA

TEL; 0778 423257

10/07/12

GOT FROM EDUFLIX APP

LETTER OF APOLOGY

MUKISA HONEY PRODUCERS
P.O BOX 16 MASAKA
TEL: 0783 7710
DATE: 24/07/2011

The Human Resource Manager

GOT FROM EDUFLIX APP

THE LETTER OF INQUIRY

This is a letter written to the supplier by the buyer requesting to be informed about goods available for sale, terms and conditions of sales and the prices of the goods.

EXAMPLE

FAIR PRICE STATINERY LTD.
P.O BOX 111 MITYANA
TEL: 0701 812342
DATE : 24/07/2012
ENQUIRY NO. 02

LETTER OF INQUIRY

TO : THE SALES MANAGER
MALIBU GENERAL SUPPLIES
P.O BOX 290, KAMPALA

Dear Sir,

Please quote us the prices, terms of sales, terms of payment and delivery terms for the following packaging materials.

QUANTITY	DESCRIPTION	RATE	AMOUNT
20 Cartons	Tubes 70g weight		
30 Cartons	Tubes 35g Weight		

Please note that the terms are urgently required.

Yours faithfully

.....
KABUZI JOHN
PACKAGING MANAGER

A QUOTATION TO A CUSTOMER WHO SENT AN INQUIRY

MUKISA HONEY PRODUCERS
P.O BOX 123 MASAKA TEL: 0783
77140
DATE: 27 / 9 / 2012
QUOTATION NO: 11

GOT FROM EDUFLIX APP

A LETTER INTRODUCING KAYEMBA NATHAN

KYAMBOGO UNIVERSITY

P.O BOX 1 KYAMBOGO

FAX: 343,42324

TEL: 0401 324571

30th /7/2012

Personal branding

A brand is defined as a name to which a set of associations and benefits has become attached in the consumer's mind. The name could be of a product, a service a business entity or even individual.

Personal branding refers to giving a unique name to a product, service, a business or even an individual to distinguish it from other products, business.

Below are guidelines in crating a personal brand,

- (i) Determine who you are. Since personal brands have a direct reflection on the person, to identify our personal brands we must ask "What do that makes me different? What are my greatest strength and best personal traits?
One's personal brand emerges from the search for identity and meaning, out of which comes an awareness of personnel strength and talents.
- (ii) Determine what you do. This involves writing down one's greatest areas of professional interest in passion. This reflects the kind of work one wants to do in life. It involves asking what I do that adds remarkable, measurable, distinguished and distinctive value. Personal branding means understanding what one's values are and learning to make these values relevant to other people.

- (iii) Position your self. By identifying the qualities that make a person distinctive from his competition one can create a positioning for him self. What have I done to make myself stand out? What are my greatest and clearest strengths? Every thing that a person does or chooses not to do communicates the value and character of the brand.
- (iv) Manage your brand. The key to any personal branding campaign is “word of mouth marketing”. The network of friends, colleagues, clients, and customers is the most important, marketing vehicles a personal brand.
What they say about the brand is what the market will ultimately gauge as the value of the brand.
- (v) Find different brand logos for different companies.

Importance of developing a personal brand

- (i) It speaks volumes about your company and builds a reputation for your business amongst your customers who know exactly what you can deliver.
- (ii) It is helpful in implementing new business plans with clients and customers as you already have a reference point through your brand.
It enables an enterprise to compete favourably with already established brands in the market as you build your own brand loyalty with consumers.
- (iii) A clear brand strategy helps an entrepreneur to raise his/her brand visibility as your audience is willing to pay a premium after becoming acquainted with your brand.
- (iv) An effective and appropriate branding strategy voices the promise of the entrepreneurs’ brand. It is important to follow up on the promise through the quality of your product.
- (v) It positions focused message in the minds of your target customers.
- (vi) It increases authority and credibility of decisions
- (vii) It adds perceived value to what an entrepreneur is seeking.
- (viii) It attracts the right people and opportunities.
- (ix) It associates the entrepreneur with his/her product or service

OBJECTIVES OF PERSONAL BRANDING

The following are objectives of personal branding:

- To improve on the image of the business/ to build a reputation for the business amongst customers who know exactly what the business can deliver.
- To enable an entrepreneur to implement new business plans with clients and customers as she/he already has a reference point through his/her brand.
- To enable an entrepreneur/ enterprise to compete favourably with already established brands in the market as he/she builds his/her own brand loyalty with consumers.
- To help an entrepreneur to raise his/her brand visibility as his/her audience is willing to pay a premium after becoming acquainted with his/her brand.
- To position the focused message in the minds of entrepreneur’s target customers.

- To increase authority and credibility of decisions
- To add perceived value to what an entrepreneur is seeking.
- To attract the right people and opportunities.
- To associate the entrepreneur with his/her product or service
- To increase the enterprise's market share
- To reduce duplication of products of the enterprise
- To create brand loyalty of the business products
- To increase awareness of business products

ii) The following are guidelines on personal branding

- **Specialization.** A great personal brand must be precise, concentrated on a single core strength, talent or achievement.
- **Leadership.** Endowing a personal brand with authority and credibility demands that there should be perceived by people as a leader in his or her domain or sphere of influence.
- **Personality.** A great personal brand must be built on a foundation of the sources of personality, flaws and all.
- **Distinctiveness.** An effective personal brand needs to be expressed in a way that is different from the competition.
- **Visibility.** To be successful, a personal brand must be seen over and over again until it imprints its self on the consciousness of its domain or sphere of influence.
- **Unity.** The private person behind a personal brand must adhere to the moral and behavioral code set down by the brand. Private conduct must have a public brand.
- **Persistence:** any personal brand takes time to grow and while you can accelerate the process, you can not, update it with advertising or public relations.
- **Good will.** Personal brand will produce better results and endure longer if the person behind it is perceived in a positive way.

BUSINESS PLANNING.

Is the management tool which focuses on the nature of a business in a logical and organized manner showing the objectives to achieve to achieve them? It mainly includes studying the feasibility and viability of a business idea in relation to the resources available.

OR

It is a document that summarizes the operation and financial objectives of a business showing how they are to be realized.

OR

Is a management tool that acts as a control device against which the management insures its achievements?

The business plan ensure questions on whether the business will be able to support itself through sales and profits to give the entrepreneur sufficient returns for reinvesting.

Elements of a business plan.

These include the following

- ✓ General description of the business
- ✓ Mission statement /statement of the mission
- ✓ Goals and objectives
- ✓ Marketing plan
- ✓ Production plan
- ✓ Organization plan
- ✓ Financial plan.

General description of the business

This refers to a summarized statement on the type of business being planned indicating the needs of the market fulfilled, uniqueness of your from other business and the principle strength and opportunities of the business.

Statement of the mission and objectives.

This refers to a mission statement that indicates the purpose of a business and it sinks to answer the following questions.

- 1) What business are we in or what business do we do. What to be in ?e.g. it can be owned:
We are in the business of providing high quality home finishing.
- 2) Or primary goal is to provide customers with high quality products.
- 3) Are our employees in a good working environment? Answer. Ensuring good working environment for the employees.
- 4) When are our share holders? This includes indicating yo share holders (type of share holders and return expected on investment e.g. The school mission (St. Maria Gorret ss-Katende).To produce morally upright and academically sound citizens who are accommodative to other to others despite their individuals differences in tribes ,creed and beliefs for a united nation.”

My business mission

To produce and distribute high quality bread, cakes, cookies and doughnuts at affordable prices so ass to meet satisfaction and all the nation diet you can ever need to be your breakfast.

Goals

These hare medium and long term targets that the entrepreneur wants the business to achieve based on his/her mission statement e.g. to become a marketing leader to win a big market share to be recognized in society.

Objectives

These are specific targets that an entrepreneur states and drives him/her into the direction of achieving his/her goals.

Examples

- 1) To increase sales by 20% per annum
- 2) To improve plant productivity by 20% in one year

MARKETING PLAN

This is an analysis of the possible position and opportunities in the secondary and main market which the business will target, markets segments, customers needs, buying other patterns.

Elements /components /factors considered when designing employees

- 1) Analysis on the various ways/communicating with and influencing the customers through advertising and promotion
- 2) Qualified statement of the market size, growth and expected market share.
- 3) The state of competitors .This involves determining their strength market up, volume of sales and [pricing strategies, weakness and number of competitors it has from differs from others.
- 4) An analysis of the product and its value to the consumer i.e. what needs have been satisfied by the products.
- 5) Selecting the distribution channels and other alternatives in bringing the products to customers e.g. use of direct, marketing agencies or long distribution channels.
- 6) General statement of current market prices of similar products and possible prices that te market can afford.
- 7) Expected sales. This involves identifying the total sales volume the business expects to get.
- 8) Plan for recruiting and motivating sales to achieve the sales target.
- 9) Sales promotion and advertising strategy .This involves identifying the methods to use to inform and attract customers like after sales servicers, giving samples, discounts etc.
- 10) Terms and conditions for selling .The entrepreneur is required to establish the system of selling i.e. cash or credit basis, selling and regular basis order with cash.
- 11) Nature of the products or services it e offered .This involves describing the product and its values to customers.
- 12) Pricing strategies and Policies .It involves determining the price at which the producer or seller is to offer his products or services while considering the current market prices.
- 13) The on going tension both primary and secondary markets where the entrepreneur intends to sell his/her products
- 14) The projected marketing expenses .This involves establishing costs to e incurred in the marketing e.g. commission is paid sales representatives/marketing agents.

PRODUCTION PLAN

This is an analysis of the projected needs for buying /producing the proposed goods needed

Components of production plan.

- 1) Business site and location required .It includes stating the postal and physical address of the business.
- 2) Production process, flow and lay out. This involves identifying the steps involved in producing a particular product.
- 3) Plant capacity is required in the short and long term period to meet the market demands .It involved identifying the required volume of goods that machines can provide.
- 4) Quantities estimated to be produced or serves delivered .This refers to the volume of goods to be produced.
- 5) It involves laying out strategies to produce goods that satisfy customer's wants to.
- 6) Specification of machines, tools and the equipments required .It involves identifying the type of machines to be purchased.
- 7) Raw materials standards, amounts and stock required .The entrepreneur is required to establish the quality of raw materials required for continuous production.
- 8) Purchasing plans, re-order plan level etc .It involves identifying the time i.e. when order for goods you receive them to avoid shortages.
- 9) Inventory plans for stock in progress and finished products .It involves establishing a place where raw materials, finished goods etc are to be kept.
- 10) Production control requirements. It involves estimating expected output to be produced per worker in the production, process and the total output.
- 11) Any research and development plans expected .The entrepreneur required to specify areas where the current production process.
- 12) Steps for monitoring external technology and process changes which can affect the current production process.
- 13) Labor requirements .This involves establishing the type of labor to work in the business i.e. skilled, semi-skilled, amount to earn, level of qualification etc.
- 14) Utilities to be used like electricity, water, insurance etc and the costs required.
- 15) Packaging materials to use .This involves sources the packaging materials and their costs.
- 16) Disposal of the waste products. This involves establishing the amount of wastes the business and how they can dispose it off.

ORGANISATIONAL PLAN.

This is the frame around which people, machines equipments or other physical parts of the plan together to have an operating business.

Components of an organizational plan.

- 1) It allows determining the people to work in the business and their supervisors.
- 2) Tasks to be performed by employees
- 3) Administering of the business i.e. those to supervise of business activities.
- 4) Level of qualifications i.e. skills knowledge required i.e. degree, diploma etc.
- 5) Amount of wages paid to employees.

6) Other fringe benefits to employees e.g. medical services lunch, accommodation etc.

Note; For easy distribution and performance of their duties the entrepreneurs should organize and organization chart to be followed by all workers.

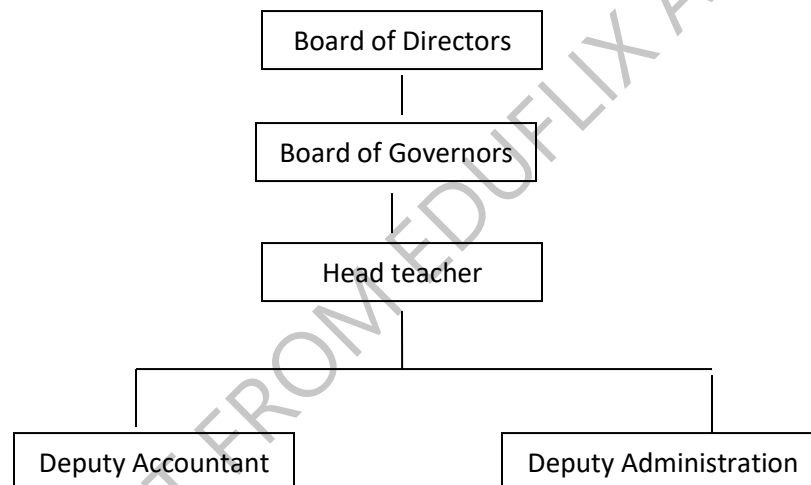
An organization chart is through an illustration showing the increase of administration with an organization.

Organization Chart

This is a diagrammatic representation which shows the hierarchy of human person ale in an enterprise.

An illustration of an organization chart /organization chart of a school

A Typical Illustration of an Organization Chart or Organizational chart of a School



IMPORTANCE /USES OF AN ORGANISATIONAL PLAN.

- 1) It specifies the reporting relations within the entrepreneur i.e. the subordinates.
- 2) It gives management guide to the business.
- 3) It determines payment for workers i.e. the higher the position the higher the payment of the lower position the lower the payment.
- 4) It facilitates efficient monitoring and supervision of the business
- 5) It enable the enterprise to maintain discipline among workers
- 6) It avoids duplication of roles among the workers since duties of each worker are clearing put down.
- 7) It promotes co-operation or team work among workers since every body is satisfied with his or her status.
- 8) It promotes delegation of work in an enterprise leading to continuous supply of goods or services.

Explain objectives of organizational charts in various enterprises .

- To enable the enterprise maintain discipline among workers
- Organizational charts helps to give direct clear management guide to the business.
- To facilitate efficient monitoring and supervision in an enterprise.
- Organization charts determine payment of workers in an enterprise.

Under what circumstances can an organization chart be used in an enterprise.

- Where there is a need to facilitate efficient monitoring and supervision in an enterprise.
- Incase an entrepreneur wants to give a clear management guide of the business.
- When there is need to maintain or promote discipline among the workers in an enterprise.
- When there is need to promote delegation of work in an enterprise. This helps in the continuous supply of goods and services.

FINANCIAL PLAN.

This refers to the financial requirements of the estimated business .It includes projections of income and profit, balance sheet and cash flow of the proposed business.

QUESTIONS ABOUT FINANCIAL PLAN MUST ANSWER COMPONENTS.

- 1) What is the total cost to start up to operate the proposed business
- 2) How will the proposed business be financed
- 3) Which source of funds will be the tapped and what will be associated cost.
- 4) What is the break even state of the business i.e. the maximum sales you can experience in the business.
- 5) What is the return in the investment?
- 6) Is the proposed business profitable?
- 7) How will the income be used?

COMPONENTS OF FINANCIAL PLAN

- 1) It shows the total cost s of the business required i.e. the direct, indirect, selling and distribution costs general and administrative expenses etc.
- 2) It shows the methods of funding the business e.g. debt financing.
- 3) It shows the sources of funding the business .This involves establishing the possible source.
- 4) The expected sales from a business .It involves determining in the business expects to get from its total sales.
- 5) It indicates the expected returns or net profits of the business

- 6) It shows the various ways in which the income will be used in the business
- 7) Distinguishing between an organization; chart and plan.
- 8) Explain the components of an organizational plan
- 9) Write short notes on the following.
 - I. Goals
 - II. Production plan
 - III. Objectives
 - IV. Mission statement.
- 10) Explain the components of the production plan.

USES OF A BUSINESS PLAN TO DIFFERENT STAKE HOLDERS TO AN ENTREPRENEUR.

The following are benefits of a business plan to an entrepreneur.

- 1) It helps the entrepreneur to prepare adequately for the business enterprise. A business encourages an entrepreneur to think through his/her business roughly in a synthetic and focused way.
- 2) It helps an entrepreneur to define specific goals and objectives which serves as a benchmark to measure the progress of the business implementing the plan
- 3) It helps an entrepreneur to monitor the business activities. It facilitates the monitoring of the business performance based on the set goals and objectives as a standard of measurement such that any deviation from the plan can be dated and corrected in time.
- 4) It helps an entrepreneur to be focused. It encourages an entrepreneur to be focused by thinking about the business he/she is in how and what business he/she is going to venture in and where he/she wants to be in future.
- 5) It acts as a time table for implementation. It is an action plan and time table for implementing business activities in a logical manner.

TO EMPLOYEES

- 1) It helps employees to know determine their expected production targets. It states the output to produce by each employee in the business.
- 2) It provides employees with information about where the business is going and their role in it.
- 3) It helps show employees how they be engaged with the business and give them the sense of job security.

TO THE ENVIRONMENT

- 1) Business plan is a basis of determining government revenue or tax from the business profits
- 2) It helps the government to gauge the trend business activities in the country and therefore plan accordingly.

TO FINANCIERS.

It helps finances like banks to decide whether to give business a loan or not .It helps lending institutions to predict the performance of the business as to decide whether to give a loan or not.

QUESTIONS

- a) Explain the advantages of a business plan in an enterprise.
- b) Explain the objectives of preparing a business plan
- c) Why it is necessary to prepare a business plan
- d) An entrepreneur can do without a business plan. Justify the statement
- e) Explain the role of a business plan in an enterprise.
- f) Explain the rationale for preparing a business plan.

OBJECTIVES/RATIONALE OF PREPARING A BUSINESS PLAN.

The following are the objectives of preparing a business plan.

- 1) 1). To test the feasibility of the business. Business plan preparation is intended to find whether business is socially accepted in the community where it intends to operate.
- 2) 2).To secure funding for example bank loans .Business plans are prepared in order to obtain loans from financial institutions since it is pre-requisite for them to advance loans.
- 3) 3).To act as a basis for obtaining permission to start the business .Business plan are prepared to authorities to allow the business owners operate legally in the community.
- 4) 4). To enable the government to gauge the trend of business activities in the country. Business plans are required by the government so as to determine the nature of business dominating in the country and the sectors neglected hence planning accordingly.
- 5) 5). To enable the government assess the correct tax imposed on the business. Business plans are prepared to guide the government in imposing taxes charged on business since it indicates the expected sales and profits.
- 6) 6). To act as a time table for implementing the business. business plan is prepared in order to guide the owner and employees on what to do how to do it and when to do it so as to reduce on time wastage.
- 7) 7). To enable the owner or managers to monitor business performance. A business plan is prepared to act as a management tool to co-ordinate and supervise business activities since it indicates business activities to be performed and the people in charge.
- 8) 8). To keep the owner of the business focused while implementing the business. Business plan is prepared to keep the owner thinking about his/her business and its nature prospects.
- 9) 9).To set realistic goals and objectives .Business plan are prepared in order to enable owners set realistic goals and objectives since they highlight the amount of capital available and needed sources of capital etc.
- 10) 10). To highlight the challenges in advance the business is likely to face .Business plans are prepared so as to identify possible challenges business are most likely to face and possible solutions become they occur.

- 11) 12). To assess the SWOT analysis of the business is prepared so as to identify the strength of the business, weakness, opportunities the business is to exploit and possible threats that can lead to its collapse.
- 12) 13). To identify the expected production targets. Business is prepared so as to enable employees to know the expected output from a production cycle.
- 13) 14). To lay down strategies to promote sales. Business plans are prepared so as to design marketing strategies to be used by the business so as to promote sales like giving after sale services etc .

RESEARCH

- Explain the factors that influence the success of business plans in your country.
 - Account for the failure of business plans in your most enterprises.
 - **Explain the factors limiting the success of business plans in your country.**
 - **Examine the pre-requisite for the success of business plans in your country.**
 - **Under what circumstances may a business plan be desirable.**
 - **Under what situations may a business plan be necessary or used.**
- (Use) in case, if, where, when.**
1. In case there is need to design a marketing strategies to be used by the business.
 2. In case there need to monitor the performance of the business.
 3. If there is need to determine the expected production, strategies of employees.
 4. If there is need to set realistic goals and objectives to be achieved
 5. When there is need to set realistic goals and objectives to be achieved.
 6. Where there is need to draft a time title for a business.
 7. In case there is need to assess the SWT analysis of the business
 8. In case there is need to identify challenges of the business.
 9. If there is need to keep the owner of the business focused.

FACTORS LIMITING THE SUCCESS OF BUSINESS PLANS.

The following are the factors limiting the success of business plans .

- 1) Inadequate funds /resources. The shortage of funds /capital limits effective implementation their business since its needed to buy necessary facilities.
- 2) Formatting of a ambitious plans. Many business plans fail because they are realistic compared to the ability and strength or plan implementers.
- 3) Delay in the delivery of raw materials /resources This limits of effective implementation of business plans due to the failure to perform the set target /activities in time.
- 4) Unfavorable government policies regarding taxation, business registration and licensing /government interference.
- 5) Economic instability /price instabilities. This leads to underestimation of costs to implement of the plan due to there increasing prices.
- 6) Inadequate skilled man power to implement .This makes many business plans to fail due to poor methods used to implement plans by incompetent workers.

- 7) Inadequate statistical data got during market research. This it's the success of business plans since the set targets and methods to implement them based on wrong data.
- 8) Political instabilities in places where business plans are to be implemented scares plan implementers due to the fear of losing their lives hence leading to plan failures.
- 9) **High degree or corruption and embezzlement of funds meant for plan implementation.** The misuse of funds meant for implementing the plan by the top management makes of plan formulated to fail.
- 10) Natural calamities /unfavorable climate factors like floods, drought limits the mobility of plan implementers to monitor the performance of the business and resources from the intended purpose so as to calm them down
- 11) **Failure to involve state holders in plan formulation and implementation ignorance of stake holders about the plans formulated.** This limits the success of such plans since there stake holders are the one meant to implement in monitor them.
- 12) **Personal weakness of the entrepreneur.** This limits the success of business plans due to the inability to co-ordinate employees.
- 13) **Under development infrastructures** .Limits mobility of plan implementers and supervisors e.g. getting the required resources from areas under developed roads become difficult and increase transport costs.
- 14) **Stiff competition in the market.** This discourages many entrepreneurs to complement the plans they have drafted to the fear to be outcompeted hence plan failures.
- 15) **Inconsistencies in implementing business plans.** Many entrepreneurs keep on trying very many business plans at a go and fail to concentrate few or one business plan hence leading to its failures.

Explain the factors influencing the success of business plan?

1. Availability of statically data.
2. Political climate.
3. Availability of capital or resources.
4. Quality of personal entrepreneur qualities possessed by the owner
5. Level of availability /degree of corruption
6. Availability of trained man power.
7. Natural factors like rainfall
8. Degree of government intervention
9. Level of economic stability /price stability.
10. Level of infrastructural development
11. Degree of awareness of there stake holders
12. Quality of business plan preparation
13. Level of consistence in plan implementation

N.B: EXPLAIN BOTH POSITIVE AND NEGATIVE.

THE BUSINESS MONITORING TOOL.

After proper planning and setting up of business the entrepreneur must carry out case of monitoring /major control of his /her business as to achieve the pre-determined .This can be done with the help of the following tools:

- 1) **The sale target.** These are numerical/qualitative targets set by by the sales development to be achieved in a specific period of time they selling two tonner of maize flour in a month.
- 2) **The production target.** These are numerical targets set by the production development to be achieved in a specific period of time e.g. producing 1000 tones of a particular product.
- 3) **Operation budget .**This document which provide a summary of the business revenue and expenditure for a given period of time .it shows incomes earned by the business ,expenses incurred and the net revenue (net profit) of the enterprise.

FORMATION OF THE OPERATION BUDGET. TRANSACTIONS

Cash in flow		October	November	December
Expected sales		xxxx	xxxx	xxxx
Loan		xxxx	xxxx	xxxxxx
Donation		xxxxxx	-	xxxxxx
Total cash flow		xxx	xxxx	xxx
Balance brought down		xxxx	xxxx	xxx
Total cash flows		xxxx	xxxx	xx
Net cash flow		xxxxxx	xxxx	xxx
Balance carried down			xxx	xxx
Cash flows				
Payment salaries and		xxxx	xxx	xxxxxx

wages				
Electricity		xxxx	xxx	xxxxxx
Feeding		xxxxx	xxx	xxxx

IMPORTANCE OF AN OPERATIONAL BUDGET.

- It helps the entrepreneur to determine the business operational cost in advance.
- It helps to forecast the expected business revenue in a particular year
- It forms a basis a plan which future plans of the business are made.
- It encourages hard work spars to achieve the pre-determined target.
- It forms a bar for comparing performance between to periods hence making it possible for the entrepreneur to affectively carry business evaluations.

4. CASH FLOW STATEMENT. Is a financial document which shows the expected monthly receipts and expenditure payment. It helps the entrepreneur to determine the monthly expense in relation to the monthly revenue.

The following are components of a production plan

- Cash inflow
- Cash outflow
- Balance carried down
- Balance brought forward

5. Bank reconciliation statement. This is a document issued by the bank, showing a summary of the transactions that took place on the clients' accounts in a given period of time.

6. THE WORK ORDER FORM. This is a document prepared showing the customer daily orders and the employee responsible to serve a particular customer.

It shows the date on which the order to be worked on, name and address of the customer to be served the telephone contact of the customer ,water order number, starting and ending time.

Serial number	Customers	Work	Employee	Starting time	Ending time	Job cost
1	Kintu Frank	Making dining tables	Joseph and Alex	8:00am	3:00pm	600,000
2	Kitooke Andrew	Making curtains, tables	Kasule and Moses	7:00pm	2:00pm	5000,000

7. **WORK SCHEDULE.** Is a document which shows the tasks to be done by each employee in the enterprise daily and the time allocated on each activity

FORMATION OF A WORK SCHEDULE.

N O.	DAY/DATE	Employee NO.	Employee name	Job Description	Starting time	Ending time	Supervisors	Remarks
1	Monday 20 oct 2012	008	Sebabi Peter	Monitoring early morning prep, taking records of students	6:15 am	5:10 pm	Sendi James Askouti	Work well done.
2	Monday 23 oct 2012	021	Malisha	Supervising breakfast, locking dormitories.	4:10 pm	6:00 pm	Mansion	Task, well done
3	Monday	041	Mr. Sendi	Supervising assembly	6:50 am	7:00 am	Mr.Sekamate	Task well done.

IMPORTANCE OF A WORK SCHEDULE.

- 1) It ensures tasks are completed on time.
- 2) It ensures proper sequencing /rationing of time since tasks are required to be completed before others are done
- 3) It helps in proper co-ordination of work within the business
- 4) It eliminates laziness, rumors mongering etc during time of work.

Steps Involved in Preparing a Business Plan

For a feasible entrepreneur, must observe the following steps;

1. Scanning the environment and selecting business opportunity. This involves observing the different businesses available and choosing the most viable business to be operated.
2. Market survey. This involves gathering information concerning the type of business to be started. Such information may include the view of the society about the business, the real and potential market, business, production requirements etc. such information is helpful to determine the business success.
3. Drafting business plan. This involves the actual preparation for the plan to be followed. This can be prepared with all the components as such above.
4. Discussing business plan with other prominent people (successful entrepreneurs) so as to get more ideas on the plan prepared.
5. Drafting final business plan copy. This is done after taking consideration the advise given by the successful entrepreneurs.
6. Preparation of action plan. This helps the entrepreneur in the systematic implementation business plan prepared.

GENDER AND ENTREPRENEURSHIP

Gender refers to the state of being male or female. It is a differentiation between a male and a female in a social cultural system.

The distinction between the two is mainly based on a number of masculine and feminine attributes that are roles to gender identity.

COMMON TERMS USED

1. **Sex.** This refers to the state of being a man or a woman. It also refers to the biological features that distinguish a male from a female.
2. **Culture.** This refers to the way of behavior or thinking that governs a particular society. It constitutes the rules and regulations to be followed by individuals in a given community.
3. **Society.** This is a group of people living together sharing common belief and attitudes with a specified social or political boundary.
4. **Division of labour.** This refers to the separation of responsibility among individuals so that each one has a task to perform. It may also refer to the allocation of different tasks to different people.
5. **Gender stereotyping.** This refers to the constant portrayal of men and women as having different social roles as dictated by society or traditions. In short it refers to the process of labour segregation.
6. **Labour market:** There is a lot of stereotyping in occupations for women in society and women tend to conform to this. Occupational discrimination in employment (in hiring,

tenure and promotions) and lack of childcare facilities may discourage career aspirations in women as well as limit their contribution to development.

7. **Many times** women are related to subordinate positions even if they have the same qualifications as men.
8. **Access** is the means or right to obtain services, products or commodities. Gender gaps in access to resources and services are one type of obstacles to women's development.
9. **Conscientisation:** Is the process of becoming aware of the extent to which problems arise not so much from an individual's inadequacies but rather from the system discrimination against a social group which puts all group members at a disadvantage.
10. **Employment.** Is the process by which people take control and action in order to overcome obstacles? It is the collective action by the oppressed and deprived to overcome the obstacles of structural inequality which have previously put them in a disadvantaged position.
11. **Gender stereotyping** is the constant portrayal, in the media or in books, of women and men occupying social roles according to the traditional gender division of labour.
12. **Patriarchy.** Is the male domination of ownership and control of all issues in society, which maintains and operates the system of gender discrimination?
13. **Patriarchal resistance** refers to the various patriarchal governments or authority will try to stop or resist women's collective action for equal share in decision making and equal control over the distribution of resources.

GENDER AND ECONOMIC ACTIVITY OF UGANDA

- Gender equality is a prerequisite to meaningful gender partnership. Gender equality wants to see every body given the same opportunities and ensure that basic rights and obligations are similar for all groups
- **The following is the basis for time and effective gender partnership:-**
- Each member is justly rewarded for his/her service.
- There are no threats of exploitation or victimization
- Participants are aware of their own membership and that of the others.
- Each member gets satisfaction from participating in any activities taking place.
- There is a two way communication
- Each member strives to communicate his/her feelings and ideas as clearly and accurately as possible
- The development of each member is enhanced.

GENDER MYTHS/ STEREOTYPES.

Gender myths are fixation beliefs that are related to gender stereotypes are fixed mental impressions that are related to gender.

These gender myths and stereotypes are based on gender a relation that is how men and women are related and interact in society.

The following are examples of misleading or fallacious beliefs concerning the gender concept.

- Men display special skills (with the sex differential unceasing with age and females show greater verbal skills.
- Girls are less capable and reliable in the fields of science and technology.
- Girls are incompetent in science, technology and Maths
- Parents see science studies as being a little relevant to girls, they believe that they are weaker, lazier and more irresponsible than boys

Note: traditionally men and women had different tasks to perform e.g. men were meant to hunt and build homes while women were meant to look after children and food for home consumption.

This created a psychological impact in society that their are particular tasks for men and women and therefore limiting women form participating in particular tasks especially income generating tasks.

GENDER PARTNERSHIP

This involves men and women working amorously together to achieve pre determined goals. In gender partnership, both men and women are recognized as being equal sharing the burdens together as well as the fruits of their labour.

Causes of Women Magnetization In Business

QN: Why is there low participation of women in business today?

1. Un fair colonial policy which emphasizes training young men for administrative posts and clergy at the expense of the women i.e. Women with confidence to food production and child rearing.
2. Constant discrimination in the labour market makes it difficult for actively participate in business. Most women are discriminated against when offering employment opportunities hence they are unable to raise capital to start their personal businesses.
3. Limited access / ownership of productive resources especially land gives women limited chances to participate in business and become prominent entrepreneur since most tribes do not allow women to inherit property
4. Parental misconception of the cost benefit analyses of educating a girl child is accumulating a capital stock for her husband, after roll upon completing education she is to be married off hence giving less benefit to her family.
5. The double demands for a girl child or woman i.e. the traditional demands of marrying a girl child early and the modern demands of staying in school working for the survival. This leaves the women at the cross road with increasing traditionalism the women are lured to

accept the demand of the traditional society at the expense of their participation in business.

6. The religious / cultural hindrances i.e. religiously and culturally women are believed to be subordinates to the men, mainly created to do domestic work alone, this makes them participate less in business activities.
7. Strong opposition from men/males. Women some times are denied a change of participating in business activities by their husbands
8. Negative attitude of money lenders towards women. Many money lenders do not want to give loans to women thinking that they are likely to misuse the money for personal desires
9. Limited women role models. This limits women from participating in business activities since they lack people to influence their life styles and develop a positive attitude towards entrepreneurship
10. Ignorance of people about the benefits of entrepreneurship. Most women do not see the benefits of setting up businesses since they get what they want from their husband
11. Limited capital owned by women. This limits the business start up process hence leading to low women participation in business activities
12. Limited career guidance and counseling sensitive to a girl child. This limits women from participating in business activities since some can not identify their abilities, lack business skills and entrepreneurial qualities
13. Early marriages of girls. This gives them added responsibilities which limit their participation in business activities

Ways of promoting gender partnership in the society.

There is need to promote gender equality if meaningful gender partnership is to be achieved in business. This can be done through the following ways;

1. Through eliminating unfriendly traditional and economic policies so as to enable them realize their potential or roles in causing development especially through their participation in business.
2. By providing equal opportunities to both male and female especially in education so as to increase their ability to participate in business activities.
3. By providing easy access to productive resources to the woman so as to encourage them to take part in business.
4. Through giving moral and material support to the women. Best organization especially those promoting women emancipation and development of entrepreneurial skills among the female gender.
5. By creating female based entrepreneurial society and clubs to promote female business in the community.
6. Developing career counseling sensitive to girl's needs. This enables them to identify their abilities and how to use them to spot and exploit existing business opportunities
7. Giving special incentives to girls to encourage them to study science subjects

8. Through recognizing the abilities/talents of girls to avoid skill shortages from exclusively one half of the population
9. Providing credit facilities in form of loans, credit supplies etc to women to supplement their capital base. This increases their rate in business activities
10. Organizing international women based workshops and conferences and hiring international women role models to arouse interests of women in business activities

THE ENTREPRENEURIAL ENVIRONMENT

The term Entrepreneurial environment refers to a combination of different external factors and their organic integration which makes an impact on the business start-up process. It is important for an entrepreneur to always create a conducive environment for the success of his / her business.

THE MAIN FEATURES / CHARACTERISTICS OF AN ENTREPRENEURIAL ENVIRONMENT

The entrepreneurial environment is characterized by the following aspect;

1. **Uncertainty.** this refers to the possibility of getting unexpected occurrences. The entrepreneurial environment keeps on changing periodically hence entrepreneurs need to accommodate the changes / uncertainties as they come.
2. **Scarcity:** the entrepreneurial environment is characterized by limited resources and this limits the creation of new firms / businesses. Such resources may include; technology, social and financial capital, human resources etc.

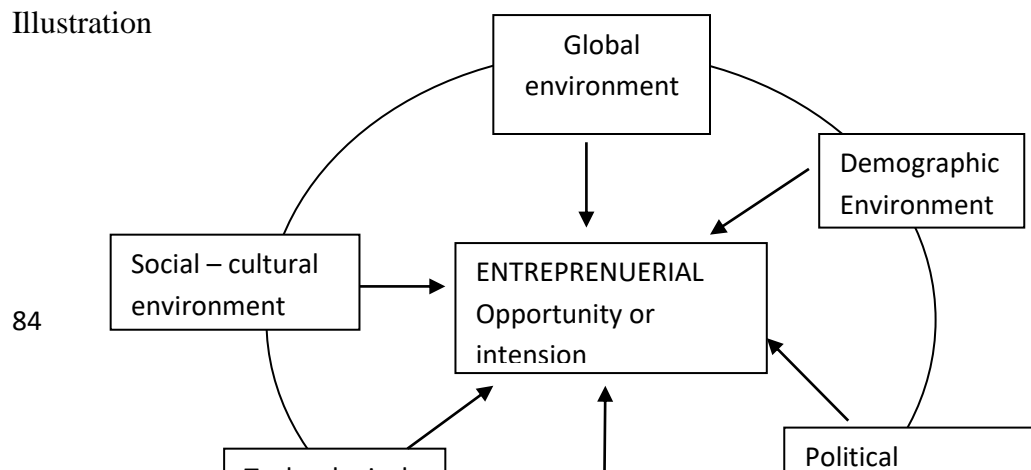
Entrepreneurs need to thrive within the scarcely supplied resources so as to create successful business.

3. **Opportunity orientation.** This refers to one's ability to identify and analyze market possibilities in relation to the business operated. The entrepreneurial environment is characterized by opportunities that individuals can make use of so as to operate successfully.
4. **Flexibility.** The entrepreneurial environment is not static. It keeps changing. Hence an entrepreneur should not insist on a particular way of doing things even if it is no longer useful / productive.

THE ENTREPRENEURIAL ENVIRONMENT FRAMEWORK

This is mainly concerned with the different dimensions within which the entrepreneurial environment operates. There is mainly dimensional framework as illustrated below;

Illustration



NB: Each of the above entrepreneurial environments affects the entrepreneurs' business differently.

THE ECONOMIC ENVIRONMENT

This refers to the economic system within which the entrepreneur operates that directly affects his / her attitude, opportunities and operations.

THE ECONOMIC FACTORS INFLUENCING THE ENTREPRENEURIAL ATTITUDES AND OPERATIONS.

These include the following;

1. The level or nature of economic policy i.e. an open market system that allows the forces of demand of supply to control the distribution of resources gives the entrepreneur freedom to carry out any business in any area hence attracting more innovations and investment compared to a closed economic system where productive resources are controlled by the government giving limited chance for individual innovation and entrepreneurial growth.
2. Nature of the administrative policy regarding business registration, licensing and taxation influences entrepreneurial attitude and operations. A fair or simple administrative system encourages more individual entrepreneurs to start business yet a complicated or complex administrative system discourages the would be potential entrepreneurs there by limiting entrepreneurial development.
3. Level of infrastructure development. Availability of a good road network, reliable power (electricity) and communication facilities encourages entrepreneurial development compared to a poorly developed physical and social infrastructure.
4. The existing financial system. A well-developed financial system such as good banking system, presence of securities markets, credit cards etc encourages the development of entrepreneurship since individuals can save and invest and access loans to improve on their businesses compared to a poorly developed financial system in which individuals have access to financial facilities and investment opportunities.
5. The extent to which the legal environment of the country is protective to the entrepreneur determines entrepreneurial development. The legal framework that institutes or protects ownership rights provides opportunities for entrepreneurial growth but unfriendly legal

environment for example one which is corrupt discourages entrepreneurship growth and development

6. The amount of resources available. A country or community well-endowed with natural resources provides an opportunity for various entrepreneurs to emerge. Such resources may include capital (accessibility to loans), mineral, technology etc. all these provide a basis for individuals to enterprise or carry out different businesses but inadequate supply of such resources retards the development of entrepreneurship.
7. Costs of production involved. Countries experiencing or incurring low costs of production promotes the development of entrepreneurship since local individuals are encouraged to invest in different losses due to low operations cost as compared to countries whose cost of starting and operating a business is high. Such costs include overhead costs, tax rate, and cost of insurance, costs for utilities such as electricity, water etc.
8. Availability of economic incentives. A society, community or country with favorable economic incentives such as tax holidays and tax exemptions promotes the development of entrepreneurship compared to a country with less or no economic incentives such a country limits the development of entrepreneurship
9. Rate of inflation/level of price fluctuation/level of economic stability. Fluctuations in prices of raw materials and final products make the business environment unpredictable hence discouraging people from setting up businesses but stable prices lead to stable earnings which encourages people to set up businesses leading to high levels of entrepreneurship growth and development
10. Availability of capital. Adequate capital encourages people to set up businesses leading to high level of entrepreneurship growth and development but inadequate capital limits the level of entrepreneurship growth and development
11. Availability of labour. Adequate labour supply encourage people to invest in different business activities but inadequate labour both skilled and unskilled limit entrepreneurship growth and development
12. Availability of land. Large pieces of land facilitate business expansion and attract more potential entrepreneurs to invest in different business activities thus leading to high entrepreneurship growth and development

ECONOMIC FACTORS LIMITING THE LEVEL OF ENTREPRENEURSHIP GROWTH

- 1.Existence of a closed market system
- 2.Unfavorable administrative policies regarding business registration, licensing etc
- 3.Under developed infrastructure
- 4.Under development financial systems
- 5.High inflation rate
- 6.Unfriendly legal environment
- 7.Inadequate economic incentives

8. Inadequate capital
9. Inadequate labour
10. High cost of doing business

Economic factors that lead to a change in the level of entrepreneurship growth and development

1. Change in the market system
2. Change in administrative policy regarding business registration
3. Change in the state of infrastructure
4. Change in the level of development of financial sector
5. Change in the level of economic stability/rate of inflation
6. Change in the level of economic incentives
7. Change in amount of capital
8. Change in the size and quality of labour
9. Change of costs of production

THE CONCEPT OF SOCIAL – CULTURAL ENVIRONMENT

This concept explains the entrepreneurial environment basing on the social or cultural beliefs, values and attitudes of a given society e.g. one's social or cultural value attached to innovation, hard work and success and social cultural misery attached to failure plays a very important role in promoting entrepreneurship in society.

THE SOCIAL – CULTURAL FACTORS INFLUENCING ENTREPRENEURIAL ATTITUDES AND OPPORTUNITIES.

1. Culture of a given society. This refers to the customary beliefs, values, norms and practices held or cherished by individuals in a given society or community, societies with a social system that promotes entrepreneurship have a high entrepreneurial development e.g. the Indians and the Arabs. Similarly, societies with risk fearing people, less hardworking and inconsistent, the level of entrepreneurship development is low.
2. The social background or family back ground. An individual's family background influences his or her attitude towards entrepreneurship. Individuals from families with a business background easily adopt entrepreneurial skills and are attracted to business compared to those whose family is much adapted to business. Similarly, individuals whose family is financially sounding easily access finances to invest in different businesses there by boosting their attitude towards entrepreneurship and creating more opportunities compared to individuals from poor families such people find it difficult to get finances to set up business.

3. Level of social identification. The extent to which an individual views himself or herself as an entrepreneur influences his or her attitude of opportunities regarding entrepreneurship i.e. an individual who views himself or herself as being appreciated by society has a more positive attitude towards entrepreneurship than a person who feels he or she is unappreciated, despised and under rated by society.
4. The influence of role models. These are individuals that influence one's career of life style. Thus, presence of successful entrepreneurs in a society or country attracts and motivates more individuals especially the young ones to develop a positive attitude towards business and entrepreneurship compared to a society with less role models who can influence individual's attitude such a society has low levels of entrepreneurship and development
5. Nature of religions. Individual's decision to become an entrepreneur is greatly influenced by his or her religion. Countries with religious beliefs, values, doctrines and practices that favours entrepreneurship attracts its citizens to become prominent business men or women. This is because religious doctrines and practices greatly impacts on individual's life. However, unfriendly religious factors discourage people from investing in business for example comments like "happy are the poor, theirs is in heaven"

Limiting factors

Socio-cultural factors leading to a change in the level of entrepreneurship growth and development

THE CONCEPT OF POLITICAL ENVIRONMENT

This refers to the political system (law, regulatory system and government monitoring agencies) which directly or indirectly affects business activities in a particular society. It is mainly concerned with the political – economic policies operating a particular society or country.

The Political Factors Influencing Entrepreneurial Attitudes And Opportunities

1. The political climate. A politically stable society promotes the development of entrepreneurship since individuals are settled to engage in different business activities compared to a political unstable country in which individuals are not sure of the future.
NB: In the past Uganda experienced political instability which greatly hampered with development of entrepreneurship. However the past 27 years ushered in a wave of political stability which has greatly promoted business and entrepreneurship.
2. Nature of the legal framework or environment; a society with friendly legal environment that promotes business encourages the development of entrepreneurship since individuals or businessmen are well protected by the business friendly legal environment that in a society having a weak legal system in regard to business.
3. The operation of government institutions and departments. government establishments which are insensitive to business and entrepreneurial development discourages the would be potential entrepreneurs from engaging in business e.g. the actions and policies of KCCA discourages several individuals who would wish to open up various businesses but effective government institutions encourage entrepreneurship growth and development.

4. Level of government expenditure. High level of government expenditure in relevant sectors such as education, health and security, transport sector encourages entrepreneurial development since many entrepreneurs emerge to respond to the various requirements of each sector, compared to a situation in which the government invests in irrelevant sectors and departments. This leads to low levels of entrepreneurship growth and development.
5. A government policy of taxation. A country with a clear policy regarding taxes, tax collection methods and accountability for the revenue realized encourages individual's attitude towards entrepreneurship since they are aware of what, when, and how to pay compared to a society with an unclear tax system, such a society limits the level of entrepreneurship growth and development.
6. Level of democracy. Democracy means giving individuals total freedom of initiate, thought, speech and action. A country with a high degree of freedom encourages entrepreneurship since people are free to carry out business and also express their dissatisfaction in case of unfavorable government policies. Yet in a country with limited democracy discourages entrepreneurship development.
7. Religious and political refugees. Displacement of people due to wars or closure of firms, job loss and reduced earnings discourages entrepreneurial development since individuals have limited finances to save or invest compared to a society in which individuals are relatively settled.

Qn: (a) Discuss the political factors responsible for the low development of entrepreneurship in Uganda.

(b) Suggest the possible remedies that should be adopted to avert the situation.

THE GLOBAL ENVIRONMENT

The global environment is mainly concerned with bringing together the entire world into single entity sharing same commercial ideas. Hence globalization involves increased mobility of labour, goods, services, capital and ideas across boundaries of different countries. Globalization therefore provides opportunities to have access to large potential market and a broad base for acquisition of factors of production.

The global factors influencing entrepreneurial attitudes and opportunities.

1. **Global finance.** This involves funding from world bodies such as World Bank, IMF and other private funding organizations. An increase in global finance or funds stimulates individual's attitudes and creates opportunities for them to invest in different businesses thus increasing the level of entrepreneurship development. Similarly, decreased funding reduces individual attitude and creativity thus leading to low entrepreneurship development.
2. The level of global trade. an increase in global trade provides opportunities to different individuals to emerge as entrepreneurs. This is because of the different opportunities that come along with increased commercial activities. Such opportunities include increased foreign market, access to information and strong trade agreements. Similarly, a low volume

of global trade reduces opportunities available to individuals thus lowering their attitude towards entrepreneurship.

3. Nature global trade policy. A liberal economic policy encourages the emergence of entrepreneurs. The current global policy is to liberalize trade so as to enable individual interest or attitude and creates opportunities for them to invest but a restricted economic policy limits entrepreneur growth and development.
4. Level of market openness. Locally, Uganda's market is small. Never the less, the country has made considerable entry into the world market there by opening up chances for individuals to exploit the opportunities that come with the opened market, hence promoting entrepreneurship. Similarly a country with limited access to market openness creates less opportunities thus limiting entrepreneurial development.
5. Nature of the import policy. A favorable import policy regarding inputs encourages the development of entrepreneurship since individuals have got easy access to modern technology (plant and machinery), expertise (expatriates) and raw materials which are not domestically available. Uganda enjoys a favourable import policy by giving importers tax exemptions on plant and machinery and customs draw backs or VAT deferrals. But a restrictive import policy limits the level of development of entrepreneurship.

THE CONCEPT OF DEMOGRAPHIC ENVIRONMENT

Demography concerns the study of the population structure of a given country or society. It involves determining the population size, growth rate, family size, gender, marital status etc. the demographic environment is an important variable in enhancing entrepreneurship growth and development of a country since it forms a basis for most entrepreneurial activities.

The demographic factors influencing entrepreneurial attitudes and opportunities.

1. **Population size and growth rate.** A big population size and a high growth rate opens up opportunities such as accessibility to cheap labour, and a big market population there by stimulating individuals attitude towards entrepreneurship yet low population size and growth rate presents a challenge of limited quality labour and small market population thus discouraging the would be potential entrepreneurs to emerge.
2. **The level of education and experience.** A high level of education increases the entrepreneurs' alertness to spot and exploit business opportunities available to him or her. A high level of education especially in business related subjects encourages the development of one's personal skills such as negotiation skills, business management skills, networking etc which are very important in promoting development of entrepreneurship but a low level of education and experience leads to a low level of entrepreneurship growth and development.

NB: Uganda's situation tends to conflict with the above analysis i.e. the highly educated people are always analytical and risk averse compared to the less educated who are ever creative and risk taking. Hence most prominent business people in Uganda are the less educated.

3. **Income level.** A highly paid individual takes little interest in seeking alternative means of improving on his or her income and thus he or she is less creative and has low attitude towards entrepreneurship compared to a less paid individual who is always looking or searching for opportunities to increase his or her earnings. Thus he or she decides to venture into business leading to high level of entrepreneurship growth and development.
4. **Age structure.** The relatively young individuals have got the desire to venture into business and hence, they can easily succeed compared to the old individuals. Even then, the young have got less problems which are financially demanding and thus they can invest the little savings accumulated and develop a meaningful or successful business.
5. **Gender composition.** A society with more men than women is likely to have more entrepreneurial activities than the one whose female composition is large. This is because the males are adventurous and they have less fear for risks compared to the females who are critical, analytical, and risk fearing. Even then, the traditional belief regarding women denies them easy access to productive resources there by limiting their creativity and attitude towards business.
6. **Nature of family background.** Parents who are actively involved in business influences the future entrepreneurial intensions of their clan since they act as role models in the lives of then off springs. Hence individuals from such families are likely to develop a positive attitude towards business and entrepreneurship compared to their counter parts from families with a poor business background. Such families lead to low entrepreneurship growth and development.
7. **Family size.** Individuals coming from big / extended families are likely to develop entrepreneur attitude and exploit the opportunities available to them compared to their counterpart coming from small families. This is because such individuals are exposed to harsh living conditions and hence they turn to the environment for their survival. They start with petty business that can generate in big business establishments. But individuals from well off families lead to low entrepreneurship growth and development.
8. **Inheritance or succession.** Individuals who inherit the wealth of their parents have access to productive resources (social capital, human capital, financial capital) and hence they are encouraged to invest in different projects or business and develop into meaningful entrepreneurs e.g. Madhvani, Mukwano hence leading to a high level of entrepreneurship growth and development but individuals with no changes of succession have low levels of entrepreneurship growth.
9. **The changing family roles or responsibilities.** A change in one's family responsibilities determines the development of entrepreneurial attitude e.g. a married couple without children have got less responsibilities and hence they are less enterprising yet married couples with children and dependants are faced with several responsibilities and thus they are forced to look for opportunities in the environment for meaningful survival hence resorting to business.

SOCIAL ENTREPRNEURSHIP

This refers to the process of creating an innovative or social enterprise to make a positive and sustainable impact on society.

Social entrepreneurship involves identifying a social problem in society and using entrepreneurial skill to create a business aimed at solving the identified problem, so as to benefit society in general and the individual or innovators in particular.

A social entrepreneur therefore is an individual who identifies a social problem and uses entrepreneurial principles to organize resources to start and manage a business so as to create a positive social change in the society or community.

A social enterprise: This is a business established with the major purpose of solving or eliminating social problems in a particular society or community. They are not created to generate profits but to eliminate social hardships at a minimal cost.

A social problem in any happening or hardship which negatively affects the society as a whole not particular individual in a community. Examples of social herds may include refuge problem (wars), poor rubbish disposal, poor drainage systems, pollution, street children, prostitution diseases e.g. jiggers.

Social entrepreneurship is the creation of innovative enterprises to make positive and sustainable impact on society.

A social entrepreneur is some one who recognizes a social problem and uses entrepreneurial principles to organize, crate and manage a venture to make social change **or**

A social entrepreneur is an individual who identifies a social problem and uses entrepreneurial principles to organize resources to start and manage a business so as to create a positive social change in the society or community

KEY CONCEPTS IN SOCIAL ENTREPRENEURSHIP

Key Concepts in Social Entrepreneurship

- (i) **Positive.** Does the enterprise have a mission to crate positive social or environmental impact?
- (ii) **Innovative:** Is it an innovative enterprise that accomplishes its mission in a new and better way?
- (iii) **Impact:** Can the enterprise measure real impact created by its work?
- (iv) **Sustainable:** can the enterprise last because it renews its own resources or is the impact of the enterprise long lasting in a permanent system?
- (v) **Consumer:** Some body that consumes things by buying, eating, drinking or using them.
- (vi) **Empowerment:** to increase someone's power or ability, strength, and capacity to do something.

The Silent Features of Social Entrepreneurship

1. Decision making power is not based on capital ownership instead it is based on one's expertise and knowledge about the existing problem.
2. The mission of the enterprise is mainly to create and sustain social values.

3. It is mainly formed to benefit the society or community not individuals.
4. It is participatory i.e. it involves collective participation of all stake holders. Entrepreneurs of the community must work together to eliminate the existing social problem.
5. It involves innovation and adoption to the new environment being created.

The objectives of social entrepreneurship.

1. To improve on the standard of living by eliminating the different social problems through crating social enterprises which indirectly crate employment opportunities to social.
2. To generate new goods or services to community as a result of the social enterprise created.
3. To arouse individual participation in solving social problems that affects their society or community.
4. To increase creativity and innovation in solving social problems among the individuals in the society.
5. To forge unity among individuals of different backgrounds living in the same society e.g. immigrants, refugees, street children etc there by creating inter cultural competences.
6. To create wealth through improved investments.
7. To empower members of a particular society to improve on their lives.

The Features of Social Entrepreneurs

Social entrepreneurs have got the following basic characteristics;

1. Good listeners i.e. they listen and analyze the complaints of members of a particular society from which they generate business ideas.
2. They are visionary i.e. they always have a positive desire towards changing society positively by creating businesses that solve social problems.
3. They are ethical and principle centered i.e. they make decisions basing on the existing rules or ethical principles governing a particular society.
4. They have personal leadership i.e. they can easily influence others to work together to solve an existing social problem.
5. They are goal oriented i.e. they set SMART goals for society improvement.
6. They are a voice to the people i.e. they advocate for change before the government and international bodies.
7. Inspirational i.e. social entrepreneurs tend to inspire others to carry out activities for the benefit of society.
8. They are risk takers i.e. they normally take up businesses with moderate risks hence the chances of failing are very minimal.
9. Empowering. Social entrepreneurs believe in and use the potential of the people they help
10. Optimistic and flexible. Social entrepreneurs tolerate uncertainty, despite the changes, they are determined to succeed

The Steps Involved In Becoming a Social Entrepreneur

1. Have a vision i.e. determine what is to be done, how it is to be done and the impact it will cause to the community.
2. Identify opportunities in the community i.e. scan the environment to discover the different opportunities from which a social enterprise is selected.
3. Match the vision with opportunities available in consideration of the community's needs.
4. Act and spread the change.

The Type of Social Enterprises

As earlier noted, a social enterprise is a business established to deal with social problems existing in society so as to improve on the general welfare of a particular community. There are mainly three major forms of social enterprises namely;

- (i) **Non – profit making social enterprises**; these are established to purely give assistance to different members of the community i.e. their services are provided at no cost, hence, they mainly depend on donations from people of good will for their existence e.g. Sanyu babies home, plan international.

Features of non-profit making social enterprises

- Their end goal is to create a sustainable impact
- They are mainly established to cater for the vulnerable, disadvantaged and under served people
- They aim at achieving long term results
- They cater for social and environment benefits
- They aim at empowering people so as to achieve development
- They are established to achieve social, environmental and economic development

- (ii) **Profit making social enterprises**; These are formed to solve social problems at a minimal cost i.e. the beneficiaries are required to pay a small amount of money for the services being rendered e.g. Green environment (U) ltd, Nabugabo up deal.

Features of for profit enterprises

The following are features of profit enterprises

- They aim at maximizing profits
- Their impact to create new products/services
- They aim at satisfying customer needs
- Their target market is the potential buyers
- They are less concerned with social costs/problems
- They aim at developing specific groups of people i.e. the owners

- (iii) **Hybrid social enterprises**. This type of social enterprises has got characteristics of both profit and nonprofit making social enterprises.

The characteristics of social enterprises.

1. They are mainly formed to benefit the community where they operate from i.e. the major aim is to give social services to society rather than making profits.
2. They are majorly voluntary organizations especially at the time of their formation i.e. members work with a minimal payment or without any payment.
3. They strive towards achieving equality by creating equal opportunities to all individuals in society.
4. They always use entrepreneurial skills of the private sector to achieve a strong social mission of changing society.
5. Work organizations or distribution of tasks is based on the principle of equal participation by all stakeholders rather than fulfilling the shareholders or founder members' demands.
6. The organization normally strives towards honesty, integrity, humanity and enthusiasm aimed at creating a positive change in society.
7. There is effective communication both vertical and horizontal aimed at creating awareness of the operation of the organization both among the workers and the general society.

The merits of social enterprises.

1. Since they are community based, they can easily gain support and popularity hence minimizing the cost of publicity or advertising.
2. They promote capacity building in the community where they operate from through encouraging creativity and innovativeness.
3. They contribute to community building through offering practical solutions to the prevailing social problems.
4. They help to preserve the environment since most of their activities are environmentally sensitive.
5. They have the ability to raise capital through personal saving and donations from international social oriented establishments or organizations.

b (I) Benefits of social entrepreneurship include

- It creates sustainable impact on the society by addressing root causes of social problems
- It makes innovation that brings positive effects on people's life and work
- It leads to more sustainable infrastructure development
- It turns environmental threats into opportunities for profits and conservation of environment
- It creates employment opportunities
- It possesses a strong transformative force that generates new ideas to address major social problems
- It trains community members

(II) Examples of social enterprises include

- Heifer project (Uganda)
- Send a cow
- 'Kampala yange' cleaning project

- Nabugabo up deal project

3a) Characteristics of successful entrepreneurs in candidates/my community

- Personal leadership
- Ethical and principle centered
- Goal oriented and visionary
- Good listeners/good communication
- Risk taker
- Empowering
- Optimistic and flexibility
- Advocator
- Innovators/creative
- Hard working and committed
- Good time managers

NB: Point in plural a must

“should” can be used

b) Responsibilities of social entrepreneurs to the community

- Provide access to the educational facilities
- Provision of access to health services
- Provision of sustainable source of income
- Provision of employment
- Improvement of the quality of life of the people
- Reduce harmful effects/impact on the environment
- Improve infrastructures
- Facilitate changes in peoples thinking and attitudes from negative to positive living
- Equip the community members with survival skills/empowering people /training of the community
- Provide market for local products or products of the community
- Provide support for social services
- Encouraging unity and harmony in the community
- Utilizing the would be idle resources
- Teach the community to be innovative and creative
- Encourage people to identify business opportunities
- Preventing the end of something good/sustainability
- Creating a sustainable impact on the community
- Discovering vision, passion and skills/talents
- Increasing opportunities to the disadvantaged or vulnerable groups
- Contributing towards government revenue/paying taxes

c) Organizations that support entrepreneurs in Uganda

- Uganda National Chamber Of Commerce and Industry
- Uganda Manufactures Association (UMA)
- Business Uganda Development Scheme and Enterprise Support (BUDS-EDS)

- Uganda Investment Authority(UIA)
- Uganda Coffee Development Authority(UCDA)
- Uganda National Farmers' Association (UNFA)
- Capital Market Authority(CMA)
- Uganda Revenue Authority(URA)
- Private Sector Development Foundation (PSDF)
- Uganda Women's Entrepreneur Association Limited
- International Labour Organization(ILO)
- National Environment Management Authority(NEMA)
- Kampala City Traders Association (KASITA)
- Enterprise Uganda
- Educate Uganda
- Uganda National Bureau of Standards (UNBS)
- Uganda Tourism Board
- Support of Private Enterprise Expansion and Development (SPEED)
- Insurance Companies
- Kampala Capital City Authority (KCCA)
- Uganda Veterinary Association (UVA)
- Uganda OU Seeds Producers and Processors Association(OUSPA)
- Uganda Industrial Research Institute (UIRI)
- Uganda Cooperative Alliance Limited(UCA)
- Uganda Fish Processors and Exporters Association (UFFPEA)
- Uganda National Agro-inputs Dealers Association(UNADA)
- Uganda Tea Association(UTA)
- Uganda Pest Control Association
- Uganda Small Scale Industries Association(USSIA)
- Uganda Registration Service Bureau(URSB)
- Uganda National Beans Research and Development (UNBRD)
- United Nations Development Program (UNDP)
- Youth Empowerment and Development through Modernized Agriculture (YEDA-
AFRICA)
- Uganda Export Promotion Board(UEPB)
- Uganda Beef Producers Association (UBPA)

Services offered by the different support organizations to entrepreneurs in Uganda

- Advisory service e.g. NAADS etc.
- Financial support e.g. banks, microfinance
- Provision of insurance by insurance companies
- Identification and provision of investment opportunities e.g. UIA etc.
- Monitoring and evaluation of business activities e.g. UMA enterprise Uganda etc.
- Provision of entrepreneurship education and training of young entrepreneurs e.g. enterprise Uganda ,youth enterprise scheme
- Identification /provision of markets both local and foreign e.g. Uganda National Chambers of commerce and industry/provision of markets

- Networking among organizations and entrepreneurs/Aid information of Trade unions
- Sales promotion through trade fairs e.g. UMA, UNFA etc.
- Advocating/lobbying and encouraging investment e.g. by private sector foundation
- Observation of environment laws e.g. NEMA, NFA etc.
- Advice on tax matters e.g. URA, KACITA etc.
- Provision of jobs e.g. I.L.O
- Advising on quality standards e.g. UNBS etc.
- Mentoring entrepreneurs e.g. Enterprise Uganda
- Provision of research service
- Provision of incentives e.g. technical support
- Provision of transport services e.g. UTODA,UBOA,CAA,RVR,etc
- Rendering communicating services e.g. UCC
- Provision of legal services e.g. Uganda law security
- Rendering power/energy services e.g. solar Uganda, UMEME etc.
- Provision of water services to the business e.g. NW
- Construction of roads e.g. UNRA,RCC
- Provision of accommodation services e.g. Uganda Hoteliers Association
- Provision of health facilities e.g. TASA,NDA
- Provision of labour services to entrepreneurs e.g. I.L.O
- Provision of security services e.g. securiko Uganda, Uganda police
- Encouraging saving e.g. N.S.S.F,BRAC
- Provision of childcare services e.g. child care

Social entrepreneurship refers to the creation of innovative enterprises to make a positive and sustainable impact on society /environment

While

Social innovation refers to the establishment of new and better ways of accomplishing a social mission

(II) Elements of a social enterprise plan

- Introduction
- Theory of change
- The opportunity
- The innovation
- Management and operations
- Sustainability

2(a) Steps involved in the visionary approach

- Defining vision
- Examining your current reality/examining the current reality
- Identifying and acknowledging the gap
- Setting action steps to close the gap
- Identifying resources required
- Setting priorities

- Choosing who is accountable for what
- Getting committed from those people
- Agreeing on the start and end time

b) Social concern upon which social entrepreneurs emerge are;

- High levels of unemployment
- Extreme poverty
- Deteriorating health status/diseases
- Extreme illiteracy and disempowerment
- Excessive dumping of rubbish /garbage/improper waste disposal
- Production and /or discharge of non-biodegradable materials
- Irresponsible farming methods
- Pollution of all nature
- Deforestation and /or bush burning
- Food insecurity/famine
- Swamp reclamation/irresponsible use of wetlands
- Disrespect of human life
- Untapped talent/natural abilities of most people
- Extreme insecurity/social violence and tension
- Poor sanitation i.e. uncleared bushes, stagnant waters, lack of toilets etc.
- Dishonesty tendencies of society members that “give birth” to corruption and exploitation
- Social discrimination based on age,religion,race,tribe

The differences between social enterprises and business enterprises.

1. Social enterprises aim at creating a permanent positive social impact / change in the society where they operate from while business enterprises aim at profit maximization regardless of the nature of change the business will impact on the community.
2. Most social enterprises are of a hybrid nature (combination of profit and non profit) while most business enterprises are of purely profit motivated.
3. Social enterprises have great concern for the environment while business enterprises have less or no concern for the environment.
4. The major aims of social enterprises is to serve the vulnerable members the society while business enterprises aim at serving potential customers who are financially sound.
5. In social enterprises, there is partnership between the community and the enterprises while business enterprises aim at meeting the superior needs of consumers.

OPPORTUNITIES FOR SOCIAL ENTREPRENEURSHIP

- (i) Social investment funds. These pull together various sources of funding from donations or wealthy individuals, corporations, and banks to invest in social enterprises. They give out money which is paid back over time.

- (ii) Foundations. These generally provide grants (money that does not have to be paid back). They distribute start up grant. For new social enterprises e.g. the Asoka foundation and the skill foundation are two large global sources of funding.
- (iii) CBOs and NGOs. Community based organizations (CBOs) and non government organizations (NGOs) are organizations which do not earn profit, but have a special mission. They generally aim to improve social and economic conditions in what ever way they can.
- (iv) Government and embassies. Governments often provide policies, grants, technological support and other incentives to people who are working to positively impact society and the environment. Foreign embassies also often set aside funding for local solutions to local problems.
- (v) Social entrepreneurship as a career option. Social entrepreneurs face unlimited opportunities for creating a better world. In countries with high unemployment, it is an especially promising, career option for youth who do not want to join the long line of job seekers. There are new courses, online resources and job opportunities for social entrepreneurs.

Developing Goals and Action Steps

Long term goals: Are goals which are to be achieved in a long period of time i.e. more than one year.

Short term goals: Are goals that can be achieved in a short period of time i.e. less than a year.

Good goals are;	Good action steps are
<ul style="list-style-type: none"> - Specific - Measurable - Time bound - Challenging - Inspiring - Achievable 	<ul style="list-style-type: none"> - Produce a clear impact - Have clear start and end times - Are measured results or actions - Are simple - Are in a logical order - Further the progress towards delivering a goal

SOCIAL ENTERPRISE PLANNING

Personal experience, passion and enthusiasm are valuable but should not be the only factors considered in planning a social enterprise.

Social enterprise planning must include clearly identifying threats and opportunities in the community.

Structure of a social enterprise plan

1. (a) Introduction
 - (i) Title
 - (ii) Vision statement
 - (iii) Summary of enterprise
- (b) Theory of change
 - (i) Explanation of vision
 - (ii) Impact
 - (iii) Outcomes
 - (iv) Activities
 - (v) Inputs
- (c) The opportunity
 - (i) Impact areas
 - (ii) Current reality research
 - (iii) Impact potential
 - (iv) Resources and financials of the opportunity
- (d) The innovation
 - (i) Root cause analysis
 - (ii) Solution or product description
 - (iii) Innovation matrix
- (e) Management and operations
 - (i) Management roles and responsibilities
 - (ii) Delivery of products and operation of activities
 - (iii) Time line
 - (iv) Strategic partners
 - (v) Impact on society
- (f) Sustainability
 - (i) Budget
 - (ii) Start up funding strategy
 - (iii) Renewal of resources or profit making
 - (iv) Profit management

Steps in identifying opportunities.

1	2	3	4
Define impact	Research current	- Brain storm	- List resource and

People, animals, plants, place.	reality - Assets - Threat to vision - Problems / needs - Recent changes - Current problems - Solutions / products	- Impact potential - Ways to build on assets - Ways to spread impact - Root cause of problems - Ways to innovate	finances - Resource - Requirements - Available resources - Profit potentials - Use of renewable resources
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Theory of change

It starts with the end goal i.e. to end poverty, Ebola and then work your way backwards to accomplish your theory of change.

- (i) Vision: Long term ultimate goal
- (ii) Impact: What are the long term results of your activities? Being able to measure the outcomes is important i.e. the number of people cured or employed.
- (iii) Impact: what are the long term results of your activities? How do your results lead to the accomplishment of the vision? Does it address a root cause or support something related to the vision that is necessary for its achievement? E.g. increasing farming technology leads to better crops which lead to the achievement of the vision to end.
- (iv) Outcomes. What will be the direct results of your activities? Being able to measure outcome is important.

Community resources

Threats to community development include dependency, discrimination and dishonesty.

Dependency: is a state of needing to rely on some body or something for help or support, especially financial support. These are two key causes of dependency ignorance and inequality.

Ignorance is a lack of information or knowledge inequality is when one group has different wealth, privileges, rights, status and opportunities compared to others.

Without enough information and similar information community members can become dependent on those with information and power to know what is right and make decisions.

Discrimination: Is the unfair treatment of one person or group usually because of judgments about their place and family of birth, age, religion, gender, income level or physical and mental ability.

Discrimination is a major threat to community development because it prevents the entire community from developing by excluding certain groups or individuals. The excluded groups and individuals do not have the same wealth, privileges, rights, status and opportunities compared to others. It also leads to apathy where people do not care to change things and feel powerless to do so.

Dishonesty. Is the use of lies or misleading words and actions? Is a serious threat to community development because it is the basis for competition and exploitation?

Corruption: is when people who are in charge of community resources abuse their powers and position to redirect the resources to themselves or their partners for private benefits.

Exploitation: Is to take selfish or unfair advantage of a person or situation, usually for personal gain. If individuals benefit privately, then the community as a whole cannot access those resources for developments.

Strategies of social enterprises

There are hundreds of ways for social entrepreneurs to positively impact community development. The following are the three most common strategies for community development that are used by social entrepreneurs around the world.

- (i) Increasing access to good and services. Basic goods and services include food, health, housing, safety, waste management and education. This strategy of increasing goods and services does not involved inventing something new but involves allowing more people access to what is already available to others. There are many barriers for vulnerable, disadvantaged and poor people to access the most basic goods and services e.g. limited stand availability, distance to access points, high costs and inappropriate packaging of the goods and services.
- (ii) Increasing knowledge through education and awareness. Knowledge is power. Without education and awareness, people can be left behind, taken advantage of or ill prepared to live in and understand the dangers and opportunities of their environment. For example increased awareness of diseases such as HIV / AIDS gives people the knowledge to avoid transmission / recognize the symptoms and seek proper treatment.
- (iii) Increasing opportunities are created. If these opportunities are not available to certain groups or individuals, the result is inequality, social tension and poverty. Having opportunities to work and earn a fair wage is important to members of every community.

Environmental threats caused by unsustainable use of natural resources

- Deforestation.
- Pollution of air, noise and water.
- Degradation of land.

- Displacement of animals, people, insects, etc. due to land conversion i.e. loss of bio diversity
- Over exploitation of resources.
- Swamp and wet land reclamation
- Depletion of resources
- Poor health.
- Vibrations e.g. cracks in buildings.
- Global warming / destruction of the ozone layer.
- Moral decay.

(b) Measures of minimizing environmental threats caused by unsustainable use of resources.

- Setting environmental standards to be observed by the businesses.
- Recycling used products.
- Undertaking compulsory environment impact assessment of all new businesses.
- Conserving sources of raw materials through re-afforestation
- Looking for alternative packaging materials such paper bags that are not bio degradable
- Ensuring proper garbage disposal through construction of proper disposal grounds.
- Conserving the soil through terracing planting of trees and other types of cover plants.
- Looking for alternative sources of power for instance bio gas instead of firewood.
- Avoiding use of chemicals which are dangerous to plants, animals and human life.
- Undertaking regular self-environment assessments.
- Using silent machines and tools such as generators.
- Providing workers in businesses with protective equipment like masks and nose sponges to protect them against gasses and exhaust fumes

SMALL AND MEDIUM ENTERPRISES

Introduction to Micro, Small and Medium Enterprises

According to the **European Commission**, a **medium enterprise** is an enterprise which employs fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or whose annual balance sheet total does not exceed EUR 43 million.

Features of a medium enterprise

- They are well established with permanent premises
- They operate using advanced technology
- Their sales volume is slightly higher
- They require a lot of capital to be started
- They produce for both local and foreign markets
- They carry out specialization
- They produce in large quantities

A **small enterprise** is an enterprise which employs fewer than 50 persons and whose annual turnover and / or annual balance sheet total does not exceed EUR 10 million

Features of small scale enterprises

- They mainly employ family labour
- They require little capital to start compared to large enterprises
- Their sales volume is higher than that of micro business
- They use simple technology in their production operations

A **micro enterprise** is one which employs fewer than 10 persons and whose annual turnover and / or annual balance sheet total does not exceed EUR 2 million.

Features of micro businesses

- They require very little capital to be started
- They always employ services of their owners with assistance of family members
- They may not need fixed premises to operate
- They require very simple technology to operate
- They may not need to be registered before they start but at times they obtain operating licenses
- Their sales volume is low

Uganda Investments Authority, on the other hand, defines **micro enterprise** as an enterprise employing a maximum of 4 people, with annual sales turnover of maximum shs 12 million and total asset of maximum shs 12 millions.

A **small enterprise** is one employing a maximum of 50 people, with annual sales turnover of maximum shs 360 million and total assets of maximum shs 360 M

A **medium enterprise** employs more than 50 people, with annual sales turnover of more than 360 million and total assets of more than shs 360 million.

For the case of Uganda, we shall consider the second definition of the micro, small and medium enterprises.

FACTORS THAT INFLUENCE/DETERMINE/AFFECT THE SIZE OF THE ENTERPRISE

The following are the factors determining the size of the market:

The availability of factors of production e.g. capital, labour, land etc. adequate supply of factors of production enables enterprises to operate on a large scale thus expanding the size or becoming large in size compared to inadequate supply of factors of production which limits the expansion of enterprises thus remaining small in size

Market size available. A large market size helps enterprises to expand easily since they produce large volume of output to serve / satisfy the existing market thus becoming large in size. But a small market size limits enterprises to expand since they produce only what is demanded thus remaining small in size

Objectives of the enterprise. Enterprises whose objectives are to operate on a large scale and expand their market share are big in size compared to enterprises whose objectives are to operate on a small scale and just attain long run survival. Such enterprises are small in size

Freedom of entry into the industry/nature of the market structure in which the enterprise is operating. Free entry and exit into the industry enables a enterprise to expand easily due to existence of supplementary enterprises which facilitate activities of the main enterprise but limited/ blocked entry into the industry limits enterprises from expanding hence remaining small in size

The level of technology used. Enterprises that employed advanced technology produce on a large scale thus expanding easily. However, enterprises that employ rudimentary/traditional technology produce less output and remain small in size

The level of management. Good quality management favours enterprises to operate on a large scale due to clear objectives and policies set and implemented. But enterprises with poor quality management dominated by unskilled and inexperienced administration remain small in size

The possibility of merging. Merging of enterprises leads to easy expansion of the enterprise thus becoming big in size compared to limited possibility of merging/enterprises combining with other enterprises. This makes the existing enterprises to remain small in size

Nature of the output produced by the enterprise. A enterprise that produce high quality products has high demand for its products thus it is very easy for it to become large in size compared to a enterprise that produces low quality products, such a enterprise tend to remain small in size

The period the enterprise has stayed in production. usually enterprises that have long period of operation are large in size due to economies of scale compare to enterprises that are at their infancy stage of production which are small in size

Government policy on industrialization. Favourable government policy on industrialization say subsidization of enterprises and low taxes levied enables enterprises to expand easily thus becoming large in size. But unfavourable government policy towards industrial development like high taxation and no subsidies at all limits enterprises to expand thus remaining small in size

Questions

Explain the factors that influence the size of the enterprise

Advantages of small scale enterprises

Qtn: What are the advantages of small scale enterprises in your country?

- ✓ They enjoy easy decision making, this is because small scale enterprises have few departments and they are less affected by bureaucracy in decision making. The process of making decisions is short and simple.
- ✓ They require limited capital to start, Small scale enterprises need less fixed assets and money capital to start. They are easily started by people with limited income.
- ✓ They pay less tax to government; the government sets lower tax rates for small scale enterprises so as to promote their growth. Therefore, the low taxes paid enable the entrepreneurs to raise more commercial profits for expansion.
- ✓ They have more personal contact with the clients, Small scale enterprises bring the owners of the enterprises close to the buyers. This creates a good relationship between the two parties and it improves the customer retention.
- ✓ They promote specialization
- ✓ They use simple tools
- ✓ They are very flexible
- ✓ They provide market for raw materials to large scale enterprises
- ✓ They are easy to manage and control
- ✓ They do not suffer from diseconomies of scale
- ✓ They provide market for people's produce
- ✓ They provide goods and services to people

Qtn: 1 a) **Distinguish between micro enterprise and medium enterprise.**

b) **Assess the role of small scale enterprises in the development of your country.**

Positive roles of small scale enterprises

- Creation of many job opportunities in the country. This stimulates their income levels hence improving on standards of living
- Training ground for local entrepreneurs hence promoting self sufficiency in the country
- Increasing on the GDP and national income of the country by producing many goods and services. Hence promoting economic growth and development

- Encouraging the development of infrastructure/promotion of infrastructure development e.g. the road net-work and storage facilities, power supply since they facilitate business activities
- Reducing income inequalities in the country. Small and medium enterprises enable low income earners to set up their own businesses and get employed in them
- Promoting/promotion of technological development. Small and medium enterprises act as a basis for the development of indigenous technology like iron smelting, pottery etc (they promote innovation and invention). Which in the long run lead to technological development
- Producing/production of affordable goods and services for the poor and this improve the well being of the poor.
- Improving on the balance of payment position of the country through promoting exports and reducing importation of commodities
- Promoting economic diversification. Small and medium enterprises engage in a variety of goods and services hence reducing the danger of relying on home line production
- Enabling workers to acquire practical skills. This improves on labour efficiency and productivity
- Provision of government revenue through taxes. This enables the government to extend social services to its people
- Promoting self sufficiency or self sustenance. Since many people are employed in their own businesses
- Creation of backward and forward linkages. This leads to leads to balanced growth and development since each sector supports the other
- Utilizing/utilization of the would be idle resources in the country. This accelerates economic growth and development
- Widening consumers' choice since they produce a variety of goods and services
- Reducing regional imbalance in economic development since many small and medium enterprises are scattered in all most all parts of the country
- Provision of market for other people's produce. Employees of small and medium enterprises buy consumer goods from the local communities

Negative role

- They worsen congestion in semi-urban areas
- They waste resources through unnecessary competition
- They have a limited contribution to employment
- They under utilize the locally available resources
- They cause pollution which reduces the quality of life
- They have a low contribution to government revenue
- They produce poor quality goods.

CHALLENGES FACING SMALL AND MEDIUM ENTERPRISES

FORMAL AND INFORMAL BUSINESS

Formal businesses. These are businesses that are registered with the registrar of companies. For a person to start such a business, he/ she must be aware of the licenses, labour laws, taxes and permits required to avoid breaking the country's laws and regulations.

Advantages

- They are legally recognized
- They are properly organized
- It is easy to get a loan from financial institutions
- They usually have a sound base for further growth and development

They are reliable and somehow permanent so it is easy to get skilled resources.

Disadvantages

They are always governed by laws and rigid regulations

Informal businesses

These are businesses that are not registered though they may have licenses. People with such businesses do not pay taxes nor do they adhere to government regulations.

Advantages

- They lead to first employment generation
- They form a basis of initiating new industries
- They are adoptable to changes
- They are easy to start so most people can run them on a full or part time basis.

Disadvantages

- They are not legally recognized
- They are not always reliable as profit making enterprises.
- They do not have clear access to loans from financial institutions.
- They do not comply with social security regulations.

Advantages and Disadvantages of S.M.E.S (Small and Medium Enterprises)

- They tap available resources.
- Decision making is easy.
- They require less capital to start than large enterprises do.
- They have low operation costs.
- They can be located anywhere including rural areas.
- They can be easily transferred from one area to another.

- They are a source of employment to families, especially since they employ family labour.
- They sell their goods nearer to customers.

Disadvantages

- They do not enjoy economies of scale.
- They often produce low quality products.
- It is not easy for them to obtain a loan from the bank.
- They easily collapse as soon as the owner dies.
- They may not compete favorably with large enterprises.
- They have no access to sufficient raw materials.
- They normally have poor infrastructure.
- They frequently suffer from customer changing tastes and preferences.
- They lack skilled manpower to manage the business.
- They have limited storage facilities especially for perishable goods.

SUCCESS IN BUSINESS

Success refers to achieving the set goals, targets and objectives for the expansion and survival of the business. Or it is the realization of a worth intension

INDICATORS OF A SUCESSFUL BUSINESS

These are signs which show that a given business is successful

- Increased assets e.g. buildings, vehicles etc
- Increased profits. This shows that the business is successful because it is the major aim of carrying it out
- Expansion of the business. A successful business is the one whose market share, number of workers and quality of goods has increased
- Recognition of the business in the community
- Improvement in technology
- High level of organization

FACTORS THAT LEAD TO SUCCESS IN BUSINESS

- Good personal entrepreneurial qualities. These are qualities that are possessed by entrepreneurs and managers that help in running a business successfully for example hardworking, creativity etc
- Setting clear objectives
- Efficient and effective business planning
- Availability of skilled labour
- Availability of adequate market
- Proper location of the business
- Production of good quality products
- Favourable government policies

- Proper management of business funds
- Adequate capital
- Good customer care

Examine the factors influencing the success of businesses in your country

Reasons for high rate of failure of small and medium enterprises in Uganda.

Business failure is the last stage of an organization's life cycle. There are however, key factors that if not avoided may be certain to weigh down a business:-

1. **Poor location.** A bad location leads to collapse of the business because it makes it inaccessible to customers leading to low market
2. **Over expansion or Rapid expansion.** This happens when business owners confuse success with how fast they can expand their businesses. It causes bankruptcies in the business hence its failure.
3. **Choosing a business that is not profitable.** This causes business failure because even though you generate lots of activities, the profit, never materializes to the extent necessary to sustain the business
4. **Inadequate cash receives/inadequate capital.** This makes it difficult for the business to buy the necessary facilities needed to carry out production activities for example skilled labour, modern machines,, raw materials etc
5. **Failure to clearly define and understand the business market. Failure by an entrepreneur to determine his/her** customers, and their buying habits. This makes them to go businesses that serve their needs hence business failure
6. **Failure to price the business products or services correctly.** This leads to losses in the business hence its failure
7. **Failure to adequately anticipate cash flow/un controlled credits.** Most of small and medium enterprises are just starting out, and suppliers require quick payment for inventory yet they normally sell their products on credit. This makes them collapse in long run
8. **Poor record keeping in many small and medium enterprises.** This makes it difficult to determine whether the business is performing well or not hence leading to its failure
9. **Poor customer care.** Poor customer care forces them away from the business hence leading to its collapse due to absence of market
10. **(xi)Neglect of the business.** Many owners of small and medium enterprises give their businesses very little time and attention. This promotes absenteeism of employees in the business hence contributing to its collapse
11. **Failure to anticipate or react to competition, technology or other changes in the market place.** This makes many small enterprises to collapse because they are out

competed by well established large enterprises that respond rapidly to new demand patterns

12. **Over dependence on a single customer.** Most of the small and medium enterprises have one customer so big that losing them would mean closing up the shop, and this leads to business failure because it is unstable
13. **Poor management.** This involves growing beyond management resources or skills, poor handling of employees, misuse of business funds and to decide on the skills necessary in the business
14. **Poor and low quality products.** Products that do not satisfy customers' wants are not bought thus leading to failure of medium enterprises that produce such products
15. **Unconducive government policies** like taxes. These reduce profits of small scale enterprises hence making them fail to survive in the long run
16. **Inadequate or ill-timed financing.** It is caused by mistaking like securing the wrong type of financing, miscalculating the amount required or underestimating the cost of borrowing money.
17. **Death of owners.** This leads to failure of many small and medium enterprises since owners perform all the activities in the business. This makes it difficult for successors to continue with such businesses

Suggested solutions to the High Rate of failure of small and medium enterprises in Uganda

The following items should assist in the improvement of chances for success. **Use by/through** at the beginning of each point

1. **Through starting a business for good reasons.** Entrepreneurs should have love and passion for their businesses, physically fit and possess the needed mental stamina, should have determination, patience and a positive attitude so as to run successful businesses
2. **Through practicing good management** A successful manager is also a good leader who creates a warm climate that encourages productivity. He should be with skills of hiring competent people, training them and able to delegate. He is able to make a vision a reality and skilled at strategic thinking.
3. **Through proper planning.** This involves ascertaining how much the business requires, availability of funds. Planning must be based on realistic and accurate current information and indicated projections for the future. Therefore it is important to prepare a business plan.
4. **Production of good quality product.** This enables the business to satisfy the needs of its customers
5. **Through proper handling of customers.** This creates customer brand loyalty hence increasing sales and profits of the business
6. **Through proper location and plan layout.** This makes the business accessible to customers and suppliers thus leading to its success
7. **Avoiding over –expansion.** Expansion of the business should be done after careful review, research and analyzing so as to avoid
8. **By encouraging the government to provide subsidies to owners of small scale enterprises and to charge low taxes to enable them make profits**

9. *Training of employees and family members the daily routine of the business so as to avoid failure after the death of the owner*
10. *Through reducing on credits given to customers and by borrowing to only trust worthy customers so as to avoid bad debts*
11. *By tightening security* in the business to reduce theft among employees and from outside the business

S.6 NOTES

PRODUCTION MANAGEMENT

Introduction to production management

Production management. it refers to the process of effectively planning and regulating the operations of the production part of the enterprise to ensure efficiency and effectiveness in the transformation process of materials or inputs or is the process of planning for production and ensuring that production plans are put into effective operation.

There are a number of production aspects that must be carefully considered which include the following:

Below are some of the questions to guide your production management decisions:

1. The production processes
2. The concept of a product
3. Business premises and location
4. Raw materials and their acquisition
5. Technology and technical aspects of the production process (Choice of technology)
6. Labor requirements
7. The work place management
8. The plant lay out
9. Packaging
10. Utilities/ support services
11. Production costs
12. Quality control and management
13. Inventory management
14. Stages of product growth and development

15. Purchasing skills

16. Time management

The above aspects will help you to answer the following questions:

- i. What kind of product will you make?
- ii. Does the kind of product depend on customer wants?
- iii. Does the kind of product depend on the skills you have or can hire?
- iv. To what extent is quality important?
- v. Does the quality depend upon raw materials?
- vi. Does the quality depend upon men and/ or equipment?
- vii. How will you control the quality of your product?
- viii. How much should you spend for high quality?
- ix. How much should you produce?
- x. Does volume depend upon present market demand?
- xi. How much inventory can you afford to carry?
- xii. What equipment is required?
- xiii. Is it cheaper to use equipment or labour? What mix of equipment and labor is most economical?
- xiv. How should lay out your plant?
- xv. Will better lay out mean more production? Will a carefully planned plant layout increase production
- xvi. How can work methods be improved?
- xvii. How much does it cost to produce the product at different production volumes?
- xviii. What are the production costs for raw materials, labor and overhead?
- xix. Is the selling price highly dependant on production costs?
- xx. What price should you sell your product?

Type of product or service to be produced

A product is a good or service produced from the raw materials that is intended for sale. A business can offer both goods and services

A service is a type of economic activity that is intangible, is not stored and does not result in ownership. For example accounting, banking, cleaning, consultancy, education, insurance, expertise, medical treatment etc

Capacity planning and design

Capacity planning and design focuses on the factors and operational ingredients needed to produce the targeted number of units of a product or service

These factors include

- i. Physical capacity needed
- ii. The equipment and tools required
- iii. The amount of labor demanded
- iv. The time projected to produce the total number of products or services
- v. The amount of raw materials and supplies needed

For example, consider the production of a table by a small manufacturer using basic hand tools. Capacity assumptions might be as follows

Speed needed: a 6.1mx6.1m room

Equipment: saws, lather, tables, planes, chisels, hammers etc

Labor: one worker producing one table per day

Time: one table per day from his worker

Raw materials: wood, glue, nails, dowels, storage, materials handling, and support systems for raw materials and finished products

NB. The management of production operations involves turning inputs into outputs to satisfy customer tastes and preferences, needs and wants

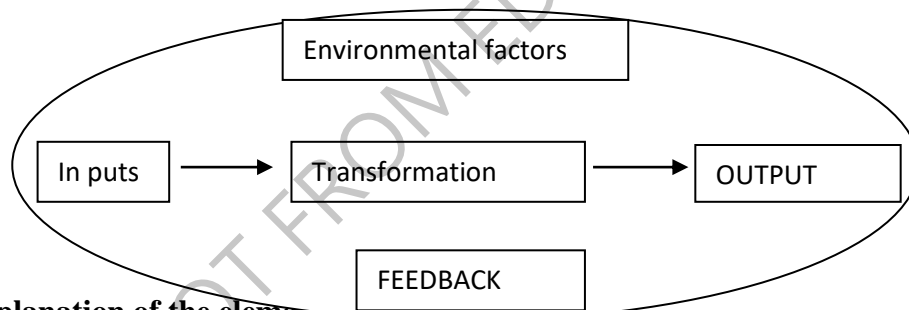
Every business must find a way to convert inputs with added value, into something the customer will buy the number of units/services to be produced by the business should be based on the market share and nature of demand for the business product (s)

PRODUCTION PROCESS

1. Production process

This refers to the steps involved in the production of goods and services. Or it is the process through which production inputs are transformed into finished goods and services. They are activities done during the process of producing a particular product; such activities include acquiring inputs and transforming them into outputs

Illustration of the production process



Explanation of the elements

The inputs

These are factors of production that must be put in place in order to produce particular products and they include, land, capital, labour or human resource information

Land

This is a source of raw materials used in the production process like minerals, agricultural products, water etc

Capital

This consists of tools, machines, equipment, or already produced goods that are used to produce other goods.

Labour (human resource)

These are human efforts used in the production process in terms of people with the required skills

Information

This refers to the feedback about the input that is given to make sure that quality and cost effectiveness at all stages is observed.

Time

This is the period within which the input is given to be transformed into output

FACTORS CONSIDERED WHEN SELECTING INPUTS

These include:

1. **Quality of inputs.** An entrepreneur should acquire inputs of a good quality in order to produce good quality outputs or products.
2. **Cost of the inputs.** An entrepreneur should acquire inputs that are relatively cheap so as to maximize profits, and charge a reasonable charge for his or her outputs.
3. **Source or availability of inputs.** An entrepreneur should choose a source of inputs that is reliable and available at all times.
4. **Lead time.** This refers to how long it takes to receive the inputs ordered for.

TRANSFORMATION PROCESS

This is the process of changing inputs or raw materials into finished goods or services that are more valuable than the inputs like producing maize flour out of maize, producing cloth out of cotton.

The output (Products)

These are final goods and services produced from the raw materials used by the final consumer e.g. sugar, clothes, maize flour, tea from tea leaves, wheat flour from wheat. etc. a product is a good or service produced from raw materials intended for sale

A service is an intangible benefit with a monetary value that satisfies the needs of customers while a good is an intangible item that satisfies the needs customers

Factors considered when designing a product

1. **Customer's needs.** The manufacturer or entrepreneur should design the product in response to the customer's needs in terms of shape, colour, design and packaging materials.
2. **The products of competitors and competing products.** The entrepreneur should decide where his or her products will be liked or better than those of the competitors.
3. **Availability of raw materials.** The entrepreneur or manufacturer should consider the availability of raw materials for making or designing the product at reasonable costs so as to live long for the business to make profits.

4. **Government policy towards the quality of the product.** The manufacturer or entrepreneur should make or design or product that meets the set standards of regulatory bodies like UNBS, NEMA and other government policies.
5. **Lifespan / shelf life / duration.** An entrepreneur should consider the lifespan of his or her products so that the materials used in making them can fit in the desired time of the products before their consumption.
6. **Nature of the target market.** An entrepreneur should consider the type of customers to whom he or she expects to sell the products i.e. their age, gender, income bracket, interest etc.
7. **Desired weight / volume of the product.** The manufacturer or entrepreneur should consider the expected weight of the products and choose raw materials that would be able to meet the desired weight.

Elements of a product

These are features, characteristics or attributes that make a product different from others. These include the following:

1. **Branding.** It refers to the giving of a name, mark, symbol or design to a product to make it different from other similar products of other manufactures or competitors
2. **Description.** This may either be the product name or how it can be referred to as, which helps the customers to distinguish it from other products
3. **Quality.** Is the ability of a product to satisfy the needs of customers. Difference in quality makes a product unique from others
4. **Competitions.** This involves producing a product different from the entrepreneur's competing products
5. **Complements.** These are products that are jointly demanded (used) for example tooth paste and tooth brush,
6. **Substitutes.** These are products that serve the same purpose with the company's products. An entrepreneur should look at such products in terms of quality, colour, size, shape its

Feed back

This is the message or information the business gets about the production process like the quality or inputs and outputs from the public so as to meet the needs of customers. This feedback can be on:

- The quality of inputs or out puts
- Flexibility of the production process to meet the changing needs of customers
- Reliability of the production process for example delivery of inputs to the firm and final goods to the market
- Costs associated with the production process

Environmental factors

These are external factors that affect decisions in the production process like competitors, changes in the customers' tastes, and preferences, availability of capital or financial services etc as discussed below

- Competitors. These are businesses that produce similar products. These influence the entrepreneur in making production decisions by producing almost the same product or different from the competing products
- Business support services for example financial services. Adequate support services encourage the entrepreneur to produce but absence of support services limits production decisions
- Changes in customers' tastes and preferences. Change in customer's tastes and preferences. These influence the entrepreneur on the choice of the production process because of the need to produce products that satisfy customer wants
- Government policy towards quality standards of the product, taxes, interest rate etc. This influences the choice of an entrepreneur on the production process to use. It should be in line with the government policy
- Changes in natural environment. These affect businesses that depend on natural environment in terms of raw materials, climatic conditions etc. favourable changes encourage production but unfavourable changes discourage production

It involves carrying out the following activities.

- Carrying out market research
- Developing a product idea
- Translating a product idea into product design.
- Acquiring raw materials
- Carrying out actual production while observing quality standards.
- Packaging the product
- Branding the product
- Storing the product
- Distinguishing the product
- Making a follow up with customers to find out how the product is performing in the market.
- Making any improvements required.

FACTORS AFFECTING PRODUCTION DECISIONS

- i) **Facilities and organization.** Readily available facilities required to produce and sell the product stimulate production decisions but scarcity of such facilities hinder production decisions.
- ii) **Sales potential.** This involves asking questions like how much, why and when will your customers buy. Buying goods in large quantities by customers promote production decisions, but low volume of sales limit production decisions.
- iii) **Costs.** High costs of production limit production decisions since they make it difficult to sell the products at a reasonable price. But low costs of production encourage production decisions because it allows the entrepreneur to set a reasonable price.

- iv) **Sales promotion and growth.** Effective sales promotion increases the volume of sales and stimulates production decisions. But ineffective sales promotion limits production decisions.
- v) **Money requirements.** Adequate financial requirements like initial investments, working capital, etc stimulate production decisions but inadequate financial requirements like working capital limit production n decisions like business expansion.
- vi) **Labor requirements.** Adequate skilled labour encourages production decisions to produce good quality products that increase business sales. But inadequate skilled manpower limits production decisions. It also involves determining training programs and sources of getting the needed employees.
- vii) **Supply sources.** This involves determining the type of raw materials and components, suppliers, quantity and quality. Readily available Readily available raw materials and of good quality as well as at a reasonable price accelerate production decisions but inadequate raw materials of poor quality and high price hinders production decisions.
- viii) **Transportation.** This involves determining how to handle raw materials and finished goods, transportation costs, etc.
- ix) **Acceptance by community.** This involves the general feeling of the population about business operations and their support. Good feeling of the community and support favors production decisions, but bad community feeling and lack of support from the community hinders production decisions.
- x) **Legal requirements.** This involves getting licenses, etc. Favorable legal requirements promote production decisions but unfavorable legal requirements like lengthy procedures limit production decisions.

Questions:

1. Under what circumstances may an entrepreneur fail to implement production decisions in an enterprise?
2. Explain the factors that limit an entrepreneur from implementing production decisions.

Business location

BUSINESS PREMISES AND LOCATION

Business location refers to the setting up of a particular business in a particular area. Many entrepreneurs prefer to place their business near customers, and where costs of production are low.

Premises refer to buildings, workshops or ware houses used fro business operations.

FACTORS CONSIDERED WHEN CHOOSING A SITE OF PREMISES OF THE BUSINESS.

1. Accessibility to good transport and communication facilitates. The site should be accessible, that should be well connected to transport net work, where buyers can be able to avail themselves with products, whenever the need arises.
2. Enough room for expansion. An entrepreneur should be able to fore last the rate at which his or her business shall expand and should get a site with enough space.

3. Security. The place where business products are made should be secure to ensure their safety and the life of the entrepreneur.
4. The cost of the place. The chosen site should be relatively cheap compared to the business set up so as to allow or enable the owner to maximize profits.
5. Presence of market. The entrepreneur should create his or her business premises in a place where there is available market (reliable) or where the customers are located to make it easy for them to access the business.
6. Government policies on allocation of enterprises. An entrepreneur should locate his business in a place or site that is legally accepted by the government
7. Nearness to the source of raw materials. Businesses should be located in places near their sources of raw materials, so as to reduce on the transport costs.
8. Availability of adequate human resources, or labour, businesses should be set up in sites or places where there is adequate labour to run the production and other business processes.
9. Nearness to power or electricity. An entrepreneur should choose a site with power to provide light and to be used by machines in the production process.
10. Availability of adequate support services. An entrepreneur should choose a site with enough business support services, like; banking, insurance extra.
11. Nearness to source of water. An entrepreneur should choose site with access to water, because it's used in cooling machines, as an input and for washing raw materials as well as being used by the workers for drinking, cooking, bathing, cleaning premises etc.

REVISION QUESTIONS

- (a) Distinguish between a business premise and location of a business.
- (b) Explain the factors an entrepreneur should consider while locating business premises
- (c) Explain the factors that limit an entrepreneur from choosing a particular site for his or her business.

RAW MATERIALS

These refer to the basic materials from which products are made through a transformation process.

Raw materials may be natural or artificial. Examples of natural raw materials include; cotton for cloth, timber for furniture, clay for bricks, and artificial raw materials include nylon, chemicals, plastics, paper, colours etc.

FACTORS CONSIDERED WHEN SELECTING RAW MATERIALS

1. The location of materials. An entrepreneur should select raw materials that are nearer to the business to reduce transportation costs.
2. Cost of raw materials. Raw materials that are cheap and affordable to enable the entrepreneur accumulate profits.
3. Quality of raw materials. An entrepreneur should select materials of a high quality so as to produce high quality products.
4. The terms of purchase. An entrepreneur should select raw materials that are from suppliers who offer favourable terms of purchase, like giving discounts, credit facilities etc.
5. Lead time. It refers to how long the supplier takes to deliver the raw materials. A supplier with the shortest lead time would be preferred.
6. Availability and reliability. An entrepreneur should check whether the raw materials are reliable such that they are available whenever he or she needs them.
7. Risk of damage. An entrepreneur should select raw materials that are at least likely to get damaged, hence reducing losses in the business.
8. Amount of waste. Entrepreneur raw materials that produce as little waste as possible.
9. Amount of units or raw materials used per production cycle. An entrepreneur should select raw materials that yield fast to produce more output than the used inputs in the production process.
10. Amount of raw materials to be maintained in the inventory. The goods produced are sold off immediately. An entrepreneur may store raw materials for continuous production to meet the customers' needs. However, if the rate of sale to the goods produced is low; then fewer raw materials.

Revision questions

- (a) Distinguish between raw materials and the output.
- (b) What are the factors that determine raw materials to use in the production process?
- (c) Explain the factors that limit an entrepreneur from selecting a certain type of raw material (s).

PROCEDURES/PROCESS/STEPS TAKEN IN ORDERING GOODS OR SERVICES FROM SUPPLIERS

Entrepreneurs should follow specific procedures when purchasing goods, materials and equipment from suppliers. Such procedures include the following;

STEP 1; Determining business needs; This is done through conducting market surveys to know your customer and the products they want.

- Customer needs help to determine;
- Materials and equipment the business will need to produce goods for sale to customers.
- Finished goods to buy from suppliers for resale to customers.
- Amount of each product to buy as inventory.
- Price to pay for quantities of goods purchased from suppliers.
- Specific goods and materials needed to be received from suppliers.

STEP 2; Identifying potential suppliers. An entrepreneur can determine the suppliers who sell the good materials or equipment by;

- Asking his/her business friends, the people who work with you and other suppliers competitors use.
- Contacting organizations that support small businesses e.g. the local chamber of commerce may identify honest and reliable suppliers.
- Reviewing newspapers, magazines, trade journals, and businesses in the telephone directory for names and addresses of potential suppliers.
- Determining the goods, materials or equipment each supplier has to sell and the prices, discounts, credit and delivery service they provide.
- Determining the reliability of each supplier.

STEP 3; contacting the supplier. This can be done by visiting the suppliers' office personally or using cost effective communication means. Each potential supplier should provide written information to the entrepreneur regarding the kinds of goods, materials or equipment they can provide.

- Specific questions include;
- Does the supplier have what you need in the qualities and quantities you need?
- What is the smallest quantity you can purchase?
- Do you need to pay cash or can you get credit?
- How much credit can you get and how soon do you need to pay it back?
- Will you get discounts if you buy large quantities or pay quickly?
- How much discount can you get?
- How soon after the order is placed will they deliver?
- Do you have to pay for transport or is delivery free?

- NB; The supplier must provide a response to your questions in writing (quotation)

STEP 4; selecting the best suppliers. An entrepreneur compares the quotations received from various suppliers to determine what each of the different customers can offer. A quotation is a written response to the letter of inquiry to the supplier. In a quotation, the supplier provides the entrepreneur with detailed information about the goods, materials or equipments, prices, payment, delivery and any other conditions related to your order.

The entrepreneur chooses the best supplier depending on the conditions and priorities like credit, price, discounts, reliability, etc.

STEP 5; ordering goods. An entrepreneur orders the goods through writing, putting into consideration the smallest quantity you can order, how much is there in each bulk package, etc.

STEP 6; checking the goods as soon as they are received. A supplier usually sends a delivery note with the goods or materials and signs it as a proof that the goods have been received.

Some suppliers send an invoice instead of a delivery note which lists the goods bought, where and how (cash, cheque) the supplier is to be paid.

An entrepreneur should check to ensure that everything ordered has been received on time.

STEP 7; Making sure that the invoice is correct. If an entrepreneur is buying on credit, compare the invoice with the delivery note. An entrepreneur should make sure that he/she has received everything she/he is asked to pay for and that the prices and totals are correct.

If the invoice is not clear, notify the supplier immediately.

STEP 8; Making the payment to the supplier by cash or cheque. Make sure that you get a receipt so, there is proof of payment.

PURCHASING MANAGEMENT SKILLS

Purchasing refers to obtaining items or materials for the business firm in the right time, quality, price, quality, quantity and from the right source

- **For trading businesses, purchasing involves the following activities:**
- Determining the needs(goods) of a business in respect to the quantities and quality
- Checking on where the goods can be sourced from and ordering for them
- Receiving and checking the delivered goods
- Storing the goods
- Paying for the goods

PRINCIPLES OF PURCHASING

The main principles of effective procurement/sourcing of materials in business may include the following:

1. **Right quality:** The right quality of any item comprises the features and characteristics which are relevant to its ability to meet a given need
2. **Right quantity:** the right quantity of purchases made depends on the level of stock an entrepreneur wants to maintain, availability of finance, the consumption rate etc
3. **Right price.** The price charged should be in line with the quality specifications
4. **Right time.** This involves considering the lead time of the supplier, the place of buying materials and the mode of transport
5. **Right place.** Raw materials should be kept near the firm or work place in order to minimize transportation costs and time

Requirement of a business

The following are the requirements of a business:

- Machinery, tools and equipment
- Raw materials
- Utilities
- Goods for sale

Nb. The above requirements can be categorized into:

Fixed assets. These are items which render services to the business for very many production cycles or periods. Examples include machinery, land, buildings, furniture, motor vehicles etc

Current assets. These are items which are used up in the course of the production as inputs in order to produce output e.g. raw materials, fuel, labour etc

FACTORS THAT INFLUENCE THE CHOICE OF SUPPLIERS

The following are the factors influencing the choice of suppliers: -

1. Terms and conditions of payment. Different suppliers have different terms and conditions for example some sale on cash basis only, some supply on credit basis only while some supply on installment payment, some give discounts etc. entrepreneurs normally buy from suppliers with favourable terms and conditions
2. Lead time and the distance between the supplier and the business. Entrepreneurs normally choose suppliers whose lead time and distance are short.

3. Quantity required by the entrepreneur. Entrepreneurs choose suppliers with the required capacity so as to maintain continuous production
4. Consistency and reliability of the supplier. Entrepreneurs choose suppliers who are able to supply the required goods whenever they are required
5. Sources of goods to be purchased. Entrepreneurs consider the source from where raw materials are produced or purchased because sometimes they influence the quality of products
6. Prices of other suppliers. Entrepreneurs normally buy from low cost suppliers but with high quality raw materials
7. Quality of the products of the supplier. Entrepreneurs buy from suppliers with good quality raw materials to meet the expected standards of customers
8. Communication with the supplier. Entrepreneurs consider suppliers who can be easily accessible with clear communication means
9. Taxes and regulatory procedures in the purchase and delivery of goods. Entrepreneurs look for sources where low taxes are charged for example goods from East African member countries
10. Mode and terms of delivery of goods. Some entrepreneurs choose suppliers that deliver raw materials up to the final destination/ their business premises

ORDERING FOR GOODS AND SERVICES

Ordering for goods and services can either be done verbally or through writing. Ordering for goods through writing involves drafting documents at each stage in the ordering process. The ordering process begins with identification of the goods and services that are required in a business and thereafter, steps that can be taken include the following

Step1. Making inquiries

- This involves sending inquiries to possible suppliers about the goods and services available for sale and the terms and conditions of sale or payment.
- Inquiries can be made orally or in writing by way of sending letters of inquiry by phone call, using messengers who reach the suppliers' place.

Letter of inquiry.

Is a letter written to the supplier by the buyer requesting to be informed about goods available for sale, terms and conditions of sale and the prices for the goods.

Example of letter of inquiry.

GOOD PRICE STATIONERY LIMITED, P.O. BOX 112, MITYANA. TEL. 0778223344					
<div style="border: 1px solid black; display: inline-block; padding: 5px 20px;">LETTER OF INQUIRY</div>	ENQUIRY NO.12345 24/03/2002				
<p>THE SALES MANAGER</p> <p>UGANDA BOOKSHOP LTD</p> <p>P.O.BOX 290, KAMPALA.</p> <p>Dear sir,</p> <p>Please quote us your price, terms of payment and terms of delivery for the following items</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 80%;">Quantity</th> <th style="text-align: left; width: 20%;">Description</th> </tr> </thead> <tbody> <tr> <td>10 boxes</td> <td>Blue pens</td> </tr> </tbody> </table> <p>Yours faithfully,</p> <p>.....</p> <p>Mr. Pipeline</p> <p>Purchasing Manager.</p>		Quantity	Description	10 boxes	Blue pens
Quantity	Description				
10 boxes	Blue pens				

STEP II –REPLY TO THE LETTER OF INQUIRY/ QUOTATION

Once a potential supplier receives an inquiry, he/she will respond by giving his/her quotations in which he will state his/her prices, specifications of the products to be supplied, lead time, warranties, payment terms and conditions. Therefore,

A quotation

Is a statement or letter prepared and sent by the potential supplier to the buyer stating information about the things inquired about in the inquiry sent by the buyer such as.....

It may also be accompanied by categories, price lists, product samples, etc.

A price list is a list of items sold by the supplier with their respective prices.

A catalogue is a booklet which briefly describes each item offered for sale, often carries illustrations of the items and therefore more information than a price list. **AN Example of a quotation**

UGANDA BOOKSHOP PO BOX 290' KAMPALA			
TO; GOOD PRICE STATIONERY LTD, PO BOX 111 MITYANA TEL 0778223311			DATE.....
<div style="border: 1px solid black; display: inline-block; padding: 5px 10px;">QUOTATIO</div>			
SUBJECT; QUOTATION NO. 122			
In reply to your letter of inquiry date...., we have the pleasure to send you our quotation as shown in the information below			
Quantity	Description	Unit Price	Total price
-	-	-	-
-	-	-	-
Delivery: Two weeks from date of receipt of your purchase order and 50% deposit payment.			
Payment; 50% purchase order, 50% balance on delivery with full purchase price			
Cash discount: 2%			
We look forward to receiving your order			
Sales Manager.			

STEP (III) preparing a purchasing order.

Having recorded all the necessary information in the quotation the entrepreneur may now proceed to making a purchasing order

A purchase order.

Is a document issued by the entrepreneur /enterprise to the supplier whose quotation is the most acceptable requesting to be supplied with the goods and services specified there in as

regards quantity, quality, description, price and place of delivery. It can be made orally, verbally, by phone call.

EXAMPLES OF A PURCHASE ORDER

GOODS PRICE STATIONARY LTD			
P.O BOX 111 MITYANA TEL 0707575787			
PURCHASE ORDER			
TO: The Sales Manager Uganda bookshop p.o box 290, Kampala,			
Dear sir,			
Please supply us with the following goods			
Quality	Description	Unit price	total price
—			
—			
—			
Delivery date			
Packing; Separate			
Enclosed is our cheque no .072472 shs for shs 2000000 being payment			
7.5% DEPOSIT			
Yours faithfully			
.....			
Purchasing officer			

STEP IV_GOODS DELIVERY

After the supplier planning the purchase order from their buyer, he will then supply/deliver the goods/ items order for, or buyer/entrepreneur may collect them in his own van or they can be transported using public transporters.

At this point a good delivery note should be prepared by the seller and should accompany the goods supplied and its name, size, colour, mode of transport used.

The entrepreneur or buyer should cross check the goods delivered and after studying the terms and conditions sign the delivery note acknowledging receipt of the goods and then send it back to the supplier.

Example of a delivery note.

UGANDA BOOKSHOP			
PO BOX 290, KAMPALA			
DELIVERY NOTE			DATE.....
DELIVERY NOTE NO.			
TO; Good price stationery ltd			
Po box111, Mityana			
Tel. 077823344			
Please receive the following:-			
Quality	Description	unit price	total price
Description/Delivered by.....			
All received in goods conclusion.....			
Signed by			
For M/S.....			

STEP V INVOICING

After delivering goods and receiving the delivery note signed by the buyer the amount by preparing an invoice i.e. when goods have been brought on credit.

An invoice is a document prepared and sent to a purchaser by the goods supplied to him on credit.

It serves as notification to the buyer of their amount due and also evidence of debt due to the seller who also uses it for accounting or book keeping purposes.

An invoice contains the following information: -

- A brief description of the goods supplied to the entrepreneur or buyer.
- Total cost of the goods supplied.
- Any discount allowed if any either trade discount or quality discount.
- Net amount payable.
- Length of the credit period allowed
- Cash discount offered.

ESOC This abbreviation stands for errors and omissions expected meaning that the seller reserved the right to correct an invoice should errors be discovered in it at a later date.

Examples of an invoice.

AN EXAMPLE OF AN INVOICE

Uganda Book shop ltd P.o Box 290, Kampala,			
<div style="border: 1px solid black; padding: 5px; display: inline-block;">AN INVOICE</div>			
Invoice no			
To Goods price stationary ltd Po box 111, Mityana Tel. 0777886553			
Quality	description	Unit price	Total price
—			
—			
Delivery; free.			
Terms of payment; 75% with purchase order and 50% balance on delivery with full purchase price			
Cash discount; 2%			
Issued by.....			
Signed by.....			
Title.....			
Goods received by.....			
I/we undertake to comply with the invoice terms and conditions and fully liable for the commodities as stipulated in this invoice.			
Signed by.....			
Title.....			

NB. In case of goods bought on cash basis, the invoice is not used but instead a cash receipt is prepared and given to the buyer as evidence of payment for the goods bought.

RECEIVING GOODS AND SERVICES PURCHASED

This is the process of receiving goods and services purchased by the enterprise and delivered by the supplier. In receiving goods and services purchased, the entrepreneur **should do the following**;

- Check the quantity and quality of goods and services against the purchase order to make sure that goods that have been delivered are of the right quality quantity as ordered for.
- Check the delivery document or note against the purchase order for accuracy to ensure that what is recorded is what has been received and that the prices quoted are the prices that were agreed upon.
- Check for damages to ensure that goods that got damaged during the transportation process are excluded and replaced by the supplier.
- Deliveries found unacceptable because they don't fit the description of the goods ordered for or because they are damaged or the terms and conditions differ from those agreed upon should be rejected.

OTHER DOCUMENTS USED WHEN PURCHASING GOODS AND SERVICES.

Proforma invoice;

This is a document similar to an ordinary invoice except that;

It is a document issued by the seller to an aspiring new customer indicating the terms and conditions under which the goods and services are to be supplied and asking the customer to make payment for the goods before they are dispatched.

It is normally used in the following circumstances.

- i. When the seller does not intend to offer credit facilities to the buyer
- ii. When goods ordered for are in small quantities for which the seller cannot give on credit.
- iii. When samples have been sent together with the quotation, the proforma invoice is used to request the buyer for the samples in case he/she is not willing to buy.
- iv. When goods are sent to the buyer on buy or return basis

DEBT NOTE.

This is a document sent by the seller to the buyer in order to correct an overcharge in the invoice and it informs the buyer that he has been credited by the seller i.e. relieved of paying the amount of overcharge in the invoice.

A credit note may be sent under the following circumstances;

- i. When any wrong quantities of goods i.e. goods of poor quality or wrong description are sent to the buyer and the buyer returns them to the seller.
- ii. When there is damage on the goods delivered to the buyer and the buyer returns them to the seller
- iii. When there is arithmetic error of wrong addition on the invoice causing overcharge
- iv. When some packaging materials previously included in the price charged are returned by the buyer to the seller
- v. When goods not ordered for are sent to the buyer by the seller and the buyer returns them.

CREDIT NOTE. This is a document sent by the seller to the buyer in order to correct an under charge in the invoice and inform the buyer that he/she has been debited by the seller.

The debt note is sent to the buyer under the following circumstances.

- When more goods than what the buyer ordered for are delivered.
- When wrong prices and in this case lower prices than the agreed prices were charged or due to wrong addition leading to under charging of the customer.
- When some items that were delivered to the buyer are omitted from the invoice.

Receipt

This is a document issued by the seller acknowledging payment by the buyer for the goods and services supplied to him/her.

Example of a cash receipt.

UGANDA BOOK SHOP LTD	
P.O BOX 290	
DATE.....	
CASH RECEIPT	
CASH RECEIPT NO.224	
Received from	
Shillings.....	
Amount.....	
Being in words.....	
Being payment for.....	
Signed by.....	
Thank you	

BUSINESS CONTRACTS

A contract is an understanding between two or more persons to perform an agreed transaction basing on agreed terms and conditions

OR

Is an agreement or a promise made between two parties which is legally binding or enforceable by law where by each party agrees to take part in the contract as stipulated.

TYPES OF CONTRACTS

1. **Oral contracts.** These are contracts in which parties agree to deal with each other without writing down anything.
2. **Written contracts.** These are contracts written and signed by both parties and also witnessed by a third party. Examples of written contracts may include sales agreements, service provision agreements, appointment letters etc.
3. **Unilateral.** These are contracts in which only one party is bound e.g. in cases where a person offers to rewards anyone who will recover his or her lost property.
4. **Bilateral contract.** These are contracts in which both parties are bound with contractual obligations which they must fulfill e.g. where the seller agrees to sale his or her commodity and the buyer agrees to buy it at an agreed price and agrees to complete payment in an agreed period of time.
5. **Contract of records.** This is a contract that consists of court judgment formed by entry on the court records and the rights and obligations of the parties are put on court records.
6. **Executed contracts.** These are contracts when both parties to the contract have completely performed their share of the contractual obligations and nothing remains to be done by either parties

ELEMENTS/ESSENTIALS/ REQUIREMENTS FOR A VALID CONTRACT.

A contract will only be valid if its content satisfies all the relevant requirements of a valid contract prescribed by law. **The essentials or elements of valid contracts include;**

1. **Offer and acceptance.** This means that the two parties must lawfully come to acceptance leading to a valid contract. Offer refers to the terms and conditions set by one party to the contract to the other as being his or her dealing position while acceptance is the agreeing to the terms and conditions set by the other part to whom the offer was made.
2. **Lawful consideration/price.** Consideration is a price agreed upon by the parties to the contract and paid by one party for the benefit received or the promise of the other party. A valid contact must have a price i.e. both parties must pay something for something in monetary terms.

3. **Intention to create a legal relationship.** For an agreement to be an abiding contract, the parties must be intended to attain legal implications i.e. if the contract is broken, the innocent party will be able to use the law for the breach.
4. **Capacity of the parties.** The parties to the contract must have contractual capacity for a contract to be valid i.e. must be above 18 years of age, must be of a sound and sober mind.
5. **Certainty.** The terms of the contract must be clear and understandable for a contract to be valid.
6. **Free consent.** For a contract to be valid, it must be entered into freely and voluntarily. Therefore, there must be no undue influence in making the contract.
7. **Legality and lawful object.** A contract will only be valid if the law provides that such agreements are legal. The purpose of the agreement must be legal and not contrary to the law and public policy.
8. **Possibility of performance.** A contract must be capable of performance to be raised and enforceable by law. In case the contract is impossible in itself either physically or legally then it is not legal.

WAYS OF TERMINATING THE CONTRACT OR DISCHARGE OF A CONTRACT OR TERMINATION OF A CONTRACT.

A contract can be discharged by:

1. **Performance.** If the contract is fulfilled as per the agreed terms and conditions that is a contract is discharged when each party to it has performed to the full satisfaction of the other in accordance with the agreed terms and conditions.
2. **Agreement.** If parties concerned agree to discharge it then, can equally bring it to an end in the same manner.
3. **Frustration.** If one of the parties fails to meet its obligations, the contract is discharged due to frustration e.g. if the subject matter is destroyed or in case of death or incapability of one of the parties.
4. **Breach.** If either of the parties to the contract fails or refuses to perform according to the agreed terms and conditions of the contract then he or she has breached the contract.
5. **By expiry/lapse of time.** When the time for which the contract is meant to run expires.
6. **Operation of the law.** If there is lapse of time, death, substitutions or bankruptcy of one or both of the concerned parties.
 - It can also be terminated by courts of law under the following cases:
 - In case of bankruptcy of one party
 - If the contract is declared illegal
 - In case one of the parties to the contract is a minor
 - In case of substitutions i.e. when a new contract has replaced the old one

UNDER WHAT CIRCUMSTANCES CONTRACTS MAY BE TERMINATED.

1. When the parties agree to terminate it
2. When it is frustrated by the parties
3. When one party breaches it
4. When the contract is fulfilled as per the agreed terms of conditions
5. If there is death, lapse of time or bankruptcy of one of the parties.

IMPORTANCE OF MAKING CONTRACTS

- It creates a good working relationship between the parties
- They reduce losses in business –Encourages hard work
- It enables enterprises to get ready supply of inputs /stock.
- It makes the parties involved responsible
- It ensures a reliable market for the business products
- Teaches people to be trustworthy in business
- Sources of revenue to the government i.e. those which involve cash

Revision questions

- (a) Distinguish between offer and acceptance as used in contracts.
- (b) Explain the elements of a valid contract
- (c) Under what circumstances may the contract be terminated
- (d) Explain the importance of contracts in business
- (e) Explain the ways of terminating a contract
- (f) What factors can lead to frustration of contract.

BUSINESS LAWS IN UGANDA.

There are various forms of business laws relating to businesses in Uganda and these include the following.

- **The Weights and Measures Law.** This is a business law that ensures that entrepreneurs use the recommended weighting scales and measurements when selling goods to customers. The weights and measures law is enforced by the government of Uganda (UNBS)
- **The Food and Drugs Act.** This is a business law by the government through the Ministry of health and the National Drug Authority and such licenses will only be given when the condition set by the foods and drugs Act are satisfied for example there must be the drugs dispenser is a licensed pharmacist.
- **The public Health Law.** This is a business law that checks on the standards of hygiene in different public places for instance in hotels, restaurants, bars, schools, clinics, etc. Under this law, the ministry of health through its representatives is expected to check standards of hygiene in such places by sending them to inspect business premises and they may close business which do not meet the required standards. The public health law also enforces rules and regulations on building and drainage in different business.,

- **Consumer Protection law.** Under this law, the government protects the consumer are of the acceptable standards in term as of quantity, quality and price. It is also meant to ensure that producers give correct information about their products.
- **The Environment Law (National Environment Statute).** This is a business law implemented by the government through the National Environment Management Authority (NEMA) to ensure that business the environment in a sustainable way so that the business activities will not cause effect to the public and the environment it therefore provides for.
 - 1) Maintain ace and preservation of the environment,
 - 2) Protection of some areas of environmental concern like swamps and wet lands,
 - 3) Controlling the effects of the premises or development of the environment.
- **The Land Act.** This law that provides for tenure, ownership and management of land and of provides for four categories of land ownership in Uganda i.e. free hold ownership. Lease hold ownership, customary and mailo land ownership.
- **The Employees/Workers Protection Act (Employment Act).** Under this law, the government protects the workers from being exploited by way ensuring that the salaries and wages paid to workers are genuine and that the terms and conditions of services work are favorable.
- **The Trade Licensing Act.** This is a business law that requires all business to obtain the trading license before starting operation. The trade licensing Act empowers the Local Administration Authorities to impose and collect trade license fee from business.
- **The Business Name Registration Act (Company Law).** This law provides for registration of business enterprises carrying out business under different names from those of their owners.

Relevancies of business laws described in (a) above.

- The company law helps in the registration of the business
- The business name and registration Act protects the business names that help entrepreneurs to establish strong brand in the market.
- The land act helps in solving the disputes and avoiding land conflicts while operating the business.
- The foods and drugs Act protects Consumers from consuming expired drugs and food staffs
- The public health law ensures that there is proper hygiene and sanitation I public places such as hotels, entertainment place etc.
- The environment law protects the environment from being miss-used and over exploited by ensuring that the business operates within the laid down regulations
- The consumer protection law protects consumers against exploitation by business men through over charging and providing wrong information about goods.
- The licensing Act is a source of revenue to the government fees

- The weights and measures act protects consumers from being cheated by businessmen through selling underweight goods.

TECHNOLOGY AND TECHNOLOGICAL SKILLS

This basically deals with the choice of the technology or machinery used in the production process. It includes; machinery, tools, and equipment

Machinery, tools and equipment

Machinery. Refers to a group of machines in general that gets work done.

A machine refers to a device in which each part works together with the other to perform an action, like; a washing machine, counting machines, sewing machines etc.

Equipment refers to the things needed to do some work like office computers, cash counters etc.

Tools are any instruments or apparatus like, axes, hammers, or spades which are held in the hands to do some work.

They are used to transform raw materials into finished goods

FACTORS CONSIDERED WHEN SELECTING MACHINERY, TOOLS, AND EQUIPMENT IN THE PRODUCTION PROCESS

The following are the factors considered when selecting machinery in an enterprise.

1. The initial cost of the equipment and machinery. An enterprise should choose tools and machines or equipment that are of a low cost and affordable so as to reduce production costs.
2. The capacity of tools, machinery, and equipment. This refers to the units of output a machine can produce in a given period of time. An entrepreneur should choose machinery that can produce the required capacity (higher capacity)
3. Maintenance and repair costs. An entrepreneur should choose machines with low maintenance and repair costs to allow him or her make profits. Such machines should have spare parts and repair services available.
4. Flexibility for adjustment in relation to consumers' changing tastes and preferences. Machines, tools and equipment that are flexible should be chosen to meet customers' demands.
5. Availability of other required equipment to operate the machines. An entrepreneur should choose tools, machines, or equipment whose supplementary machines are readily available, like for computers, when printers and ink are available.
6. Durability/life span of the machinery and equipment. Durable and long-lasting equipment or machines should be selected to reduce on the cost of replacing machinery.
7. Productivity and efficiency of machinery and equipment. This should be considered because efficient machines produce high level of output and of good quality, in the shortest period of time possible.
8. Guarantee given by the manufacturer. Entrepreneurs choose machines whose efficiency, durability, maintenance and safety devices are guaranteed by the manufacturer.
9. Ease and simplicity in the use of machines. Machinery tools, and equipment which are easy and simple to use as proposed to difficult ones.

10. Complexity of the task to be done. This enables an entrepreneur to choose machines that can perform the required activities effectively
11. Sources of machinery and equipment. Reliable sources are preferred by most entrepreneurs since they allow continuous production in an enterprise

Qn: Define the following terms:

- Machinery
- Equipment
- Tools

Qn: Explain the factors considered when selecting machinery in an enterprise.

Explain the factors limiting entrepreneurs from using certain machines and equipment

Under what circumstances may an entrepreneur fail to use a certain type machines and equipment?

CHOICE OF TECHNOLOGY AND DEVELOPMENT

Technology refers to the skills, knowledge and procedures of making, using and doing productive activities. It also refers to the methods of production that involve the use of applied science in form of production in order to increase the productivity of a country's resources or

TYPES OF TECHNOLOGY

- a) Capital intensive technology (labor saving technology)
- b) Intermediate technology
- c) Appropriate technology
- d) Technology transfer and development

The choice of techniques of production in LDCs depends on: relative price i.e. price of labor Vs price of capital, availability of technology, employment creation, level of development of the country, benefits and problems of the technology

CAPITAL INTENSIVE TECHNOLOGY (LABOR SAVING TECHNOLOGY)

Is a method of production that uses proportionately more capital than other factors of production particularly labor in the production process

ARGUMENTS FOR CAPITAL INTENSIVE (ADVANTAGES/MERITS/POSITIVE IMPLICATIONS)

1. It increases the productivity of other factors of production like labor thus increasing the volume of goods and services in the economy it minimizes chances of labor strikes thus reducing the possibility of destruction of property
2. It increases the level of capital accumulation due to greater savings. This is because amount spent on wages is low leading to more profits for re-investment thus accumulating more capital
3. It minimizes the costs of employing and maintaining very many workers thus reducing the costs of production and selling goods at relatively cheaper price
4. It leads to development of skills among the workers as it requires training of labor to use the complicated machinery
5. It facilitates technology transfer and development which help LDCs to improve on the quality of output and quantity

6. It produces high quality products which can compete favorably on the international market thus fetching more foreign exchange
7. It facilitates the development of infrastructure for example roads, power supply, storage facilities since its implementation necessitates so
8. It is time saving thus insuring adequate supply of commodities whenever they are needed
9. It helps in transformation of an economy from dominantly agriculture economy to industrial oriented one since it promotes the manufacturing
10. In the long run it increases the level of employment opportunities since it increases the level of savings and investments in the economy. Thus, expanding the scale of operation
11. Economies of scale are enjoyed in form of reduced average cost due to large scale production

DISADVANTAGES OF CAPITAL INTENSIVE TECHNOLOGY

1. It causes technological unemployment as many workers lose their jobs when they are replaced by machines
2. It requires high skilled man power which is scarce in LDCs due to low levels of education and poor education system
3. It increases the problem of external dependence in the economy since it requires the importation of expensive capital goods like spare parts, computers etc. this may worsen the BOP problem in LDCs
4. The small market in LDCs can hardly sustain the high levels of output. This implies wastage of resources by producing a lot of commodities which are not consumed
5. It increases the problem of income inequality in the economy between those who can afford the strategy and the majority poor who still use rudimentary production method
6. It is expensive since it involves high initial costs to install the machines and high maintenance costs.
7. It may lead to depletion of resources due to over exploitation hence making the future generation vulnerable to scarcity of resources
8. It involves high social costs such as pollution of air and water, noise etc. this results in diseases like cancer leading to low standards of living
9. It encourages profit repatriation since it is mainly employed by foreigners who have capital to buy machines
10. It is inappropriate in activities where human judgment is important for example harvesting since employing it in such activities may reduce the quality of output produced
11. It leads to rural urban migration since it is mainly applied in urban centers leaving rural areas undeveloped. This results in congestion, open urban unemployment etc

LABOR INTENSIVE TECHNOLOGY (CAPITAL SAVING)

This is a production method which uses proportionately more labor than capital in production. It is suitable in countries that have more labor than capital

ARGUMENTS/ADVANTAGES OF LABOR INTENSIVE TECHNOLOGY (CAPITAL SAVING)

1. It provides employment to the majority of the population particularly the unskilled and semi skilled labor. Thus, improving peoples' standards of living
2. It provides a fair income distribution amongst the majority since many people are actively involved in income generating activity. This reduces social unrest in the country

3. It is relatively cheap and easily adopted. It requires simple tools which can even be locally produced and abundant supply of unskilled and semiskilled labor in LDCs
4. It reduces rural urban migration since it is more suitable in rural areas where agriculture is mainly carried out thus making rural people employed
5. It saves a country's foreign exchange as it requires simple tools which are less costly and can be produced at home
6. Labor intensive technology encourages development of craftsmanship in workers which is a basis for industrialization
7. It increases aggregate demand in an economy since every body has access to income thus widening the market for local produce
8. It reduces external dependence since it does not require high skilled manpower implying that LDCs can easily utilize their local human resource thus stabilizing the BOP position
9. It widens the tax base due to many people being employed using labor intensive technology. This enables the government to extend social services to its people
10. It is the most suitable technique in the dominant agricultural sector, since it is applicable at almost all levels

DISADVANTAGES/ ARGUMENTS AGAINST LABOR INTENSIVE (CAPITAL SAVING TECHNOLOGY)

1. It may be very expensive in the long run in terms of high wages and other benefits which lead to high costs of production. Thus, discouraging investment
2. It produces low quality products due to less standardization. This leads to difficulty in getting market for the commodity
3. It leads to low levels of output as a result of inefficiency created in the production process. This retards the process of economic growth and development
4. The risks of strikes and labor unrest are very high since more labor is employed. The many workers can easily organize themselves and strike in case of any misunderstanding
5. It requires close supervision of the workers which may be costly
6. It hardly provides jobs to the educated since it does not employ so many skilled personnel in the production process
7. It worsens the BOP problem in LDCs due to increased importation of capital goods and spare parts from MDCs.
8. Labor intensive wastes a lot of time and this results into failure to respond to rapid structural changes
9. It may discourage foreign investors familiar with operating heavy industries

INTERMEDIATE TECHNOLOGY

Refers to a production method which is neither capital nor labor intensive. It is neither too advanced nor too primitive

FEATURES OF INTERMEDIATE TECHNOLOGY

- ❖ It uses both labor and capital in fair proportions
- ❖ It should optimally utilize the available local resources
- ❖ It should lead to a balanced regional development and greater dispersion of industries
- ❖ It must be capable of being easily adopted into existing plans

WAYS OF OBTAINING INTERMEDIATE TECHNOLOGY

Upgrading the existing traditional technology

Degrading the advantaged technology

Entirely develop intermediate technology without basing on existing ones

MERITS OF INTERMEDIATE TECHNOLOGY

1. It creates more employment opportunities in LDCs since it strikes the balance between labor and capital-intensive technology. This improves on people's standards of living
2. It reduces the cost of urbanization by creating rural based industries like congestion, development of slums, high crime rates etc
3. It reduces inequality in development and income between the rural and urban areas since it is relatively cheap and affordable by many people. It also strikes the balance between labor intensive and capital intensive
4. It is relatively cheap and therefore affordable by LDCs since it does not require sophisticated skills
5. It reduces rural-urban migration with it's associated like high crime rates, congestion, development of slums etc problems since it is rural based technology
6. It leads to development of skills, inventions and innovations which creates a technological base for LDCs
7. It leads to better resource utilization since it is based on local resources
8. It promotes and facilitates the development of local small-scale industries distributed all over the country
9. It saves the scarce foreign exchange since it uses locally available resources thus reducing external dependence

DISADVANTAGES OF INTERMEDIATE TECHNOLOGY

1. It is difficult to obtain it because it is hard to up grade sine people may be reluctant to learn new methods of production
2. It requires research and investment especially where it involves the development of new machinery
3. The technology is only applicable on a limited range of industries such as grain milling, bakery
4. Production of inferior goods or poor-quality goods
5. It requires some capital which is lacking in LDCs

APPROPRIATE TECHNOLOGY

Refers to the method of production which is socially, economically and technologically suitable for a given country in terms of available resources and development requirements

FEATURES OF APPROPRIATE TECHNOLOGY

- i. It is simple. For technology to be considered appropriate, it must be simple to operate. The user must be able to apply it without encountering problems.
- ii. It is effective. Effectiveness of technology is judged by how well it fits in with the objectives of the users.
- iii. It is readily available. It must be readily available locally.
- iv. It is flexible. It must be flexible enough to adapt to changing times in the future.
- v. It is durable. Technology that is durable requires less maintenance and repairs.
- vi. It is efficient. It should be efficient in its utilization of local resources.
- vii. It is cost effective. The cost of technology should be justified by the benefits achieved. The overall benefits should be greater than the cost of the technology.

ELEMENTS/ESSENTIALS OF APPROPRIATE TECHNOLOGY

The following are elements of appropriate technology

- i. Simplicity. For technology to be considered appropriate, it must be simple to operate. The user must be able to apply it without encountering problems.
- ii. Effectiveness. Effectiveness of technology is judged by how well it fits in with the objectives of the users.
- iii. Availability. It must be readily available locally.
- iv. Flexibility. It must be flexible enough to adapt to changing times in the future.
- v. Durability. Appropriate technology should be durable with less maintenance and repairs.
- vi. Efficient. It should be efficient in its utilization of local resources.
- vii. Cost effective. The cost of technology should be justified by the benefits achieved. The overall benefits should be greater than the cost of the technology.

Appropriate technology refers to technology relevant to the needs of the localities.

Factors influencing the choice of technology

1. **Plant capacity:** this is defined in two ways
 - **Feasible normal capacity** refers to the capacity attainable under normal working conditions which may be established on the basis of the installed capacity, technical conditions of the plant, normal stoppage etc.
 - **Normal maximum capacity:** this is the capacity which is technically attainable and often corresponds to the installed capacity guaranteed by the supplier of the plant.
 - **Feasible normal plant capacity.** This refers to the volume or number of units that can be manufactured during a given period.
 - **Normal maximum plant capacity.** Is the capacity which is technically attainable and this often corresponds to the installed capacity guaranteed by the supplier of the plant
2. **Technological requirement.** For many industrial projects particularly in processing industries, there is a certain minimum economic size determined by the technological factor e.g. a cement plant should have a capacity of at least 300 tones per day.
3. **Input constraints:** such as power supply fluctuation, scarcity of basic raw materials and inadequate foreign exchange for inputs.
4. **Investment cost:** the initial cost of the technology is a major factor determining the choice of technology since investment cost per unit of capacity decreases as the plant capacity increases. Large initial investment limits the entrepreneur's choice that a particular technology
5. **Market conditions.** A large market for the product requires a plant of a higher capacity. But a small market requires a smaller capacity.
6. **Resources of the business/enterprise:** the resources managerial and financial available to a business define a limit to its capacity decision. If resources are readily available, a business can employ advanced technology.
7. **Government policy on technology.** Favourable government policy regarding issuing license and approval for its technology but unfavourable (restrictive government policy may) limit the enterprise from using a given type of technology.
8. **Availability of spare parts.** Entrepreneurs usually prefer to use technology whose spare parts are readily available to that whose spare parts are scarce.

- 9. Skilled manpower requirement.** The technology to be used is determined by the availability of skilled manpower to operate it. If the manpower is available and inexpensive, then that technology is good technology.

Explain the factors limiting the choice of technology in an enterprise

LABOUR REQUIREMENTS

Labor refers to human effort, physical or mental, engaged in the production of a good or provision of a service in return for payment. Labor is one of the three factors of production along with capital and land.

TYPES OF LABOUR;

The three types of labor include;

1. **Skilled labor.** A skilled worker is any worker who has some special skill, knowledge or ability in their work. Such a worker possesses knowledge and skills in his area of work and can produce best production. Examples of skilled labour jobs are engineering, and computer manufacturing.
2. **A semi-skilled worker** is one who possesses particular skills in his area and can perform a job in his area. However, this type of worker requires close supervision
3. **An unskilled employee** is one who possesses no special training and whose work involves the performance of simple duties which require the exercise of little or no independent judgment or previous experience although a familiarity with the occupational environment is necessary.

REASONS WHY LABOUR IS NEEDED.

- To increase production
- To manage business operations
- To combine with other factors of production to aid production
- To facilitate exploitation of would be idle resources
- To increase government revenue through payment of tax.

EMPLOYEES

These are people who work in a business for wages or salaries. They provide skilled, semi skilled and unskilled labour.

FACTORS CONSIDERED WHEN DETERMINING THE NUMBER AND TYPE OF EMPLOYEES TO WORK IN AN ENTERPRISE

The following are considered when determining the number and type of the employees.

NUMBER OF EMPLOYEES

1. **The type of skills required for some particular business,** and the work they do in the production process like negotiation skills and communication skills are considered when recruiting sales persons or marketers.
2. **The number of jobs available.** This varies with the size of the business in that the smaller the size of the business, the less the jobs available, and the larger the size of the business, the more the jobs available and the bigger the number of employees.

3. **Support of the family members.** Support from the family members necessitates the business to employ fewer workers but when there is no family support, the business employs more workers.
4. **The level of demand for the products.** High demand for products encourages entrepreneurs to employ more people but low levels of demand cause fewer workers to be employed.
5. **Costs of hiring labour.** High costs of hiring labour reduces the ability of a business to employ people hence few people are employed but low costs of hiring labour enable the business to employ more workers.
6. **Level of technology used in the business.** Use of advanced technology requires employment of few workers, like, use of tractors, computers, but use of rudimentary technology, low level of technology, traditional or backwards technology necessitates many workers to be employed.

TYPES OF EMPLOYEES

1. **Level of education/qualification.** This considers the level of education of employees that is some jobs require diploma or degree holders while others require certificates or senior six leavers.
2. **Working experience of employees.** Most employers or entrepreneurs are interested in experienced people or workers who are efficient and productive.
3. **Age of the employees.** Different jobs have different age requirements that are some want young and energetic workers like jobs that need lifters while technical jobs need mature people like chief administrators.
4. **Marital status.** Some employers or entrepreneurs prefer employing single workers than married workers because they are flexible. For example, school wardens and matrons due to less responsibilities they possess
5. **Sex of the employee.** Some employers or entrepreneurs prefer employment to women and others. Women to men for different reasons like for simple activities, women are preferred while heavy work is preferred for men.
6. **Health status of the employee.** Some employer's want workers with good health status because they are in position to be at work at all times.
7. **Language spoken by the employee.** Some employers are willing to employ people who know to speak many languages and specific languages for easy communication at the work place.

Qn: Explain the factors that determine the number of employees in an enterprise.

Qn: What are the factors that an entrepreneur considers when determining the number and type of employees in his enterprise.

WORK PLACE MANAGEMENT

A work place is an area or place where production of goods and services is done. Examples of a work place include carpentry workshop, a school, a shop, etc

One of the most important things that management has to do is to manage the business work place in such a way that it can become efficient, effective and increase productivity.

ELEMENTS OF THE WORK PLACE

There are various aspects of the work place that need to be managed so as to increase productivity of the business. Such aspects are called ‘elements of a work place’ and they include storage and handling of materials, work stations, production machine handling, use and safety, control of hazardous substances, lighting of the work place, welfare of workers, premises and organization of work in the work place.

1 MATERIAL HANDLING AND STORAGE

This element looks at how materials can be stored and handled well at the work place. It is important that at the work place, materials that are used in the production process are handled and stored properly so as to create a good working environment and conditions which will increase productivity of the business.

Ways of how materials can be handled and stored in the workplace.

- Removing materials and other items that are not frequently used from the work area and stored away. Such items should only be put outside the storage facility when they are going to be used.
- Provision of convenient storage facilities like racks for tools, raw materials, finished and semi-finished products.
- Using a spacious store build under standard specifications for storage purposes. E.g. the materials should be stored in dry and safe places to avoid dampness.
- Providing facilities for handling and removing products or raw materials from one place to another such as moving racks, cranes, and other mechanical aids that can be used when moving heavy loads.
- Using specially designed pallets such as trays to hold and move raw materials, semi-finished and finished goods.
- Using store ledgers, bin cards and others for numbering and classifying materials in the store.
- Use of coolers or refrigerators where need be i.e. if the raw materials require conditions which are cool like milk, fish, meat and others.
- Materials should be stored in easily accessible places especially if they are heavy or bulky.
- Expired or out dated materials should be disposed off to avoid contamination with the good ones.
- If materials are branded, they should be stored in different storage areas.

Importance/advantages of proper handling and storage of materials in the work place.

Proper handling of materials results in the following advantages

- It reduces accidents at the work place.

- Reduces material damage and loss.
- Reduces time wastage
- Creates and encourages proper use of space.

2 WORK STATION.

A work station is a particular place where actual production of goods and services is done. Examples include a classroom and a lab in a school, workshop floor in a carpentry, etc. Work stations should be designed in various ways so as to allow and promote efficient and quality work.

WAYS OF MANAGING/IMPROVING THE WORK STATION

- Providing furniture and other office equipment which is of the right size in relation to the available space like chairs or benches of correct height with a steady back rest so as to promote efficiency of workers.
- Providing a stable work surface for each work station. This however depends on the purpose of the work surface for instance, a furniture workshop floor or surface differs from that of an office.
- The work station should suit the type of business. i.e. the entrepreneur should ensure that the space is large enough to enable smooth operations of the business.
- Putting electric and machine switches and other tools within easy reach of workers.
- Ensuring adequate lighting in the work station so as to improve on the quality of work being done as well as increasing productivity.
- Putting aside equipment that is not in use to avoid obstruction and accidents in the work station.
- Providing enough entrance and emergency exit in the work station so that workers can easily escape in case of any danger.
- Improving on the heat protection of workstation and this can be done by providing ceilings in the work station or by covering metal walls and roofs with insulating materials or use of paint which can easily reflect heat.
- Providing enough natural ventilation by having wall openings like doors, windows for easy circulation of air in the work station.
- Providing emergency, health and safety equipment such as fire extinguishers, first aid equipment, etc.
- Providing proper hygiene and sanitation facilities and ensure that they are regularly maintained like places for meals.
- Ensure that the work station is maintained as clean and neat as possible to allow workers carry on work conveniently.
- Providing adjustable equipment whose height can be adjustable and controlled to avoid bending positions or high hand positions which can inconvenience workers during the production process.

- Changing work methods such that workers can alternate sitting with standing while at work to reduce fatigue.
- Using lifts, levers or any other mechanical measures if required to reduce the work required by the worker.
- Providing specially designed devices like clamps, vices and other fixtures to hold items firmly while work is done.

ADVANTAGES OF A WELL-DESIGNED WORK STATION

- ✓ It enables workers to carry on work conveniently
- ✓ Enables workers to produce quality work
- ✓ Promotes efficiency in workers

3 PRODUCTIVE MACHINE HANDLING AND SAFETY

This element looks at how production machines can be used and handled safely at the work place. For machines used in the production process to be made more productive and safe, various measures should be taken by the entrepreneur.

Ways in which production machines can be safely handled and used in the work place.

- Switching off machines in case of any break down and report immediately to the production technician if there is anything wrong with any machine than one trying to mend it your self.
- Checking machines thoroughly to find out whether all levers are in proper positions before they are switched on for use.
- Following instructional labels and guidelines on the use of machines so as to know the safety rules regarding the machines before using them
- Making sure that they are well maintained and have no broken or unstable parts through regular servicing.
- Avoiding using machines for something they are not designed for. Also, one should not try to move machines from where they were originally placed.
- Switching off production machines whenever they are not in use or when there is something wrong with it.
- Ensuring close monitoring and supervision of workers and the production process by the foremen or engineers.
- Ensuring proper connection of machines to avoid power short circuits and damage to machines.
- Cleaning of the machines frequently and oiling all hand lubricating points daily to minimize wear.
- Training of workers on the use and maintenance of machinery to minimize accidents and damage.

- Attaching proper guards or warning labels to dangerous moving parts and power transmission equipment.
- Re-designing facilities like guards which interfere with visibility, production or maintenance to allow seeing of what one may be doing.
- Using mechanical devices for feeding machines to avoid hazards and increase production.
- Using trained and experienced labor force to avoid accidents.
- Covering machines while not in use.
- Making use of closest power point when plugging in the machines.
- Avoid messing up with machines if still running or plugged in

Importance of handling and using production machines safely

- Avoid machine accidents
- Maintain efficiency of the production machines
- Avoid depreciation of machines at a high rate.
- Avoid unnecessary expenses in repair and maintenance of machines.

4. CONTROL OF HAZARDOUS SUBSTANCES

This element is concerned with how dangerous substances at the work place can be managed to avoid losses, enhance quality and reduce health complaints of workers. It is important that hazardous substances are managed at the work place to increase productivity and this can be done in various ways.

Measures that can be taken to control hazardous substances at the work place.

- Providing adequate and appropriate types of protective equipment like helmets, masks, gloves, gum boots, etc to reduce exposure to hazardous substances.
- Training and instructing workers on how to use and maintain personal protective equipment and regularly administer their use.
- Making sure that workers exposed to dangerous substances wash their hands with soap or any other recommended detergent before eating or drinking anything
- Making sure that all flammable substances used like petrol, acid, paints are kept and covered in containers so that they are not easily exposed.
- Substituting hazardous substances with those that are less hazardous like organic solvents with inorganic ones if possible like using artificial manure instead of organic manure.
- Making sure that workers read and understand instructions of using hazardous substances before using them.
- Ensuring adequate provision of emergency, health and safety facilities like fire extinguishers, etc.
- Ensuring adequate lighting in the work station so as to avoid accidents resulting from hazardous substances and increasing productivity.

- Providing warning labels on hazardous substances or areas to minimize accidents especially those which can easily catch fire.
- Introducing or improving local ventilation for easy circulation of air in the work station
- Ensuring proper disposal of hazardous substances to minimize health risks of workers.

Importance of controlling hazardous substances at the work place

- Helps to avoid losses since some substances can easily affect other materials.
- Helps to avoid accidents especially those which can easily catch fire
- Helps to minimize health risks of workers.
- Enhances quality in production

5. LIGHTING FACILITIES

This element is concerned with how the lighting system at the work place can be improved for a quality working environment. This can be achieved through various ways.

Ways of ensuring proper lighting of the work place

- Maximizing the use of natural lighting system by providing enough ventilators windows and doors.
- Using proper colour of paint which can easily reflect enough light for instance painting the ceiling and walls with white or bright colours and ensure that walls are kept clean.
- Providing artificial lightening where necessary adequate for any type of work being done. For example, adding light sources by installing reflectors or repositioning of existing lights.
- Reducing obstruction and eyestrain from glare by repositioning of lamps or shielding further, workers should be positioned in a way that they do not face bright light from windows or other sources.
- Making arrangements to lock out light completely in cases where it is not needed. However, one should ensure that there is enough air circulation for example in photo studios especially where development of films is done.
- Cleaning windows regularly to let in light especially glass windows.
- Adding skylights and ensuring that they are always kept clean.
- Cleaning and maintain light fixtures and replacing bulbs regularly.
- Providing specific lighting or adjustable lamps for special type of work.

Importance of proper lightening of the workplace.

- Proper lighting improves productivity of workers.
- Proper lighting helps to improve quality of the products.
- Enables one to see objects being used clearly
- It is important for the safety of workers and machines.

6. WELFARE FACILITIES

This element looks at how welfare facilities for workers can be improved in order to increase their morale and productivity. It is always important to improve the welfare of workers and this can be done through providing various work-related welfare facilities.

Measures that can be used to promote welfare facilities for employees

- Providing adequate supply of food or feeding facilities especially when the workers are to spend relatively long periods of time at the workplace.
- Providing regularly cleaned sanitary facilities close to the work place such as washing facilities, washing soap, water, etc.
- Providing resting time for tea and lunch and resting places so that workers do not become tired and bored.
- Providing enough supply of free, safe and cool drinking water for workers at the work place.
- Providing places of convenience i.e. toilets which should be separate i.e. for women and men and should always be kept clean.
- Providing incentives to workers to motivate them such as medical allowances, transport allowances, accommodation and others at the workplace.
- Providing recreational facilities for workers to entertain them like soft music, and tv like in the school staff room
- Providing adequate and appropriate types of protective gears like helmets masks, gum boots etc for workers at the workplace.
- In case where workers need special clothing, staff should be provided with such. However, private changing rooms be provided if workers are to use work place clothing
- Providing adequate storage for workers' belongings like clothing, bicycles, etc.
- Putting in place user-friendly facilities for the disabled at the work place.
- Providing separate comfortable and hygienic places for meals.
- Providing first aid equipment and training first aid providers
- Ensuring that noise pollution is minimized at the workplace.

Importance of improving welfare facilities of workers.

- It improves on the workers' health
- Enhances the working morale of workers
- It increases productivity since workers will be happy and interested in what they are doing
- Improving welfare facilities of workers improves working relationship between workers and employers.

7. PREMISES/WORKPLACE DESIGN AND LAYOUT.

This looks at how management can improve on the workplace layout, working conditions and organization for better efficiency and increase productivity at the work place.

Ways of improving workplace premises layout, working conditions and organization.

- Providing a signpost for the business for easy identification
- Providing a clean environment conducive to all workers so as to promote increased productivity
- Ensuring enough natural ventilation by having more roof and wall openings like windows, doors, etc
- Providing enough entrances and exits at the workstation so that workers can easily escape in case of any danger.
- Improving on the heat protection of the building and this can be done by covering metal walls and roofs with insulating materials or using paint which can reflect heat easily
- Providing adequate lighting system suitable for employees and the work done to allow perfect vision.
- Providing passage ways which should be regularly cleared or provide barriers to keep them clean
- Providing enough fire extinguishers within easy reach of workers. However, one should ensure that workers know how to use such equipment.
- In case there are sources of noise, heat, fumes or welding, these should be out of the work station or provide enough barriers or exhausts.
- Providing proper hygiene and sanitation facilities and ensure that they are regularly maintained for instance places of meals.
- Arranging machines and tools properly for easy and proper movement of the workers and materials without obstruction
- Avoiding irregular, entangled or worn wiring connections from the work place
- Providing adjustable equipment like working chairs or tables whose light can be adjusted to avoid bending positions or high hand positions that can inconvenience workers during the production process.
- Providing specially designed devices like trays, vices and other fixtures which can be used to hold items firmly while doing work.

8. WORK ORGANISATION

This is the last element of the workplace and it is concerned with how work at the workplace should be properly organized to optimize production and job satisfaction.

Measures that can be undertaken to ensure proper work organization.

- Using work schedules to ensure that work is completed on time and that a given piece of work is done effectively and efficiently according to the schedules.
- encouraging specialization or division of labor i.e. sharing of tasks among the workers
- Eliminating some tasks by using machines which can combine some operations and improve efficiency.
- Using group work or quality circles to improve production and quality.

- Organizing tasks for workers in shifts so as to avoid work being done by similar people all the time.
- Making frequent re-arrangements of workplace lay out, order, or production operations to improve production flow.

Importance of proper work organization

- ✓ It avoids duplication of work
- ✓ It avoids conflicts within the workers
- ✓ It promotes optimum use of resources.
- ✓ Better work organization enhances job satisfaction of workers.
- ✓ Sample Questions
- ✓ 1a) How can an entrepreneur control hazardous subsistence in an enterprise?
- ✓ b) Suggest possible ways of improving work place premises
- ✓ 2a) Why is it necessary to improve worker's welfare?
- ✓ b) In what ways is employees' welfare improved in most enterprises

PLANT LAY OUT

A plant lay out can be defined as the arrangement of physical facilities such as machinery, equipment, furniture etc. with in the factory building in such a manner so as to have a quickest flow of materials at the lowest cost and with the least amount of handling in processing the product from the receipt of material to the shipment of the finished product”

A good plant layout should do the following.

- Increase production. Work will be easier and will be done faster.
- Cut down on expenses. There will be less wasted time and material
- Improve working conditions. Workers will be more comfortable
- Increase safety. Since workers have room, accidents will occur less often and involve fewer people if they do happen.
- Improve the way materials are handled. Raw materials will be located in the right places. They will not have to be moved as far.
- Reduce wasted space. Each part of the floor space will be used in the best way.

It takes care of the following aspects:

- Storage facilities for materials, suppliers, goods in process and finished goods
- Space required for movement and provision for emergency outlet
- Room for further expansion
- The process flow and flow of materials
- Dispersal of industrial waste

OBJECTIVES OF ENSURING PROPER PLANT LAY OUT.

An efficient plant lay out is one that can be instrumental in achieving the following objectives;

- a) To achieve proper and efficient utilization available floor space.
- b) To ensure that work proceeds from one point to another point without any delay.
- c) To provide enough production capacity through effective utilization of space which allows expansion of production activities.
- d) To reduce material handling costs hence reducing production costs.
- e) To utilize labor efficiently by avoiding time wastage in production.
- f) To increase employee morale by ensuring employee convenience, safety and comfort at work.
- g) To provide ease to supervision and control through following plant lay out of product or process or any other type used.
- h) To provide for employee safety and health by reducing accidents and hazards to personnel in production.
- i) To allow ease of maintenance of machine and equipment in the production process.
- j) To improve productivity by increased speed and efficiency of production.

TYPES OF LAY OUT.

An entrepreneur must possess an expertise to lay down a proper layout for new or existing plants. It differs from plant to plant, from location to location and from industry to industry. It therefore follows basic principles governing plant layout are however more or less the same.

There are three main types of plant lay out, namely.

1. Products or line layout
2. Products or function layout
3. Fixed position or location layout.

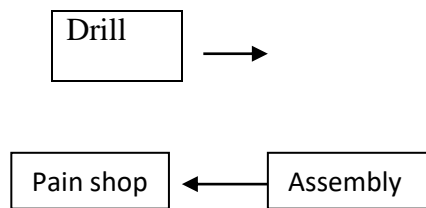
Products or line layout.

This is a plant lay out in which machines and equipment is arranged in one line depending upon the sequences of operations required for the product. The materials move from one workstation to another sequentially without any backing or deviation. Therefore, materials are fed into the first machine and finished goods travel automatically from machine to machine, the output of one machine becoming input of the next, e.g. in a paper mill, bamboos are fed into the machine at one end and paper comes out the other end.

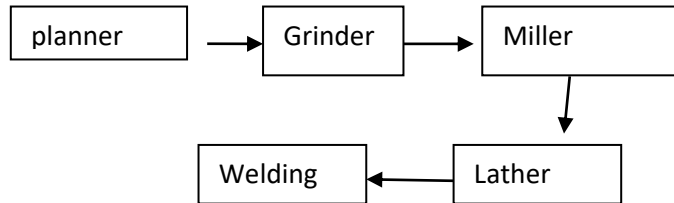
A line layout for two products is given below.

PRODUCTS LAY OUT (SAMPLES)





PRODUCT B

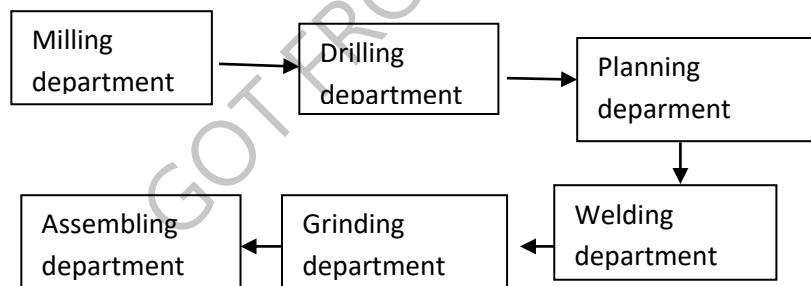


Process or functional layout:

In this type of lay out machines of a similar type are arranged together at one place or under one dependant and hence are various departments arranged in order of sequences of operations e.g. Machines performing drilling operations are arranged in the drilling department ,machines performing casting operations be grouped in the casting department .Therefore the machines are installed in the plants, which follow the process of production but with short distance between the departments to avoid long distance of moving materials.

Hence, such layouts typically have drilling departments, milling departments, welding department, heating departments and painting department etc.

PROCESS LAY OUT

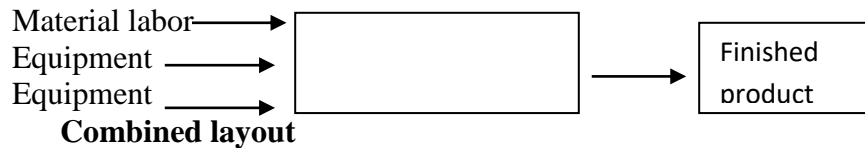


Position or location lay out

This is a plant layout where the major product being produced is fixed at one location and therefore equipment, labor and components are moved to that location. All facilities are brought and arranged around one work Centre This type of layout is not relevant for small scale entrepreneur. The following figure shows a fixed lay out regarding shipbuilding.

FIXED POSITION OR LOCATION LAY OUT.

SHIP BUILDING YARD



This is the type of plant layout which combines all the three discussed above i.e. products, process and fixed position lay outs. The combined lay out is mainly used in manufacturing plants where several products are produced in repeated numbers with no likelihood of continuous production since the different products may be having different processes.

FACTORS INFLUENCING THE PLANT LAYOUT

While deciding the lay out of his factory or unit or establishment or store, a small-scale businessman should keep the following factors in mind:

1. **Factory building.** The nature and size of the building determines the floor space available for layout. While designing the special requirements. e.g. air conditioning dust control, humidity control etc must be kept in mind.
2. **Nature of product.** Products layout is suitable for uniform products whereas process layout is more appropriate for custom-made products.
3. **Production process.** In assembly line industries, products layout is better. In job order or intermittent manufacturing on the other hand, process lay out is desirable.
4. **Type of machinery.** General purpose machine is often arranged as per process layout while special purpose machines are arranged according to product lay out.
5. **Repairs and maintenance.** Machines should be so arranged that adequate space is available between them for movement of equipment and people required for repairing the machines.
6. **Human needs.** Adequate arrangement should be made for cloakroom, washroom, lockers, drinking water, toilets and other employee facilities, proper provision should be made for disposal of effluents, if any.
7. **Plant environment.** Heat, light, noise, ventilation and other aspects should be duly considered, e.g. paint shops and planting section should be located in another hall so that dangerous fumes can be removed through proper ventilation etc. Adequate safety arrangement should also be made. Thus, the layout should be conducive to health and safety of employees.

Sample plant layouts.

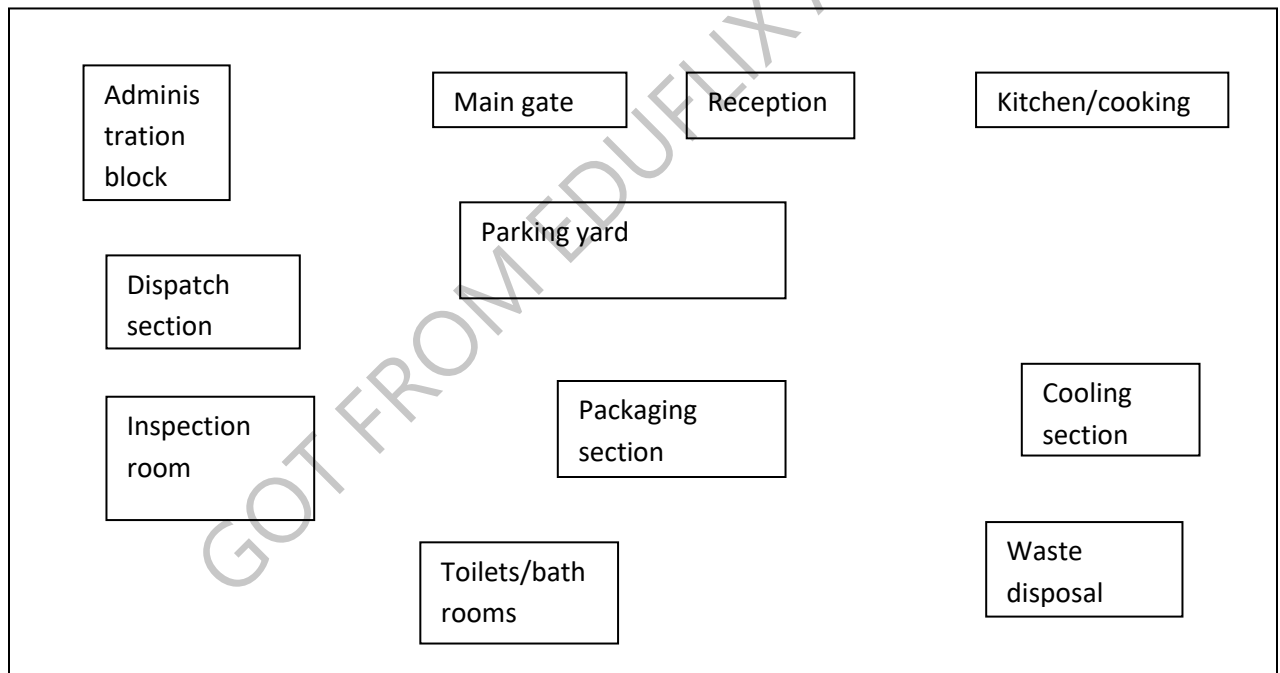
PLANT LAY OUT FOR A MAIZE MILLING FACTORY.

The following are major elements of a plan lay out:

- Security room/section
- Parking yard
- Receiving and dispatching section
- Inspection room
- Ware house
- Processing section
- Maintenance section
- Production offices
- Power/generator room

- Waste disposal section
- Employee facilities like dressing rooms, serving places for lunch and break fast

PLANT LAY OUT FOR A MILK COOLING PLANT.



SITE PLAN.

A site plan is a drawing prepared on scale showing accurately and with complete dimensions, the boundaries or property lines of a site and the location of all buildings, structures, uses and principal development features on a specific piece of land.

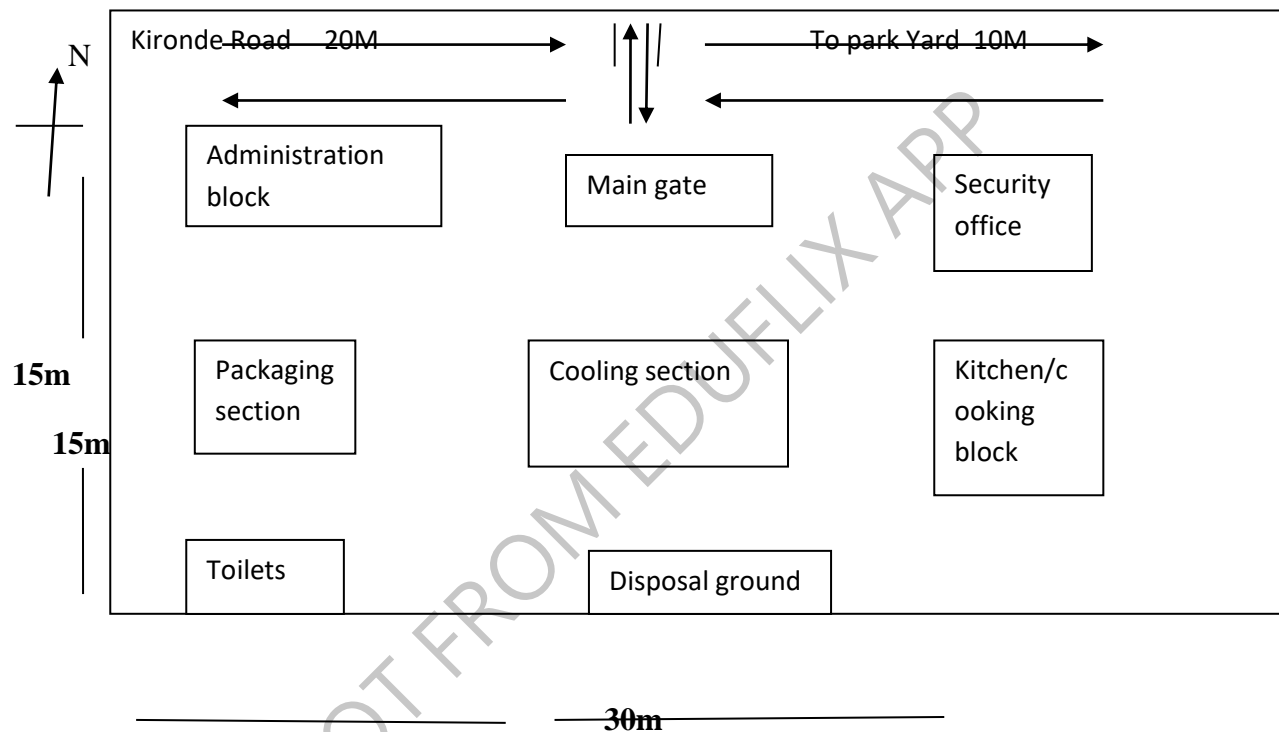
It is a drawing that provides an overhead perspective or picture on how facilities or structures such as buildings, parking areas, fence, etc appear on a given piece of land and the proposed improvements.

A site plan is expected to show the following information;

- Title of the plan
- An accurate scale of the plan or drawing.
- An arrow indicating north direction.
- Property lines or boundaries of the piece of land planned with the actual dimensions.
- Street or road adjacent to the planned piece of land.
- Buildings and other structures and their overall dimensions
- Indication of the proposed improvements or changes.
- The distance from the boundaries or property lines to all existing and proposed structures.

Sample sites plan.

A SITE PLAN FOR MUTIMA FRESH DAIRY



PACKAGING

Packaging refers to wrapping, crafting, filling or compressing of goods to protect or prevent them from spoilage, pouring, contamination during handling, transportation, usage etc. for packaging of a product to be successful, an entrepreneur must ensure that it is easy to use and open; it is of practical size and has instructions which can be easily followed and understood.

TYPES OF PACKAGING

The common types of packaging include;

- Bottling and canning

- ii) Bagging (paper, polythene, plastic)
- iii) Use of plastic containers
- iv) Baling
- v) Tinning
- vi) Boxing or use of cartons.

The different types of materials used for packaging include;

- i) Metals-aluminium , tinplate and steel
- ii) Plastic-polythene papers, jerry cans and bottles
- iii) Wood-cartons and packing cases
- iv) Paper- paper, board and corrugated board
- v) Glass- bottles
- vi) Laminates- aluminium foils and plastic films
- vii) Polyesters
- viii) Hessian/ jute for bags, etc

FACTORS CONSIDERED WHEN CHOOSING PACKAGING MATERIALS

1. Sources of packaging materials and supplies. Readily available sources are preferred by most entrepreneurs to allow continuous production and supply
2. Availability of the packaging materials in the required amounts. Readily available packaging materials and adequate in supply are preferred to those that are not readily available and limited in supply
3. Unit cost of packaging materials required per production cycle and inventory levels to be maintained. Packaging materials with low unit cost per production cycle are preferred to those with high unit cost per production cycle to allow the entrepreneur earn profits
4. Cost of packaging in relation to the value of the good being packaged. Cheap but of high quality packaging materials are preferred so as to allow the business to earn profits than those which is expensive in relation to the value of the product to be packaged
5. Type of good to be packed- for example liquid, solid or gas etc. liquids products are packaged in tins, bottles, can etc to prevent them from pouring but solid products are packaged in boxes, bags, bales etc to prevent damages, contamination etc
6. Purpose of packaging. Businesses/manufactures/entrepreneurs with the major purpose of informing the customers use packaging materials with a large space to include instructions but manufactures with the major aim of attracting customers use attractive packaging materials
7. Means of transport to be used. Water transport requires the use of containers, tins, bottles etc as packaging materials to avoid contamination. Air transport requires light packaging materials like paper bags, wooded boxes etc but road transport requires durable packaging materials like containers, wooden boxes etc
8. Nature of the product. Durable products require durable packaging materials that can maintain their life span but non-durable packaging materials require packaging materials that can maintain their life span
9. Effect of the packaging materials on natural environment/environmental matters. Packaging materials that are friendly to the natural environment are preferred to packaging materials that are harmful to the environment like polythene bags

10. Quality of the packaging materials. Good quality packaging materials are preferred to poor or low-quality packaging materials

The following are the factors that limit entrepreneurs from using certain packaging materials.

1. High costs of the packaging materials increase the production costs which reduce the entrepreneurs' profits thus limiting them from using such packaging materials.
2. Inappropriate packaging materials in relation to the nature of the product, like; liquid products may limit entrepreneurs from using packaging materials, like paper (boxes), wood etc.
3. Inappropriate packaging materials compared to the means of transport, like entrepreneurs who use railway transport and trucks are limited to using light packaging materials like polythene.
4. Inadequate packaging materials (raw). This limits entrepreneurs from using such packaging materials so as to avoid unnecessary delays and shortages in the production and selling process.
5. Poor quality of the packaging materials; which limits the entrepreneur from using such materials, because they do not maintain the quality of the product.
6. Harmful packaging materials to the environment which limits the entrepreneurs from using such materials. Since they pollute the environment which is against environment rules.
7. Unreliable sources of the packaging materials, which limits entrepreneurs from using some packaging materials so as to avoid, stand stills in the production process.
8. Failure of the packaging materials to suit the purpose of packaging like, having inadequate space for writing information to the customers. Like about the price usage.
Etc

IMPORTANCE OF PACKAGING

Packaging is useful in an enterprise as follows;

1. Protection. It protects the products from damage or getting spoilt especially during transit and storage period.
2. Portability. It facilitates easy handling of goods and transportation up to the consumers especially liquids, cereals, and flour like putting soda bottles in a crate.
3. Preservation. Packaging helps in preserving the content like; goods, especially food and chemicals are protected from (against) atmospheric germs and contamination.
4. Promotion or advertising. Goods that are well packaged and attractive create a good product image, hence promoting brand awareness to customers about the product.
5. Positioning. Packaged goods in relatively small sizes, that is according to weight, length, volume, common usage, etc. increase the appeal of the products to large sections of customers like children, adults etc.
6. Distribution. Packaged goods are easily delivered to customers. Like by mail order services.
7. Product differentiation. Packaging helps entrepreneurs to make the looking of their goods different from those of their competitors. This involves using unique packaging materials in terms of colours, design, scent etc.
8. Self service; packaging facilities, self service since all the products are well packaged and arranged.

9. Instructions and labels. Packaging enables easy labeling and giving instructions since packaging materials provide space where entrepreneurs normally write the labels instructions.
10. It saves the entrepreneur (saler) from weighting the products again hence saving time.
11. Ease of selling. Packaged goods ease the selling process, like some packaged goods can be sold by automatic machines.

Questions

- (a) Explain the objects of packaging in enterprise.
- (b) Why is it necessary to package goods in an enterprise?
- (c) Of what purpose of (is) packaging in an enterprise?
- (d) Explain the reasons of packaging business products.

Approach

Use to, in order to etc.

PURPOSE/RATIONALE/NEEDFOR/OBJECTIVES/REASONS/JUSTIFICATION OF PACKAGING IN BUSINESS.

1. To protect the products from damage, or getting spoilt, especially during transit, and storage periods.
2. To facilitate easy handling and transportation of the products up to the consumers especially to the liquid products like soda.
3. To preserve the goods, like food products and chemicals in order to protect them against atmospheric germs and contamination.
4. To promote and advertise the goods, because well packaged products attract customers, and create brand awareness about the products
5. To position the packaged goods, because goods in small quantities or volumes increase the customers' appeals, like sweets.
6. To facilitate distribution of the products because well packaged goods can easily be distributed or delivered to customers, like through mail orders, from mail order shops.
7. To differentiate products that is, packaging separates the products of one business from those of another due to the quality of designs of packaging, materials used, etc differentiate the packaged products of different businesses.
8. In order to facilitate self service, since all the products are well packaged, and arranged.
9. To also facilitate instructing and advertising since through packaging, the entrepreneurs get space on the packaging materials to label the products and write the instructions for usage or storage of the products for the customers.
10. To save the sellers' time since they do not have to weigh the products again since they are already packaged.
11. To ease the process of selling i.e. selling packaged products is easy that it can even be carried out by automatic machines.

UTILITIES

These are services needed to support the business and include; water, electricity, telephone services, transport etc.

1. **Transport.** This is the movement of goods and people from one place to another. It helps the business to transport workers to their work places as well as raw materials to their production units.
2. **Security.** This is needed to protect the business from an unauthorized person who intends to harm the business.
3. **Electricity.** It's important in the running of the machines during the processing, lighting the premises, operating cameras, etc.
4. **Ware housing.** Provides a safe storage for the business products (finished goods) raw materials, semi finished goods, assets etc.
5. **Advertising.** This helps the business to promote its products to the customers.
6. **Banking services.** This accepts deposits for the business, provides loans to the business, and other monetary services.
7. **Communication services.** This helps the business to get and send information to and from the suppliers' business partners etc.
8. **Education and training services.** Those train the workers of the business in different skills and abilities.

TRANSPORT IN PLANNING FOR A BUSSINESS

Questions

Explain the roles of transport in a business enterprise

What factors should be considered when choosing the means of transport?

Give the different means of transport that can be used by an enterprise.

This refers to the physical movement of people or goods from one place to another. In a business, transport helps in distributing goods to the customers or getting materials (raw) from their sources up to the business premises.

MODELS TO TRANSPORT USED BY DIFFERENT BUSINESSES

1. **Road Transport.** This consists of lorries, pickup vehicles, cars, wheel barrows bicycles, etc.
2. **Railway transport.** This involves the use of a train and basically carries bulky good.
3. **Water transport.** It deals with the movement of goods over water bodies like. Lakes, oceans, etc. by use of water vessels, like ships, boats, ferries, canoes, etc and mainly used to transport bulky goods between continents.
4. **Air transport.** This involves the use of air crafts to carry goods and passengers from one place to another. It is the most or swiftest and fastest or comfortable and convenient mode of transport. It is very expensive, and normally used to transport goods of high value, urgently needed goods like drugs highly perishable goods like flowers, and goods of high value, like minerals.
5. **Pipeline transport.** This involves the use of pipes to carry liquids and gases like fuel, water and gas products from one place to another.

FACTORS CONSIDERED BY ENTREPRENEURS WHEN CHOOSING THE MODE OF TRANSPORT.

1. **Availability of the mode.** An entrepreneur should choose the mode of transport that is easily available to be used whenever need arises. The chosen mode of transport should be safe for the goods.

2. **Cost of transport.** The cost of transport should be relatively cheap compared to the value of goods to be carried so as to avoid the goods becoming too expensive.
3. **The nature of goods.** perishable and urgently needed goods require the fast and swiftest mode of transport like air, transport, i.e. aero planes while commodities with long life span or durable and not urgently can be transported by railway, water, extra.
4. **Size of the load.** Bulky goods may be transported by railways or Lorries. If goods are crossing the continent, water transport and if the goods are light, road and air transport.
5. **Distance to be covered.** Long distances can easily be covered by railways or air transport while roads would be preferable for short distances.
6. **Flexibility.** If the goods are to be sold on any route, road transport would be the most preferable system because it is entirely controllable by the entrepreneur like bakeries; milk dealers, matooke etc use this system for their products.
7. **The value of goods.** Valuable goods like precious minerals like diamond, gold, silver, etc are suitable for air transport.
8. **Speed and urgency.** When goods are required urgently, the fast modes of transport like air transport, is preferable but when goods are not urgently needed are preferable for road transport.

IMPORTANCE OF TRANSPORT IN PLANNING FOR A BUSINESS.

1. Transport bridges the gap between the producer and a customer. In other words, it brings goods produced to customers.
2. It facilitates the movement of raw materials from their sources to manufacturing firms for processing into finished or semi finished goods with an added value, like tea from tea leaves, maize to maize flour, sunflower to cooking oil etc.
3. It helps to transport the employees to their work places in time.
4. It helps in moving goods from areas of plenty to areas of scarcity, thereby eliminating black market.
5. It links entrepreneurs to markets where ever they may be.
6. Movement of goods from various places avails customers with a variety and choices. This can create customers' loyalty in the business because of the ability to purchase all that is needed at one's business or to one's shopping centers.
7. It enables entrepreneurs to get off surplus stock to areas with high demand for it.
8. Transport also encourages the development of enterprises anywhere since entrepreneurs are innovated to locate their ventures in areas with good transport system.

GUIDING QUESTIONS

- Explain five (5) modes of transport used by entrepreneurs in your country
- Explain the advantages of road transport to an entrepreneur.
- Explain the importance of utilities in business.
- Explain the advantages of utilities in the production process.

ADVANTAGES OF UTILITIES.

1. They enable the entrepreneurs to get information of about raw materials, prices of products, new markets, sources of raw materials etc.
2. They provide security to the business, hence safeguarding business property and lives of employees like, security groups i.e. SEK, ESCOM, SECURIKO, SARACEN etc.

3. They provide skilled workers to the business utilities like education institutions, and in addition, they upgrade skills of existing employees, leading to high labour productivity and efficiency.
4. They provide financial assistance to business in form of loans, hence facilitating their activities like banking services or utilities.
5. They accept deposits of businesses, and also keep important documents of businesses hence enabling businesses to get interest on their savings.
6. They enable businesses to promote their products to customers through advertising, informing the community about the existence or different products.
7. They provide storage facilities to businesses like the ware housing utility. This enables businesses to keep their raw materials, finished and semi finished goods.
8. They facilitate movement of business products, and workers from place to place i.e. from producing units to market centres, and from home areas to work areas respectively.
9. They provide power needed in the production process, like for lighting, running machines etc.
10. They safeguard businesses against unexpected risks like the insurance utility protects businesses from theft, accidents, fire out breaks etc.
11. They provide water needed in the production process like for cooling machines, washing, raw materials and for domestic use by employees.

Qn: Why is it necessary to consider utilities in running a business?

- Explain the objectives of considering utilities in setting up a business.
- Explain the reasons for considering utilities in the production process.

OBJECTIVES OF CONSIDERING UTILITIES IN SETING UP A BUSINESS.

1. To enable entrepreneurs, get information about raw materials, prices of products, raw materials, prices of products, new markets, prices and sources of raw materials.
2. To provide security to the business hence safe guard business property and lives of employees through security groups like, SEK, SARACEN, etc
3. To provide skilled workers to the businesses through utilities like, education institutions and in addition, they upgrade the skills of existing employees leading to high labour productivity and efficiency.
4. To provide financial assistance to businesses in form of loans hence facilitating their activities, like the banking services or utilities.
5. To accept the deposits of the businesses and also keep the important documents of the business hence enabling the businesses to gain interests on their savings through the banking utilities.
6. To enable businesses to promote their products to customers through advertising, informing the community about the different business products, like the community utilities.
7. To provide storage facilities to businesses like the ware housing utility. This enables business to keep their raw materials, finished and semi finished goods.
8. To facilitate the movement of business products raw materials, and workers from one place to another, that is from producing units to market centres and from home areas to work areas, respectively.

9. To provide power needed in the production process like for lighting, running, machines, etc.
10. To safeguard business against unexpected risks like the insurance utility protects the business from theft accidents, fire out breaks etc.
11. To provide water needed in the production process, like for cooling machines, washing raw materials and also used as a raw material in production of some products like drinks (soft).

COSTS OF PRODUCTION

Costs. These are expenses that an entrepreneur incurs on production, buying goods and services for his or her business or running business operations or

A **cost** is what detects an entrepreneur to produce or to acquire goods and service; the amounts of direct costs incurred varies with the level of output e.g. in case of producing chairs, its cost would include what it takes to buy timber, glue, nails, varnish, etc.

Categories of costs. There are majorly two categories of costs namely:

- a) Direct costs
- b) Indirect costs

DIRECT COSTS

There are costs that are directly linked to the level of production of goods or services.

OR

These are costs that vary with the level of output produced i.e. when the level of output raises, the total direct costs incurred arises.

Examples of direct costs

- (i) **Direct material costs.** These refer to costs incurred in buying raw materials that can be physically identified and traced to a particular product as part of the finished product. Therefore, direct material are materials that can be physically identified e.g. timber or wood, cotton
- (ii) **Direct labour costs (Direct wages).** These are costs incurred on labour that can be specifically identified or traced with the production of a particular product. Or are costs in form of wages or salaries paid to workers who are directly involved in the manufacturing or production of a product

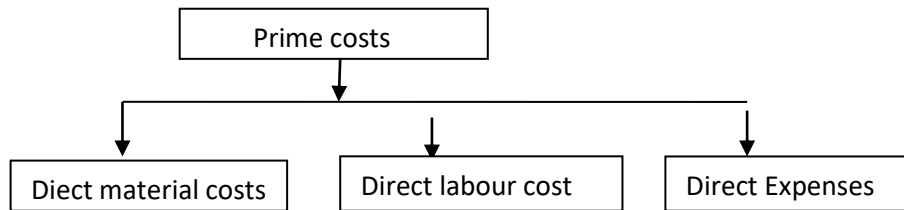
Examples of direct labour include;

- Wages of workers who are directly involved in the operation of machines engaged in the production process.

- (iii) **Direct expenses.** These are expenses that are directly linked with production of a particular product e.g. cost of hiring machinery to produce a particular product, expenses for water and electricity that can be traced to the units of goods or services produced etc

The total direct costs of a product are referred to as prime costs or direct costs,

Prime costs = Direct material costs + Direct labour costs + Direct expenses



Exercise:

Mr. Musege incurred the following costs in his carpentry workshop:

Costs on timber shs. 500,000/=

Payments to machines and joinery staff shs. 200.000/=

Expenses on transport and water shs. 50.000/=

Calculate his total prime costs

Mr Polokoto in his business of juice processing had total prime costs as shs. 1.000.000/= out of which he used shs. 250.000/= to pay workers and shs. 400.000/= to buy the necessary factor inputs. Calculate the direct expenses he incurred

INDIRECT COSTS OR OVER HEAD COSTS

These are costs that can not easily be traced to a particular product

OR

These are costs that do not vary with the level of out put produced

Indirect costs also consist of;

1. Indirect material costs
2. Indirect labour cost
3. Indirect expenses

Indirect material costs

These are costs that are incurred on materials that are not traceable to a particular product e.g. in a carpentry workshop indirect material costs would include; glue, vanish, lubricant etc.

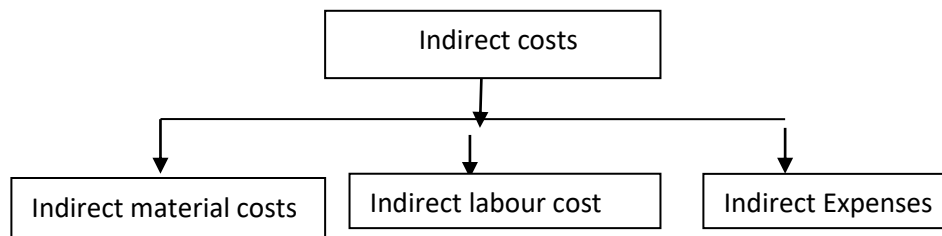
Indirect labour cost

These are costs incurred on supporting labour to produce a given product e.g. costs on managers, gate keepers, secretaries, tea girls or boys etc.

Indirect expenses or over head expenses

These are business expenses that are not linked to a specific product or a given level of out put e.g. costs on rent, insurance, electricity, repairing of machines, telephone and office expenses.

Total indirect costs or over head costs is given by indirect material costs + indirect labour cost + indirect expenses



The total of prime costs and over head costs is referred to as the **total production costs**

Example of indirect and overhead costs

Direct / prime costs	Amount (shs)	Indirect / overhead costs	Amount (shs)
Direct material cost	50,000	Indirect material costs	100,000
Direct labour cost	150,000	Indirect labour costs	150,000
Direct expenses	40,000	Indirect expenses	60,000
Total	690,000	Total Production Costs	310,000

There other costs incurred by the business apart from production costs. These include the following:

SELLING AND DISTRIBUTION OVER HEADS

1. These are indirect costs incurred during the selling and distribution of goods and services. Examples include; Advertising
2. Sales promotion
3. Delivery expenses
4. Salary of foreman
5. Cost of samples given to potential buyers
6. Displays and exhibition costs
7. Printing and stationery costs
8. Packaging costs
9. Insurance for warehouse delivery van etc.

ADMINISTRATIVE OVERHEADS

These are indirect costs incurred by the business during the formulation of policies, direct control, and management and monitoring of its affairs.

Examples include;

1. Printing and stationery for administration
2. Administrative salaries and allowances
3. Telephone expenses
4. Heating and lighting expenses
5. General expenses
6. Postage costs
7. Depreciation of office equipment etc.

Qn: Given that direct material costs, direct labour cost, direct expenses, indirect material, indirect labour, indirect expenses, total indirect expenses, calculate;

(i) Total indirect costs

(ii) Total indirect costs

(iii) Total production costs

Direct material cost = 15,000/=

Direct labour cost = 50,000

Direct expenses = 20,000/=

Indirect material costs = 2000/=

Indirect labour cost = 30,000/=

Indirect expenses = 2000/=

Selling and distribution costs shs 300.000/=

Administration expenses shs. 200.000/=

ITEM	AMOUNT (USH)	AMOUNT (USH)
Direct costs		
Direct material costs	15,000	
Direct labour cost	50,000	
Direct expenses	20,000	
Total direct costs		85,000
Indirect Costs		
Indirect material cost	2,000	
Indirect labour cost	30,000	
Indirect expenses	2,000	
Total indirect costs		34,000

Total production cost		119,000
Add: selling and distribution	300.000	
Administration expenses	200.000	
		500.000
Total cost of the business		619.000

There fore Total cost of the business= Total production costs+ Selling and distribution costs+ Administration costs

Revision Question

1. (a) Distinguish between indirect materials and direct material.
(b) State any three examples of indirect material costs
2. (a) Distinguish between prime costs and overhead costs
(b) State the various types of indirect costs?
3. (a) Distinguish between capital and working capital
(b) Discuss the various sources of capital to most entrepreneurs in your community.
4. (a) Distinguish between selling overheads and administrative overheads
(b) Explain any ten examples of selling overheads in an enterprise.

METHODS OF COSTING

Methods of costing

Different industries follow different methods for ascertaining cost of their products. The method to be adopted by a business organization will depend on the nature of the production and the type of output.

The following are the important methods of costing

1. **Job costing.** Job costing is concerned with the finding of the cost of each job or work order. This method is followed by these concerns when work is carried on by the customer's request.
2. **Contract costing.** This is applied for contract work like construction of a dam, building civil engineering contract etc.
3. **Batch costing.** A batch is a group of identical products. Under this method, a batch is divided by the total number of units in a batch to arrive at the cost per unit. It is generally in industries like bakery etc.

4. **Process costing.** This method is used in industries where production is carried on through different stages/processes before becoming a finished product. Costs are determined separately for each process.
5. **Service (operating) cost.** This method is used in those industries which render services instead of producing goods. Organizations such as water supply department and electricity department are the best examples of using operating costing.
6. **Operation costing.** This is suitable for industries where production is continuous and units are exactly identical to each other. This method is applied in industries like mines or drilling, and cement works.
7. **Multiple costing.** It is a combination of two or more of the above methods of costing where a product comprises of many assembled parts or components e.g. a motor car costs have to be ascertained for each component as well as for the finished product.

WAYS OF REDUCING PRODUCTION COSTS

Use by/through

5. By studying the production methods employed thoroughly to ensure that they are efficient and effective.
6. By introducing supporting facilities like tools and fixtures whenever possible to ease the process of handling work.
7. Fixing time standards for all operations should be done. For any operation or process, minimum and maximum times should be noted and then time for the process standardized.
8. Through establishing the time gap between placing of an order and receiving the materials to ensure that raw materials and other supplies are received on time and that they do not disrupt the production process.
9. Through numbering the storage bins for easy reference and retrieval.
10. Through studying the process layout to ensure that slack times are removed, repetitive operations and movement are avoided, and that the layout and organization of work promotes efficiency and effectiveness.
11. By specifying employees' duties and responsibilities to minimize conflicts, duplication, lack of coordination and wastage of other resources.
12. Through proper storage and handling of materials to avoid spoilage and contamination.
13. By promoting good working relations to employees to reduce costs from strikes.
14. By recycling products to reduce costs of buying raw materials.
15. By contracting part time workers who are cheaper than full time workers.

Elements of costing

These include the following

- Direct labour
- Indirect labour
- Materials used directly for the job
- Other direct expenses
- Management expenses
- Administration including general office expenses
- Selling charges
- Distribution costs

- Profits

QUALITY CONTROL AND MANAGEMENT

Qn: Quality refers to the ability of product to meet the needs of customers.

COMMON TERMS USED IN QUALITY MANAGEMENT

- Quality Policy.** This refers to the overall attention and direction of an enterprise with regard to quality as formerly expressed by top management.
- Quality planning.** This refers to establishing what an enterprise is going to do to achieve quality.
- Quality assurance.** This refers to all plans and systematic activities implemented within the quality system and implemented as needed to provide adequate confidence that quality will be achieved and maintained.
- Quality control.** This refers to operational techniques and activities that are used to fulfill quality requirements. or
- It refers to the process of regular checks by an entrepreneur or regulatory authorities to ensure that the product quality meets the laid down standards of performance.
- Quality system.** This refers to an organizational structure, procedure, processes and resources needed to implement quality management

MISCONCEPTIONS ABOUT QUALITY

There are many ways in which people misconceive quality of products due to some false arguments which include:-

- The higher the price, the higher the quality.** Some people assume that the price, the higher the quality of products. This is not true since today, some products are duplicated and tend to be over charged.
- Origin of the product determines its quality.** Or where the product was made from. There is a perception that quality products are produced from specific countries. Like quality watches are from Switzerland, quality equipment and household gadgets are made in Britain or Germany while products from newly industrialised countries and developing countries are presumed to be of low quality.
- Brand name of the product determines its quality.** Some people easy that a brand name gives a product a goods or bad reputation or quality like radios, branded “Phillips” may be assumed of a better quality than “Makula”.
- Consumers’ point of view.** Consumers have different tastes and preferences and therefore, perceive quality of a product differently.
- Quality improvement will require new and large investment. Its true that new and large investment in machinery tools and equipment enable us to improve quality but there are other factors that contribute to quality too like technical discipline of workers, timely payments.
- Some entrepreneurs** entirely blame their workers for the poor quality of their products yet in most cases; the management of the enterprise is responsible for the business’ failure.
- High quality costs much.** Some people believe that to produce high quality products, it will require high costs or expenses which is not true.

FACTORS THAT INFLUENCE THE GENERAL QUALITY STANDARDS OF PRODUCTS IN AN ENTERPRISE

The general quality standards of products in an enterprise are influenced by a number of factors as follows;

1. **Hygiene or cleanliness of the production area/enterprise.** A clean environment enables an entrepreneur to produce high quality products like presence of clean utensil at the work place, safe drinking water, but a dirty environment reduces the quality of products in an enterprise.
2. **The quality of raw materials.** Good quality raw materials result into high quality finished goods or products while low quality raw materials result into low quality products.
3. **The production process.** A systematic or well organized and timed production process results into high quality products while inefficient and disorganized process lowers the quality of products.
4. **Quality of human resource management/quality of management.** Proper management of workers in the enterprise like timely payments can motivate employees, close supervision etc, contributes to high quality compared to poor human resource management characterized with delayed payments which leads to low quality products in an enterprise.
5. **Level/quality of financial management.** Strict and proper financial management encourages savings which are used for other business activities at quality, like research while weak financial management leads to low quality due to less saving for other activities that improve quality.
6. **Quality standards or objectives** set by an individual/entrepreneur(s). Entrepreneurs with high set quality standards produce high quality products while entrepreneurs with low quality set standards produce low quality set products.
7. **The quality standards set by regulating authorities.** High quality standards set by regulatory authorities enable entrepreneurs to produce high quality products but low-quality standards set by regulatory authorities like the Uganda National Bureau of standards make entrepreneurs relaxed, hence producing low quality products.
8. **Handling of products during distribution/nature of the distribution channel.** Good methods used to distribute products to customers, maintain the quality of products but poor methods used to distribute goods to customers negatively affect the quality of products in an enterprise.
9. **Level of monitoring and supervision.** High level of monitoring and supervision of employees leads to production of high quality goods and services but low level of supervision leads to low quality products
10. **Technical specification regarding quality and quantity of a product.** Proper and accurate mixing of ingredients leads to production of high quality products but improper or wrong mixing of ingredients leads to production of low/poor quality products
11. **Availability and quality of storage facilities.** Adequate storage facilities with a good quality maintain the quality of products but inadequate and poor quality existing storage facilities lower/reduce the quality of products

The following are ways of ensuring quality in an enterprise:

Use by/through at the beginning of every point

- Through carrying out market research
- Through setting high quality objectives in an enterprise
- By purchasing and using good quality raw materials
- Through motivating employees
- Recruiting skilled workers
- Operating in a clean and hygienic environment
- Ensuring close monitoring and supervision of workers
- Giving clear instructions to workers
- Observing the technical specifications
- Ensuring proper packaging of products
- Training of workers
- Storing inventory properly
- Handling the products well during distribution
- By ensuring proper financial management
- Establishing a systematic and well-organized production process
- Observing the set quality standards by regulatory authority
- Employing skilled workers in the enterprise

How proper human resource management ensures production of high quality products

Ways in which proper human resource management promote the quality of products in an enterprise

Use by/through

- Training of workers to equip them with necessary skills
- Motivating workers to encourage hard work
- Ensuring a proper organizational structure
- Employing skilled and qualified workers
- Giving workers detailed and clear instructions
- Providing a favourable working environment
- Carrying out performance appraisal to enable judgment of performance respect to quality
- Ensuring discipline among employees to help promote unity and peace at work so as to achieve quality
- Giving timely and adequate remunerations which make employees satisfied at work
- Giving workers appointment letters to work with job security
- Involving workers in decision making process

Ways in which proper financial control promotes the quality of products in enterprise

By/through

- Purchasing all equipment required in the production process
- Constructing the workplace in a systematic way that promotes quality
- By motivating workers through monetary rewards
- By obtaining and paying utilities in time e.g. electricity, water etc
- By financing research about quality management
- Paying workers remuneration in time
- By purchasing high quality raw materials
- Employed skilled workers in the enterprise

- Using advanced technology in the production process
- Buying durable packaging materials to protect the products from atmospheric germ, spoilage etc

Questions

- Explain the factors influencing the quality of products in an enterprise
- Explain the factors that limit an enterprise from achieving the set quality standards.
- Under what circumstances can an enterprise fail to achieve the set quality standards?

BENEFITS OF QUALITY CONTROL IN THE PRODUCTION PROCES.

An entrepreneur will realize many benefits if the products produced are of a high quality. They may include the following.

1. It improves on the **brand image** of the enterprise through production of high quality branded products which appeal to the customers.
2. It enables an entrepreneur to produce **standardized goods** which eliminates cheating of the customers.
3. It reduces **production costs** by ensuring that the right amount and type of raw materials are used in the production process.
4. It helps an enterprise to **determine its production costs** and the prices at competitive levels in advance before production starts.
5. Enables enterprise to comply with **the set standards** by supervisory authorities like the Uganda National Bureau of Standards UNBS)
6. It helps the entrepreneur to **maintain the image and reputation** to the enterprise since it will be known and liked for its high-quality products.
7. It helps an enterprise **to achieve its set goals, and objectives** concerning quality specification e.g. if it wants to be a market leader with the best quality.
8. It **increases sales** since the quality of the products will attract the customers. This eases advertisement and creates relationships between an entrepreneur and the customers.

Questions

- Explain the objectives of observing quality in an enterprise.
- Why is it necessary to observe quality in an enterprise?
- Explain the reasons for carrying out quality control in an enterprise. (Approach: To, or in order to, etc)

OBJECTIVES OF OBSERVING QUALITY IN AN ENTERPRISE

1. To improve on the brand image of the enterprise through production of high quality products and branded in order to appeal to the customers.
2. To produce standardized goods which eliminates cheating of the customers?
3. To reduce production costs by ensuring that the right amount and type of raw materials are used on the production process.
4. To help an enterprise to determine its production costs and the prices, at competitive levels in advance before production starts off.
5. Comply with the set standards by supervisory authorities like the UNBS and hence producing feasible products.
6. To enable the entrepreneur to maintain to maintain the image and reputation to the enterprise since it will be known and liked for its high quality products.

7. To achieve the set goals of the enterprise and its objectives concerning quality specification like if it wants to be a market leader with the best quality.
8. To increase sales since the quality of the products will attract customers. This eases advertisement and creates relationships between an enterprise the entrepreneur, and his customers.

QUALITY AND PRODUCTION MANAGEMENT

Introduction

In the process of producing a product, the quality of the end products is influenced by the activities in each phase of the production process. If low quality raw materials are used, or purchased, it will not be possible to produce high quality products. This requires systematic planning of the production process.

THE PRODUCT LIFE CYCLE

This refers to the various steps or phases, and activities involved in producing a product, starting with the conduction of market research up to the point of satisfying the customers' needs through technical assessment and servicing.

FEATURES OF THE PRODUCT LIFE CYCLE.

The activities or phases involved in the product life cycle have an impact on quality and they include;

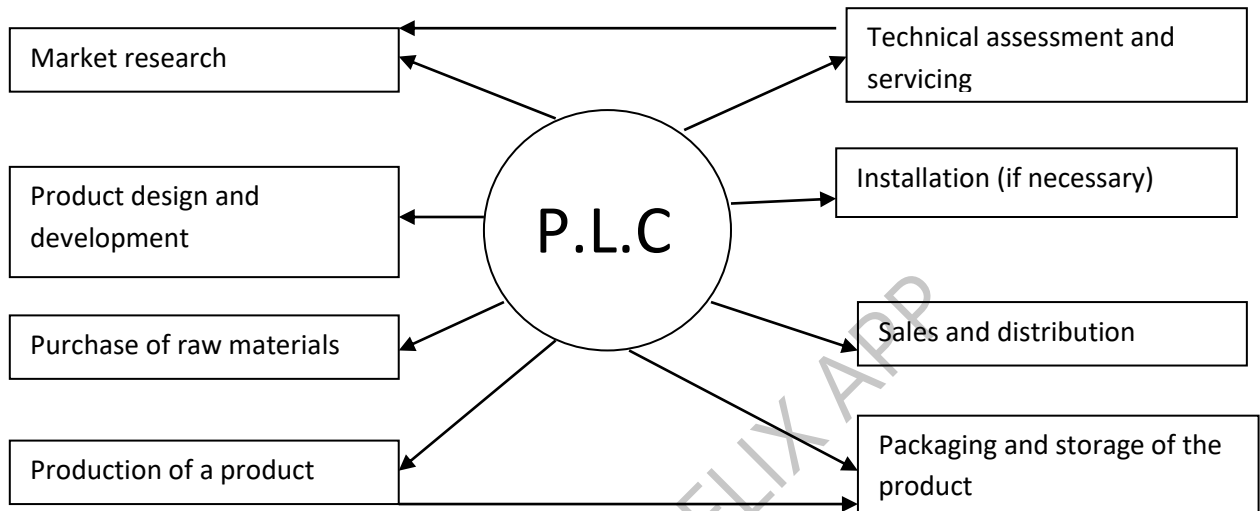
1. **Carrying out market research.** Under this phase, an entrepreneur finds out potential customers' opinion about a product.
2. **Product design and development.** This involves the actual planning of the shape, size, colour, textured, extra; of the products to be produced.
3. **Purchasing of raw materials.** An entrepreneur then selects, and buys the desired raw materials to be used in the production process.
4. **Production of the products.** This is the estate or stage which involves the transforming of the raw materials through the use of inputs to produce the desired product.
5. **Packaging and storage of the product.** This is the step where the end product is wrapped, compressed, etc to prevent and protect it against pilferage, contamination, pouring; etc after packaging the product is stored.
6. **Sales and distribution.** This phase involves the offering of the products to customers for sale and includes all activities that enable the product to reach the final consumer.
7. **Installation** (where necessary). If the product is a machine like grinding machine, the entrepreneur organizes to have it fitted in a place ready for use. n
8. **Technical assessment and servicing.** This is the last step, where an entrepreneur visits the customer to check on the performance of the products especially for technical goods and when necessary, the entrepreneur does the servicing.

The above activities may be presented systematically in a mode known as the product life cycle.

Pilferage to steal things of little value or in small quantities especially from the place where you work.

Grinding to break or crush something into small particles or powder

PRODUCT LIFE CYCLE



ENTERPRISES ACTIVITIES MODEL

This is another model, which is useful in upgrading the quality of the product. It is also called the inputs process – output model

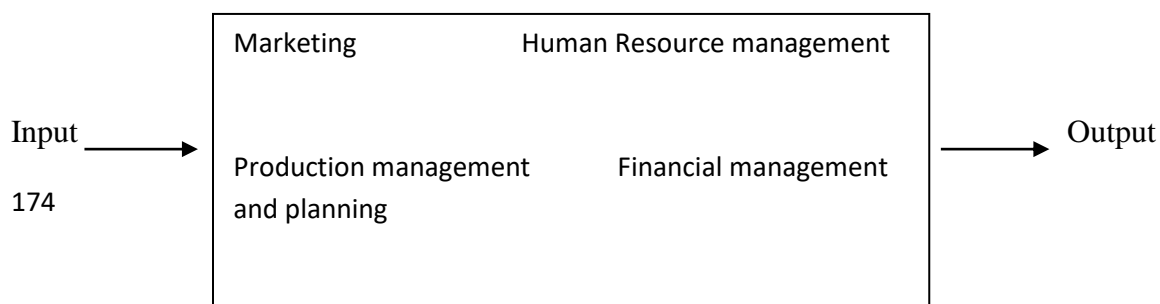
All work accomplished by an enterprise goes through a process. The outputs are results of the process and are either tangible or intangible. The process itself is the transformation that adds value and involves people and other resources to do the transformation.

COMPONENTS OF THE ENTERPRISES ACTIVITIES MODEL

The enterprises activities model is a method used in production processes to ensure land upgrade quality products. It has three (3) components namely;

- i. **Inputs.** This involves all the necessities of the production process like manpower recruitment and management, financial management and capital involvement together with purchase, transport, and storage of the raw materials.
- ii. **Process.** This refers to all work that should be accomplished so as to come out with the finished product. This involves activities like real production and planning and work place management, human resource management and marketing.
- iii. **Output.** This refers to results of the process which may either be tangible or intangible. Output should be properly handled before distributing it to customers.

Enterprises, activities, modes



INVENTORY MANAGEMENT

Inventory refers to stock at hand in form of raw materials, goods in the process of production, goods under repair and finished goods for sale, operating items etc.

Inventory management refers to control of stock at hand by ensuring that the business or firm does not tie up too much working capital in stock so as to have continuous production.

Inventory management systems are rules for enterprises which smaller businesses and vendors should have. The systems ensure customers always have enough of what they want and balance that goal against a retailer's financial need to maintain as little stock as possible.

Mismanaged inventory means disappointed customers too much cash tied up in ware houses and slower sales.

Modern inventory management systems must have the ability to track sales and available inventory, communicate with suppliers

CATEGORIES/ TYPES OF INVENTORY.

1. **Raw materials.** These are goods received by the business to be processed or transformed in the production process to produce other goods and services.
2. **Work in progress.** This includes goods that are still in the production process and have not yet been completed and therefore are not yet ready for sale.
3. **Finished goods.** These are goods that have gone through or completed the production process but have not yet been sold.
4. **Office supplies.** These are materials used to support the production process for example cleaning materials, stationary, computer etc.

INVENTORY MANAGEMENT.

Refers to control of stock at hand, ensuring that the business or firm does not tie up too much working capital in the stock at the same time maintains enough stock in the to ensure continuity of the production process.

IMPORTANCE OF INVENTORY MANAGEMENT

1. It helps to avoid tying up a lot of financial investment or working capital in inventories since it ensures that enough quantity of raw materials is kept in store without excesses to support continues production.
2. It helps to meet demand fluctuations and avoid embarrassing or expensive stock outs by ensuring that the right quantity and quality of raw materials that match with the current demand is kept.

3. Inventory management reduces stock losses while in stores through theft, expiry of shelf life etc since it ensures maintenance of only the required amount of stock to sustain the business production cycle.
4. Inventory management allows flexibility in production scheduling as well as marketing scheduling.
5. It ensures timely replacement of raw materials for continuous production or replacement of products / merchandise for sale thus ensuring continuity of the production cycle or process.

NB, Objectives – use ‘to’ or ‘In order to’

INVENTORY MANAGEMENT TOOLS.

The main tools for inventory management or control include the following;

1. **Re-order level.** This refers to the minimum level below which stocks should not fall before fresh orders are placed. This technique triggers the entrepreneur to make fresh orders when stocks are running out.
2. **Lead time.** This refers to the time it takes between when the entrepreneur places the order and the actual time he receives the goods ordered for. In case it is long, then the entrepreneur has to place orders for large quantities or place his order much easier to avoid stock outs.
3. **Working capital.** This is the amount of money used to buy stock for a given business venture or meet routine operating needs of a business.

TOOLS FOR STORE MANAGEMENT.

Stores are places where stocks are kept before they are sold or dispatched to the owners. They help to protect the stocks from getting spoilt, damaged or stolen.

Store management refers to application of goods methods of receiving and keeping goods in store such as having proper record system, proper protection of stock from getting spoilt, stolen or damaged.

The following are the tools that can be used for proper store management.

- i. **Store cards.** These are cards where information regarding the stock items kept in store is written. They show the amount available and the corresponding dates when they were received. A store card is kept for each item and every time an item is received or given out the quantity received or given out is entered on this card.

Examples of store cards.

Date , particulars , Date of issue , Balance units, Issued to, Authorized by .

- ii. **Store requisition and issue forms.** This is a document that shows the details of what is being requested for and the corresponding record of issues. The person in need of an item completes this form and gets it authorized by the responsible person.

- iii. **Physical stock counting/stock taking.** This is where the stock is physically counted to ascertain what is available and cross check what is expected to be there as per the stock cards.
- iv. **Stock reconciliation.** This refers to up dating and balancing all records regarding what is in store to give a true record of what should be in store. The records are checked and compared to what is physically or actually in store and discrepancy is cross checked and accounted for.
- v. **Stock taking.** This is the actual counting of the stock available in the store to ascertain the number of goods kept in store.

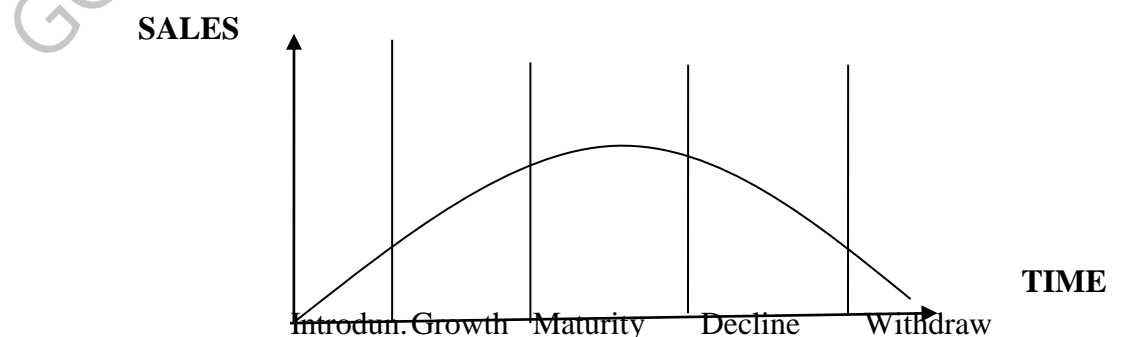
PRODUCT LIFE CYCLE (PLC)

This is the period of time over which an item is developed, brought to market and eventually removed from the market. To say that a product has life is to assert four things.

- 1- That products have limited life
- 2- Product sales pass through distinct stages, each fetching different challenges, opportunities and problems to the seller
- 3- Profits rise and fall at different stages of product life cycle
- 4- Products require different marketing, financial, manufacturing, purchasing and human resource strategies at each life cycle stage.

SUMMARISING MAJOR EVENTS DURING PRODUCT LIFE CYCLE STAGES

This provides a summary of the major differences between the stages in the product life cycle with respect to sales, costs, profits, types of customers and the nature of competition. The major events during the PLC stages are as follows;



a) Introduction stage

At the introduction stage (or development stage), the market size and growth is slight. It is possible that substantial research and development costs have been incurred in getting the product to this stage. In addition, marketing costs may be high in order to test the market, undergo a launch promotion and set up distribution channels. It is highly unlikely

that companies will make profits on products at the introduction stage. Products at this stage have to be carefully monitored to ensure that they grow. Otherwise, the best option may be to withdraw the product.

CHARACTERISTICS OF THE INTRODUCTION STAGE

- i. Sales generally are low and somewhat slow to take off. Customers are characterized as innovators.
- ii. Production costs tend to be high on a per unit basis because the firm has yet to experience any significant economies of scale.
- iii. Marketing costs required for creating customer awareness, interest and trial and for introducing the product into distribution channels are high.
- iv. Profits, because of low sales and high unit costs tend to be negative or very low.
- v. Competitors tend to be few in number, indeed there may be only one major player in the market place- the innovating firm.

b) GROWTH STAGE

The growth rate is characterized by rapid growth in sales and profits. Profits arise due to an increase in output (economies of scale) and possibly better prices. At this stage, it is cheaper for businesses to invest in increasing their market share as well as enjoying the overall growth of the market. Accordingly, significant promotional resources are traditionally invested in products that are firmly in the growth stage.

CHARACTERISTICS OF THE GROWTH STAGE

- i) Sales increase rapidly during the growth phase. This increase is due to;
 - a) Consumers' rapidly spreading positive word-of-mouth information about the product.
 - b) An increasing number of competitors enter the market with their own versions of the products.
 - c) Intensive advertising and other forms of promotion to create market awareness stimulate interest in the product and encourage trial are done
- ii) Costs are declining on a per unit basis because increased sales lead to longer production runs and therefore economies of scale in production.
- iii) Because sales are increasing and at the same time, unit costs are declining, profits rise significantly and rapidly during this stage.
- iv) Customers are mainly early adopters and early majority. It is the early adopter, especially, that is responsible for stimulating the word of mouth (WOM) effect. During the latter part of growth, the first major segment of the mass market, called the **early majority**, enters the market. This category of consumers is somewhat more price-sensitive and lower on the socio-economic spectrum. As a result, these consumers are somewhat more risk averse and therefore more hesitant to adopt the product.

- v) Competition continues to grow throughout this stage. As the competition recognizes the profit potential in the market, they enter the market with their own versions of the product. As competition intensifies, strategies turn to those that will best aid in differentiating the brand from those of competitors. Attempts are made to differentiate and find sources of competitive advantage. In addition, firms identify ways in which the market can be segmented and may develop focused marketing strategies for individual segments.

c) MATURITY STAGE.

The maturity stage is perhaps the most significant stage for all markets. It is in this stage that competition is most intense as companies fight to maintain their market share. Here, both marketing and financing become key activities. Marketing expenses have to be monitored carefully, since any significant moves are likely to be copied by competitors. The maturity stage is the time when most profit is earned by the market as a whole. Any expenditure on research and development is likely to be restricted to product modification and improvement and perhaps to improve production efficiency and quality.

CHARACTERISTICS OF THE MATURITY STAGE

- a. Sales continue to grow during the early part of maturity but at a much slower rate than experienced during the growth phase
- b. Costs continue to rise during maturity because of market saturation and continually intensifying competition
- c. The only remaining customers to enter the market will be the late majority and the laggards. These customer groups are by far the most risk averse and most hesitant to adopt new products
- d. Competition is most intense during this stage. The intensity of competitive in-fighting drives the changes in costs and profits
- e. Profits start declining

d)DECLINE STAGE

In the decline stage, the market is shrinking, reducing the overall amount of profit that can be shared amongst the remaining competitors. At this stage, great care has to be taken to manage the product carefully

It may be possible to take out some production cost, to transfer production to a cheaper facility or sell the product into other cheaper markets

Characteristics of the decline stage

- i. Sales continue to deteriorate through the decline stage. And, unless major change in strategy or market conditions occur, sales are not likely to be revived
- ii. Profits continue to erode during this stage with little hope of recovery
- iii. Customers are primarily laggards
- iv. There are a significant number of competitors in the industry at the beginning of this stage but as decline progresses, marginal competitors will flee the market and only larger competitors with significant market shares remain
- v. Sales promotions is aimed at providing customers with price concessions

e)WITHDRAWAL STAGE

At this point there is a downturn in the market. For example, more innovative products are introduced or consumer tastes change. There is intense price-cutting and many more products are withdrawn from the market. Profits can be improved by reducing market expenditure and cost cutting

Examples of products that are currently at different stages of the product life cycles

Introduction	Growth	Maturity	Decline
Third generation mobile phones	Portable players	DVD, personal computers	Typewriters
E-conferencing	Email	faxes	Handwritten letters
All-in-one racing skin-suits	Breathable synthetic fabrics	Cotton T-shirts	Shell suits
Iris-based personal identity cards	Smart cards	Credit cards	Cheque books

Problems with product life cycle

- i. The decisions of marketers can change the stage, for example, from maturity to decline by price-cutting
- ii. Some products do not go through all the stages i.e. some go from introduction to decline
- iii. It is easy to tell which stage the product is in
- iv. The length of each stage varies enormously

PRODUCTION PLANNING AND CONTROL

Components of production planning

The following are the most important parts of a production plan

1. Raw materials: these are materials needed to make a product.
2. Labour planning: this involves the determination of the number of workers, skills and wages or salaries of the labourforce.
3. Costing: this is the determination of the total cost of producing one product, including costs of materials, direct labor etc.
4. Plant location: the site of the plant chosen should be viewed in relation to other equipment or facilities in the environment.
5. Office space: this refers to the number of office space required for the key personnel to operate.
6. Capital equipment: the number or list of equipment needed in the manufacturing process should be known that is it should be clear whether the equipment should be rented or built or purchased.
7. Work scheduling: the scheduling should be done properly so that there are no loopholes that make the workers idle at certain times.
8. Waste disposal: this refers to the placement of waste into or on the land. Disposal facilities are usually designed to permanently contain the waste and prevent the release of harmful pollutants to the environment.
9. Packaging: refers to wrapping, crafting, filling or compressing of goods to protect them or handle, transport

Specific Business Control Systems

Mechanism for controlling business assets

The assets which need protection often by multiple systems include:

a) **Cash**

- All cash should be recorded on sequentially numbered sales slips. Each customer should get a receipt.
- You should utilize a daily cash reconciliation worksheet to record all cash receipts and the cash register or sales slips totals.
- Do not accumulate cash. You should have a private area for counting your money. You should make frequent trips to deposit the money in the bank.

(b) **Accounts receivable**

- Maintain a file of accounts receivable cards with one card for each active account. All charge sales and amounts received on account should be posted daily.
- Analyze your accounts receivable on a regular basis and write letters or make phone calls to accounts that are slow in paying.

(c) **Inventory of merchandise for sale or raw materials**

- Set up a perpetual system with a card for each item. Record all sales/receipts on the card.
- Take a physical count of inventory at least one year and post the actual amounts to the cards to determine the shilling value of inventory storage.
- Place valuable inventory items in a safe or locked storage room and require that all items removed be recorded in a sign out box.
- If you deal in appliances, auto or other items with serial numbers, keep an inventory file on cards by numbers so that you can then enter the name and address of purchasers .
- Analyze your inventory control cards to determine frequency of use or sales.

(a) **Physical assets**

- Maintain a file of information on all buildings and building improvements, vehicles, furniture, office machines, machinery and tools that you expect to last more than one year.
- Maintain a depreciation schedule listing all depreciable equipment and showing your method and amount depreciation claimed for each year in the life of each item.

(b) **Customer merchandise**

- i) Keep a file by date on which completed work was promised. If the items are not picked up, call or send a letter to remind the customer.
- ii) Do not release goods unless you get cash, a cheque or a signed promise to pay.

Internal System of Small Businesses

Control over business operations may be exercised in the following areas;

(a) **Purchasing**

- If possible, buy from at least two suppliers to keep a check on prices. This helps you to overcome hardships like shortage of materials.
- Keep your eyes open, talk to sales people, read trade magazines and visit trade shows to determine new products that you should be carrying and see how marketing trends might affect your present business.

(b) Quality control

- Spot check your merchandise to make sure it is up to your own quality standards with respect to the price.
- Keep an eye on your merchandise. If you spot slow moving items, reduce the price to get rid of them so you can keep faster moving items on your shelves.
- Survey your customers from time to time to determine if they are satisfied with your level of product quality and service.
- Discuss merchandise returns with customers to determine the sound of their discontent.

(c) Employee moral

Keep an open channel of communication so that you are made aware of any problem which might reduce efficiency or cause employees to quit/sabotage your business.

(d) Financial analysis

- Divide your business into logical profit centres if you are performing more than one function or selling multiple product lines. Establish a record keeping system that allows you segregate your income and purchases.
- Compare your operating costs and profits to find similar businesses or industry averages to find areas for improvement.

(e) Cost controls

- Analyze your labour efficiency to see if your workers are performing up to their ability. Higher wage for more experienced workers should be reflected in more output or higher quality.
- Look for ways to cut added extras out of your business without lowering customer satisfaction.
- Continually scrutinize your operating expenses to find ways to reduce costs through more efficient tools and methods or materials.

(f) Sales

- Set sales quotas and keep track of your sales find out what motivates your employees to perform up to their full potential.
- Check the effect of seasonal variation on your sales and examine ways of smoothing out your sales to achieve better utilization of your facilities throughout the year.
- Learn how to advertise your business correctly and efficiently.

(g) Pricing

- Be sure to set your prices high enough to provide a gross margin that allows for a reasonable profit after your expenses are met.

- Ensure that your prices in line with completion so that you do not lose sales.
- Mark down end of season merchandise to get rid of it.

Technology in production

Technology means the practice of any or all of the applied sciences that have practical value and/or industrial use.

It refers to “how” of doing something.

Types of technology

There are two main types of technologies namely;

- Indigenous technology.** This is the art developed within a country and passed over the years from generation to generation, often with no development or improvement.
- Advanced technology.** This is technology that has been developed from modern scientific principles.

Technology can also be classified as;

- Adapted technology
- Transferred technology
- Appropriate technology

TIME MANAGEMENT

This refers to the use of available time appropriately to increase productivity in an enterprise

Hidden time. Refers to time that the entrepreneur or the business has previously mismanaged, consumed with destructions, or used for other tasks or activities that are turned into productive time for pursuing priority tasks. For example the entrepreneur may use the 10minutes waiting in the supplier’s office to plan, dictate or to receive calls of clients

Executive time

TECHNIQUES OF ENSURING EFFECTIVE TIME MANAGEMENT

1. Spending time planning and organizing first. This involves using time to think and plan what to do in a day or a week
2. Setting goals/being goal oriented. This technique requires an entrepreneur to set goals that are specific, measurable, realistic and achievable. This gives him a direction on how to use his time effectively
3. Prioritizing time. This involves prioritizing your time to concentrate on items or tasks with the greatest rewards or allocate more time on your priority activities
4. Setting a daily “to do” list. This involving preparing a list of activities to be done in a day or a week and what to begin with first and to end with
5. Establishing deadlines. Setting realistic deadlines (time periods) for certain activities is one way of managing time effectively since it enables an entrepreneur to accomplish more tasks
6. Being flexible in time usage. This involves scheduling time for unexpected, unplanned emergencies. this enables the entrepreneur to handle interruptions and destructions
7. Considering your biological prime time. This is the time of day when you are at your best. It is important to identify your biological time and you use it to do your priority activities

8. Doing the right thing right. This involves identifying the right thing to and then concentrate on efficiency or doing it right because “doing the right thing is more important than doing things right”
9. Practicing the art of intelligent neglect/learning to say “no” to useless activities. This enables an entrepreneur to allocate his/her time on activities that are beneficial to the business
10. Avoiding being a perfectionist. This saves the entrepreneur from over concentrating on a particular activity where he/she can not yield maximum benefits
11. Breaking bigger tasks into small tasks and handle one at a time. This gives the entrepreneur more courage to accomplish smaller tasks than bigger tasks
12. Being action-oriented. This involves outlining specific course of action to solve specific problems
13. Being reflective. Reflective thinking is the act of learning from one’s past, present and potential future activities. This enables an entrepreneur to be focused
14. Questioning your self on time usage. Generate questions on how you use time in a day or a week or a month
15. Taking notes. This involves recording thoughts and ideas, future appointments and things to do etc reduces wastage of time
16. Motivating your self. This involves promising your self a reward for completing each task or finishing the total job

Why is it necessary to practice good time management in an enterprise?

Why is there a need for effective time management in an enterprise?

Begin with to/in order to

1. To minimize resource wastage by particularly making use of raw materials and other resource inputs before they go bad
2. To ensure perfect customer- care relations by serving them as quickly as possible
3. To increase sales as sales deals are quickly zealed so that many customers are served by the end of the day
4. To increase productivity of an enterprise in the shortest possible time, this enhances quick business expansion
5. To withstand competition
6. To ensure production/provision of good quality products
7. To ensure timely stock-taking for timely re-stocking

Explain the importance of effective time management

Use “es” tense on the above points e.g. it ensures, it provides etc

MARKETING MANAGEMENT

Marketing refers to identifying, anticipating and satisfying customers needs effectively and profitably. It encompasses market research, pricing, promotion, distribution, customer care, your brand image etc

Selling is the process by which you accumulate as much information about the needs of your client as possible, and present your solution, while simultaneously marketing your company and your products

Differences between selling and marketing

- i. Marketing focuses on customers' needs while selling focuses on seller's needs
- ii. In marketing, a customer enjoys supreme importance, while in selling, a producer enjoys supreme importance
- iii. In marketing, there is an integrated approach to achieve long term goals while in selling there is a fragmented approach to achieve immediate gains
- iv. In marketing an entrepreneur converts customer's needs into a product, while in selling, he converts products into cash
- v. In marketing there is caveat venditor (let the seller beware) while in selling there is caveat emptor (let the buyer beware)
- vi. In marketing, profits are realized through customer satisfaction while in selling profits are realized through sales volume

Similarities

- i. Both aim at satisfying the customer's needs
- ii. Both aim at making customers aware of the products or business
- iii. Both aim at making profits from the business' products
- iv. Both aim at changing the ownership of the product from the business to the final user or customer

THE MARKET

This refers to the group of people, institutions or businesses that are in need, able and willing to buy a product at a given price.

An entrepreneur is expected to take up a business idea that has market opportunities so as to get enough profits.

FEATURES OR CHARACTERISTICS OF A MARKET.

- It should have the need for the product
- There must be willingness to buy the product
- There must be ability to buy the products

TYPES OF MARKET

1. Potential market
2. Real market

POTENTIAL MARKET

It refers to a group of people or institutions or businesses in need or having the ability to pay for it but not yet willing to buy the product.

REAL MARKET

It refers to a group of people or institutions or business in need of the product and is able and willing to buy the product at a given price.

FACTORS CONSIDERED WHEN ASSESSING A POTENTIAL MARKET

This is the process of determining the market of a product of a business. The following are the factors considered when determining a potential market.

1. **The demand level of the product.** Demand is the amount of the business product that people are willing to buy at a given price. High demand of the business product leads to a high potential market but low demand, leads to low potential market.
2. **The price level.** High prices for the business products lead to low potential market but low prices encourage people to buy business products hence leading to high potential market.
3. **Income level.** An area which has high income earners leads to a high potential market while an area which has low income earners leads to a low potential market
4. **Availability of substitute goods.** Substitutes are alternative products that buyers can go for to satisfy the same need e.g. cocacola and pepsi. A business producing without substitutes has a higher potential market than a business with many substitutes which has a low potential market since customers have many products to choose from.
5. **Level of competition.** A business with many competitors has a low potential market since customers have more businesses among which they choose from but a business with a few or no competitors has a high potential market.
6. **Location of the business.** A business which is strategically located near its customers has a high potential market but a business located in inaccessible place for customers has a low potential market.
7. **The number of people in the area where the business is located.** A business that operates in an area with a large number of people or other businesses or institutions has a high potential market but a business in an area with a small number of people or other businesses or institutions has a low potential market.
8. **Government policies in relation to business operations.** Favourable government policies towards the business e.g. working hours low taxes etc lead to high potential market but unfavourable government policies e.g. discouraging business activities, unfavourable working, high taxes etc lead to low potential market.

Revision questions

Explain the factors that lead to low potential market.

Present the factors that lead to high potential market

The following are the factors that lead to low potential market;

1. **Unfavourable government policy towards business operations.** These limit the business activities done e.g. high taxes, unfavourable working hours hence leading to the low demand which leads to low potential market.
2. **Low level of income of the customers.** This leads to the low demand of the products hence leading to a low potential market.
3. **Low demand for the product.** This means that there are a few people interested in the business products leading to low potential market.
4. **Poor location of businesses.** It makes it difficult for the customers to access business products.
5. **High degree of competition.** Many competitors reduce the number as customers for a particular business leading to low potential market.

6. **Existence of many substitutes.** These reduce the potential of customers to demand for certain goods hence leading to low potential market.
7. **High prices for the products.** High prices reduce the purchasing power of customers or scare the would be potential buyers leading to low potential market.

Factors leading to high potential market.

1. **High level of demand for the products.** High demand for the product leads to high potential market.
2. **Low price level for the products.** Low prices attract buyers to buy in large quantities hence leading to high potential market.
3. **High income levels of the customers.** High income customer received makes them to buy goods at any price hence leading to high potential market.
4. **Low substitute goods.** If there are fewer businesses producing the similar goods to your business, products, the potential market will be high.
5. **Small number of competitors.** A business that operates in an area with a large number of people or other businesses or institutions has a high potential market
6. **Good location of the business.** . A business which is strategically located near its customers has a high potential market
7. Favorable government policies. Favourable government policies towards the business e.g. working hours low taxes etc lead to high potential market

The following steps will help you in finding out the potential size of your market;

1. Establishing the total number of homes in the target trading area-say, 1000
2. Establishing (from official sources) the average annual house hold income say, shillings 30000
3. Multiplying the total number of homes and average annual house hold income to arrive at total annual income for the particular trading area; in this case it will equal to shs. 30,000,000
4. Establishing what percentage of house hold income is spent on the specific product category by a particular group. For example 16.7% is spent on clothing and foot wear
5. Multiplying to arrive at the value (size) of total annual market in the trading area; 16.7% of shs. 30.000.000 equals shs. 5.010.000
6. Assuming a 25% market share of that which will equal shs. 1,252,500.

POTENTIAL CUSTOMERS

Potential customers are a group of people sharing common needs and characteristics that a business decides to serve

Characteristics of potential customers

The entrepreneur should know the potential customers for his/her enterprise using characteristics such as:

- a. **Age.** People at different ages have different requirements for different reasons. It is important where the product is aimed at a specific age e.g. toys for children
- b. **Sex.** This involves asking questions like will the customers be mainly women or men is the product by its nature aimed at a specific sex?
- c. **Location.** Customers can be defined by where they live, work and where they go, a small restaurant may cater to workers in nearby offices

- d. **Occupation/employment.** Which social class or occupational group is your product going to appeal to?
- e. **Income.** If your business is going to focus on high-priced quality product products, your customers will be in a high income bracket
- f. **Leisure activities.** Define customers according to their leisure activities (participants in certain sports)
- g. **Usage.** Define your market by identifying segments based on the way your produced is used by your customer

THE TARGET MARKET POPULATION

A target market population is a group of people one is supposed to sell his/her products to. The target population is where the likely buyers of one's product will be secured or Is a group of people or businesses or institutions that a business tends to serve

FACTORS THAT DETERMINE A TARGET MARKET POPULATION

1. **Income levels.** Income level refers to the incomes of different categories of people. It is the total income that each group of people gets on daily, weekly or monthly. High income levels imply large market share while low income levels imply small market share
2. **Consumption habits.** This is the behavior of consumers in consuming different products. The pattern of their expenditure on items depends on their consumption habits for example, smokers, alcoholics and sports. Consumption habits in favor of a product lead to large target market population while unfavorable consumption habits lead to a small target market population
3. **Number of competitors/level of competition.** These are the businesses, which are dealing with and selling similar products or those that can be substituted for yours. Existence of many competitors reduces the market share or target market population but few or no competitors at all increases the target market population
4. **Market share.** This involves quantifying the number of potential customers that exist in a reasonable area and how many potential customer the business can attract from competitors. A large market share implies large target market population but a small market share implies a small target market population
5. **Age and sex of customers.** This is because within a target market population, there are people of different ages and sexes. Different groups may require a variety of specified products and different sizes, colors and shapes
6. **Market trends.** These include changes in population i.e. are there more people coming to live in the target areas?, are there regulatory changes or development, changes in economic situation, lifestyle changes etc Favourable market trends lead to a large target market population but unfavourable market trends towards the business lead to a small target market population
7. **Education level.** This should be considered when determining the target market since people with different levels of education demand different goods (In terms of Quality, quantity, size and shape etc)

PERSONAL SELLING/CREATIVE SELLING/SALES MANSHIP CREATIVE SALES PERSONS/SALES FORCE/PERSONAL SELLING

This is where teams of sales persons are employed to sell directly to customers. The creative selling process consists of eight steps as shown below. These include the following:

- _____ 8 sales follow-up
- _____ 7 suggestions selling
- _____ 6 closing the sale
- _____ 5 handling objections
- _____ 4 presentation of merchandise
- _____ 3 initial contact
- _____ 2 prospecting
- _____ 1 pre-customer contact

1. Pre-customer contact. This involves recruiting, training and motivating sales persons before selling goods and services. This is because a good sales person must have knowledge of his or herself, his or her firm, product customers, competitors and selling techniques

A business person should place people on sales floor or telephone when they know the merchandise, services and customers. Before any contact is made with the customer, every salesperson should know the forementioned items

- Have the company policies, procedures and rules in writing for all employees to see and to know
- Operation of equipment. Learn how to use equipment before a sale, not while the customer is waiting for change
- Target market knowledge. The better salesperson knows something of the likes and dislikes of the firm's primary customers. The business operator should tell all sales personnel about the business' customers and their life styles
- Product knowledge. A sales person gains confidence by knowing about the products and services that he or she is selling

2. Prospecting. This means locating the customers and at this stage an entrepreneur finds out where to go, who and what to do. Prospects are people or firms that are likely to buy the products.

It is concerned with taking the initiative by going to the customer with a product or service idea. It may be of two types i.e.

- New customer prospecting. A sales person sees that a person is getting married; action is taken on this knowledge by contacting the person and telling her about appropriate items or services that might be of assistance to a new bride.
- Regular prospecting. A salesperson should make a practice of calling regular customers on periodic basis to tell them about products or services

3. Initial contact/Approach. This is the first face to face interaction/meeting with the customer and the first ten words used are more important than the next thousands of words
The most effective way to close a sale is to open it on a positive note for example

Clerk: May I help you”?

Customer: “No thank you, I’m just looking”

Initial contact also means responding to customers when they enter the sales areas even when they cannot be waited on immediately

4. Presentation of merchandise. This is intended to attract and retain the buyer’s attention and here the entrepreneur’s preposition should be to create interest in the customer’s mind. This can be done by;

In presenting merchandise (or services) to the customer, the salesperson should use product knowledge to create the best advantage by:

- Talking benefits: Tell the customers benefits of the products
- Customer involvement: show the customer several features of the digital watch and then have the customer put it on and work it. If the interest is there, it will be hard for the customer to take off the watch so that the salesperson can put it back into the case
- Limit the choices: if during the sales presentation more than three items are in front of the customer, the chances of a sale are reduced while the [possibility of shoplifting is increased
- Use showmanship: Encourage all personnel to be creative, be enthusiastic about the merchandise e.g. hold the necklace up for the customer to see it
- Message adaptation: This involves deciding what information is needed to sell to a particular customer and how the information should be presented to that customer
- Listen to the customers to make them feel important
- Give the customers or buyers complete attention

5. Handling objections. These arise when the buyer says ‘no’ to the price or design of the product and the following methods can be employed to handle the objections.

Stress to all employees that objections are a natural part of the selling process.

Examples of common customers’ objections

Product: “that dress looks out-of-date”

Store: “You never have the right merchandise”

Service: “if I believe what I hear, I can’t get good service from you”

Price: “It is just too expensive”

The sales person can use the following methods to handle customer objections:

- Yes-but- “Yes, it does look out-of-date, but it is the latest”. This approach brings on a positive note by agreeing with the customer and then moves on to answer the objection
- Counter question- Why do you feel it’s out-of-date?” the counter- question puts the ball back in the customer’s court
- Re-state objection- “You feel that the dress looks out-of-date” By restating the objection, the customer may respond by saying, “No, I mean it just doesn’t look right on me”. This approach tends to reduce the magnitude of the objection in the eyes of the customer
- Direct response- “The dress you have on was first shown at the market this season. It is the latest thing” this approach is necessary if the customer is not going to buy unless their assumption can be corrected

6. Closing the sale. This involves finding a way of making a customer act or buy the product and it requires an entrepreneur to use the following methods below;

The salesperson can assist the customer by helping him/her to make the buying decision. Closing techniques include:

Offer a service: “Let us deliver it to you this afternoon” a yes implies purchase

Give a choice: “Do you want the five-piece or eight-piece cooking set?” Either choice implies purchase

Offer an incentive: “If you buy now, you get 10% off the already low price” the implication is that if they delay, they will not get the 10%

Better not wait: “If you want this refrigerator, better get it now. It is the last on stock”

7. Suggestion selling

Encourage your sales personnel to make a definite suggestion for a possible additional sale. Statements such as “Will there be something else?” for example when the customer buys a lamp, what about a light bulb to go in it?”

8. Sales follow-up. This is the support an entrepreneur gives to his or her customers after the sale or purchase of his or her goods and services. This builds up good will and generates repeat purchases. This can be done through the telephone call i.e. The closing statement, “Thank you for shopping at pipeline Supermarket” is a form of sales follow-up if it is done with enthusiasm. “May I help you”, it allows the customer to leave on a positive note, thereby increasing the chances of repeat business by the customer

How to become successful salesman / a successful sales person

1. By improving the skills of selling. A sales person needs to acquire selling skills that attract buyers to buy a particular product
2. By finding out what customer needs through listening and asking questions
3. Satisfying the customer’s needs by giving advice and offering suitable goods and services.
4. By knowing how to treat the customers i.e. customers should be treated better than the sales person would like to be treated when he or she is a customer.

Ways of improving customer treatment

1. Greeting the customers and where possible call them by their names. When already serving the customers, and others come. Great waiting customers and tell them that you will attend them some.
2. Being polite and friendly because this makes the customers feel calm and enjoy visiting the business.
3. Looking tidy and clean
4. Listening carefully to what the customers say and ask questions to find out what they need.
5. Being patient, i.e. give the customers time to ask questions and decide what they want to buy
6. Being honest and trustworthy
7. Do not argue with the customers i.e. allow them to say on of they don’t want the product and ask them what they want

8. Thanking the customers for coming to the business even when they have not bought your products.

Attributes of a creative salesperson

These include the following:

- i. **Good judgment.** Common sense, maturity, intelligence and other terms are used interchangeably with judgment. A salesperson knows that it does not pay to argue with a customer and that the firm should never be criticized in front of customers
- ii. **Tactful.** A good sales person should have a keen sense of what to say and do. This solves many problems
- iii. **Positive attitude.** A good sales person should have a positive attitude towards customers, merchandise, services and the business. An employee with a good attitude is willing to accept suggestions, to learn and to apply the steps in the creative selling process
- iv. **Attractive personality/Selected physical attributes.** The salesperson must physically belong in the firm's particular environment. Personal appearance and hygiene are important in the selling environment
- v. **Good personal hygiene.** Body odour, bad breath, dirty hair, soiled clothes, scuffed shoes, and dirty finger nails are all reasons why a sale may be lost. An observant owner manager should keep a watchful eye out for hygiene problems among the staff
- vi. A good sales person **should be polite to the buyers** i.e. should care for other people's feelings
- vii. A good sales person must **have knowledge about him/herself**, his/her firm, the products of the business and their qualities etc

REASONS/OBJECTIVES/THE NEED FOR PERSONAL SELLING/RATIONALE FOR PERSONAL SELLING

1. To negotiate with customers on some product attributes, like price, quality, design, colour etc
2. To win the buyer's confidence. Personal selling is carried out so as to win the trust and confidence of customers about the business products
3. To create good customer relationship with the business. This increases the sales volume and profits
4. To acquire regular and permanent customers. Personal selling is carried out to enable the enterprise earn stable income through getting regular and permanent customers
5. To remove doubt and ignorance about different aspects of a product. Personal selling involves a face to face interaction between the sales person and the buyer which eliminates doubt and increases awareness of the product in the public
6. To provide technical assistance to customers. Personal selling is carried out to train, teach and guide customers on how to use certain technical products like installing computers
7. To improve on the image of the business. Personal selling which involves giving samples, participating in charitable is intended to improve on the business image in the eyes of the public
8. To create a wide market coverage. Personal selling is intended to expand the market share by employing sales agents in various geographical areas
9. To withstand competition/to over competition in the market. Personal selling is intended to enable the business compete favourable with rival businesses

ADVANTAGES/MERITS/IMPORTANCE OF PERSONAL SELLING

1. It helps the entrepreneur to negotiate with customers on some product attributes, like price, quality, design, colour etc
2. It helps the entrepreneur to win the buyer's confidence. Personal selling enables the entrepreneur to win the trust and confidence of customers about the business products
3. It creates good customer relationship with the business. This increases the sales volume and profits
4. It enables the business or entrepreneur to acquire regular and permanent customers. Personal selling enables the enterprise to earn stable income through getting regular and permanent customers
5. It removes doubt and ignorance about different aspects of a product. Personal selling involves a face to face interaction between the sales person and the buyer which eliminates doubt and increases awareness of the product in the public
6. It provides technical assistance to customers. Personal selling is carried out to train, teach and guide customers on how to use certain technical products like installing computers
7. It improves on the image of the business. Personal selling which involves giving samples, participating in charitable improves on the business image in the eyes of the public
8. It creates wide market coverage. Personal selling expands the market share by employing sales agents in various geographical areas
9. It enables the business/entrepreneur to withstand competition/to over competition in the market. Personal selling enables the business to compete favourable with rival businesses
10. It increases profits and sales of the business
11. It creates a long term relationship between the enterprise and its customers

MARKETING MIX

This refers to all elements in the marketing activities which include;

- a) Product
- b) Price
- c) Place
- d) Positioning
- e) Promotion

There are commonly known as the 5Ps

PRODUCT

This refers to a good or service offered by a business enterprise to satisfy human needs or customer's needs. Examples of products include books, desks, pencils, pens, graph books, rulers, clothes, plates, cups etc.

The entrepreneur should sell what the customer wants and therefore his or her products should be unique in design, colour, size and qualities that customers refer them to those of other competitors.

Factors considered when designing a product

1. **Customer's needs.** The manufacturer or entrepreneur should design the product in response to the customer's needs in terms of shape, colour, design and packaging materials.

2. **The products of competitors and competing products.** The entrepreneur should decide where his or her products will be liked or better than those of the competitors.
3. **Availability of raw materials.** The entrepreneur or manufacturer should consider the availability of raw materials for making or designing the product at reasonable costs so as to live long for the business to make profits.
4. **Government policy towards the quality of the product.** The manufacturer or entrepreneur should make or design or product that meets the set standards of regulatory bodies like UNBS, NEMA and other government policies.
5. **Lifespan / shelf life / duration of the product.** An entrepreneur should consider the lifespan of his or her products so that the materials used in making them can fit in the desired time of the products before their consumption.
6. **Nature of the target market.** An entrepreneur should consider the type of customers to whom he or she expects to sell the products i.e. their age, gender, income bracket, interest etc.
7. **Desired weight / volume of the product.** The manufacturer or entrepreneur should consider the expected weight of the products and choose raw materials that would be able to meet the desired eight.

PRICE

This refers to the monetary value of the product. The value charged by the entrepreneur for any product should be affordable to attract customers yet it should also be high enough to earn enough profits to the entrepreneur.

Factors to consider when determining price

1. **The cost of the product.** This should be considered in pricing products. If it is high, high prices should be set and if it is low, low prices should be set.
2. **Prices of competitors.** The entrepreneurs should consider that the price set is in line with that of competitors. However, at times a high price can be set in order to target a particular group of people.
3. **The quantity in which people buy** and how much they are willing to pay. Normally people who buy in large quantities are charged lower prices than those who buy in small quantities.
4. The need to make the **product or prices more attractive** to customers by offering special discounts and offers.
5. **Profit margin of the entrepreneur.** If one wants a big profit margin, he will set a high price and if one wants a small profit margin, he will set a low price.
6. **Pricing policy of the government.** The entrepreneur should set the price in line with the government set price i.e. a maximum or price above or below which selling of products is illegal.
7. **Quality of the products.** High quality products or highly priced compared to low quality products
8. **The level of the seasonality of the product.** Normally seasonal products are sold at a high price compared to non seasonal products e.g. Christmas cards during Christmas time, success cards during exams time etc.

9. **Terms of payment.** Goods purchased on credit are usually high priced compared to those purchased on cash basis.
10. **Durability of the products.** Durable commodities are highly priced compared to undurable commodities.

COMMON METHODS OF PRICING PRODUCTS

1. **Cost oriented pricing.** This is where the price of a product is set basing on the costs incurred and producing it i.e. if the cost is 5000 he or she may sell it at 1000 after adding on his or her profit margin.
2. **Demand oriented pricing;** In this method, the price is primarily based on the desire to attract customers and increase the demand of the products i.e. a higher price is charged when the demand is high and a low price is charged when the demand is low.
3. **Competition oriented pricing;** This is a method where price are set after considering the pricing of similar products by competitors. The entrepreneur may at times lower prices compared to his or her competitors in order to out compete them or may set a higher price to impress the buyers that he or she may sell in better quality goods.
4. **Haggling or bargaining.** This is a method of pricing where the price set is reached after an agreement between the buyer and the seller. It depends on which party is more desperate to buy or sell products.
5. **Supply oriented pricing.** This is where the price of the product is set basing on the level of supply if supply is low the price is high and when supply is high, the price is low.
6. **Government oriented pricing.** Here the government fixes the price of a product by either setting a minimum or maximum price, below or above which a commodity should not be sold.
7. **Fashion oriented pricing.** Here the price set is based on the fashion that appeals to the customers at a time. If the fashion is attractive or the latest on the market its price will be high.
8. **Re-sale price maintenance.** It is a method used by entrepreneurs which involves fixing the price of the product at which it can be sold after the final consumer.
9. **Collusion.** This is used by entrepreneurs of a particular product when they agree to sell it at a uniform price.
10. **Value pricing.** This is where prices are set basing on the value of the product i.e. if the value of the product is high, the price will be low and when the value is low, the price will be high.
11. **Forces of demand and supply.** This involves setting a price where demand equates to supply of a product

PLACE

This concerns with various methods of making products available to the customers. It involves transport, storing and stocking products such that they are available for customers all the time.

Factors considered when choosing a place

1. **Accessibility to good transport areas.** A place should be accessible i.e. it should be well connected to transport network that buyers or customers can be able to avail themselves with products whenever the need arises.

2. **Enough room for expansion.** An entrepreneur should be able to forecast the rates at which his or her business shall expand and should get a place with enough space.
3. **Storage facilities.** This refers to where entrepreneurs can keep the goods safely till they are demanded for by the customers. Good storage facilities protect the goods from damage, too much heat, theft etc.
4. **Adequate security.** The place where business products are being made available should be secure to ensure their safety and life of the entrepreneur.
5. **The cost of the place.** The cost of the place chosen should be relatively cheap compared to the business being set.
6. **Presence of social services / amenities** like schools, hospitals, worship places etc. The place chosen should possess such services because they are needed by the entrepreneur and his or her worker.
7. **Presence of ready market.** The entrepreneur should set up his or her business in a place where there is a good market or where customers are located to make it easy for them to access the business.
8. **Source of water.** An entrepreneur should choose a place with access to water because it is very important and used in cooling machinery, as input, for washing raw materials as well as used in peoples' homes.
9. **Availability of power.** An entrepreneur should choose a place with power to provide light and to be used in producing the products by machines.
10. **Government policy of allocation of enterprises in the country.** One should locate his or her business in a place which is legally accepted by the government.

Revision questions.

Explain the reasons for setting high prices of products in an enterprise

Under what circumstances may an entrepreneur set low prices for his/her products

Explain the factors influencing the choice of a place for making the products available to customers in an enterprise

Present the factors limiting an entrepreneur to choose a particular place for availing products to customers

PROMOTION

It refers to all activities used by the entrepreneur to inform and attract customers to come and buy products for the first time or to come and buy the products again or to buy more of the product.

This is aimed at increasing demand of a product which leads to increase in the income of the entrepreneur.

WAYS OF PROMOTING PRODUCTS

1. By use of intensive advertising to inform and make the customers more interested in buying the products. Some ways of advertising include; use of radio, photograph, news papers, price lists, posters etc.
2. By displaying the products outside and inside the business premises/ window display. This involves placing of goods in attractive glasses, using attractive lights or arranging them neatly in a sales room to attract people who pass by

3. By arranging the products inside the shop /business/positioning. This involves strategically arranging goods of small value, appealing to a particular group of customers to attract their attention
4. By giving free samples most especially of new products for customers to taste. This attracts many customers with positive taste about a particular product
5. by giving gifts to customers with the intension of creating awareness of the business name and message hence inducing them to buy the product
6. By use of attractive packaging materials so as to attract more customers.
7. Through personal selling/showing perfect knowledge of the product and its benefits. This involves employing salesmen to sell directly to customers and work upon their complaints
8. Through trade fares and exhibition. Fairs and exhibitions are organized to introduce new products, demonstrate the products and to explain the special features and usefulness of the products. Goods are displayed and demonstrated and their sale is also conducted at a reasonable discount.
9. Through branding/use of attractive /unique name. This involves giving a product a unique name to differentiate it from other similar products. This also attracts customers to the product
10. By sponsoring activities in the community e.g. games, health programs, music festivals etc this increases awareness of customers about the products of a particular company since there an interval at which the products of the sponsor are advertised
11. By communicating with customers and understanding their requirements. This keeps the business in close contact with its customers hence increasing sales
12. Giving products to regular and trustworthy customers on credit. This induces many customers to buy the business products
13. Renovating business premises. This involves improving the quality of business premises like shopping outlets by attractive paints to attract more customers

SALES PROMOTION

Sales promotion refers to all activities other than advertising and personal selling that help to increase sales of a particular commodity. It helps dealers to dispose existing stocks quickly when there is change in the fashion or taste of customers. It also helps consumers to get goods at a cheaper price. It also provides information about improvement in quality of goods

Objectives of sales promotion.

The main objective of sales promotion is to increase sales. However there are also some other objectives of sales promotion which include:

1. To introduce new products. This involves giving free samples to customers and after using these samples customers may develop a taste for it and buy the products later for consumption
2. To attract new customers and retain the existing ones. Sales promotion measures help to attract or create new customers for the products. For example giving discounts, gifts, prizes etc these attract customers and retain existing customers
3. To maintain sales of seasonal products. There are some products like air conditioners, fans, refrigerators, coolers, winter clothes, room heaters, sunscreen lotion and glycerine

soap which is used only in particular seasons. Manufacturers give off-season discount so as to maintain the sale of these types of products

4. To meet the challenge of competition/to withstand competition. New products frequently come to the market and at the same time improvement also takes place. It is therefore important to have sales promotions in order to retain the market share of the seller or producer in the market
5. To reward regular customers for their continued support. Sales promotion in form of giving gifts, bonus offers, etc is intended to give back to customers who have been buying products for a long period of time
6. To increase sales in the business by attracting more customers
7. To increase customers' awareness through persuasive and informative advertising.
8. To avail customers with cheap commodities. promotion in form of price reductions is intended to make customers buy the products at a relatively low price so as to improve on their standards of living
9. To maintain good relationship between the business and its customers. promotion in form of giving gifts, credits, bonus offers etc is intended to strengthen the relationship between the business and its customers
10. To improve on the image of the business in the eyes of the public. Promotion in form of sponsoring community development programs, sponsoring games and other competitions is intended to sell the name of the business to the public
11. To improve on standards of living of customers. Promotion in form of exchange programs is done to improve on standards of living of customers for example exchanging black and white televisions with coloured screens
12. To dispose off old stock. Sales promotion in form of price reductions is done to sale off old stock which near to expire so as to avoid losses

ADVANTAGES/MERITS/IMPORTANCE

Use the above points but should be presented in present tense/using the “es” tense

Importance of sales promotion

The following are the advantages of sales promotion to manufactures

- i. It helps to increase sales in a competitive market and thus increases profits
- ii. It helps to introduce new products in the market by drawing the attention of potential customers.
- iii. It helps to dispose off existing stocks when a new product is introduced or when there is a change of fashion or taste of customers
- iv. It stabilizes sales volume by keeping its customers with them. In the age of competition it is quite much possible that a customer may change his/her mind and try other brands. Various incentives under sales promotion schemes help to retain the customers
- v. It improves on the image of the business

Sales promotion is important for consumers because;

- i. The consumer gets the product at a cheaper rate
- ii. It gives financial benefit to the customers by way of providing prizes and sending them to visit different places
- iii. The consumer gets all information about the quality, features and uses of different products
- iv. Certain schemes like ‘money back offer’ create confidence in the mind of customers about the quality of goods

- v. It helps to raise the standard of living of people. By exchanging their old items they can use latest items available in the market. Use of such goods improves their image in the society

Sales promotion strategies

These are activities designed to help boost the sales of a product or service. There are a variety of sales promotional strategies that a business can use to increase its sales. These include;

- An advertising campaign
- Public relation activities
- A free sampling campaign
- A free gift campaign
- A trading stamps campaign
- Through demonstrations and exhibitions
- Through prize giving competitions
- Through temporary price cuts
- Through door -to -door sales
- Tele marketing
- Personal sales letters and emails

When developing a sales promotion strategy an entrepreneur should consider the following

- Consumer attitudes and buying patterns
- brand strategy
- competitive strategy
- advertising strategy
- Other external factors that influence your products availability and pricing e.g.

Please give them

There are three types of sales promotion strategies

- i. A push strategy
 - ii. A pull strategy
 - iii. A combination of the two
- i. **A push sales promotion** involves ‘pushing’ distributors and retailers to sell business products and services to the consumer by offering various kinds of promotions and personal selling efforts. The basic objective of this strategy is to persuade retailers, wholesalers and distributors to carry out brand, give it shelf space, promote it by advertising and ultimately ‘push’ it forward to the customer
 - ii. **A pull sales promotion strategy** focuses more on the consumer instead of the retailers or distributors. It involves getting the consumer to ‘pull’ or purchase the product/services directly from the company itself. It is often used when distributors are reluctant to carry or distribute a product
 - iii. **A combination of sales promotion strategies is a combination of a push and pulls strategy.** It focuses both on the distributor as well as the consumers, targeting both parties directly

METHODS OF SALES PROMOTION

A business person must communicate with his/her customers to promote sales. This can be done using the following methods: **use by/through at the beginning of each point**

1. **By giving free samples.** Free samples are distributed to attract consumers to try out a new product and thereby create new customers. Some businessmen distribute samples among selected persons in order to popularize the product. For example, in the case of textbooks, specimen copies are distributed among teachers.
2. **Through premium or bonus offer.** A milk shaker along with Nescafe mug with Bournvita, a toothbrush with toothpaste, 30% extra in a pack of one kilogram are some examples of premium or bonus given free with the purchase of a product. They are effective in inducing consumers to buy a particular product. This is also useful for encouraging and rewarding existing customers.
3. **Through exchange schemes.** This refers to offers to exchange an old product for a new one at a price less than the original price of the product. This is useful for drawing attention to product improvement. 'Bring your old mixer-cum-juicer and exchange it for a new one just by paying shs.50000' or 'exchange your black and white television with a color television' are various popular examples of exchange schemes.
4. **Through price-off offer.** Under this offer, products are sold at a price lower than the original price, for example, shs.200 off on the purchase of lifebuoy soap or shs.500 off on a pack of 250grams of Garden Tea. This type of scheme is designed to boost sales in off peak seasons and sometimes while introducing a new product in the market.
5. **By use of coupons.** Sometimes, coupons are issued by manufactures either in the packet of a product or through an advertisement printed in the newspaper or through mail. These coupons can be presented to the retailer while buying the product. The holder of the coupon gets the product at a discount. The reduced price under this scheme attracts the attention of the prospective customers towards new or improved products.
6. **By participating in trade fairs and exhibition.** Fairs and exhibitions are organized to introduce new products, demonstrate the products and to explain the special features and usefulness of the products. Goods are displayed and demonstrated and their sale is also conducted at a reasonable discount. The Uganda International Trade Fair at the Uganda Manufacturers' Association [UMA] show ground at Lugogo, which is held every October for a week, is a well known example of fairs and exhibitions as a sales promotion tool.
7. **Through use of trading stamps.** In case of some specific products, trading stamps are distributed among the customers according to the value of their purchase. The customers are required to collect these stamps of sufficient value within a particular period in order to get some benefits. This tool induces customers to buy that product more frequently to collect the stamps of required value.
8. **Through Scratch and win offer.** Some companies use a 'scratch and win' scheme to induce the customer to buy a particular product. Under this scheme a customer scratches a specific marked area on the package of the product and gets the benefits according to the message written there. In this way, customers may get some items free as mentioned on the marked area or may get a discount or maybe even visit a special destination courtesy of the manufacturers.
9. **By use of money back offer.** Under this scheme, customers are given assurance that full value of the product will be returned to them if they are not satisfied with the

product .This creates confidence among the customers with regard to the quality of the product. This technique is particularly useful while introducing new products in the market.

14. **Through window display.** This involves placing of goods in attractive glasses, using attractive lights or arranging them neatly in a sales room to attract people who pass by. This is a means of promotion that most small business people can afford .The window display should be changed often –after one week or one month-in order to keep attracting customers.
10. **Selling goods on credit.** This attracts customers who cannot pay promptly .In most cases, one might charge more for goods sold on credit so long as the prices are competitive. Credit should only be offered to those customers the business person knows well.
11. **Offering discounts.** Trade discounts are offered to those customers who buy goods in large quantities and those who pay promptly are given cash discounts
12. **Giving donations.** Donations can be given by way of contributing money or goods to charitable organizations or to disabled children's homes. This should be done in a way that attracts publicity for the enterprise and its products
13. **Maintaining links with others.** Communicating with other people such as current and potential customers, whole sellers and retailers keeps the right people well informed about your business.
14. **Giving after sales service.** Offering after sales services such as delivery, maintenance and repairs is very much a part of sales promotion provided that it does not affect your profit margin
15. **By use of attractive packaging materials** so as to attract more customers
16. **Through branding/use of attractive /unique name.** This involves giving a product a unique name to differentiate it from other similar products. This also attracts customers to the product
17. **By sponsoring activities in the community** e.g. games, health programs, music festivals etc this increases awareness of customers about the products of a particular company since there an interval at which the products of the sponsor are advertised
18. **By communicating with customers and understanding their requirements.** This keeps the business in close contact with its customers hence increasing sales
19. **Giving products to regular and trustworthy customers on credit.** This induces many customers to buy the business products
20. **Renovating business premises.** This involves improving the quality of business premises like shopping outlets by attractive paints to attract more customers

STEPS FOLLOWED IN PLANNING PROMOTIONAL PROGRAMMS

1. Determining who the target customer is. This can be done by exactly identifying who the target customers are in terms of consumption habits, sex, age, culture, income and where they are located and this can be done through a market research.
2. Determining the unique features of the product. Once the entrepreneur has established who the target customers are, then he or she has to decide on how unique the products will have to be in order for them to meet the customer's needs. Uniqueness may be in terms of quality, price, shape, packaging etc.
3. Constructing a business positioning strategy. A good positioning strategy will seek to address the issues raised in the positioning check list already seen above.

4. Determining the best message to communicate the product to the target buyers. The key to communicating product weakness for an entrepreneur is to construct a memorable unique selling proposition (U.S.P) about product benefits to the target customers. The desire should be able to emphasize to the customer that he or she stands to lose but not buying the product.
5. Determining production and advertising options and their costs in terms of available target customers. Is there labour, enough money to do everything desirable to build a business? etc. The entrepreneur should therefore use some promotional budget reality in order to carryout promotional activities.

Positioning. This means targeting a small segment of customers for whom an entrepreneur aims to sell his or her products e.g. sweets, chocolate, apple, sweet bananas, biscuits etc may be positioned near the shop entrance to attract purchases from children.

Factors an entrepreneur should consider when positioning a product

1. Type of goods or services to be offered for sale. Some goods are consumed by children, others by adults or youth. This helps the entrepreneur to strategically arrange the products
2. The gender to which the products being sold appeals i.e. Male or female because people demand goods according to their gender.
3. The income class or level being targeted. High priced products will be positioned near high income earners while low priced products will be positioned near low income earners.
4. The age group of the market to which the product is to be sold i.e. infants, children, youth, mature, aged etc should be considered when positioning products.
5. Availability of direct competitors, their behaviors, promotional strategies, prices out which they sell. This should be considered by entrepreneurs when positioning his products.
6. Entrepreneurs should consider how the customer would like to be served i.e. is it self service of sales person.
7. The market share that the entrepreneur intends to serve.
8. The business personality traits possessed by the entrepreneur that will enable him or her sale to the target group
9. Where the buyers expect to find the products i.e. is it in open market or at the business premises.

MARKET ASSESSMENT/RESEARCH/SURVEY

It refers to the process of collecting and using market information in order to determine the market for the product of the business and to identify market problems.

OR

It refers to the process of identifying, collecting and analyzing market information leading to identification market problems and opportunities

Or

Refers to the systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services. It involves finding out what catches customer's attention by observing their actions and drawing conclusions from what you see.

Reasons for carrying out market research

1. To establish business customers who are willing to buy the products on regular basis. Through market research, the entrepreneur gets to know the real customers of her business.
2. To identify customers' wants in form of quality, size, quantity, design, scent etc. Through market research the entrepreneur gets to know the likes and dislikes of his/her customers.
3. To assess the effectiveness of promotional strategies employed by the business. Market research helps entrepreneurs to find out the impact/ contributions of sales promotional programs in their enterprises. From their clients.
4. To establish challenges in the market and ways of overcoming such challenges e.g. inadequate supply of goods, low quality of produce etc
5. To determine the market share of the business. Market research is carried out to determine the size of the market the business serves.
6. To identify the competitive advantages of the business over other competitors already in the market producing similar products. E.g. the strength, weakness, opportunities and threats over other businesses
7. To determine the income levels of customers. This helps entrepreneurs to produce goods and services that can be purchased by the customers.
8. To select the best distribution channels to use while availing products to customers. Through market assessment gets to know the geographical coverage of his/her products.
9. To estimate future sales and expected market share. This helps the entrepreneur to determine the future of the business.
10. To assess the feasibility and the viability of the business. Through market research, the owner of the business gets to know whether his/her business is accepted in the community and is capable of expanding or not.
11. To identify the best site where to locate the business. Market research helps the entrepreneur to locate his/her business near the customer.
12. To determine the most effective terms and conditions for selling goods and services. Through market assessment, the entrepreneur gets to know the income level of his/her customers hence deciding whether to sale on credit or on cash basis
13. To analyze the degree of a given product
14. To identify market trends for example changes in customer's tastes and preference, changes in population size, changes in government policies, changes in economic conditions etc

NB: students should avoid using words like to know, to understand while answering objective /reasons for market assessment/ research.

Guiding questions.

Explain the objectives of carrying out market research.

State the benefits for carrying out market research in an enterprise.

The following are benefits of carrying out market research:

1. It helps an entrepreneur to get business customers. Carrying out market research helps an entrepreneur to determine the real and potential business customers.
2. It enables an entrepreneur to determine customers' wants. After carrying out market research, the entrepreneur is able to identify the likes and dislikes of people in terms size, shape, colour quality, quantity etc.

3. It helps an entrepreneur to assess the effectiveness of promotional strategies employed by the business. After market research, an entrepreneur is able to find out the impact / contribution of sales promotional programs in their enterprise.
4. It helps an entrepreneur to identify challenges of the market, eg inadequate good or services supplied , low quality goods etc and to find out ways of overcoming the challenges
5. It enables an entrepreneur to determine the market share of the business. After market research, an entrepreneur is able to find out the size of the market business serves.
6. It helps the entrepreneur to identify the competitive advantages of the business over other competitors who are already in the market. During market research an entrepreneur is able to compare the strength , weakness, opportunities and threats of other business
7. It enables the entrepreneur to determine the income levels of the customers. After market research, an entrepreneur is able to produce goods and services that can be purchased by the consumers.
8. It helps the entrepreneur to select the best distribution channels to use while availing products to customers .After carrying out research, an entrepreneur is able to know the geographical coverage of his/her market hence selecting an appropriate channel to distribute his/her products
9. It helps an entrepreneur to assess the feasibility and viability of the business. After carrying out market research an entrepreneur gets to know whether his/her business is accepted in the community and is capable of expanding or not
10. It enables an entrepreneur to locate the business in the best site. After market research, an entrepreneur is able to locate his/her business near his/her market

METHODS OF MARKET RESEARCH

The following methods which entrepreneurs use to carry out market research

1. **Interviews.** Entrepreneurs find out many things by talking to people directly or asking some questions through face to face interactions. It also involves setting some questions whose feedback is in a short period of time.
2. **Observations.** An entrepreneur can also collect data by physically seeing behaviors of customers eg. Their facial expressions, complaints etc as they are buying products from the enterprise
3. **Questionnaires.** This involves preparing a list of questions and giving them to potential buyers whose responses can be collected at a later date. Questions can cover areas like price, size, colour, design, quantity, quality, substitutes of the product etc.
4. **Telephoning.** This involves calling customers to discuss about the design, colour, quality, quantity and benefits of the product with your customers.
5. **Samples/experiments.** This involves trying a new product in the market through giving samples to customers to find out the suitability /taste of the products. This helps an entrepreneur to find out the likes and dislikes about the new product he/she has launches it on the market.
6. **Surfing/use of internet.** This involves advertising the business product through the internet and interacting with customers to find out their complaints.
7. **SWOT Analysis.** This involves determining the strength, weakness, opportunities and threats of the business. It enables an entrepreneur to determine the nature of her business.

8. **Brain storming**, is a technique used to solve a problem by generating as many ideas as possible. You can get practice in brain storming by getting together with two or more people, one should be a leader and another should be a recorder
9. **Personal contacts**. You can conduct an informal survey by talking to your family and friends. You may ask them what new businesses they think are needed in town, goods they can not be able to purchase locally etc

FACTORS TO BE CONSIDERED WHEN CONDUCTING A MARKET ASSESSMENT.

The following are the factors an entrepreneur has to consider

1. **The target market of the product**. This involves looking at the target group of customers in terms of sex, age, income levels etc. this provides a boundary within which the assessment should be done.
2. **Nature of the products** to be produced and what the market wants. This factor considers the product variety, quality, design features, brand name, packaging etc. All these should be considered by the entrepreneur while conducting a market assessment.
3. Competition and substitute products that the business will face. This requires an entrepreneur to check on the competitors he will face in the market and determine the level of competition he will face.
4. **Target market trends**. This requires an entrepreneur to determine the behavior of the market he is intending to join in the past and predict what will happen in the future.

Guiding questions

Distinguish between a market and market assessment

Explain the factors that should be considered when intending to carry out market assessment.

Explain the factors used in conducting market assessment

Explain the sources of market information.

GUIDELINES USED WHEN CONDUCTING MARKET ASSESSMENT

The following are guidelines considered while conducting market assessment:

1. **Customer's identity**. This involves identifying the type of business customers' in terms of their sex, age brackets, their occupation, income levels etc
2. **Customers' wants**. This involves determining what customers buy from the business in terms of the colour, size, quality, shape etc of a particular product
3. **Competition**. The entrepreneur should carefully analyze the strength of competitors, their weaknesses, pricing strategies and promotional programs they use
4. **Market trends**. This involves analysis of the population shifts, changes in government policies, changes in economic conditions, changes in tastes and preferences etc

STEPS INVOLVES IN CONDUCTING MARKET ASSESSMENT

The following steps can be taken to carry out effective market research:

1. Selection of a product for which market assessment is to be carried out
2. Identifying the market where assessment of a given product is to be done
3. Determining the methods to be used in market assessment
4. Collection of data on price, promotion, positioning, place and the product
5. Analyzing the information collected
6. Analyzing the market strategy
7. Assessing the feasibility and viability of the selected products in the market

SOURCES OF INFORMATION FOR CONDUCTING MARKET ASSESSMENT

The following sources can be tapped to collect market information

1. **Company employees/workers.** These provide information about the likes and dislikes of customers about a particular product. This is because they deal directly with customers
2. **Competitors/competition.** Competitors are businesses or people who produce similar products or products that serve the same purpose. They provide data about the demand patterns of customers, pricing policies etc
3. **Customers.** Customers are reliable sources of information since they express their feelings towards a particular product. They also provide advice on how to improve on the product
4. **Company records and files.** These provide information about the volume of sales, customer complaints, how they buy, distribution channels they prefer etc

CHALLENGES FACED WHEN CONDUCTING MARKET ASSESSMENT

1. Limited funds for the process e.g. for reaching all respondents.
2. Language differences
3. Insecurity/Hostility in some market areas from some societies or respondents
4. Resistance/malice sabotage from competitors **and from** government
5. Changing environment/trends/changes in demographic factors
6. Getting information facilities/under developed transport facilities.
7. Inaccurate research results due to deceitful respondents.
8. Inadequate/limited skills or skilled labor to handle data collection.
9. . Unpredictability of consumer behavior
10. Inadequate data/with holding information.
11. Getting information from a biased source /wrong sample or biased people

SUMARY OF OBJECTIVES

PURPOSE OF MARKET RESEARCH

- i. It is carried out to find out what customers want
- ii. To reduce business risks
- iii. To spot problems and potential problems in your current market
- iv. To identify likely profits from sales opportunities
- v. To make better decisions and set up plans of action
- vi. To assess the effectiveness of promotional strategies
- vii. To identify trends in the market
- viii. To establish income levels of customers
- ix. To assess the feasibility and viability of the business
- x. To find out attributes of the product that requires improvement
- xi. To identify the best location for the business
- xii. To select the best channel of distribution to use
- xiii. To estimate future sales and expected share of the market

MARKETING STRATERGY

This includes identifying customer groups (target markets) which a small business can serve better than its large competitors, and tailoring its product offers, prices, distribution, promotional efforts and services towards that particular market segment.

TOOLS FOR EFFECTIVE MARKETING STRATEGY

There are several ways to attract new business to your door and they include the following:

1. **Networking.** This is the most commonly used approach by small business owners. This can be carried out effectively by cultivating relationships and giving referrals to other members first before you bounce from person to person
2. **Referrals.** This marketing strategy is a close second in preferred methods of generating new ideas. It involves telling people who your ideal client is and asking for their help in finding these types of clients. For example a real estate agent sends a card every year to people she sold a house to and reminds them that she loves referrals
3. **Writing.** This is an excellent way to become recognized as an industry expert. It involves preparing trade magazines, brochures etc. the internet is also filled with websites and E-zones looking for materials to send to their subscribers and customers
4. **Newsletters.** This is another powerful marketing strategy to keep your name in front of your customers and prospects. It provides key insight into business challenges and offer solutions to them. It can be done electronically and in paper format
5. **Cold calling.** It can be a good way to uncover qualified prospects in a relatively short period of time much as very few people enjoy cold calling
6. Giving free information to interest prospects. Offer information that will help your target market with their problems but not all the information relevant to your product or service
7. **Offering a guarantee.** Offering guarantee can eliminate the concern of many people changing suppliers because they are not satisfied with existing suppliers
8. **Advertising.** Create a great advertisement by concentrating on the problem the product can solve instead of focusing on the company's product feature. This can be a great marketing strategy if you know how to create a good advertisement

MARKETING TECHNIQUES

The following are marketing techniques used by most businesses

1. Marketing decision making. This involves making right decisions on how to market and distribute the products
2. Effective communication. This enables the entrepreneur to satisfactorily pass on the message to targeted buyers about the products available for sale
3. Negotiation skills. This is the bargaining situation of a better. It enables an entrepreneur to reach an amicable understanding with the customer
4. Window displays. This is when items are made known to potential buyers by strategically putting them in certain positions so that every body can be able to see them
5. Offering discounts. This is the lowering of the price of a given product aimed at encouraging customers to buy them
6. Offering goods on credit. This is where an entrepreneur allows buyers to take goods and make payment for them at a later date
7. Use of effective distribution channels. This involves making products available to customers at convenient places
8. Giving after sales services
9. Giving gifts

MARKET SEGMENTATION:

This refers to dividing the market into groups of individual markets with similar wants or needs. A company divides these markets into distinct groups which have distinct needs, wants and behavior or which might want different products and services

BASIS OF MARKET SEGMENTATION/FACTOR CONSIDERED WHILE SEGMENTING MARKETS

There is a large collection of possible segmentation bases some of these include the following:

1. **Demographics.** Consumers can be grouped on the basis of characteristics such as age or household composition. This is easy to-do and it is easy to reach such segments using the mass media. But age and other demographics are only loosely related to behaviors.
2. **Socio-economic characteristics.** Similarly characteristics such as income, occupation and education can be used to derive segments that are easy to reach. Such segments are indicators of behavior such as life style, price sensitivity and brand preference.
3. **Product usage.** Potential to use the firm's product is behavior-based segmentation. Potential could be determined by asking questions about disposition to use (such as awareness, used in the past, would consider using) in a survey and respondents grouped accordingly. The problem is then how to reach the most attractive segments. This is done by using either a large single source survey that asks consumers about product disposition and usage or by relating product disposition to demographics. Both approaches are usually imperfect as behavior is rarely strongly correlated with demographics or media usage.
4. **Psychographics.** Personality, attitudes, opinions and life style s are often used as segmentation bases. These characteristics have some relationship to behavior and provide insight into how to communicate with chosen segments.
5. **Generation.** Generation refers to people born in the same period of time. Such people share much in common. They also experience similar economic, cultural, and political influences in their years. Thus, generation is probably a better segmentation than age and just as easy to reach.
6. **Benefits sought.** Some people are price sensitive, others seek quality or service. Some are brand loyal others are not. It is possible to group consumers on the basis of these factors. Note that price/quality sensitivity can vary by category. Some people prefer food quality to laundry detergent. These segments can be reached by the message but this is not necessarily cost effective.
7. **Geography.** There are two reasons why people who live in the same area may share similar characteristics. First, some areas have more expensive property than others and so people with similar socio-economic characteristics may cluster together. Second, they have similar transport and shopping options. It is easy to use the media to reach to reach particular areas but its less effective.
8. **Geo-demographic.** There are several commercial geo-demographic segmentation schemes available, that combine demographics and geography as a segmentation basis. This approach aims to identify groups of small geographic areas that have similar demographic profiles. However, some areas may relatively homogenous but many are not and this is mi leading.
9. **Discussion.** The segmentation basis used depends on the decision to be made. For example, for pricing decisions, the basis should be price sensitive, etc. Clearly, one

segmentation basis will not be ideal for all marketing decisions. Food, detergents, clothing, and motor vehicles all satisfy different needs and have different levels of purchase involvement

Criteria for selecting segmentation basis

The market segments identified should satisfy three criteria

- i. **Internal homogeneity/external heterogeneity.** This means that potential customers within a segment should have similar responses to the marketing mix variable of interest but a different response to members of other segments
- ii. **Parsimony.** This is the degree to which the segmentation makes every potential customer a unique target. That is, the segmentation should identify a small set of groupings of substantial size
- iii. **Accessibility.** This is the degree to which marketers can reach segments separately using observable characteristics of the segments

How market segmentation can increase profit

Increasing profits is the major objective of companies. We can write the profit for a product down as a formula:

Profit= volume* (price – variable cost)-marketing costs- fixed costs

There are several ways in which effective segmentation can boost profits

- i. By better meeting customer needs, through better positioning to chosen segments, we may be able to increase market share and hence volume
- ii. By better meeting needs, we may also be able to increase price without sacrificing much volume
- iii. By only targeting the most profitable segments, we may be able to reduce marketing costs

There are several reasons why businesses should attempt to segment their markets carefully as summarized below:

- i. Better matching of customer needs. Customer needs differ. Creating separate offers for each segment makes sense and provides customers with a better solution
- ii. Enhanced profits for business. Customers have different disposable income. They are, therefore, different in how sensitive they are to price. By segmenting markets, businesses can raise average prices and subsequently enhance profits
- iii. Better opportunities for growth. Market segmentation can build sales. For example, customers can be encouraged to “trade-up” after being introduced to a particular product with an introductory, lower-priced product
- iv. Retaining more customers. Customer circumstances change. For example they grow older, have families, change jobs or get promoted and / or change their buying patterns. By marketing products that appeal to customers at different stages of their life (life cycle), a business can retain customers who might otherwise switch to competing products and brands
- v. Target marketing communications. Businesses need to deliver their marketing message to a relevant customer audience. If the target market is too broad, there is a strong risk that the key customers are missed and the cost of communicating to customers becomes too high/ unprofitable
- vi. Gaining share of the market segment. Careful segmentation and targeting enables the business to achieve competitive production and marketing costs and become the preferred

choice of customers and distributors. It offers the opportunity for smaller firms to compete with bigger ones hence increasing their market share

ADVERTISING

Refers to giving information about a product to the prospective customers to make them more informed and interested in buying it. This is the non personal communication of information usually paid for and usually persuasive in nature about products, services or ideas by identified sponsors through the various media.

In today's fast-paced, high-tech age businesses must use some form of advertising to make prospects aware of their products and services

TYPES/FORMS OF ADVERTISING

There are basically two forms of advertising namely

- i. Informative advertising
- ii. Persuasive advertising

Informative advertising refers to the type of advertising that information to the general public about the available goods or services e.g. the type of goods, benefits, features etc

Persuasive advertising. This is a type of advertising that induces, attracts, and lures the general public to buy a good or a service

ADVERTISING MEDIA

Refers to methods/channels through which advertising messages are conveyed to the public

TYPES OF ADVERTISING MEDIA

The following are types of advertising media:

1. **Print media.** This involves informing the prospective customers through the use of written information. This includes, advertising in newspapers, magazines, direct email and posters
2. **Broad cast media.** This is a form of advertising media which involves the use of televisions, paper chatting, internet, cable/dig-tech media and radios
3. **Out of home media/out door advertising media.** This is a form of advertising media involves placing advertising messages in strategic places exposed to audience and mainly reaches people when they are in movement. It uses bill boards e.g. neon signs, handouts, banners, sign posts, sandwich men (hired personnel usually dressed in fancy clothes, masks carrying posters) and transit delivery.
4. **Promotional advertising media/display advertising.** This involves strategically and systematically placing products to attract attention of customers. It is done through window display (it involves placing products at the fore front of the selling point), interior display (it involves the use of glass-doored cupboards, sun-glass show cases etc), show room, trade shows or exhibitions, photographs. Etc
5. **Direct advertising media.** This involves all forms of printed advertisement delivered directly to the customer. It is also known as direct mail advertising. It involves the use of folders or brochure (these are attractive letters or cards containing details about a product), booklets and catalogues (these are small books or magazines), packaging inserts (it involves inserting leaflets into the packets of a product), price lists.

EXAMPLES OF ADVERTISING MEDIA/ WAYS OF ADVERTISING PRODUCTS

The following are ways in which businesses advertise their products:

Through the use of news papers. In Uganda some homes receive news papers by news stall and it is a habit for many families. You can reach certain types of people by placing your advertisement in different sections of the paper

Advantages of using news papers

- i. They are convenient because production changes can be made quickly
- ii. News papers provide large variety of sizes because you can still place a series of small advertisements
- iii. They cover a wide area than televisions
- iv. They are relatively cheap than using televisions
- v. News papers cater for deaf customers unlike televisions.

ADVANTAGES

- i. News papers usually are read once and stay in the house for just a day
- ii. The print quality of news papers is often not the best, especially for photographs. This usually limits advertisers to using simple artwork and line drawings for best results
- iii. The page size of a news paper is fairly large and small advertisements can look tiny
- iv. Sometimes the section of adverts are ignored by readers
- v. They discriminate the illiterate class

The following are also important to remember:

- i. Newspaper circulation drops on Saturdays and increases on Sundays, which is also the day a newspaper is read most thoroughly
- ii. Position is important, so specify in what section you want your ad to appear. Sometimes there is a surcharge for exact position but do not be afraid to pay for it if you need it
- iii. Request an outside position for advertisements that have coupons. This makes them easier to cut out
- iv. Before you advertise, have in mind a definite plan for what it is you want to sell
- v. Create a short, descriptive copy for your ad. Include prices if applicable. Consider using a copywriter or ask your newspaper for free copy assistance
- vi. Face your products towards the inside of the ad. If the product you want to see faces right, change your copy lay out to the left
- vii. Be sure to include your company name and logo, address and telephone number in the ad.
- viii. Neat, uncluttered and orderly advertisements encourage leadership. Don't try to crowd everything you can in the lay out
- ix. Always makes sure you are satisfied with what your advertising says and how it looks before it goes to print

By use of magazines. Many of the same “print” principles which apply to newspaper advertising also apply to magazines advertising.

Some of the differences between the two include the following:

- i. Magazines are usually weekly or monthly publications instead of daily
- ii. Advertising messages are more image-oriented and less priced-oriented
- iii. The quality of the pictures and paper are superior to newsprint
- iv. Advertisements involve color more often
- v. Advertisements in magazines take more planning since they are not immediate. An advertisement for a monthly magazine must be prepared at least a month in advance of publication

- vi. The advertising generated in magazines is superior. Negatives are usually required instead of prints or “PMTs” (photo-mechanical transfers). You can consider obtaining assistance from a graphic artist or an advertising agency
- vii. The general rule that you can run the same advertisement 3-5 times within a campaign period before its appeal lessens applies to magazine advertising as well, even with a monthly publication
- viii. Over long terms as these, however, be aware that the client (you) often tires of the advertisement before the audience does

There are two categories of magazines

- Trade magazines
- Consumer magazines

Trade magazines; Are publications that go to certain types of businesses, services and industries.

Consumer magazines; Are those found on the average news stand.

- An agency can also purchase the magazine space for you, often at no charge because the magazine pays the agency a commission directly
- If you wish to push the advertising yourself, contact the magazine directly and ask for an advertising kit or media package”
- They will send you a folder that includes demographic information, reach information, a current rate card and a sample of the publication

Through use of radios. Radio touches the lives of almost everyone, every day. Radio as a medium, offers a form of entertainment that attracts listeners while they are working, travelling, relaxing etc.

Radio offers information such as news, weather reports, traffic conditions, advertising and music for your listening pleasure

Advantages of radio advertising

- i. The ability to easily change and update scripts are paramount to radio advertising, since news stories can and often do happen live
- ii. Radio is a personal advertising medium. Station personalities have a good rapport with their listeners. If a radio personality announces your commercial, it is almost an endorsement
- iii. Radio is a way to support printed advertising. You can say in your commercial “see our ad in the Sunday Times” which makes your message twice as effective
- iv. Radio is a relatively an inexpensive way of reaching people. It has often been called the “theatre of the mind” because voices or sounds can be used to create moods or images that, if crested by visual effects, would be impossible to afford
- v. You can also negotiate rates for your commercials because stations are often looking for prizes they can give away to listeners, so it is possible to get full commercial credit for the product or service you offer
- vi. They cover a wide geographical area
- vii. They favour the blind

Disadvantages

- i. Radio commercials cannot be reviewed. Once it plays, it is gone. If you did not catch the entire message, you cannot go back and hear it again
- ii. The total listening audience for any one station is just one piece of a much larger whole since there are a lot of radio stations. Most of the time, you will need to buy time on several radio stations to reach the market you seek
- iii. People do not listen to the radio all the time but only during certain times of day for example if you want to reach a large portion of your audience, you can use morning hours
- iv. Radio advertising is expensive since commercial costs are much higher during drive time (from 6 am to 10 am and 3pm to 7pm). This is the most popular time to reach people since are going to or from work during this period
- v. It is not a detailed medium, it can effectively sell an image or one or two ideas at the most
- vi. It is poor place for prices and telephone numbers since such cannot favor the blind

The two cardinal rules for radio advertising are

- i. It is better to advertise when people are listening than when they are not
- ii. It is better to bunch your commercials together than to spread them apart

Through television advertising

This is often called “king of the advertising media, since most people spend more hours watching TV per day than paying attention to any other medium. It combines the use of sight, color, sound and motion

Advantages of television advertising

- i. Television reaches large audiences, often larger than some newspapers reach
- ii. Advertising on television can give a product or service instant validity and prominence
- iii. It reaches easily the audiences you have targeted by advertising on TV. Children can be reached during cartoon programming, farmers during the morning agricultural reports and house wives during the afternoon
- iv. TV offers the greatest possibility for creative advertising. With a camera, you can take your audience anywhere and show them almost anything
- v. Since there are fewer television stations than radio stations in a given area, each TV audience is divided into much larger segments, which enables you to reach a larger, yet, more diverse audience

Disadvantages

- i. It is more expensive than other medium of advertising. Producing a commercial television advert is quite expensive
- ii. The message cannot be reviewed. The viewer does not see your commercial again unless you buy more placements
- iii. It does not favour the blind
- iv. It can not reach in all areas

Through cable advertising. This system uses electronic boards similar to television situated strategically in urban areas to give marketing information to customers. It is a lower cost alternative to advertising on broadcast television. It has many of the same qualities as broadcast television and it offers more programming

The trouble with it is that it does not reach everyone in the market area, since the signal is wired rather than broad cast and because not everyone subscribes to cable

Through the use of business directory. Telephone book advertising is another way to reach your market area. It allows you to place your business listing or advertising in selected classifications within the book, with the theory being that when people need your product or service, they will look up the classification and contact you

Advantages of business directory advertising

- i. One advertisement works all year long
- ii. Gives your prospect a method of easily locating and contacting your business, even if they did not initially know your name
- iii. Can help you describe the differences between you and your competitor
- iv. If you require more than one classification, your business directory representative often has packages and programs that can save you some money

Disadvantages

- i. You must commit to an entire year of advertising
- ii. You are immediately placed with a group of your competitors, making it easy for the prospect to comparison shop. Some classifications are so clustered with advertising: your advertisement is buried and ineffective
- iii. It is only effective when a prospect looks you up in the correct classification, assuring the prospect knows what classification to look for in the first place

Through outdoor advertising

This includes benches, posters, signs and transit advertising (the advertising on buses, sub ways, taxis and trains). It reaches its audience as an element of the environment. Unlike a newspaper, radio or TV, it does not need to be invited into the home and does not provide entertainment to sustain its audience.

Advantages

- i. Since it is in the public domain, it assuredly reaches its audiences. People cannot switch it off or throw it out. People are exposed to it whether they like it or not hence it truly has a captured audience.
- ii. Its messages work on the advertising principle of “frequency”. Since most messages stay in the same place for a period of a month or more, People who drive, buy or walk past see the same message a number of times
- iii. Particular locations can be acquired for certain purposes. A billboard located in front of your business can direct people to your show room or you can reach rural areas efficiently by placing a billboard in each small town.
- iv. It is an excellent adjunct to other types of advertising

Disadvantages.

- i. It is a glance media. At best, it only draws 2-3 seconds of a reader’s time.
- ii. Messages must be brief to fit in that 2-3 second time frame. 95% of the time, either the message or the audience is in motion.
- iii. The nature of the way you buy outdoor advertising (usually a three month commitment) is not conducive to very short, week-long campaign

Through direct mail advertising. This is the third largest media expenditure behind television and newspaper

Rules to remember

- i. Define your audience. Figure out who you want to reach before developing your direct mail program. This allows you to specifically target your message to fit common needs

- ii. Locate the right mailing list. You can either build a “house list” by doing the research yourself and compiling the information on a computer or you can purchase an “outside list” from a list house or mailing organization already pre-prepared and ready to go
- iii. There are many ways to purchase lists. You can buy them demographically (by age, profession, habits or business), or geographically (by location, state and zip code) etc
- iv. For assembly, addressing and mailing your project, you also have the choice of doing it yourself or locating a mailing Service Company to do it for you
- v. Consider using a self-addressed reply card or envelope to strengthen returns. Use a Business Reply Postage Number on the envelope and you will pay only for the card which are returned to you

Through specialty advertising. This refers to giving pens, pencils, buttons, calendars, car stickers and refrigerator magnets you see every day. Businesses imprint their name on items and give them away or sometimes sell them at very low cost in order:

- i. To notice their name many times on the item to build “top-of-the-mind awareness, so when you need a restaurant, for instance, you think of their name first
- ii. To appreciate the good will of the company you the item and eventually return the favor by giving the some business

Through use of internet advertising. The phenomenal growth of the internet as a shopping device is fueling the explosion of online advertising. Businesses are eager to tap into a medium that offers the possibility of reaching millions of potential customers 24 hours a day, seven days a week

Through trade fairs and exhibitions

Through cinemas and films

Through window display

FACTORS CONSIDERED WHEN CHOOSING AN ADVERTISING MEDIA

1. **Cost of the media.** The medium should be relatively cheap and affordable. It should not be more expensive than the value of goods or services
2. **Target customers.** Goods which are needed by rich people should be advertised on media that appeals to them. For example if they are for ordinary people, an entrepreneur may use sign posts, posters, banners etc
3. **Age group of customers.** If customers are teenagers and youths, videos, magazines and television can appeal to them much more while the radio and news papers can do well for the adult people
4. **Speed and urgency of information.** If an entrepreneur wants to sell his/her goods very fast, an urgently, and speedy medium like radio, television and daily news papers
5. **Geographical areas to be covered.** An entrepreneur should choose a medium that can not be affected by physical interference and that can cover a large area
6. **Media used by the competitor.** An entrepreneur should use a better medium than his/her competitors for a competitive advantage
7. **Availability of the medium.** An entrepreneur should use a medium which is available and affordable
8. **Channels of distribution.** An entrepreneur should choose a medium in line with and in favor of the channel being used for distribution of the products

9. **Nature of the message to be communicated** goods or services which require detailed information to be advertised are better advertised through news papers and magazines. However, goods which require giving brief messages are better advertised through sign posts, bill boards etc
10. **Message performance/life span of an advertisement.** Entrepreneurs normally use media whose adverts can last in the minds of customers for long for example banners, billboards, sign posts etc compared to advertising media whose adverts last only for a few seconds
11. **The language to be used in advertisement.** An efficient advertising media is that one which uses the language that customers can easily understand and also communicate

IMPORTANCE OF ADVERTISING

The following are advantages/merits of advertising in business:

1. It creates consumer's awareness about the product of the entrepreneur hence enabling them to make right choices
2. It increases sales and facilitates speedy movement of goods and services since it creates need and stimulates demand for the business products.
3. It enables the entrepreneur to out compete the rival firms. This is because persuasive advertising creates brand loyalty which makes customers to prefer the business products other than those of competitors
4. It creates good will for the business and the entrepreneur as the owner since positive information about the business and its products is given to the public
5. It helps the entrepreneur to maintain the market share of his or her products since it enables the entrepreneur to retain old customers due to continued confidence in the business products
6. it provides detailed information about the products to customers hence increasing product acceptance and eliminating doubtful thinking in customers
7. It guides the buyers which products to select. This leads to customers' satisfaction
8. It attracts new customers into the business hence expanding the market share
9. It inspires confidence in customers by describing the benefits of the product, its usage, life span etc to customers
10. It creates a good relationship between the business and its customers most especially speciality advertising which involves giving gifts
11. It helps the entrepreneur to introduce new products or designs. Some advertisements are aimed at informing
12. the public about new styles, fashion, products on sale
13. It increases a company's profit by escalating its revenue

Explain the objectives/purpose/aims/rationale of advertising in an enterprise

Use to/in order to at the beginning of each point

- To increase sales
- To attract new customers
- To create confidence in customers
- To strengthen the relationship between the business and its customers
- To improve on the image of the business
- To stimulate buying
- To increase customer awareness

- To create good will
- To out compete rival firms

Preparing advertising messages for goods and services

Most advertising messages share common components within the message including:

1. The appeal. This refers to the underlying idea that captures the attention of a message receiver. Appeals can fall into such categories as emotional, fearful, humorous and sexual
2. Value proposition .The advertising message often contains a reason for customers to be interest in the product which often means the advert will emphasize the benefits obtained from using the product
3. Slogan. Advertisements contain a word or phrase that is repeated across several different messages and different media outlets

Preparing an effective advertising messages

The following guidelines can help an entrepreneur to prepare an effective advertising message:

- i. The advert should be cost effective in relation to the product being advertised
- ii. The whole space should not be clustered with words or pictures
- iii. The advertisement should be easy to recognize and stand out clearly
- iv. The headline should emphasize benefits for customers
- v. The content should be simple and easy to understand
- vi. It should include all important information such as address, location, telephone number etc
- vii. The entrepreneur should be honest in the advert
- viii. The choice of colour should present an attractive lay out
- ix. The advertisement message or words should be well spaced and balanced

Elements of an advertising message

- Awareness value. It should bring awareness of the product
- Problem-solving. It should provide information regarding the use and utility benefit of the product
- Recall value. It should stick to the memory of customers
- Sincerely of the message. Adverts must gain confidence of customers and should tell the truth
- Enlightening/educative value. It should educate the public about the use of the product
- Instinctive value. It should process the natural value so that customers are induced, persuaded and motivated to think about the product
- Clear illustration, it should not contain abstract concepts which puzzle the reader on what is being sold

DISTRIBUTION CHANNELS

A distribution channel refers to the method a company uses to get its products into the market place for consumer use or it is an arrangement or path through which products move from the producer to the final consumer

TYPES OF DISTRIBUTION CHANNELS

There are different ways in which an entrepreneur can distribute his/her products to the customers

Direct distribution/short distribution channel/producer to customer distribution channel.

This is where an entrepreneur sells his/her products directly to customers who use the goods or **services**. It is important for some businesses because customers can explain what they like and it enables the entrepreneur to make products that satisfy their needs

- However, it can be expensive and time consuming in terms of reaching and serving customers

Retail distribution channel. This involves the entrepreneur selling products to retailers, that is, to other entrepreneurs who in turn sell to customers who are the final users of the product. This form of distribution is useful for businesses which import or make products in large quantities

Retailers reach many customers and help to increase the business outreach and total sales which in turn helps increase profits

- However, an entrepreneur may lose contact with customers who use his/her products, the entrepreneur may not know what the customers like and the entrepreneur's products may not be effectively promoted since some retailers also sell the competitors. The entrepreneur may also lose some income by selling to the retailers at a lower price to allow them also sell at a profit

Wholesale distribution. This channel of distribution involves an entrepreneur selling the products in large quantities to wholesalers who in turn sell them in smaller quantities to retailers. The retailers then sell the goods to customers who are the final users of the product

- It is useful for businesses that make or import products in very large quantities. Wholesalers help an entrepreneur to reach out to a large area and many customers, which increase the chances of raising sales and profits
- **Disadvantages are the same as those of retail business**

Manufacturer to Marketing and selling agents to whole sellers to retailers to consumers.

These are agents who sell products on behalf of entrepreneurs and are paid a commission based on the value of the amounts sold

FACTORS CONSIDERED WHEN SELECTING A DISTRIBUTION CHANNEL

The factors that determine the choice of a distribution channel include the following:

1. **Nature of the product.** Perishable products such as milk, vegetables and fruits and expensive items like gold products, cars and computers require short or direct distribution channels
2. **Reliability of the channel and its image.** A reliable channel is able to provide and avail goods and services to customers whenever need arises. This encourages customers to make repeat purchases
3. **Cost effectiveness.** An entrepreneur should use a channel that is less costly or likely to reduce his/her operating costs in order to maximize his/her profits. But at the same time, the channel should reduce the total price of the products in order to make them competitive

4. **Location of target customers.** If customers are near and within the reach of an entrepreneur's business, direct channel can be used to reduce the distribution cost but if customers are far and dispersed, then other channels of distribution can be used
5. **Availability of storage facilities.** Goods that are to be sold to distant parts of the country may need to be stored in the local area require marketing and selling agents but if there no storage facilities direct channel can be used
6. **Nature of the business.** The type of business greatly influences the distribution channel. For example businesses that deal in services normally use direct channel or A manufacturer who is financially strong with good marketing experience can afford to use direct selling to customers but a business that is financially weak can use retail distribution channel
7. **Method of delivery.** When a manufacturer has his own delivery trucks he/she can use a short channel but an entrepreneur can use a longer channel involving middlemen
8. **Degree of competition.** When the manufacturer has many competitors and a large market he/she can use a longer channel with agents but if the level of competition is low, direct channel distribution can be used
9. **Volume of sales/size of the market.** A business with a large volume of sales should use middlemen but a business with low sales volume should use direct distribution channel
10. **Nature of middlemen.** Availability of the required middlemen may make the entrepreneur to use retail/whole distribution channel but absence of middlemen makes direct selling the preferred distribution channel

GENERAL FUNCTIONS OF WHOLE SALLERS IN THE DISTRIBUTION CHANNEL

1. A whole seller buys goods in large quantities from the producers and breaks the goods in affordable quantities for retailers.
2. A wholesaler connects the producer to a retailer in the chain of distribution.
3. A whole seller finances producers by paying them promptly
4. A whole seller provides ware housing facilities on behalf of the producer
5. A whole seller prepares goods for sale by branding and packaging them
6. A wholesaler also transports goods brought from the producer to his own premises.
7. A wholesaler keeps the prices stable by regulating the flow of goods to the market.

ROLE OF RETAILERS IN THE DISTRIBUTION CHANNEL

1. Retailers transport goods from their suppliers to their shops and at times they transport goods for the consumers who buy in large quantities.
2. Retailers sell goods to consumers in small and affordable quantities
3. Retailers buy goods from the whole sellers and other suppliers.
4. Retailers store goods until they are demanded by customers
5. Retailers bridge the gap between the whole seller and the consumers

NB. Role of middlemen in the distribution channel. It combines all

CUSTOMER CARE AND CUSTOMER RELATIONS

Customer relation, is the relationship between the entrepreneur and customers and how customers are treated in an enterprise

The following are indicators of good customer care in an enterprise

1. Honesty to customers. This involves the ability to tell customers the truth and being trustworthy when carrying out business transactions with them
2. Pleasantness. The entrepreneur should be happy while performing business activities i.e. he/she should be receptive and welcoming to the customers
3. Prompt services. The management or sales personnel should give customers quick attention whenever they show interest in the business products
4. Handling customers' complaints. The entrepreneur or sales personnel should ensure that the consumers' complaints are addressed satisfactorily
5. Excellent knowledge of the product. The entrepreneur should express good knowledge of the product being sold
6. Offering technical and after sales services like packaging, transport, free gifts
7. Improving on the quality of the products regularly depending on the market demands
8. Offering occasional price reductions or discounts to customers
9. Extending credit facilities to trustworthy customers
10. Being clear when communicating to customers

Excellent customer service is the process by which your organization delivers its services or products in a way that allows the customer to access them in the most efficient, fair, cost effective and humanly satisfying and pleasurable manner possible.

The process is efficient. This means that product information is immediately available, complete and correct. The sales person can refer the buyer to the website, literature, ingredients or whatever other information is relevant

The process is fair. This means that the customer service must be transparent. If an organization can practice full disclosure in an obvious way in their product information and their contacts, they are on the way to creating customer loyalty

The product or service is cost-efficient. This means that the product is competitively priced

Customer service survey

Customer satisfaction is essential to the survival of our businesses and the best way to find out whether your customers are satisfied is to ask them

There are many ways to ask your customers and these include:

- i. Face-to-face: Before they walk out of your store or office, ask them about their experience shopping or what they think of your product or service
- ii. Call them on the phone: if you have their phone number, and their permission, you can call them after their visit and ask how satisfied they are
- iii. Mail them a questionnaire: This technique has been used for a long time. The results are predictable
- iv. Email them a customer satisfaction survey
- v. Email them an invitation to take a customer satisfaction

NB research on a customer satisfaction survey (page 145)

MANAGING PERSONNEL/HUMAN RESOURCE MANAGEMENT

Human resource management is the art of influencing people to do all activities in the enterprise with the aim of increasing productivity or producing efficiently

Or

This is the process of planning, monitoring, controlling and administering of personnel to include their recruitment, motivation and retention in the production process.

It is also concerned with development and application of policies governing the following Man power planning. This is the ability to determine the labour force needed after analyzing all business activities

It includes the following:

1. Recruitment. This is the process of identifying and locating suitable workers to a given job
2. Selection. It refers to picking the best candidate for a particular job
3. Placement, induction and termination. This involves assigning workers tasks to be done in the enterprise, introducing new workers to the enterprise and also laying them off from work due to indiscipline
4. Remuneration, terms of employment and working conditions.
5. Human resource development. This concerns with improving the skills of workers e.g. through further training, study tours workshops and seminars etc and also providing maintenance requirements to the staff members
6. Formal and informal communication at all levels throughout the enterprise
7. Negotiation and application of agreements on wages and working conditions
8. Motivation

IMPOTANCE OF HUMAN RESOURCE MANAGEMENT.

Below are advantages of proper human resource management in an enterprise:

1. It helps an enterprise to employ the right and qualified people with the required skills for effectively handling the business operation which increases business productivity. I.e. marketing skills, purchasing skills.
2. Human resource management helps to minimize costs in the enterprise by minimizing wastage of time and resources because it allows workers to properly use the resources in the business without wastage in order to allow the business goals.
3. It helps the enterprise to be effective and efficient in achieving the set target, it provides motivation to the workers to work committedly towards achieving the set business goals.
4. It helps to minimize damages to machines and equipment by using technically competent people.
5. Staff training and development. It helps in training of staff in the various internal and external training programs such as work shops and seminars which help to improve worker's skills and their productivity.
6. Promotes business image. Good personnel management leads to meeting the demands of the customers satisfactory by producing goods and services of high quality due to employing the right manpower. This will improve business image.
7. Promotes good staff relations. Proper personnel management leads to a good relationship between the entrepreneur and his employee, which leads to business success.
8. It helps in evaluating workers' performance. Good human resource management carries out performance appraisals and therefore helps in evaluation of workers performance in all departments which helps in promoting efficiency and also determining payment.

9. Improves the working conditions. Effective personnel management helps to provide workers with conducive working environment that provides them to put up in their best when producing goods and services for the success of the enterprise.
10. It minimizes labour strikes and stress in the business through communicating effectively with employees, proper direction and coordination of workers.

Revision questions

- Why is necessary to practice proper human resource management
- Explain the objectives/rationale/reasons/need for proper personnel management in an enterprise

Begin with to/in order to/ing tense on each of the above points

1. To enable an enterprise to employ the right and qualified people with the required skills for effectively handling the business operation. This increases business productivity. I.e. marketing skills, purchasing skills.
2. To minimize costs in the enterprise by minimizing wastage of time and resources because it allows workers to properly use the resources in the business without wastage in order to allow the business goals.
3. To achieve the set goals and objectives of the enterprise. It is done to help the enterprise to be effective and efficient in achieving the set target, it provides motivation to the workers to work committedly towards achieving the set business goals.
4. To minimize damages to machines and equipment by using technically competent people.
5. To develop and train staff members. It helps in training of staff in the various internal and external training programs such as work shops and seminars which help to improve worker's skills and their productivity.
6. To promote business image. Good personnel management leads to meeting the demands of the customers satisfactory by producing goods and services of high quality due to employing the right manpower. This will improve business image.
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HUMAN RESOURCE REQUIREMENTS OF A BUSINESS

a) Man power planning/human resource planning

This is the strategy for acquisition, utilization, improvement and preservation of an enterprise's human resources

Features of man power planning

- It involves forecasting of the future man power needs to make adequate and timely arrangements
- It determines the right number and types of workers required for effective accomplishment of the tasks

- It involves both quantitative and qualitative planning of workers
- It involves accurate determination of current manpower in an enterprise so as to determine the right status
- It a continuous process since the demand and supply of labour changes

Objectives of man power planning

- To ensure optimum use of the present man power
- To promote the development of the existing personnel
- To ensure proper control measures in an enterprise so that man power is available when needed
- To fore cast the type of skills required by the business in future
- To ensure that right workers are available at the right time
- To reduce labour costs
- To guide the government in employment generation
- To ensure effective diversification of business activities

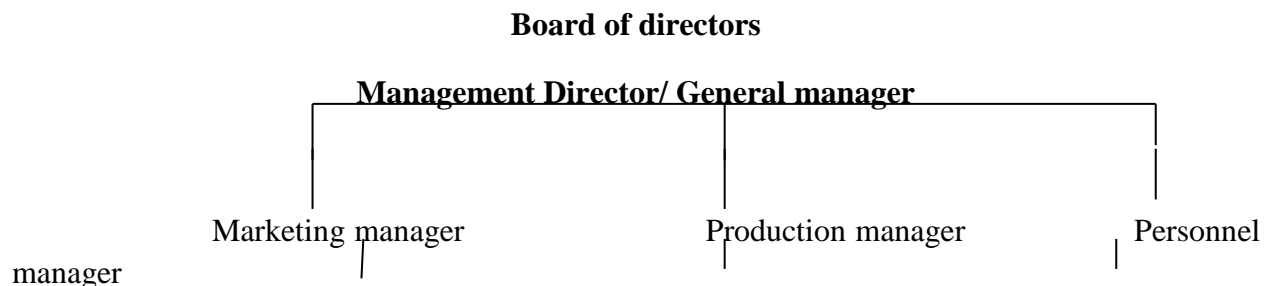
Explain the advantages of man power planning

- It enables the management to reduce labour costs since imbalances due to shortages in supply and surpluses in demand are corrected before they become unmanageable
- It helps in identifying gaps that need to be filled in the existing manpower so that suitable training programs are designed to build worker's skills
- It guides the government in employment creation, education reforms and in transferring workers within the country
- It provides a basis for the development of workers so as to ensure optimum use of the available talents
- It helps the enterprise to recruit right workers
- It helps in diversification of business activities for example producing new products

1.ORGANISATIONAL CHART AND DESIGN.

Organizational plan/design involves setting up specific units of responsibility or jobs, the performance of which leads to the achievement of the overall organizational objectives. It is the starting of recruiting employees

This is an illustration or diagram that shows the organizational structure of a firm showing the overall total management from the top most administrators down to the different department of the firm e.g.



2. JOB ANALYSIS.

A job is a specific position requiring the performance of specific tasks into broad areas of responsibility performed regularly by a person as his/her assignment to earn a living

Job analysis, Is the systematic collection and recording of information concerning different aspects of a job like the purpose of the job, the major duties it entails, the conditions under which it will be performed, the term of payment etc.

COMPONENTS OF JOB ANALYSIS.

The components of job analysis include the following:

- Job description
- Job grading or evaluation
- Job performance standards or personnel assessment.
- Job specifications.

CONTENT OF JOB ANALYSIS.

A job analysis should provide the following information.

1. Job identification i.e. the little of the job and its code number.
2. Job characteristics i.e. the location, supervision, hazards.
3. What the workers actually does, i.e. the specific duties and tasks that make up the assignment, the timing given to perform the tasks.
4. How the Job is performed, it clearly states the nature of the operations eg selling, driving, customer care, .
5. The materials and equipments used to perform the tasks.
6. Worker's attribute e.g. expensive, training, social skills.

PROCEDURES OF CONDUCTING JOB ANALYSIS

- i. Collection of data. This involves getting back ground information about what the job is made up of, its relation to other jobs and its requirements for satisfactory performance
- ii. Selection of representative positions. This involves selection of sample representative positions for the analysis process
- iii. Collection of job analysis data. This involves getting information regarding the features of a job, required worker qualifications and the required experience
- iv. Development of a job description. This is a written statement which spells out the main characteristics of the job, qualifications and level of experience
- v. Developing job specification. This includes the qualification of the person intending to take up a job

Techniques used in job analysis

- i. Personal observation. It involves collecting information regarding the materials and equipment used, the working conditions etc using personal observation
- ii. Questionnaire technique. This involves sending well prepared written questions to job holders for filling in
- iii. Personal interviews. This involves job holders and managers and writes down the answers for the purpose of job analysis
- iv. Maintenance of log records. This involves every worker maintaining the duties he/she performs, clearly making the time at which each task is done

IMPORTANCE OF JOB ANALYSIS

1. It helps in determination and administration of wage salary policies since it indicates the qualifications required for performing a specific job.
2. It provides a basis for hiring, recruiting, selecting, transforming and promoting personnel within the enterprise.
3. It helps personnel manager in establishing job performance standards which may be compared to the actual performance of the worker which is helpful appraisal.
4. It provides information that helps employers in planning, training and development programs.

3. JOB DESCRIPTION.

This is a broad statement of the purpose, scope, duties and responsibilities of a particular job. It is a written record or summary which specifies what a worker is supposed to do on a specific job i.e. the major duties and responsibilities of a worker.

CONTENTS OF JOB DESCRIPTION

A typical job description should contain the following.

1. Job identification i.e. the title of the job, department in which it falls.
2. Job summary, this gives a brief explanation of the content of the job.
3. Job duties and responsibilities.
4. Relation to other jobs.
5. Supervision, it specifies the reporting point or the immediate supervisor.
6. Use machines and tools. This states the machines, tools and equipments to be used to complete the job.
7. Working conditions and terms of employment.

NB. Look for samples in Monday New Vision

4. JOB SPECIFICATIONS.

These are detailed statements of the physical and mental activities involved in doing the jobs and is usually expressed in terms of behavior i.e. what the worker does, what knowledge, skills and experience he uses in doing it. OR

Is a detailed statement of the minimum acceptable human qualities (physical and mental) required for the successful performance of the named job.

CONTENTS OF THE JOB SPECIFICATION.

1. Physical characteristics of a person like health, strength, age bracket, height, vision, Voice.
2. Personal characteristics. These include leadership qualities, initiative and staff driving, aggressiveness.
3. Psychological characteristics. These include decision making ability, judgment, alertness and mental concentration.

4. Responsibilities under taken by an individual which includes supervision of others, preventing financial loss.
5. Education and skills, this includes academic qualification and technical know how.
6. Working experience required for the job
7. Other features like knowledge of special languages required to perform a given job, etc

5. JOB GRADING.

Is the process of evaluating or rating of job in order of value basing on knowledge, skills and experience required. OR

This refers to the process of determining the relative value or worth of every job in the organization in order to price the jobs in terms of wages and salaries.

CONTENTS OF JOB GRADING.

Job grading involves doing the following.

1. Determining pay or salary grades
2. Defining broad characteristics of each grade (In terms of skills, knowledge, etc)
3. Selecting a representative sample of jobs known as bench work jobs
4. Comparing the remaining jobs with these bench mark jobs and then placing them in the appropriate grades.

OBJECTIVES OF JOB GRADING.

1. To secure and maintain complete, accurate and impersonal description of each distinct job in the whole organization.
2. To provide a standard procedure for determining the relative value of each job in an enterprise.
3. To promote a fair and accurate way of considering all workers for promotions, transfers, retentions, training and dismissal.
4. To provide information for organization, work selection and placement etc.

MERITS OF JOB GRADING.

1. Job grading enables people to understand the importance or the relative value of the jobs they perform in the enterprise.
2. It provides information that is useful in setting salary scales.
3. It provides basis for negotiations between labour unions and enterprise management regarding determination of equitable wage structures.
4. It improves the relationship between labour and management and builds worker's morals since grievances arising out of wage differentials are addressed.

DEMERITS/LIMITATIONS OF JOB GRADING

1. Job grading is difficult to implement since it takes long time and is also quite expensive for small firms.
2. It generally creates doubt and fear in the minds of the employees when it is being set for the first time.

3. It sometimes tends to be subjective where individual job descriptions are difficult to match.

6. JOB PERFORMANCE STANDARDS.

Refers to the acceptable competency aspects for a given job or is the expected output for a given job

ROLE OF THE ENTREPRENEUR AS A HUMAN RESOURCE MANAGER/PERSONNEL MANAGER.

As a personnel manager, the entrepreneur performs the following functions.

1. **Recruitment.** This is the process of locating and identifying the suitable candidate for the job either from within the enterprise or outside the enterprise.
2. **Selection.** This is the process involving a series of steps from applications to interviews, testing personnel preferences and physical examination to establish whether or not a candidate is suitable for a job.
3. **Introduction training.** The entrepreneur should organize induction training or orientation programs for the selected suitable applicants through which the recruited employees meet and interact with the employees, get to know their terms and conditions of employment get acquainted with the business premises or work place.
4. **Planning and supervising training.** The entrepreneur should also plan and program training both internal and external for employees. He should plan an on job training program for development skills and improving performance of the employees as they try to cope with the changes in work environment, habit and demand.
5. **Interaction.** The entrepreneur needs to continuously interact with his employees to make them feel welcome and to help them adjust to the job much faster.
6. **Classifying and preparing salary scales.** The entrepreneur should set salary/wages scale which matches the employees work and performance and also keep level or higher than the competitors to avoid demotivating workers and losing them to the competitors.
7. **Dealing with disciplinary problems/issues.** The entrepreneur should clearly set the rules and regulations of the enterprise regarding discipline and these should be known by all workers.
8. **Negotiating with labour unions and service unions.** The entrepreneur should always negotiate with employees whether organized under a labour union or not, when they seek for improvement in pay, employee benefits and working conditions.
9. **Organizing work.** The entrepreneur should organize work in the enterprise to ensure it is enjoyable for the workers and also efficiently and effectively done.
10. **Managing benefit programs** like group insurance, transport and health.
11. **Workers performance evaluation and motivation.** He/she should provide periodic reviews of performance for each employee and also should recognize the workers' strength and effort, and needs for further development.

THE RECRUITMENT PROCESS

This refers to the process of identifying and selecting of employees in an enterprise. Hiring a new employee is as important to the entrepreneur as it is to the person hired.

FACTORS CONSIDERED WHEN DETERMINING THE NUMBER AND TYPE OF EMPLOYEES TO WORK IN AN ENTERPRISE

The following are considered when determining the number and type of the employees.

NUMBER OF EMPLOYEES

7. **The type of skills required for some particular business**, and the work they do in the production process like negotiation skills and communication skills are considered when recruiting sales persons or marketers.
8. **The number of jobs available**. This varies with the size of the business in that the smaller the size of the business, the less the jobs available, and the larger the size of the business, the more the jobs available and the bigger the number of employees.
9. **Support of the family members**. Support from the family members necessitates the business to employ fewer workers but when there is no family support, the business employs more workers.
10. **The level of demand for the products**. High demand for products encourages entrepreneurs to employ more people but low levels of demand cause fewer workers to be employed.
11. **Costs of hiring labour**. High costs of hiring labour reduces the ability of a business to employ people hence few people are employed but low costs of hiring labour enable the business to employ more workers.
12. **Level of technology used in the business**. Use of advanced technology requires employment of few workers, like, use of tractors, computers, but use of rudimentary technology, low level of technology, traditional or backwards technology necessitates many workers to be employed.

TYPES OF EMPLOYEES

8. **Level of education/qualification**. This considers the level of education of employees that is some jobs require diploma or degree holders while others require certificates or senior six leavers.
9. **Working experience of employees**. Most employers or entrepreneurs are interested in experienced people or workers who are efficient and productive.
10. **Age of the employees**. Different jobs have different age requirements that are some want young and energetic workers like jobs that need lifters while technical jobs need mature people like chief administrators.
11. **Marital status**. Some employers or entrepreneurs prefer employing single workers than married workers because they are flexible. For example school wardens and matrons due to less responsibilities they possess
12. **Sex of the employee**. Some employers or entrepreneurs prefer employment to women and others. Women to men for different reasons like for simple activities, women are preferred while heavy work is preferred for men.
13. **Health status of the employee**. Some employer's want workers with good health status because they are in position to be at work at all times.

14. **Language spoken by the employee.** Some employers are willing to employ people who know to speak many languages and specific languages for easy communication at the work place.

Qn: Explain the factors that determine the number of employees in an enterprise.

Qn: What are the factors that an entrepreneur considers when determining the number and type of employees in his enterprise.

SOURCES OF RECRUITING EMPLOYEES

Effective recruiting requires that you know where and how to obtain qualified applicants.

These are some of the major sources

1. **Present employees.** Promotion from within tends to keep employee morale high. Whenever possible, current employees should be given first consideration for any job openings.
2. **Unsolicited applicants.** Small businesses receive many unsolicited applications from qualified and unqualified individuals. The former should be kept on file for future reference.
3. **Institutions.** High schools, trade schools, vocational schools, colleges, universities are sources for certain types of employees especially if prior working experience is not a major factor in the job specification.
4. **Private employment agencies.** These firms provide a service for employers and applicants by matching people to jobs in exchange for a fee.
5. **Employee referrals.** References by current employees may provide excellent prospects for the business. Current employees can help the entrepreneur to spot skilled and talented employees
6. **Help wanted advertising.** Letting people know that the business is hiring a key element in gaining access to the pool of potential employees. It involves using local media like newspapers like daily and weekly newspapers, radio and Tv, etc.
7. **Specialty media publications.** Such as trade association magazines and newspapers may also produce quality job applicants.
8. **Trade unions/labour unions.** These labour organizations can also recommend well trained and experienced persons from their registered members for recruitment to the vacant positions

METHODS OF RECRUITING PERSONNEL FOR A BUSINESS

The following methods can be employed by entrepreneurs in recruiting workers in an enterprise

1. **Through transfers.** This involves changing a worker from one activity/job or work station to another within the enterprise

This method has some advantages e.g.

- Transfers develop workers for future promotions
- Transfers provide greater motivation to employees and reduce monotony arising from working at the same work place
- They increase job satisfaction to the worker
- They increase productivity and effectiveness of the business enterprise
- They improve on the relationship between the subordinate and the supervisor

- They improve the skills of the transferred employees

2. Through promotions. This refers to appointing an employee to a position of a higher responsibility or authority. It involves vertical upward movement of workers from positions of lower responsibility and rewards to positions of higher responsibility and reward. **It has some merits which include the following:**

- Promotion based on merit recognizes and rewards merit and competence of a worker.
- Promotion based on merit also acts as a motivator to the competent worker and encourages them to work even harder.
- Promotion enables a firm to retain competent employees who may have moved for greener pastures or better positions in the firm.
- Promotion based on seniority keeps the worker satisfied due to the recognition earned.
- Promotion leads to increased productivity due to the motivation they give to the workers.
- They also increase the workers' earning since payment in most cases also varies with position and seniority.
- Seniority based promotion creates a sense of discipline and respect for senior workers which promotes harmonious relationship between workers and employees.

It has some demerits which include the following

- Seniority based promotion fails to recognize merit and competences of workers thus becoming a demotivating factor to the competent workers and therefore discouraging competence.
- Merit based promotions tend to cause fluctuations among the senior workers especially when their juniors get promoted on merit to positions above them. Such workers may become undisciplined and fail to take orders from their promoted juniors.
- It is not easy to come up with a system of measuring competence in an impartial and fair way for merit based promotions.
- It creates uncertainty among the workers as they become insecure of who may be picked for promotion i.e. if its merit based.

3. Using present employees/ Employee referrals. References by current employees may provide excellent prospects for the business. Current employees can help the entrepreneur to spot skilled and talented employees

4. Through advertising. This involves informing the public about the jobs available through various advertising media like news papers, radios etc

5. By head hunting/talent spotting. This involves looking around for the type of person that would suit the specifications of the job. The entrepreneur may inquire from friends and institutions by giving them job specifications

6. Through institutions. This involves moving to institutions of higher learning like universities technical and vocational schools etc to find the best candidates for the available jobs

7. By use of employment agencies. These are institutions that specialize in recruitment of workers for different employers

8. Through use of labour/trade unions. These labour organizations can also recommend well trained and experienced persons from their registered members for recruitment to the vacant positions

9. Through field trips. This involves the human resource manager going to the field to spot suitable candidates for the available jobs

10.By use of public and unsolicited applicants. Some times entrepreneurs recruit casual workers from the people near the business or from many unsolicited applications from qualified and unqualified individuals. The former should be kept on file for future reference.

IMPORTANCE OF RECRUITMENT

1. It enables the enterprise to take on the right people with the required skills on the available jobs hence increasing productivity in the enterprise
2. It enables the enterprise to achieve the set goals and objectives since it has sufficient, efficient and effective man power
3. It reduces resource wastage in the business particularly time which would have been spent on carrying out training on unskilled man power
4. It enables the enterprise to have continuity in production since vacant positions perhaps due to death of individual workers and restructuring of organizations are always filled up with the right people
5. It enables the enterprise to minimize costs and maximize profits since the labour recruited is efficient and effective at work
6. It enables the enterprise to withstand competition since the labour recruited being efficient and effective produces high quality out put
7. It enables the enterprise to replace retired, dismissed or terminated employees, as a result production goes on continuously
8. It enables the enterprise to groom some of its workers for various responsibilities for example the managerial positions with in the enterprise
9. It enables the enterprise to carry out its expansion program for the future since it has sufficient man power to expand

PURPOSE/OBJECTIVES/RATIONALE/NEED FOR RECRUITMENT

Begin with to/in order to at the beginning of each point

1. To enable the enterprise to take on the right people with the required skills on the available jobs hence increasing productivity in the enterprise
2. To enable the enterprise to achieve the set goals and objectives since it has sufficient, efficient and effective man power
3. To reduce resource wastage in the business particularly time which would have been spent on carrying out training on unskilled man power
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PROCEDURES FOR RECRUITING EMPLOYEES

Below are the procedures for recruiting employees

- Collecting data to establish the need for recruitment
- Determining the number of employees to be recruited
- Establishing the levels of qualifications and skills to be possessed by the workers
- Determining the remuneration, fringe benefits etc to be given to workers
- Advertising the available jobs
- Receiving applications
- Short listing applicants
- Conducting interviews
- Selecting the suitable candidates
- Sending messages to successful candidates
- Inducting the selected employees

Revision questions

- Distinguish between recruitment and induction
- Describe the sources of employee recruitment
- Explain the factors considered while recruiting employees
- Why is necessary to recruit employees in an enterprise
- Explain the various techniques of recruiting employees in an enterprise
- Explain the importance of recruiting employees in an enterprise.
- Explain the objectives of recruiting employees in an enterprise.

INDUCTION/ORIENTATION/TRAINING OF WORKERS IN AN ENTERPRISE

Induction refers to all activities undertaken by the employer or manager to make workers especially new workers familiar with the organization. It involves introducing new workers to old employees, production process, systems and supervisors

Objectives/purpose/rationale/need for orientation in an enterprise

1. To promote team work in the enterprise since during the induction exercise workers(new) are made aware of the importance of team work
2. To promote discipline among the workers. During this orientation program new employees are introduced to rules and regulations of the enterprise, their supervisors etc which instills discipline in them
3. To promote employer0-employee relations. During this process new workers come into close contact with various managers or directors of the enterprise at all levels
4. To enhance productivity in the enterprise. This is because during orientation program new workers are made aware of the vision, mission, goals, objectives of the enterprise and the expected production targets from them
5. To ensure a good stay and comfort of new employees within the enterprise. This is because during induction, workers are assured of a good working environment and more so job security
6. To motivate workers and hence making them better in their present position by giving them an opportunity of knowing how to relate with fellow employees and managers
7. To reduce supervision costs since during induction new workers are told their duties and the time frame
8. To minimize role conflict in an enterprise. This is because during induction, new and old employees are reminded their duties and responsibilities

IMPORTANCE OF INDUCTION

1. It promotes team work in the enterprise since during the induction exercise workers(new) are made aware of the importance of team work
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7. it reduces supervision costs since during induction new workers are told their duties and the time frame
8. It minimizes role conflict in an enterprise. This is because during induction, new and old employees are reminded their duties and responsibilities
9. Creating a pool of readily available and adequate replacement for personnel who may leave or move up in the organization
10. Enhancing the company's ability to adopt and use advances in technology because of a sufficiently knowledgeable staff
11. ensures adequate human resources for expansion into new programs
12. it reduces employee turnover
13. Employees frequently develop a greater sense of self-worth, dignity and well- being as they become more valuable to the firm and to society
14. Ongoing training for current employees helps them adjust to rapidly changing job requirements

DISADVANTAGES OF INDUCTION

It is time consuming

It is expensive to carry out

Below are the steps in the training process

- i) Defining organizational objectives
- ii) Identifying the need for training
- iii) Defining training objectives
- iv) Selecting trainers
- v) Selecting the training methods and mode. Choose a means of evaluating
- vi) Administering training
- vii) Evaluating the training

The training process

1. Selection of trainees. Training programs should be designed to consider the ability of the employee to learn the material and to use it effectively, and to make the most efficient use of resources possible. Selecting the right trainees is important to the success of the program

2. Training goals. Course objectives should clearly state what behavior or skill will be changed as a result of the training and should relate to the mission and strategic plan for the company. Goals should include milestones to help take the employee from where he/she is to where the firm wants him/her in the future. This helps to evaluate the training program and also to motivate employees.

3. Defining the training methods (on-the-job and off-the-job techniques). On-the-job training is delivered to employees while they perform their regular jobs hence they do not lose time while they are learning. On-the-job techniques include orientations, job instruction training, apprenticeships, internships and assistantships, job rotation and coaching

Off-the-job techniques include lectures, special study, films, television conferences or discussions, case studies, role playing. Most of these techniques can be used by small businesses

4. Selecting competent trainers. This depends on the type on the type of training needed and who will be receiving it. On-job-training is conducted mostly by supervisors, off-the-job training, by either in-house personnel or outside instructors

- Many small businesses use in-house personnel to develop formal training programs to be delivered to employees off line from their normal work activities, during company meetings or individually at prearranged training sessions
- There are many outside training sources, including consultants, technical and vocational schools, consulting education programs, chamber of commerce and economic development

5. Training administration. Having planned the training program properly, you must now administer the training to the selected employees. Questions to consider before training begins include

- i) Location
- ii) Facilities
- iii) Accessibility
- iv) Comfort
- v) Equipment
- vi) timing

6. Evaluation of training. Training should be evaluated several times during the process. Employees should be evaluated by comparing their newly acquired skills with the skills defined by the goals of the training program. Any discrepancies should be noted and adjustments made to the training program to enable it to meet specified goals

The following are reasons why most businesses do not conduct training programs

- i) Time. Small businesses managers find that time demands do not allow them to train employees
- ii) Getting started. Employees of small businesses need training but most times the owners hire them and expect them to learn on the job. The owners are unfamiliar with the whole training process or reluctant to pursuit it
- iii) Broad expertise. Managers tend to have broad expertise rather than the specialized skills needed for training and development activities
- iv) Lack of trust and openness. Many managers prefer to keep information to themselves and in so doing, they keep information from subordinates and others who could be useful in the training and development process

- v) Skepticism as to the value of the training. Some small business owners believe the future cannot be predicted or controlled and their efforts, therefore, are best centered on current activities
- vi) Inadequate capital

The four basic rules of orientation include

- i) Prepare the employee
- ii) Present the work
- iii) Try the employee out under supervision
- iv) Follow-up

MOTIVATION

Motivation is derived from the word motive which is a dynamic form of a desire, craving or need which must be satisfied. All motives are directed towards goals, needs, desires or change of behavior which becomes goal oriented.

Motivation therefore, is the process of inducing/ encouraging workers to work willingly with all their strength to achieve the desired goals and objectives of an enterprise

or

Is the process of inducing / encouraging workers to work willingly with all their strength to achieve the desired goals and objectives of an enterprise.

OR

It can also be defined as a driving force that compels for a worker to work willingly using all his/her capacities to achieve the desired goals and objectives of an organization.

OR

Refers to finding out what can make workers achieve highest productivity and doing it for them in order to make them perform better or a desired manner and up to the expected standards.

WAYS OF MOTIVATING EMPLOYEES.

1. Through timely and adequate remuneration/payment. The entrepreneur can motivate his employees by adequately and timely paying them their rewards in order to help them meet their basic needs. Payments should match with the work done, level of skills. Annual salary reviews and increments can also motivate employees.
2. By use of open or proper communication. This involves passing on information from one level to another to ensure that employees are able to transmit their complaints and obtain a feedback as soon as possible. This makes them feel part of the enterprise and also understand the crisis situation like inadequate funds to meet their payments.
3. By ensuring favorable working conditions like providing workers with protective gear like gloves, gumboots, helmets. Good remunerations and favorable working hours etc. This makes them feel satisfaction of the job.
4. Through promotions. This is by assuring workers of chances of being promoted to higher levels with increase in payments. This motivates them to work hard and perform better.
5. Through ensuring workers with Job security. This is where the workers have an assurance about continued employment with the current employer or organization. This is done by using appointment letters, offering them documented work contracts in case of contract workers, promotions and fringe benefits.

6. By allowing employees to Participate in decision making. Allowing employees to take part in decision making in the enterprise especially areas that concern and affect them as implementers or victims of decisions made gives them a sense of belonging and make them feel important and part of the company.
7. Through on-job training and in-service training. On- job training is the training of a worker on the actual task being done e.g. how to use tools equipments or materials that they will still use them when fully trained. Training motivates workers to work harder for the enterprise as it shows them their professional development and improvement of skills. Also workers who wish to go for further studies can be given both moral and financial support.
8. Appraising and recognizing the contribution of workers by rewarding the good performers in order to encourage them work harder e.g. give them financial rewards like bonuses, verbal or written praise like selecting and rewarding employees of the month.
9. Through transparent management. This involves proper management of funds of the enterprise and showing employees how the business funds are spent. This motivates workers especially when they get assurance that the increased profits as result of their hard work will result into increase in payment and improvement in working conditions.
10. Through observing discipline among workers. Workers can also be motivated when cases of indiscipline within the enterprise are properly and fairly managed. Such cases may include defective work culture like absenteeism and late coming, indiscipline among the supervisors, favoritism and division of workers, disrespect of superiors and fellow workers etc. This will create a good working environment.
11. Giving fringe benefits. The entrepreneur can also give fringe benefits such as pension, sickness allowances, transport allowance, medical, lunch allowances, sickness and maternal leaves.
12. Through performance appraisal. Appraising workers according to their contributions to the business will go a long way in motivating them
13. Through provision of adequate and timely recommendations where necessary. It is common for most firms to recommend their employees

IMPORTANCE OF MOTIVATING IN AN ENTREPRISE

1. **Motivation** improves workers' productivity as it directs all their efforts and energies to work harder in the enterprise which increases output per worker and total output.
2. Motivation stimulates workers to perform their duties and given tasks effectively and efficiently and thus positively contributes towards the achievement of the set business goal such as increased sales and profit margins, cost minimization etc.
3. Motivation improves the image of the business or enterprise. This encourages employees to start identifying themselves with the business ideas and objectives which make them even perform better.
4. Motivation minimizes strikes by employees since workers are contented and satisfied at their place of work eg they are given opportunity to participate in decision making, regularly informed about the enterprise's activities, progress and development.
5. It enhances team work among the employees as it makes them feel important and part of the enterprise for instance when they take part in decision making, when the enterprise management is transparent.
6. Motivation in form of financial or monetary rewards improves workers' standard of living and in turn increases their commitment to the enterprise.

7. Workers' skills are improved through motivation in form of providing training and higher education sponsorships. This makes the workers more efficient.
8. Motivation prevents employees from seeking alternative employment else where and therefore helps in retaining workers. This is because it creates job satisfaction hence reducing high labour turn over.
9. It improves on the relationship between employees and employers.
 - Why is necessary to motivate employees in an enterprise
 - Justify the rationale for motivation in an enterprise
 - Explain the objectives of motivating employees in an enterprise

Approach

Begin with to/in order to/ing tense

1. To improves workers' productivity as it directs all their efforts and energies to work harder in the enterprise which increases output per worker and total output.
2. To stimulate workers to perform their duties and given tasks effectively and efficiently and thus positively contributes towards the achievement of the set business goal such as increased sales and profit margins, cost minimization etc.
3. To improve the image of the business or enterprise. This encourages employees to start identifying them selves with the business ideas and objectives which make them even perform better.
4. To minimize strikes by employees since workers are contented and satisfied at their place of work eg they are given opportunity to participate in decision making, regularly informed about the enterprise's activities, progress and development.
5. To enhance team work among the employees as it makes them feel important and part of the enterprise for instance when they take part in decision making, when the enterprise management is transparent.
6. To improve workers' standards of living. Motivation in form of financial or monetary rewards is intended to improve on worker's wellbeing and increase their commitment to the enterprise.
7. To improve on Workers' skills through motivation in form of providing training and higher education sponsorships. This makes the workers more efficient.
8. To retain good employees in an enterprise. It is intended to prevent employees from seeking alternative employment else where and therefore helps in retaining workers. This is because it creates job satisfaction hence reducing high labour turn over.
9. To improve on the relationship between employees and employers

PERFOMANCE APPRAISAL IN BUSINESS.

Is the judgment of an employee's performance in his/her job based on productivity and other considerations.

METHODS USED TO APPRAISE WORKERS' PERFOMANCE IN AN ENTERPRISE.

1. **Ranking method.** This involves arranging or ranking employees in order of their ability on the job but some times according to some few characteristics or factors selected by the manager. It can be based on output, quality or activity.
2. **Grading.** This requires the entrepreneur or manager to group employees in predetermined series of merit categories usually on the basis of their total performance. It can also be based on output productivity etc.

3. **The rating scale.** This is the most common method of appraisal used. It consists of a list of special characteristics or factors against each of which a scale usually of up to five points or marks is given and assessment of performance is based on those factors and rating scales.
4. **The open minded method.** This is where the manager or entrepreneur appraises employees' performance with special emphasis on how the job is done and also writes comments about certain aspects of the job being performed and the employees.
5. **Behavior expectation scales.** This method appraises performance on the basis of the employees' behavior in aspects related to his/her job. It is also sometimes referred to as the **Behaviorally Anchored Rating Scale** technique (BARS)

OBJECTIVES OF PERFORMANCE APPRAISAL.

1. To ensure efficiency and effectiveness of workers in performance of the given tasks. Workers will perform their duties efficiently expecting performance appraisal at the end results of which may lead to promotion, caution or dismissal of some individuals.
2. To judge whether the employees are performing according to the set standards against which their actual performance is compared.
3. To identify the training needs of employees i.e. areas of performance where improvement would occur in case appropriate training is given.
4. To motivate employees to perform better by giving them opportunity to appraise their own performances, know the appraisal results and also discuss their work with their managers.
5. To determine the future use of an employee i.e. whether he/her will remain in his present job or be transferred, promoted, demoted or dismissed.
6. To determine pay increment to be given to employees. This is especially so where increment in employees' payment is done on basis of performance or merit.

EMPLOYEE RELATIONS.

This refers to the interaction between the employer and the workers in an enterprise. Good employee relations in enterprise enhance business performance.

The following are the ways of achieving good employee relations in an enterprise:

1. Proper communication. The entrepreneur should communicate effectively with the employees about the fundamental business goals and objectives and policies to influence them to work willingly towards their achievements.
2. Proper motivation. The entrepreneur should appropriately motivate his/her workers by praising them for good work done, giving them performance bonuses etc.
3. Treating workers with respect and dignity. The employer should show his/her workers genuine respect and dignity and must recognize them as human beings who have to be adopted and treated equally/ fairly in order to perform their best for their enterprise.
4. Providing good relationship. The employer can also ensure good employee relations by leading for example through his actions than forcing them to work.
5. Provision of favourable working environment. The employer should ensure a conducive working environment by supervising the workers in a kind rather than rough manner, encouraging workers to learn, providing opportunity to discuss their operational problems.

6. Knowing and understanding the workers well. The employer should endeavor to know his workers well, get to know their character and personality, their strength and weaknesses and then open up free communication.
7. Handling grievances fairly and tactfully. The entrepreneur should use proper and fair method of handling grievances with the speed and urgency each situation requires.
8. Showing sympathy. The entrepreneur should always imagine him/her self in the situation of his/her workers in order to understand their problems and also be able to deal with them adequately.
9. Promoting economic satisfaction and development of the workers. The entrepreneur should try to satisfy the needs of his/her workers especially their basic needs like food, clothing and shelter

EMPLOYEE/ LABOR TURNOVER

Labor turnover refers to the movement of employees in and out of a business. However, the term is commonly used to refer only to 'wastage' or the number of employees leaving

Labor turnover is also regarded as the ratio of the number of employees that leave a company through attrition, dismissal or resignation during a period to the number of employees on pay roll during the same period

Causes of labor turnover

A high level of labor turnover could be caused by many factors:

- i) Inadequate wage levels leading to employees moving to competitors
- ii) Poor morale and low levels of motivation within the workforce
- iii) Recruiting and selecting the wrong employees in the first place, meaning they leave to seek more suitable employment
- iv) A buoyant local labor market offering more (and perhaps more attractive) opportunities/stiff competition in the job market
- v) Disrespect of employees at the work place
- vi) Unfair treatment of employees in the enterprise
- vii) Poor working conditions
- viii) Poor relationship with employers/owners
- ix) Indiscipline among the existing employees may force new employees to leave the enterprise
- x) Inadequate job security/unfavourable job contents

Ways of reducing labour turnover in an enterprise

1. Proper communication. The entrepreneur should communicate effectively with the employees about the fundamental business goals and objectives and policies to influence them to work willingly towards their achievements.
2. Proper motivation. The entrepreneur should appropriately motivate his/her workers by praising them for good work done, giving them performance bonuses etc.
3. Treating workers with respect and dignity. The employer should show his/her workers genuine respect and dignity and must recognize them as human beings who have to be adopted and treated equally/ fairly in order to perform their best for their enterprise.
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9. Promoting economic satisfaction and development of the workers. The entrepreneur should try to satisfy the needs of his/her workers especially their basic needs like food, clothing and shelter

The following can also be done to reduce labor turnover

- i) Employee engagement. The organization's capacity to engage, retain, and optimize the value of its employees hinges on how well jobs are designed, how employees' time is used, and the commitment and support that is shown to employees by the management
- ii) Knowledge accessibility. The extent of the firm's collaboration and its capacity for knowledge and ideas widely available to employees would make them stay in the organization
- iii) Sharing of information. This should be made at all levels of management. This accessibility of information would lead to strong performance from the employees and create a strong corporate culture. Therefore, information accessibility would make employees feel that they are appreciated for their effort and chances of leaving the organization would be minimized
- iv) Work force optimization. The organization's success in optimizing the performance of the employees by establishing essential processes for getting work done, providing good working conditions, establishing accountability and making good hiring choices would retain employees in their organization
- v) Job involvement. This describes an individual's participation with work and indicates the extent to which an individual identifies psychologically with his/her job. Involvement in terms of internalizing value about the goodness or the importance of work encourages employees not to quit their jobs
- vi) Empowering of employees. This could help to enhance the continuity of employees in organizations. Empower your employees and delegate more decisions to their subordinates. Managers should act like coaches and help employees solve problems

Costs of labor turnover

- i) It leads to additional recruitment costs
- ii) Increased costs of training replacement employees
- iii) Loss of know-how and customer good will
- iv) Potential loss of sales (if there is high turnover amongst the sales force)
- v) Damage that may be done to morale and productivity (an intangible cost)

Measuring labor turnover

It involves calculating the number of leavers in a period (usually a year) as a percentage of the number employed during the same period. This is known as the “separation rate” or “crude wastage rate”

And it is calculated as follows

$$\text{Separation rate} = \frac{\text{Number of leavers}}{\text{Average number employed}} \times 100$$

For example, if a business has 150 leavers during the year and on average, it employed 2,000 people during the year, the labor turnover figure would be

$$\begin{aligned}\text{Labor turnover} &= \frac{150}{2000} \times 100 \\ &= \mathbf{0.75\%}\end{aligned}$$

An alternative calculation of labor turnover is known as the **stability index**. This illustrates the extent to which the experienced work force is being retained and is calculated as follows:

$$\frac{\text{Number of employees with one or more years' service now}}{\text{Number employed one year ago}} \times 100$$

Patterns of labor turn over

- The highest rate of labor turnover tends to be among those who have recently joined a business.
- Longer-serving employees are more likely to stay, mainly because they become used to the work and the business and have an established relationship with those around them

Revision questions

Define recruitment as used in entrepreneurship

Explain the sources of recruiting employees in an enterprise

Describe the procedures for recruiting employees in an enterprise

What are major elements of employee considerations?

Describe the steps taken in the training process

State any three advantages of training workers

What is meant by motivation?

Explain the ways of motivating employees in an enterprise

Present the objectives of motivating employees in an enterprise

State the benefits of training employees in small enterprises

Narrate the training process

Define employee turnover

Account for labor turnover

What are likely costs of labor turnover?

Given that Kamwako Enterprises has 250 leavers during the year and it employed 540 people during the year. Calculate the labor turnover

How can Kamwako manager manage labor turnover

METHODS OF PAYMENT.

1. Contract based payment. This is a method of payment where a person is paid a given amount of money after taking and completing an agreed piece of work in an agreed or specific period of time. Terms and conditions of work are specified in the work contract.

2. Piece rate. This is a method of payment where a worker is paid according to the amount of output produced. This is normally applicable to manual work. This amount is multiplied by the unit cost for each product produced.

ADVANTAGES / MERITS OF PIECE RATE METHOD OF PAYMENT.

1. More output is produced since every worker struggles to produce more in order to earn more.
2. It does not require close supervision of workers and this reduces administrative costs / supervision costs.
3. It enables the entrepreneur to easily determine his labour costs per unit of output produced.
4. It provides an incentive to first and more efficient workers since they earn more. This keeps them motivated.
5. Piece rate method of payment encourages creativity and innovation it encourages workers to come up with better methods of doing work much faster and producing.
6. Team spirit is promoted incase of workers operating in groups and therefore rewarded according to size of work done by their groups.
7. It reduces the possibility of some workers exploiting others since each worker is paid the exact amount of money that fits the amount of work done.
8. Interest is added to dull and routine workers. Some occupations are so boring that workers are only encouraged to continue with them if they are paid according to how much a worker produces
9. Work is completed faster under the piece rate system as workers try to out compete each other in getting a bigger portion or pay
10. Workers are encouraged to reach their places of work easily hence fostering time management at work place

DISADVANTAGES OF PIECE RATE SYSTEM

1. It is inapplicable in service sector where the where out put produced can not be measured
2. The attempt to increase earnings may result into work being rushed. This may in some cases necessitate employment of supervisors to check the quality of work thus increasing the costs of production
3. Workers may be induced by higher earnings to speed up work to such an extent that they may over strain themselves at the expense of their health
4. Variations in the piece rate from one industry to another or from one place to another undermines solidarity of trade unions
5. Slow but careful workers are not favored by the system and as a result firms in the long run lose quality employees with better out put in terms of quality
6. The system makes workers to pay too much attention on quantity in order to increase their earnings and as a result the quality of final out put declines
7. Piece rate system encourages income inequality among workers which can lead to social unrest in the society
8. It makes workers too speedy leading to accidents
9. Under this method trade unions may lose control over the supply of labor and this makes it hard to strike or to assist workers in periods of unemployment

TIME RATE SYSTEM OF WAGE PAYMENT

It is a system of wage payment where the employee is paid according to the number of hours or time spent at work. It may be per day, week or a month. Where this system is in operation all employees doing similar work are paid an agreed sum of money per given period of time.

Time rate system is more satisfactory used under the following:

- i. Where quality work is essential
- ii. Where the work cannot be hurriedly done e.g. driving, passing judgment by lawyers
- iii. Where no standard type of work could be done after day e.g. repair work, surgeons
- iv. A situation where care has to be taken of delicate machinery e.g. in hospital, medical tests where output can not be easily quantified or measured e.g. teaching, nursing and other direct services
- v. Where working for long hours may undermine or affect workers health e.g. working in a chemical plant
- vi. It is also better to use a time rate where labor by its nature affixed factor which has to be engaged whatever the output e.g. clerical officers, shop attendants

ADVANTAGES OF TIME RATE SYSTEM OF WAGE PAYMENT

1. Better quality work is done hence the quality of final output is high.
2. Workers are not over strained as the time of work under this system is standard
3. It minimizes the risks of accidents and damages at work as workers take their time performing tasks assigned to them
4. Efficiency in production is encouraged as workers tend to be responsible and careful in the course of production
5. Employers can plan in advance to secure payment for their workers as payment tends to be on regular intervals
6. It enables employees to plan for their earning as payment is regular and standardized
7. It improves on the employees and employers relationship as they are ever in close contact
8. It is suitable to professionals like doctors, teachers, policemen etc whose services cannot be easily valued

DISADVANTAGES OF PIECE RATE SYSTEM

1. There is lack of incentives for better workers as workers with the same qualifications get the same wage irrespective of what contribution each of them made to the firm's output
2. Supervision of workers is usually necessary and this increases administration costs of the firm
3. It encourages laziness, absenteeism and thus output is likely to reduce since workers are paid according to time worked and not output
4. Fast and serious workers are discouraged since they earn the same amount like their slow colleagues
5. Agreements, terms and conditions of employment can be undermined by workers adopting go slow tactics e.g. factory workers may be encouraged to do work slowly so that they can earn overtime pay after normal working hours
6. Output likely to be low because it's not the basis for payment

4.SALARY

A salary is a fixed and regular periodical payment usually given to a non-manual permanent employee for work done for an enterprise or organization.

It is usually expressed in annual terms implying a relatively permanent employment relationship through normally paid on a monthly basis.

Characteristics of Salary

- Salary is progressive and in most cases increasing annually.
- It is paid to skilled workers mainly.
- Salary is often confidential.
- Salary is often regarded as personal to the individual.
- Salary is usually stated as being an all inclusive sum or amount implying that there are no additional payments such as productivity bonus overtime etc.

5. Wage. A wage is unfixed and irregular payment work of an organization. A manual worker usually earns a basic time wage fixed by job evaluation on either basis of time or size of work done.

6. Overtime. This is payment received by a worker for work done beyond his/her normal working time or hour. This payment may at times double the normal working time rate or even be less at times.

7. Shift pay. This is payment given to employees who work during unusual or changing work hours in order to compensate the inconveniences and hardships borne. This salary is also added to basic/normal pay.

8. Bonus payment. *This is a method of payment where extra payment is given to the worker because of the exceptional contribution of the worker or the group to which he/she belongs to the total output on to the success of the enterprise.*

9. Commission payment. *This is a method of payment where a worker is paid according to the level his/her performance for work done on behalf of the organization. It is common with selling agents or sales persons where higher commission is given to the worker who sells greater output.*

10. Flat rate payment. *This is a method of payment where workers are paid a fixed amount regardless of amount of output produced and time spent at work.*

11. Cost of living allowances. *This is commonly given in response to increase in the general price levels or cost of living especially to employees who work in high cost of living areas.*

12. Special wage additions. *Special additions like danger or wet money are paid to employees who work in abnormal working conditions. Usually employers include this payment in the basic pay instead of giving it as extra payment.*

FACTORS CONSIDERED WHEN DETERMINING WORKERS' PAYMENT.

1. **The nature of the job requirements.** Workers who perform difficult and demanding jobs earn higher wages than those perform the simple and less demanding jobs.
2. **Cost of living.** Sometimes entrepreneurs pay workers according to the cost of living and this pressure comes from labour unions such that workers in areas where cost of living is high are paid higher.
3. **Labour productivity and efficiency.** The amount of work or quantity of products produced by by each worker is also used to determine payment especially under the piece rate system. The more production Vs
4. **Level of education and training.** Highly educated and trained workers are normally paid higher wages than their counter parts.
5. **Level of experience.** Normally, highly experienced workers with a high level of experience tend to be paid higher wages.
6. **Profitability of the business.** Entrepreneurs whose businesses enjoy a higher wages than those businesses among low profits or losses.

7. **Risks involved in the job.** Workers who perform risky jobs such as those who work in mines and insecure areas, upcountry, are paid higher wages than those who work in less risky areas.
8. **Strength of trade unions.** Workers from strong trade unions are usually paid higher than those with weak trade unions that can not negotiate and supply of labour.
9. **Demand and supply of labour.** When the demand for labour is higher than its supply, higher wages will be paid to workers in the concerned fields or industries and when the supply of labour is greater than the demand, low wages will be paid to workers in the industry.
10. **Government policy of wage legislation.** The government in its policy of minimum wage legislation sets the minimum pay to a given category of workers by doing so the government would have decided on the workers wage rate. If the minimum wage set is high, workers' wage will also be high if it is low workers' wage will be low
11. **Individual worker's bargaining strength.** Individuals with strong bargaining power get better wages than their counter parts with low bargaining power which receive low wages
12. **Employers' willingness and ability to pay.** Employers who are willing and able to pay better wages to their workers enable such workers to get higher wages compared to their counter parts with employers who are not willing and able to pay better wages
13. **Social factors as attributed to age, sex , religion** etc some employers base their payment of wages on such social factors and its on this basis that wage differentials exist between age groups, sex etc.

WAGE DIFFERENTIALS/DEFERENCE IN EARNINGS AMONG EMPLOYEES

Workers are given different wages/payments even when they are in the same industry or doing a similar job because of the following:

1. Differences in the nature of jobs
2. Variation in the level of skills (education and training)
3. Differences in bargaining strength of individual workers
4. Government policy on income/wages which tends to be non matching
5. Differences in the cost of living
6. Differences in employers' ability and willingness to pay
7. Differences in the number of hours worked – for the case of time rate system
8. Differences in talents and natural gifts
9. Discrimination in the labor market
10. Differences in elasticity of supply of labor
11. Differences in peoples' ability to do work- for the case of piece rate system
12. Differences in the strength of trade unions
13. Differences in experience, expertise, responsibility or seniority
14. Differences in non-monetary benefits/ payments
15. Differences in elasticity of demand for the product labor produces

REVISION QUESTION

- Explain the causes of wage differential in an enterprise 10mks
- Under what circumstances may an entrepreneur pay high wages to employees?

The following are circumstances under which an entrepreneur may pay higher wages for his/her employees

- When there an increase in profits earned by the enterprise
- Incase there is an increase in productivity of workers

- Incase there is an increase in skills acquired by workers
- Incase of high minimum wage legislation by the government
- When there is an increase in experience of workers
- Incase of high cost of living
- Incase of increased demand for pay rise by trade unions
- When there high risks involved in the job
- When there is an increase in the number of hours offered for work
- Incase there is a decrease/low supply of particular employees in an enterprise

Explain the conditions necessary for employees to receive high payments in an enterprise

The following are conditions necessary for employees to receive higher wages

- There should an increase in the numbers of hours offered for work
- There should a decrease/low supply of particular employees in an enterprise
- There should be an increase in profits earned by the enterprise
- There should an increase in productivity of workers
- There should an increase in skills acquired by workers
- There should a high minimum wage legislation by the government
- There should an increase in experience of workers
- There should a high cost of living
- There should increased demand for pay rise by trade unions
- There should high risks involved in the job

Under what situations may employees demand for better payments?

The following are circumstances under which an entrepreneur may pay higher wages for his/her employees

- When there an increase in profits earned by the enterprise
- Incase there is an increase in productivity of workers
- Incase there is an increase in skills acquired by workers
- Incase of high minimum wage legislation by the government
- When there is an increase in experience of workers
- Incase of high cost of living
- Incase of increased demand for pay rise by trade unions
- When there high risks involved in the job
- When there is an increase in the number of hours offered for work
- Incase there is a decrease/low supply of particular employees in an enterprise

BUSINESS TAXES/TAXATION

TAXATION

This refers to a legal compulsory transfer of money from the public to the government as a source of revenue without corresponding goods or services rendered.

A tax is a compulsory contribution charged on people by the public authority with no reciprocal benefits (corresponding goods or services rendered). Or

A tax is a compulsory charge or levy imposed by the government or any other competent authority on persons (individuals, corporate or other legal entities) or on businesses in order to finance government activities.

COMMON TERMS USED IN TAXATION

- a. **Tax rate.** This is the general amount of tax that the government intends to charge on each unit or value of the tax base.
- b. **Tax avoidance.** This refers to a situation where the tax payer dodges to pay tax imposed on him or her by exploiting loop holes (weaknesses) in the tax system.

OR

Is a situation where a tax payer uses illegal means not to pay the tax imposed on him like a person avoiding buying a commodity on which a tax has been imposed

- c. **Tax evasion.** Is the deliberate refusal of a tax payer to pay the tax assessed or imposed on him. Like a person hiding at the time of collecting the tax.

Causes of tax evasion

- To retain all the earnings
 - Un fair assessments
 - Low income levels
 - Political substance
 - Discontentment about the services provided by the government
 - Inadequate information about advantages of paying taxes.
 - Relaxity in the tax system
- d. **Tax base.** This refers to the range of economic activities, or items on which taxes are levied.
 - e. **Tax capacity.** This is the ability of a tax payer to pay the tax left without negatively affecting the tax payer's standards of living.
 - f. **Tax burden.** It refers to how a tax payer feels when the tax is imposed on him or her in form of money loss, or goods and services fore gone.
 - g. **Incidence of the tax.** It refers to the final resting place of a tax. That is, who actually bears the money value of the tax.
 - h. **Impact of a tax.** This is the immediate person or a firm on which a tax is imposed.
 - i. **Tax liability.** This refers to the amount of money a tax payer is required to pay with in a given period of time.

PRINCIPLES/CANONS OF GOOD TAXATION/RULES

According to Adam Smith, the canons of taxation are the criteria by which a tax system should be judged. These are rules that provide guidelines to be followed when designing the system of taxation. These include the following;

REVISION QUESTIONS

Explain the principles or canons of taxation in an economy
What are the qualities of good taxation in an economy?

1. **Principle of convenience.** This rule states that, the assessed tax should be collected at ideal times convenient for the tax payer to pay the tax in respect to time, season or availability of income for example at harvesting periods or end of the month for civil servants. And the method of how to pay the tax should be well known by the tax payer.
2. **The principle of simplicity.** The nature of tax, method of assessment and tax collection should be simple and easy to be understood by tax payers and tax collectors. Because a complicated tax leads to misunderstandings, disputes and delays in payments
3. **Principle of certainty.** This rule emphasizes that the nature of the tax, base and the amount should be clearly understood to the tax payer and tax collector without any doubt
4. **Principle of economy or cheapness.** The cost of collection and administration of the tax should be low compared to the tax revenue collected (yield of a tax). I.e. the cost of collection ought not to exceed 5% of the tax yield
5. **Principle of productivity.** The government should be able to calculate in advance what it will yield and at what rate the revenue would flow in form of taxes. A good tax should be able to encourage effort and initiate and not to discourage investments in the country
6. **Principle equity.** This canon is based on humanitarian consideration the burden of the tax should fall equitably on the tax payer and amount to be paid should be in relation with the income level. There should be vertical equity (different payments according to incomes). People with higher incomes should pay higher taxes than those with low incomes or there should be horizontal equity where people of the same incomes and situations are placed under equal treatment in taxation. Equity also considers minimum social sacrifice and maximum social benefit i.e. the tax payer should sacrifice less when paying a tax but benefit more from the tax paid
7. **Principle of elasticity/flexibility.** The tax should change according to the prevailing conditions in the economy or should be able to respond easily to changing economic circumstances
8. **Principle of diversity (comprehensiveness).** A good tax system should have a wide base or source i.e. have a variety of sources and should cover different incomes or prosperity of individuals in the economy
9. **Principle of consistence.** A good tax should be in line with the national policies and economic objectives of a country especially in allocation of resources
10. **Principle of low net restraining effect.** It should leave a tax payer in a desirable economic status without greatly affecting his consumption and investment decisions
11. **Automatic stabilization of the economy.** A good tax should stabilise the economy in terms of investment, employment and others

CHARACTERISTICS OF A GOOD TAXATION SYSTEM

1. It should be comprehensive i.e. taxes should be levied on as many tax bases as possible and should be of many types. It should therefore cover different people earning incomes in different ways
2. It should impose a minimum tax burden on the tax payer i.e. a tax payer should be able to pay the assessed tax with the least burden

3. A good taxation system should be efficient i.e. cheap in its assessment, administration and collection. Therefore, the tax imposed should be easily administered without involving high administrative costs in terms of time, efforts and financial resources
4. A good taxation system should be optimal i.e. a maximum balance should be maintained between tax revenue services rendered through public expenditure and the work effort forth coming from tax payers in order to increase output
5. A good taxation system should consider the principle of double taxation i.e. should not imposed on the tax payer on the same base more than once
6. It should promote equity, social and economic justice. It should be progressive in order to distribute the tax burden equitably (the higher the income the higher the tax charged and the lower the income the lower the tax charged)
7. A good taxation system should channel and direct resources to priority areas
8. It should help to achieve national objectives. It should promote economic stability, economic growth (inject revenue in areas which are productive and should expand incomes and employment)
9. It should be convenient i.e. collected at such a time when the tax payer is able to pay (when he/she has the money to pay)
10. It should be buoyant/flexible i.e. the revenue should change with changes in national income of the economy or the rates should adjust according to the economic changes
11. Neutrality. the tax system should have minimum distortion for example on consumption, relative prices, production and investment

TYPES OF TAXES

Taxes can be classified according to;

- (i) Tax income ratio or average rate of a tax
- (ii) Final taxing place or tax incidence.

ACCORDING TO TAX INCOME RATIO.

This is the volume of the tax amount paid divided by the income (how much of the income will be paid in terms of tax. In this class.

Proportional tax.

This is a tax where average rate is constant irrespective of the level of the income of individuals on which it is levied. That is, it can be 50% on individual's income.

Progressive tax

This is the tax whose average rate increases with an increase in the income level of the tax payer. People of different incomes have to pay different rates of taxes and this implies that high income earners will pay high taxes those with low incomes will pay lower taxes for example Pay as You Earn (PAYE)

Mention any two effects of a progressive tax.

- Increases government revenue
- It leads to equitable distribution of income and wealth
- Trends to discourage some sectors

- Savings are discouraged since it leaves people with less income
- It is disincentive to work since it increases with increase in income levels

Regressive tax.

This is a tax whose rates fall as income or spending power of an individual increases. This is when the burden of the tax follows more heavily on low income earners. Such a tax is usually an indirect tax like expenditure tax. For example if it is charged on a certain commodity, a lower income earner will pay a higher ratio in relation to his income compared to a high income earner

Example:

Example, suppose the price of a bicycle is 10,000/= and the tax imposed is 6000/=. On buying the lower income earner of 5000/= pays the same tax as that one earning 70000/=. Calculate the tax ratio of low income earner and that of a high income earner

Price of bicycle = 10000 + 6000 = 16000/=

Tax ratio of low Y Earner = $16000/5000 \times 100 = 320\%$

Tax ratio of high Y Earner = $16000/7000 \times 100 = 228.6\%$

Outline the effects of a regressive tax.

- Low tax revenue is realized due to tax avoidance
- It encourages tax evasion in that people with low income may deliberately dodge taxes assessed on them
- Social unrests may result i.e. people can resort to strikes, riots etc
- Income gap is widened between the low-income earners and high-income group
- It reduces the consumption of goods
- It widens the income gap between poor and the rich

Digressive tax. This happens when the tax is only mildly regressive up to a particular rate beyond which the same tax rate is charged

CLASIFICATION OF TAXES ACCODING TO FINAL RESITING PLACE

DIRECT TAXES.

DIRECT TAXES

These are taxes imposed on income or property of individuals or firms who directly pay them. The burden and the incidence of tax cannot be shifted to another person

EXAMPLES/TYPES OF DIRECT TAXES

- Income tax.** This is a tax levied on individuals' income like Pay As You Earn (PAYE). Its advantageous in that it can be progressive as well as proportional if well assessed
- Corporation/company tax.** This is a tax imposed on company's profits. In Uganda this tax is at 30%
- Estate duty/Death duty.** This is a tax imposed on the property of the deceased
- Capital gains tax.** This is a tax imposed on the gains made by a seller of capital assets whose value have appreciated over time
- Gift tax.** This is a tax imposed on the value of wealth being transferred from one person to another. However, there have been academic arguments as regards who should pay, the tax the donor or the donee

6. **Property tax.** This is a tax assessed by the tax authority on the assets owned by the individuals for example houses, land, machinery etc
7. **Sur tax.** This is a tax imposed on individuals with a very high level of income exceeding a certain specified limit
8. **Graduated tax.** It is a tax levied on the citizens or residents of the country basing on one's income and property
9. **Poll tax.** It is the tax imposed at a fixed rate on every head of the family
10. **Wealth tax.** This is a tax imposed on wealth or accumulated savings.

ADVANTAGES OF DIRECT TAXES

1. Direct taxes are more certain as the tax payers are more informed with the amount of tax they are going to pay, the time and mode of payment. Even the government is certain of how much revenue it is likely to collect. Hence satisfying the principle of certainty
2. They are equitable i.e. they satisfy the quality of equity as one of the principles of a good tax. This is because they are progressive in nature and they increase with increase in ones' income and do fall directly to the persons according to how much income/wealth they have
3. They are elastic (flexible) since they can be changed depending on the needs of the economy i.e. it can be increased or decreased to achieve the desired goals of a country
4. They satisfy the canon of simplicity i.e. they do not have any complication in their assessment, administration and collection as compared to the indirect taxes. Tax collectors and tax payers can easily understand the calculations and the mode of payment
5. They are economical i.e. easy to collect and at relatively low costs like pay as you earn which is deducted at the source by the employer
6. Certain direct taxes are convenient since they can be paid in installments or after income has been realized like salary earners pay at the end of the month
7. They facilitate automatic stabilization of the economy for example direct taxes can be used to stabilize price levels and employment in the economy. Hence reducing inflation and economic instabilities
8. They cultivate a sense of civic responsibility among the tax payers. They are concerned about the affairs of the state and how their taxes are being used in the collection and this can help to check on government expenditure
9. They reduce income inequality among the people. It tends to redistribute income with in an economy since they are progressive in nature
10. Like any other tax, they contribute to government revenue which is used to provide social services to its people like medical facilities, road construction, power supply etc

DISADVANTAGES OF DIRECT TAXES

1. They encourage tax evasion and avoidance since they are a big burden to the tax payer. Tax payers may understate their incomes so as to dodge paying the taxes
2. They discourage production most especially the corporate tax and wealth tax since they act as a disincentive to effort and initiative. If such taxes are high, people may prefer to tax their incomes inform of leisure which is not taxed

3. They cause capital flight in the country as foreign capital holders transfer their capital to other less taxed countries. Hence lowering government revenue, employment opportunities etc
4. Some times direct taxes inconvenience the tax payers particularly when they are paid in lump sum and in advance. There fore since they are very difficult to pay and the formalities associated with them further inconvenience the tax payer
5. Direct taxes are discriminative in nature especially income tax which may not be paid by low income earners hence leading to loss of revenue to the government. This also discourages saving by the rich people
6. At times, direct taxes are un economical since the cost of collection especially in the developing countries and particularly in the rural areas is very high
7. Direct taxes create resentment since the burden of the tax is heavily held by the tax payer
8. Direct taxes reduce the level of investments and savings in the country since individuals and business firms are left with small amount of money for re-investment
9. Direct taxes are generally un popular among the population especially in developing countries with high rates of poverty

INDIRECT TAXES

These are taxes levied on goods and services. They are also known as outlays/expenditure taxes/consumption taxes or hidden taxes. It can be either specific or **advalorem tax**

A specific tax is a tax imposed on each unit of out put provided while **advalorem tax** is the tax calculated according to the value of the commodity. For example if the value of a good is 3000/=, and the Advalorem tax is 20% of the value, then the tax is $20/100 \times 3000 = 600/=$

Examples of indirect taxes include:

- i. Excise duty
- ii. Customs duty
- iii. Sumptuary tax
- iv. Octroi tax
- v. Sales tax/
- vi. Turn over tax etc
- vii. Value Added Tax (VAT)

EXCISE TAX/DUTY. This is a tax imposed on home made goods and services like tax on sugar beer etc

Objectives of levying excise duty in Uganda

- i. To raise revenue for the government
- ii. To discourage the consumption of certain goods like cigarettes

Effects of excise duties

- i. Increased costs of production that result in inflation due to high prices
- ii. Producer's and consumer's choices are distorted resulting in inflation due to high prices
- iii. It is regressive and hence result in widened income inequality since it affects the poor more
- iv. If properly levied can provide fairly high revenue with minimal public protest

CUSTOMS DUTY/TAX. This is a tax imposed on goods either entering or leaving the country i.e. a tax either on imports or exports.

Import duty: This is a tax imposed on goods entering a country

Objectives of levying import duties in Uganda

- i. To raise government revenue
- ii. To protect domestic and infant industries against completion and dumping
- iii. To improve the country's BOP position through reducing imports
- iv. To retaliate against import duties imposed by other countries on Uganda's exports
- v. To discourage imports especially luxuries and socially undesirable goods for example taxes on second hands vehicles

Export duties. These are taxes imposed on goods leaving a country i.e. taxes on exports

Objectives of export duties

- i. To raise government revenue
- ii. To control the volume of exports so as to avoid shortages at home

Effects

- i. Increased government revenue
- ii. Reduced demand pull inflation due to availability of goods in the domestic market

SUMPTUARY TAX. This is a tax imposed on commodities considered harmful to the health to discourage their consumption and production for example a tax on alcohol drinks. It is also known as *prohibitive tax*

Effects of sumptuary tax

- i. They help to generate relatively high government revenue with minimal public protest since they are levied on commodities with inelastic demand
- ii. Improved standard of living of the people
- iii. Increased problems of income inequality since they are regressive

OCTROI TAX. This is a tax imposed by a country on goods passing through its territory in transit to another country for example Kenya imposes octroi tax on imported goods passing through its territory to Uganda

TURN OVER TAX. This is a tax imposed on the total sales of a business regardless of the stage of production and distribution. In Uganda this tax has been replaced by Value Added Tax (VAT)

VALUE ADDED TAX. This is a tax imposed on the value of a commodity at each stage of production. In Uganda VAT is charged at 18% of the increase in the value of a commodity

Advantages of VAT in Uganda

- i. It is difficult to evade since it is hidden in the price of the commodity
- ii. It brings efficiency in business management since it encourages proper maintenance of books of accounts
- iii. It is not a disincentive to resource allocation since it does not lead to shifting of resources to other sectors
- iv. It encourages exports and taxes on exports are refundable
- v. It leads to increased government revenue because it is comprehensive
- vi. It is economical in terms of administration and collection
- vii. It reduces corruption since it is paid through banks

Disadvantages

- i. It requires proper record keeping by individuals/firms but Uganda still has poor record keeping
- ii. It is quite complicated and not too easy to understand especially in developing countries like Uganda
- iii. VAT tends to be regressive since all taxable goods are treated equally

- iv. It is quite expensive especially to small firms in terms of record keeping expenses and payments
- v. It increases cost of production which finally leads to cost push inflation
- vi. It may encourage tax evasion since it's highly dependant on cooperation, honesty and good will of the tax payers
- vii. It requires massive education to tax payers in Uganda

Outline the limitations of VAT in Uganda

- i. Most business people in Uganda do not keep proper accounting records
- ii. It is difficult to understand and complicated to calculate
- iii. Inefficiency and dishonesty by the tax collectors and the government tax organizations which lead to increased loss of tax revenue to the government
- iv. Limited cooperation among the tax payers hence resulting into increased tax evasion

TYPES OF GOODS UNDER VAT

Zero rated goods: these are goods where there is no payment of VAT on out put but producers can claim any VAT on inputs or these are goods that do not bear any tax (VAT) but the supplier of such goods can claim a tax refund if he paid taxes on outputs for example drugs, foodstuffs etc

Exempt goods: these are goods which are not liable to VAT and no credits is given for any tax paid on inputs for example houses (immovable)

Standard rated goods: these are goods which must have Value Added Tax paid on them like motor vehicles, beer, sugar etc

SALES TAX. This is a tax levied on the level of transactions which take place between the buyers and the sellers. Sales tax include *single stage sales tax*: this is levied once at the first sales and purchase

Multi-stage sales tax: this is levied every time a sale of the same units of the commodity takes place. It is difficult to administer

ADVANTAGES OF LEVYING INDIRECT TAXES

1. They are used by the government in its economic policies like protection of home industries against dumping and improving on terms of trade
2. Indirect taxes are more comprehensive and there fore they are reliable sources of government since they cover many goods and services
3. Indirect taxes are difficult to avoid and evade since they are part of the price of the commodity bought and consumed
4. Indirect taxes are more convenient to the tax payers because they are paid when the consumers spend on goods and services
5. They are a source of revenue to the government hence enabling it to finance its expenditures
6. They help to check on consumption of harmful goods like cigarettes which result in improved health of the people
7. Indirect taxes are more economical in collection since they are collected by the sellers and producers and passed into the government thus reducing government expenditure on man power
8. Generally Indirect taxes are less felt i.e. the burden of is less felt and resented since they are part of the prices of the commodities bought
9. Indirect taxes help to correct the BOP position through increasing import duties resulting in reduced volume of imports

10. Indirect taxes are flexible (elastic) since their rates can easily be adjusted upwards or down words to meet the economy's requirements
11. When indirect taxes are selectively imposed they can help in income re-distribution by levying increasing taxes on commodities consumed by rich people and using revenue to subsidize for the poor
12. They are impartial (neutral) or do not discriminate consumers. They are paid by all groups of consumers and this helps to increase tax revenue
13. They guide in resource allocation i.e. priority areas are less taxed and non priority areas are heavily taxed. Savings and investment activities in priority areas are guided by indirect taxes

Revision questions:

*Present the advantages of indirect taxes over direct taxes in an economy or your country
What are advantages of direct taxes over indirect taxes in an economy?*

DISADVANTAGES OF INDIRECT TAXES

1. They are regressive in nature (the rate of a tax increases with a decrease in the tax base⁰. This is mainly with low income earners and they are very much affected plus the poor. Most especially if they are imposed on essential consumer goods like fuel, soap, salt sugar etc the rich will not feel the effect of indirect taxes and there fore create income inequality
2. They are inflationary in nature i.e. they rise price of commodities, costs of production, wages etc because of tax shifting
3. Unlike direct taxes, these do not cultivate a sense of civic responsibility and consciousness to the tax payer. This is because the tax payer that does not know that he is paying a tax because it is contained in the prices of goods he buys
4. It involves the government in inspecting and checking the records, the stock of the producer, wholesalers and retailers to ascertain whether they are paying taxes
5. Revenue collected in the financial year can not be predicted with certainty. This is due to the difficulty of estimating the effects of indirect taxes and the demand for products
6. They are sometimes difficult to understand for example VAT and this violate the principle of simplicity
7. They have adverse effects on production and employment in a country. Their imposition raises the prices of commodities and if these have elastic demand, then the quantity demanded decreases as well as production and employment
8. Their effects on resource maybe negative for resources will move away from taxed to non taxed areas or low taxed areas
9. The more people consume, the more indirect taxes they pay

WHY UGANDA RELY MORE ON INDIRECT TAXES THAN DIRECT TAXES

In spite of the above disadvantages, Uganda rely more on indirect taxes as a source of government revenue, this can de explained by the following reasons:

1. Indirect taxes are comprehensive and therefore they are more liable source of government revenue unlike direct taxes which only cover some incomes and property of individuals

2. Unlike direct taxes which are easy to evade and avoid leading to limited scope of revenue mobilization makes Uganda to depend on indirect taxes which are difficult to evade and avoid since they form part of the price of the commodity bought
3. Indirect taxes are convenient to the tax payers since they are only paid when the consumers spend money unlike direct taxes which inconvenience the tax payers since they are at times paid in advance and lump sum
4. Unlike the direct taxes which are expensive to collect, indirect taxes are economical to collect since they do not require large man power and others expenses
5. Indirect taxes help to improve the peoples' health standards since they check on consumption of demerit goods like cigarettes unlike direct taxes which can not reduce consumption of harmful goods
6. Indirect taxes are less felt and resented since they are part of the price of the commodities bought unlike direct taxes which directly affect the incomes and property
7. Unlike direct taxes. Indirect taxes particularly high import duties help to correct the country's' BOP position by reducing volume of imports
8. Unlike direct taxes which are less flexible, indirect taxes in Uganda are more flexible since their rate can be adjusted to meet the changing requirements of the country
9. Unlike direct taxes which discourage hard work, indirect taxes in Uganda are not a disincentive to effort and initiative since they encourage hard work so as to afford commodities
10. Indirect taxes in Uganda increase tax revenue since they are impartial they are paid by all groups of consumers unlike direct taxes which discriminate some people from paying the taxes
11. Indirect taxes help to re-distribute income in Uganda when selectively imposed unlike direct taxes which can not easily be used to re-distribute income since they are usually rejected
12. Unlike direct taxes, indirect taxes can be used to protect the domestic and infant industries from well established foreign firms
13. The narrow tax base in Uganda partly due to the absence of large scale business units and the big size of the subsistence sector. These limits the opportunities for raising adequate revenue through the direct taxes hence the reliance on indirect taxes

OBJECTIVES OR RATIONALE OR REASONS OR JUSTIFICATIONS OR PURPOSES OR NEEDS FOR TAXES

1. To generate government revenue. Taxes are charged in order to get government revenue needed to provide better social services to the public in form of better roads, hospitals, schools, power supply etc.
2. To protect domestic firms and producers from aggressive foreign competition. The government imposes taxes in form of import duties so as to increase the price of imports and reduce their importation to protect domestic infant industries.
3. To ensure equitable distribution of income. (Income equality). The government imposes progressive taxes in order to reduce the high incomes of rich people so as to subsidize the poor and improve on their standards of living.

4. To discourage production or consumption of harmful products. The government charges high taxes on harmful products so as to reduce or discourage their level of consumption in order to protect peoples' health in the country.
5. To discourage dumping. The government charges high taxes on certain products that are sold at the home market at a lower price compared to the price in their home country so as to discourage their importation.
6. To control monopoly power in the country. Specific and lump sum taxes are charged in order to reduce profit levels of monopolists and their adverse effects of over exploitation of consumer products of poor quality goods.
7. To improve on the country's balance of payment position. The government charges heavy import duties to discourage imports and charges low taxes on exports to encourage exportation of goods and services so as to have earnings on exports exceeding expenditure on imports
8. To control demand pull inflation. High direct taxes are charged on incomes of individuals to reduce their disposable income and purchasing power (demand) which is not matched with the level of output produced.
9. To influence resource allocation in an economy. The government imposes low taxes on some sectors like education, health so as to attract people to invest in such sectors and charges high taxes on some sectors to discourage investments in such sectors.
10. To retaliate against taxes imposed by other countries. Taxes are imposed as a way of revenge against other countries that would have earlier on imposed heavy duties on goods coming from other countries or home countries.
11. To promote regional economic integration. The government charges low taxes on products of member countries so as to encourage trade among the member states.
12. To provide a mechanism through which the government charges those who use its facilities like roads, public toilets, policy etc.
13. To recover community wealth which individuals have obtained not as a result of their efforts but as a result of the efforts of other people e.g. death duty is charged for this purpose.

Revision Questions

- Why is it necessary to levy taxes in your country?
- Why is there need to impose taxes in your country?
- Explain the reasons of imposing taxes in your country.

Explain the merits or benefits or advantages or positive effects or impacts or importance of paying taxes in your country.

Approach: Use 'es' tenses on merits

ADVANTAGES OF PAYING OR LEVYING TAXES.

1. Paying taxes helps to generate government revenue which is used in constructing infrastructures like roads, hospitals, schools and so many others.
2. Paying taxes helps to protect domestic funds and procedures from aggressive foreign competition through the government imposing taxes in form of import duties so as to increase the price of imports.

3. Buying taxes helps to ensure repeatable distribution of income or income inequality through the government imposing progress taxes to reduce on the high incomes of rich people.
4. Paying taxes helps to discourage production of harmful products through the government imposing high taxes on harmful products.
5. Paying taxes helps to improve on the country's balance of payment position through the government charging heavy import duties.
6. Paying taxes helps to control the demand full inflation through direct taxes being charged on incomes of individuals.
7. Paying taxes helps to discourage dumping since the government charges high taxes on certain products that are being sold at the home market.
8. Paying taxes helps to influence resource allocation in a given economy since the government imposes low taxes on some sectors like education health and so many others.
9. Paying taxes helps to provide a method through which the government charges those who use its facilities like roads, public toilets and so many others.
10. Paying taxes helps to recover community wealth in which individuals.....

DEMERITS OR DISADVANTAGES OR NEGATIVE EFFECTS OF PAYING TAXES OF TAXATION

1. It reduces the welfare of people. Direct taxes charged reduce the disposable income of tax payers and their purchasing power hence subjecting them to poor quality goods and services.
2. Some taxes worsen the problem of income inequality. Heavy taxes imposed on commodities which are consumed by the poor widen the gap between the rich and the poor.
3. They encourage smuggling of trade malpractices. Uniform taxes charged force the disadvantaged groups to practice smuggling which retards development of the country.
4. They discourage investments. This causes the country to reduce personal savings due to reduced disposable income.
5. High taxes make the ruling government unpopular and this leads to political insecurity in the country in form of strikes etc.
6. Some taxes discourage hard work or kill the incentive to work high taxes reduce the attitude of hard work in people.
7. Import duties shield or protect domestic industries which lead to production of poor quality good since they reduce direct competition from direct firms.

The Uganda Revenue Authority (URA)

The **URA** and local government Administration are two tax authorities in Uganda. The URA is responsible for the central government revenue and the local government administration is responsible for the collection of local government revenue. The URA was formed by the government on 5th September 1991 to modernize the process of tax administration and reduce the revenue leakage and corruption in the tax administration.

ROLES OF URA

- To assess and collect taxes.
- To account revenue collected by the ministry of finance.

- To facilitate trade and investment and advice government on matters of policy related to tax and revenue administration.

TAXES COLLECTED BY URA

a) International trade taxes. These are collected on goods entering or leaving the country. In Uganda, this role is performed by the customs and excise department. The taxes collected include import duty, export duty, VAT, withholding tax, excise duty and environmental levy.

b) Domestic taxes. These are collected by URA under the domestic Taxes Department. They include income tax, VAT and excise duty.

Taxes collected by local authorities

All local government administration authorities are responsible for collecting local government revenue. They include the districts, town councils, city councils and municipalities. These local authorities collect taxes like property tax in cities and towns; sign post fees and trading licenses among others

TAX CLEARANCE PROCESS

Tax clearance refers to the process of certifying that one has completed his/her tax obligation i.e. has cleared the tax. Tax clearance process involves the following:

Tax identification number (TIN). It refers to the computer number assigned to the tax payer for identification purposes. It is important for purposes of reference, issuing tax clearances etc

Tax authorities. These are bodies responsible for levying/imposing taxes on the tax payers. In Uganda we have the central government represented by URA and the district administration authorities

TAX COMPLIANCE

Tax compliance refers to the degree to which the tax paying community/tax payers meet the tax obligations as set by the appropriate legal and regulatory authorities.

Or

This is the degree to which tax paying community meets the tax obligations as set out in the appropriate legal and regulatory provision

Tax payers who are complaint make timely, accurate and proper deliberations to the tax authority and voluntarily settle all the due tax liability. Tax payers who are not compliant avoid taxes

Levels of tax compliance

The level of tax compliance depends on the tax payers' attitude and knowledge and there are principally four levels;

1. Taxpayers who are fully compliant and are willing to fulfill their obligations voluntarily.
2. Taxpayers who reluctantly comply. These know that non-compliance would be expensive and accordingly comply
3. Taxpayers who show slight resistance to compliance. This mostly arises from lack of knowledge. When such are advised and pressure is put on them, they pay.
4. Those who are non-compliant and exhibit outright resistance to meeting their obligations.

This includes some who take pride in failing the tax authority.

FACTORS INFLUENCING/DETERMINING/AFFECTING TAX COMPLIANCE

1. The extent to which a tax system is equitable. Equitable tax system encourages tax compliance since people who earn the same level of income are subjected to the same tax rate but inequitable tax system discourages tax compliance since it favours some and affect others
2. The extent to which tax laws and the tax regulatory framework is easy to understand. A tax system which is easy to understand by both the tax payers and collectors promote tax compliance but complicated tax laws and long administration processes discourage tax compliance since tax payers and collectors do not understand why it should be paid, how to pay etc.
3. The extent to which the laws and rules are applied consistently and fairly. Consistence in application of tax laws and rules promotes tax compliance since tax payers know the effects of not paying the taxes in time but inconsistent application of the rules leads to non-tax compliance because tax payers use loopholes in the tax system to evade paying taxes imposed on them
4. The quality of tax administration/the extent to which tax administration is qualitative is also very important factor. Tax administration which reflects t professionalism, integrity and good customer care exhibited by the tax collectors encourages tax compliance because it builds trust and confidence of the tax payer in the tax authority. But poor quality of tax administration with high levels of corruption and poor methods of collection leads to low tax compliance
5. The level of popularity of the government and quality of governance/the extent to which the government is popular. A popular government encourages tax compliance since people develop trust and confidence in it due to its good governance, honesty and accountability for public revenue. But a government which is unpopular or corrupt discourages tax compliance.
6. The quality of business management by the tax payers/the extent to which the business is managed well. A business which practices proper record keeping, business organization and business ethics promotes tax compliance but a business mismanaged by the tax payer with poor record keeping leads to low tax compliance because it is difficult to fulfill the tax compliance in time
7. The extent to which the business is well funded/Availability of funds. Firms with financial problems tend to have low tax compliance but a business which is adequately funded promotes tax compliance.
8. The extent to which the tax rates are favourable/level of tax rates. Low tax rates imposed on tax payers encourage tax compliance since tax payers are less burdened but high tax rates discourage tax compliance since they heavily fall on tax payers
9. The extent to which the tax system is productive. A product tax yield i.e. used to provide social services to people encourages tax compliance since tax payers benefit from it but unproductive tax yield/system discourages tax compliance since tax payers do not see the benefits of paying the tax
10. The extent to which the tax system is convenient. The level of tax compliance is high for a tax system that is convenient i.e. collected at a time when the tax payer has the means to pay for during harvesting periods for farmers or at the end of the month for salary earners but inconvenient tax system discourages tax compliance since it collected at inappropriate time

11. The extent to which the tax system is certain. A tax system which is certain to the tax payers i.e. when they are aware of the amount to pay, reasons for paying it, when to pay it and the method to use while paying it encourages tax compliance but uncertainty of the tax system discourages tax compliance
12. The extent to which the tax system is comprehensive. A comprehensive tax system i.e. that one charged on various entities/activities encourages tax compliance since it has less effect on the paying community but a narrow tax system discourages/leads to low tax compliance since it heavily falls on the tax payers
13. The extent to which the tax system is flexible. A flexible tax system i.e. that one which changes with the prevailing economic conditions of the tax payer encourages tax compliance but a tax system which does not change with the changing economic conditions of the tax payer leads to low tax compliance
14. The extent to which the burden of tax is distributed to all potential tax payers. Equal distribution of the tax burden to all potential tax payers promotes tax compliance but uneven distribution of the tax burden discourages tax compliance
15. The extent to which the tax system is economical. An economical tax system i.e. that one which involves less costs in collecting it compared to the tax yield encourages tax payers to pay the taxes imposed on them hence leading to high tax compliance but uneconomical tax system which involves paying a lot of money to tax collectors than what is collected creates resentment in tax payers hence leading to low tax compliance

REVISION QUESTIONS

- Examine the factors influencing the level of tax compliance in your country
- Account for low tax compliance/non tax compliance in your country
- Suggest ways of encouraging tax compliance in your country

The following are reasons for low tax compliance in my country

1. Unpopularity of the government
2. Poor quality of management of the business
3. Poor quality of tax administration
4. High tax rates
5. Uncertainty of the tax system
6. Inconvenient tax system
7. The tax base is narrow
8. Inequality in the distribution of the tax burden
9. Inconsistency in implementing tax laws and rules
10. Non economical tax system
11. Ignorance of people about the benefits of paying taxes
12. Low level of income of the tax paying community
13. Rigidity of the tax system

The following are ways of encouraging tax compliance in my country

1. Ensuring transparency in the tax system/reducing corruption and embezzlement of tax revenue
2. Simplifying the tax system
3. Sensitizing the masses on the role of taxation
4. By making the tax system equitable
5. Developing a tax payer friendly system of tax collection
6. Ensuring a high degree of political stability so as to boost economic activities

7. Making the tax system more productive
8. Charging lower tax rates
9. Widening the tax base
10. Shortening the tax payment procedure
11. Being consistent in implementing tax laws/imposing tax penalties
12. Praising and rewarding compliant tax payers
13. Publishing a shame list of non compliant tax payers
14. Employing trained personnel to assess and collect the tax

Explain the problems/challenges facing tax administration in your country

The following are challenges facing tax administrators in my country

1. Inadequate funding by the government. This makes transportation of tax collectors difficult, paying tax collectors and administrators etc
2. High levels of unemployment/low level of income of tax payers. This leads to low tax yield and a high level of tax evasion since potential tax payers lack the means to pay the taxes imposed on them
3. High levels of corruption and embezzlement of public revenue among tax collectors. This has led to loss of confidence by the tax payers in tax administrators
4. Inadequate skilled labour to assess and collect the tax. This has affected the implementation of tax laws, collection and assessment
5. Ignorance of the public about benefits of taxation. This has created resistance in the tax paying community
6. High levels of tax evasion. This has increased the costs of tax collection in the country because of high expenditure on tracing tax evaders
7. Trade mal practices like smuggling of goods which leads to low tax yield
8. Political instabilities in some parts of the country. The increased riots, demonstrations and strikes in the country have made the tax collection process very difficult
9. Poor management of businesses by tax payers. This is manifested in the poor book record keeping and unethical behaviors which lead to high non tax compliance
10. Language barrier. This is due to many tribes in the country and yet taxes are assessed in all parts of the country
11. Unfavourable climatic conditions for example heavy rains, floods, land slides etc which make tax collection difficult
12. Conflict of interest between politicians and tax authorities. This leads to sabotage of taxation bills in the parliament and mobilizing people by politicians not to pay the taxes imposed on them
13. Existence of a large subsistence sector. This limits economic activities which can be taxed leading to a narrow tax base
14. High rate of inflation. This reduces the taxable income of tax payers due to high expenditure on goods and services
15. Complicated tax laws and systems. Some tax systems are difficult to understand by the tax payers hence facing challenges in implementing them

Suggest possible ways of overcoming the above challenges

BUSINESS COMPETITION

Competition is the battle between businesses to win consumer acceptance and loyalty. It is an art, a science and a practice. It is all about creating value, capturing and retaining it.

TYPES OF COMPETITION IN BUSINESS

There are many things one can do to win the competition. These include the following.

- i) **Pricing competition.** This type of competition involves charging different prices for the same commodity so as to win customers for example charging low prices compared to competitors
- ii) **Product presentation and appearance competition.** This type of competition includes the way one decorates his business premises, the way the sales person dresses, color of the product, wrappers or containers and neatness in packaging. There are many useless products on the market that sell like hot cakes due to the way they are packaged. It is therefore important to pay great attention to the way you package your goods.
- iii) **Quality competition.** His type of competition involves producing a product that satisfies the needs of customers. The quality of the product is the most significant competitive advantage over other people in one's business. The quality of the product determines the precision of the work done. The better the product, the more suitable for use. Also, good quality products live longer than poor quality ones and attract more customers and thus a larger share of the market is attracted by the enterprise.
- iv) **Added convenience competition.** This competition includes staying open late or during lunch when other businesses are closed. E.g. some commercial banks work for long hours on weekends. One could also offer something for nothing to the customer.
- v) **Customer care competition.** This type of competition involves winning customers in terms of treating them well. One should always treat customers with respect because people always choose to go where they are treated with dignity.

FACTORS TO CONSIDER IN ANALYSING COMPETITION

The following are some of the things that should be considered when analyzing competition:-

- **Size of competition/number of competitors.** A large number of competitors implies a high level of competition but a small number of competitors implies a low level of competition
- **Profitability of competitors.** High profits earned by competitors means that there is stiff competition with the entrepreneurs' business but low profits earned by competitors means low competition with the competitors, business
- **Quality of substitute products or services.** High quality products produced by competitors indicates a stiff competition with the entrepreneurs' business but low quality products produced by competitors implies low competition with the entrepreneurs' business
- **Hours of operation.** Added hours of operation for example early morning and late evening indicates a high level of competition among businesses but normal hours of serving customers implies low competition existing between businesses
- **Skills/quality of personnel employed.** Use of highly skilled personnel for example sales personnel indicates a high level of competition among business but use of unskilled/semi-skilled personnel implies low competition

- Servicing, warranting and packaging
- **Methods of selling and distribution channels.** Use of personal selling and a long distribution channel shows stiff competition in businesses but selling directly to customers implies low level of competition
- **Location of businesses.** Strategic location of businesses in a particular place implies stiff competition but locating businesses in inaccessible places/less strategic places implies low competition among businesses
- **Level /nature of advertising.** Persuasive advertising in businesses implies stiff competition/high level of competition but informative or no advertising in businesses implies low competition in such businesses
- **Promotional methods/ level of product promotion.** A high level of product promotion among businesses implies a high level of competition but low promotional activities in the business implies less competition
- **Level of reputation of the company.** A high level of reputation of the business implies a low competition with other businesses but a low level of reputation of the business implies high competition with competing businesses
- **Inventory levels.** High inventory levels implies high competition due to the need for continuous supply of products but low inventory levels implies low competition among employees
- **Quality of customer care.** Good customer care in businesses implies high competition but poor customer care among businesses indicates low competition among businesses
- **Price charged on similar products.** Low prices charged on similar products indicates high competition among businesses but high prices charged on similar products by the entrepreneur's business indicate low completion of the business with other businesses
- **Product added advantages/warrantees offered.** Excessive benefits attached on a commodity imply high level of competition among the businesses but less benefits attached on commodities imply low competition

INDICATORS OF AN INCREASE IN THE LEVEL OF COMPETITION

- Decrease in the demand for the business products
- Decrease in sales
- Increased advertising/sales promotion by competitors
- Increased complaints by customers
- Increased labour turnover in the enterprise
- Improved customer care
- Increased product added advantaged
- Increased customer convenience
- Improved methods of selling
- Improved after sales services
- Increased number of rival firms
- Increased in-service training for workers
- Demand for wage increment by employees

8a) The following are the aspects an entrepreneur can address to win competition

- **Pricing.** A similar service/product should be offered at a cheaper price, one stands a better chance of winning the customer's loyalty.
- **Presentation and appearance.** This includes the way one decorates his business premises, the way the sales person dresses, color of the product, wrappers or containers and neatness in packaging.
- **Production of good quality products.** Good quality products live longer than poor quality ones and attract more customers and thus a larger share of the market is attracted by the enterprise.
- **Added convenience.** This includes staying open late or during lunch when other businesses are closed. E.g. some commercial banks work for long hours on weekends. One could also offer something for nothing to the customer.
- **Positive attitude towards the customers.** One should always treat customers with respect. People always choose to go where they are treated with dignity.
- **Rewarding loyal and regular customers** like by giving them gifts, prizes, inviting them to get together parties etc
- **Offering credit to loyal and credit worthy customers**
- **Communicating regularly with the customers** like by communicating to them major changes in the business, availability of new products etc
- **Maintaining up to date records of regular, loyal and big customers** and recognizing them when they call or come to the business
- **Providing appropriate after sales services** like offering delivery services, proper packing of goods bought for easy carrying, helping to install the product bought at the customer's premises

b) The following are factors affecting competition

Give neutral points and explain them on both sides

- i) **Mobility and accessibility overlap.** Travelling opens up a wider geographical area for competition hence high level of completion but immobility/shorter distances reduce competition.
- ii) **Product overlap.** This refers to the selling of products by different kinds of establishments that are similar or identical to each other. Big discount stores, some times combined with grocery stores provide one-stop shopping for all customers' needs. This reduces completion but dealing in one product increases competition
- iii) **Substitution.** Availability of many substitutes increases competition but few substitutes in the market reduce competition
- iv) **Public awareness.** Increased awareness of the product, its quality and other features creates brand loyalty hence reducing the level of competition but ignorance of customers about the product features increases the level of competition
- v) **Product priority.** A preferred product reduces competition but un preferred product leads to high competition

How can entrepreneurs improve on their competitive advantage in business?

- Through intensive advertising
- Improving customer care services
- Improving customer convenience
- Through competitive pricing

- Through every day low pricing
- Through product over lap
- Using attractive packaging materials
- Improving the quality of products
- Offering credit facilities
- Giving discounts
- Carrying out promotional sales
- Motivating business employees
- Training employees
- Merging with weak competitive firms
- Face lifting/painting business premises
- Maintain good corporate image

Effects of competition

- It leads to better customer satisfaction/production of better quality products. The producers and sellers ensure that they produce high quality goods and services and any other activity that ensures maximum customer satisfaction in order to attract more customers
- It promotes more efficient production; it makes producers more pro-active in discovering more efficient production methods like use of fewer raw materials and time to produce better goods.
- It results in better employee remuneration/payments. It forces employers to pay their highly skilled employees better salaries especially when they are likely to be taken away by competitors.
- It results in more product variation. It makes producers vary their products in order to make them different from those of competitors hence increased customer satisfaction.
- It results in lower or cheaper prices of commodities. competition makes producers and sellers to try to lower the prices of their goods or services, thus making consumers enjoy lower prices
- It enables businesses to earn more profits. Competition makes businesses that enjoy better competitive advantage over rival ones to sell more which in turn makes them to earn more profits that can be re-invested
- It leads to expansion of market for some businesses. Competition allows some businesses to expand the market for their goods or services through persuasive advertising, hence generating more incomes

Negatives effects

- It results into wastage of resources. Competition makes businesses to duplicate activities or services as a way of attracting more customers, which results in wastages of the limited resources
- It leads to poor relationship between business competitors
- It leads to collapse of small or inefficient businesses/It results in unemployment when the inefficient firms are out competed
- It makes resources to become more expensive. Competition makes businesses to compete or struggle to acquire the limited resources like skilled workers, high quality raw materials etc

- It lowers profits of businesses. Competitive advertising increases the operation costs of businesses and thus lowers their profits
- It reduces the market share per business. Competition from many businesses divide the limited number of customers to different businesses and this reduces the market share per business, resulting in low sales income
- Some times it misleads customers. Persuasive advertising due to competition some times forces customers to buy products they do not really need or which may be of low benefit to them

MONITORING AND MAINTAINING A COMPETITIVE POSITION.

1. **Sustainable competitive Advantage.** This allows the maintenance and improvement of the enterprises competitive position in the market. It is an advantage that enables business to survive against its competition over a long period of time. It includes the following.
2. **Advertising.** This is extremely important in competing effectively. It is the key to attracting public attention and building priority to your products. Advertising is the first step in competing after you build the basic condition of the business.
3. **Image.** Once the customer is attracted by some type of advertising, he/she is influenced by the business image. Image can be critical in competing effectively. The customer is attracted by the image reflected in the business surroundings, personnel, product displays, etc. Good customer relation techniques, dress requirements, can be taught to sales personnel. Location is also part of image that can make a difference in customers' reactions and buying patterns.
4. **Customer convenience and services.** Location is related to convenience and good customer relations are part of good service. It also includes attractions like service delivery, repair services, acceptance of returns and exchanges and extension of personal credit. These factors also help sell a product and create loyal customers as well as competing effectively.
5. **Competitive pricing.** Businesses that operate efficiently can usually afford to price competitively because their costs are lower. Nevertheless, one mistake that small businesses make is to try to undercut the competition before they get their costs down. That kind of pricing can lead to losses or very low profits and result in a decrease in a business' competitive position.
6. **Sales prices.** The theory behind seasonal or new sales is that new customers will be attracted to the shops by the sale. They will buy other products at regular prices while they are in the shop, and the quantity sold at the sale price will make up for the lower unit profit. These principles can be effective if the sale is handled properly. However, the sale can attract wrong customers who may only buy sale items and nothing else rather than your loyal customers. And if sale prices are low, you may not gain from the sale.
7. **Everyday low prices.** Some shops have a standard policy of competitive pricing at all times without advertising specific sales. While they may lose some business while other stores feature "lead items" at cost, in general, they maintain a steady customer. Clearance sales may also be used to unload seasonal or out-of-date items or other odds and ends at cost or less.

EVALUATING BUSINESS COMPETITION

In forecasting and monitoring changes and competition in your business, make sure that the following areas are carefully monitored and that clear up-to-date records are available

- i) Sales decline or increase (may be due to many reasons including competition.
- ii) Production order may be reducing due to competition.
- iii) Flow of customers. The number of customers flowing into the enterprise in a day (this is always affected by competition.
- iv) Cash flow (movement of cash in and out of the enterprise) may be influenced by competition.
- v) Movement of personnel. Employees in non-competitive firms often leave to join other firms which look more competitive, for higher payment and other employment benefits.
- vi) Technology. Enterprises which possess modern machinery and knowledge are more competitive than those with old technology.

Clear records of the above items will enable an entrepreneur to devise means for dealing with his competitors.

METHODS USED TO EVALUATE CHANGES AND COMPETITION IN BUSINESS.

There are two methods used by entrepreneurs to evaluate changes in competition.

First, an entrepreneur is required to take an over view of how well his business venture is going to match with his potential customers' needs. This will force him to identify his business' strength and weaknesses in relation to his market.

The features which are important to customers include colour, taste, ease of use, presentation and appearance, delivery, opening times, payment terms and price.

When the entrepreneur has graded each attribute, he should join up the respective ratings with a pencil line to obtain two clear profiles, one of the customer's reference and another of the strength and weaknesses of the business.

This profiling method can be put in a table as follows.

List of features / attributes that potential customers will be looking for in the business product or service.	Score how important each attribute is to customers.	Score business product or service on each attribute.
1. Colour	1 2 3 4 5	1 2 3 4 5
2. Taste	1 2 3 4 5	1 2 3 4 5
3. Smell	1 2 3 4 5	1 2 3 4 5
4. Quality	1 2 3 4 5	1 2 3 4 5

Secondly, an entrepreneur must try and be as objective and consistent as possible. Avoid the temptation to pretend your business idea is something other than what it is.

An entrepreneur can compile a more detailed analysis by extending and modifying the profile to suit his particular business. Furthermore, it is a good idea to compile a number of profiles, one for each of your major market segments. This will enable the entrepreneur clearly identify;

- Which market segment he/she satisfies best?
- Which market segment he/she satisfies better than his/her competitors?

By using the same format, as the previous table, the entrepreneur should analyze the strength and weaknesses that the competitors present.

Features	The business	Competitor 1	Competitor 2	Competitor 3, etc	Average score of competition
1 Colour	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
2 Price	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
3 Easy use	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
Total					

Another profiling method which has an advantage over the first is that it takes into account the relative importance of each feature to the market.

Procedure for second method.

- Give each feature a weighing from 1 to 5, to signify its importance to the market segment.
- Award points, on a scale of 1 to 5, to each business including your own, on how strong they are in each area.
- Multiply the importance weighing by the points awarded for each business to obtain its score.
- Total each business' score and analyze the results.

Features	Importance	Your business	Competitor1 1			Competitor 2,etc	
		Points	score	Points	Score	Points	Score

Total							

In an entrepreneur can identify a market segment where he/she is strong in both areas, he/she is likely to take a larger market share away from the competition than would otherwise be the case. This will improve the entrepreneur's position concerning finance, personnel, technology and profitability

CAPITAL MARKETS

Capital markets are markets that trade in long term financial products known as securities (e.g. shares, bonds). They are a facility for raising long term capital, which is done through the selling of debt (bonds, commercial paper) and equity instruments (shares). They provide avenues for those who require additional capital and others who wish to invest their money.

KEY PLAYERS IN CAPITAL MARKETS.

Different people, groups of people or companies play different roles on the stock exchange. The roles of each are very vital in the smooth running of the market. Some of these players include the following.

Different people/groups/companies play different roles in the stock exchange markets as explained below

1. Brokers/dealers. These are licensed financial professionals authorized to buy and sell shares on behalf of their clients. Brokers execute trade deals on behalf of their clients and receive a commission for matching buyers and sellers

Dealers buy shares and later sell them for a profit. They also provide advice to their clients on management of investment. Dealers can be bulls, bears or stags. A bull is a dealer who buys shares when they are cheap hoping to sell them when the price rises. A bear is one who sells shares when prices are high hoping to buy them back at a much lower price to make profits. A stag is one who deals in new issues (shares) issued by the company

2. Registrar. This is a person in charge of keeping records in respect of stocks and shares of a floated company, a floated company is one which goes public by issuing its shares for sale

3. Investment advisors. These are licensed persons who advise their clients about the profitability of selling and buying securities. They also manage a range of investments under a contract or on agreement with investors

4. Share holders. These are individuals or companies that purchase shares in a company or business and own a part of that company. They earn dividends for the shares bought

5. Capital Markets Authority (CMA). This is a government established body which ensures the regulation and development of capital market industry. The capital markets industry in Uganda is regulated by the capital markets authority (CMA). CMA was established in 1996 following the enactment of the Capital Markets Authority Act Cap 84. It is an autonomous body responsible for promoting, developing and regulating the capital markets industry in Uganda, with the overall objectives of investor protection and market efficiency

Objectives of capital markets authority

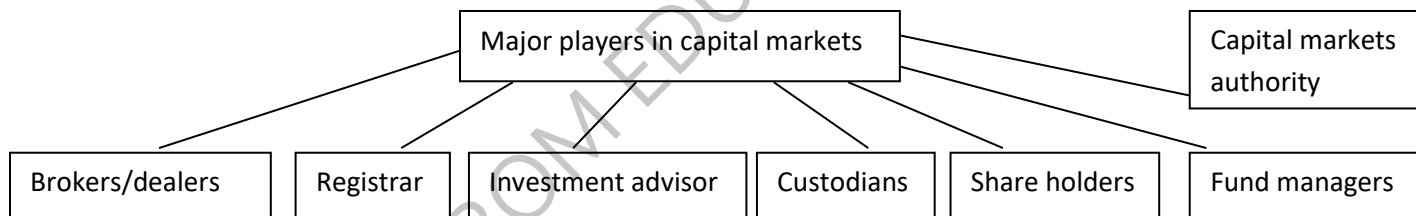
Functions of the capital market Authority in Uganda

- To regulate and promote the development of capital market in Uganda
- To approve stock exchange and securities central depository system
- To license brokers or dealers, investment advisors, fund's managers and trustees
- To approve collective investment schemes
- To advice government on rules and regulations governing operations of capital market
- To provide protection to both local and foreign investor
- To create market in which securities are issued and trade
- To provide facilities for raising long term capital (funds)
- To act as a barometer/yardstick/guidance to company's performances
- To provide avenues for those who require additional capital and others who wish to invest their money
- To regulate the operation of a compensation fund

To approve all offers of securities to the public

6. Fund managers' .Are companies who under a contract of management with a client undertaking the management of a portfolio of investments (portfolio refers to the funds managed on behalf of clients at the discretion of a fund manager).

7. Custodians. These perform the actual role of holding or safekeeping the assets or securities (including cash) on behalf of the owners (investors)



PRODUCTS/INSTRUMENTS IN UGANDA'S CAPITAL MARKETS.

Capital markets use different instruments to raise capital which include the following:

1.Bonds. A bond is a long term debt instrument that is used to borrow a stated amount of money for a fixed period of time and gives a stated rate of interest or it is a debt or loan instrument issued by the government or corporate body that carries a fixed rate of interest and with a maturity of longer than one year and gives the holder claim on the interest and principle promised by the issuer. Or it is a borrowing arrangement in which the issuer makes an obligation to pay back interest and principle at specified times and intervals (maturity date)

There are two types of a bond namely:

Government bonds. Are issued by the government to borrow a stated amount of money from the public, for a fixed period of time at a stated rate of interest

Corporate bonds are bonds issued by private or public companies that wish to borrow a stated amount of money from the public for a fixed period of time at a stated rate of interest

Features of a bond

- It has a maturity date. It is a period of time over which the bond contract is extended at the end of which the bond contract expires

- It has a bond coupon. It is the periodic interest paid on a bond the issuer to the bond holder
- It has a principle. This is the fixed period value of the bond initially paid by the creditor when buying the bond and paid at the maturity date
- It has name of the lender
- It includes name of the borrower

NB. Treasury bills. These are short term financial instruments issued by the government to raise money from the public with a maturity date of less than one year

2.Shares. A share is a unit of ownership in a limited liability company and gives the holder claim over any dividends that the company may pay. Or it is a unit of capital of a joint stock company. Share holders become part of the company where they have bought shares

3.Debentures. A debenture is a unit of a joint stock company. Or it is a document or certificate issued by a company evidencing that it has borrowed a specified amount of money from a named person and promises to pay back the principle with interest rate at the maturity date

Types of debentures

- **Naked debentures** These are debentures which have no security or property declared against them. This means that if the company fails to pay, the debenture holder has no powers to take over the company's property or to suit it.
- **Secured / mortgaged debentures.** These are debentures which have security tied to them i.e. if the company fails to pay, the debenture holder can sell off the company's property to recover the loan.
- **Redeemable debentures.** These are debentures that can be paid back by the company after a specific period of time i.e. the money borrowed is returned by the company within a given period of time.
- **Irredeemable debentures.** These are debentures which are never paid back by the company until it is liquidated or ended i.e. the money borrowed remains outstanding or unpaid until the company winds up.

4. Commercial paper. This is a short-term unsecured promissory note issued by a company or even a bank with a shorter- term maturity date (usually one to nine months) indicating a promise by the issuer to repay the amount borrowed against it on a specified date with a specified rate of interest. Commercial papers are usually issued by large companies or banks to get money to meet their short term debt obligations and are not backed by collateral security

Role of capital markets

1. Providing market to shares being sold. Capital market for shares being sold hence enabling companies and individuals to buy such shares
2. Improving on people's standards of living. People who buy shares get dividends which increase their income levels and hence improved standards of living
3. Providing employment opportunities. Capital markets provide jobs to dealers/blockers, registrar of companies and investment advisors. This enables them to earn a living
4. Encouraging inflow of international capital. Capital markets enable investors from abroad to invest their capital in the country by buying shares being floated or sold
5. Providing revenue to the government. Capital markets provide revenue to the government in form of taxes imposed on them
6. Promoting investments. Capital provide technical advice to investors, identify investment opportunities and encourage people to save through buying shares hence increasing investment levels

Advantages of capital markets

1. They provide market to shares being sold. Capital markets provide market for shares being sold hence enabling companies and individuals to buy such shares
2. They improve on people's standards of living. People who buy shares get dividends which increase their income levels and hence improved standards of living
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Objectives of promoting capital markets

1. To provide market to shares being sold. Capital markets provide market for shares being sold hence enabling companies and individuals to buy such shares
2. To improve on people's standards of living. People who buy shares get dividends which increase their income levels and hence improved standards of living
3. To provide employment opportunities. Capital markets provide jobs to dealers/blockers, registrar of companies and investment advisors. This enables them to earn a living
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5. To provide revenue to the government. Capital markets provide revenue to the government in form of taxes imposed on them
6. To promote investments. Capital provide technical advice to investors, identify investment opportunities and encourage people to save through buying shares hence increasing investment levels

The stock exchange. Is where already issued out share or securities are formally traded and sold or it is an arrangement through which the already issued out shares are traded. In Uganda they are traded under Uganda securities exchange

THE UGANDA SECURITIES EXCHANGE. This is the market place in Uganda where securities are traded. The Uganda Securities Exchange (USE) was licensed to operate as an approved stock exchange in June 1997 by the CMA. The USE began formal trading operations in January 1998 following the listings of the first instrument, the East African Development Bank (EADB) Bond.

The basic function of USE is to provide a facility for raising funds for investment in long-term assets and is regulated by the CMA

FUNCTIONS OF STOCK EXCHANGE

- i) It provides ready market for shares already issued out in the primary market to be transferred
- ii) Stock exchange market facilitates low income earners to save in order to invest in companies listed on stock exchange
- iii) Stock exchange market helps companies in need of long-term finance to raise the required finances through selling their shares to the public

- iv) It creates a means through which natives of a country can attain ownership in the various companies especially the privatized companies

IDENTIFYING INVESTMENT OPPORTUNITIES THROUGH CAPITAL MARKETS.

INVESTMENT refers to purchase of assets that are used to generate more income or financial gains. The capital markets industry offers various avenues for saving and investments covered below.

Types of investors

Private investors. These are people who hold securities for their own benefit in terms of either interest on lent funds or dividends on shares. They tend to hold a small percentage of shares in a list company

Corporate investors. Are companies that hold shares in other companies for their own benefit

Institutional investors. These are private or institutions that invest money in securities in the capital market on behalf of others e.g. insurance companies, pension funds etc

a) Investing in shares. A share or stock is a unit of ownership in a company. When you buy a share, you become a part owner or shareholder of the company. Shares can be bought either during the offer period or from existing shareholders. New issues of shares take the form of initial public offerings (IPOs), where shares are sold in a primary market.

The **IPO** refers to the first time a company offers its shares to the public. To buy shares, there processes/steps taken as discussed below

STEPS TAKEN IN BUYING SHARES

1. Finding and contacting the broker. The buying process begins with finding and contacting a stock broker and the services he/she offers. This helps the buyer to find out whether the broker has the type of shares he/she wants

2. Deciding on the type of shares to buy. The buyer decides on the type of shares and the company from which to buy shares depending on its financial performance and future prospects as advised by the broker

3. Deciding on the price and number of shares to buy. This involves deciding on the price to pay for each share and number of shares to buy after getting the prevailing market prices of shares

4. Placing an order. After guidance by the broker and making a decision on the type of shares to buy. The buyer issues a market order or a limit order to the broker. Market orders are simple buy or sell orders that are to be executed immediately at current and best market prices. The limit orders on the other hand are those in which investors or buyers specify the price at which they are willing to buy shares. The investor or buyer is supposed to fill

1. The security central depository account opening forms
2. A client information form,
3. An order form and also signs a purchase transfer form

5. Receiving a copy of the prospectus. A prospectus is a legal document that gives general and material information on the company's history and operations or performance. The intending buyer receives this document and takes time to read it carefully

6. Paying for the shares to the broker. The buyer makes for payment of the shares to the broker and in turn gets a receipt from the broker who then delivers the payment to the clearing house on the settlement day

7. Receiving a contract note. This is a document that spells out the number of shares bought, the price at which they are bought, amount of commission to pay to the broker, details of

government taxes which include the contract stamp, transfer duty and capital gains tax and the total amount which the investors or client owes to the broker which has to be paid on the settlement day indicated on the contract note.

It is a legal document that acts as proof ownership of the shares until a share certificate is issued. Payment of the total amount. This involves paying the total shown on the contract note on the settlement day.

8. Receiving the share certificate from the registrar. This is a document issued to a person as evidence that he/she has bought shares of the issuing company and therefore has claim to the dividends on the shares indicated on it.

THE PROCESS OF SELLING SHARES

Below are the steps involved in selling shares

1. Finding out how much shares are selling in the market through brokers/dealers
2. Contacting a broker/dealer to sell the shares at a satisfactory price
3. Pressing an order to sell the shares
4. Sending a sales contract note after selling the shares by the broker to the seller. It shows the net sales payable to the seller
5. Receiving the cheque by the seller as advised by his/her broker

ADVANTAGES OF INVESTING IN SHARES.

- i) **It is a source of income to share holders in form of dividends.** When a company that issued shares makes a profit, the board of directors gives a percentage of the profit to its share holders (dividends)
- ii) **It increases the value of capital.** When shares are sold at a price that is higher than the price at which they were purchased, this represents a profit called capital gain.
- iii) **Investing in shares gives share holders voting rights.** Shares give a shareholder the right to attend and vote on important company decisions at the companies' annual General meetings.
- iv) **Shares act as collateral securities.** Shares certificates are used as collateral securities to obtain credit facilities like loans, credit supplies etc.
- v) **Share are transferrable.** Shares can be passed on from one person to another and can also be inherited.

DISADVANTAGES OF INVESTING IN SHARES.

- i) It results in depreciation in the value of investment. Share prices sometimes fall due to changes in demand and supply conditions or when the company's performance declines
- ii) Share are not freely transferrable in private limited companies hence limiting transfer of the holder's funds to other new priority areas due to failure of selling the shares to another interested person
- iii) Decisions are made on the basis of rule of the majority in the annual general meetings hence the minority share holders with contrasting and opposing views are not treated fairly
- iv) Share holders especially in public limited companies lack direct control over their investments or day-to-day activities of the business
- v) It leads to fluctuation in the value of share capital. This is due to fall and rise in prices of shares

- vi) If the company goes into liquidation, shareholders are the last to be paid after all other creditors and debtors.

b). Investing in bonds

A bond is essentially a loan an investor makes to the issuer of a bond. The investor receives regular interest payments on the loan until the bond matures or is called, at which point the issuer repays you the principal. Certain bonds have special provisions. Bond funds pool money from many investors to buy individual bonds that meet the fund's investment objective. Most bonds pay regular interest until the bond matures.

HOW BONDS WORK.

Bonds have three major components.

- The first is the **face value** (par value). This is the value of the bond as given on the certificate or instrument. It is the value the bond holder will at maturity unless the issuer defaults. Investors pay face value when they buy the bond at its original face value and the price may be more or less than the par.
- Second is a **coupon rate**. This is the annual rate of interest payable on the bond. The higher the coupon rate, the higher the interest payments the owner receives. The rate is set at the time the bond is issued and does not change.
- The third is the **maturity**. This is the date upon which the issuer pays back the face value of the bond. The bond terminates at maturity.

Example;

A typical bond- a company issues a shs 300,000 10- year bond with a 6% coupon rate. Each year, the owner receives shs 18,000 (6% of shs 300,000) paid in two semi-annual installments of shs 9000.

Advantages of investing in bonds.

- i) Bonds are predictable. You know how much interest you can expect to receive, how often to receive it, and when the bond's face value will mature.
- ii) Bonds are steadier than stocks (which can fluctuate in short-term). Some investors prefer bonds to equity investments since they are less volatile.
- iii) People on a fixed income and retirement will receive a predictable amount of regular income from bonds. Most bonds pay interest to bondholders on a regular basis, with the exception of zero coupon bonds.
- iv) The interest rates paid by bonds typically exceed those paid by banks on savings accounts, especially short-term bonds.

Disadvantages of investing in bonds.

- i) Bond lose value most especially when companies and municipalities go bankrupt
- ii) Long-term bonds tied up money in low yielding bonds.
- iii) Unlike stocks, bonds don't offer the possibility of high long-term returns. Younger investors and those with several years to go until retirement would be better served by liming their bond purchases and opting for equity buys instead.
- iv) Although bonds are less volatile than stocks, they are not immune from price fluctuation. Bonds from riskier companies can be very volatile. It is also possible for a company to default on bonds issued hence a loss of principal for the bond holder.

c. Collective Investment Schemes.

This is a type of investment scheme that involves collecting money from different investors and then combining all the money and investing in various products. **Or** are private financial arrangements that pool together resources of many small savers, generating a large pool of resources which is managed professionally and invested in various assets such as shares and bonds with a purpose of making profits. It may also be called a **mutual fund**. There are two types of collective investment schemes.

- i. **Unit trust schemes.** These are types of schemes where investors buy units, which represent the various holdings of the scheme. One's investment is represented by the units they hold in the scheme.
- ii. **Investment Companies with Variable Capital (ICVC).** Where one's investments are represented by the shares they hold. The scheme takes the form of an ordinary company. However, unlike other companies, it is allowed to buy back shares when an investor wishes to pull out.

Advantages of investing in collective investment schemes.

- i) **It leads to diversification of risk.** Investors can secure a much wider diversification of risk, because these funds usually invest in different investments. The greater the diversification, the lower the risk in relation to return.
- ii) **It enables private individuals to access securities investments.** Collective investment schemes help the individual investors access investment in securities which would be difficult for individual investors
- iii) **It lowers transactions costs-** By investing in CIS, investors incur lower costs than if they were to buy and sell bonds directly. This is because transaction costs are generally related to the size of the transaction and investors benefit from the fund managers' ability to deal in large quantities of shares at lower average dealing costs.
- iv) **They promote professional management-** CISs provide full time professional management in a direct and simple form and this is especially important where market information is not widely available.
- v) **It protects investors.** People need to have confidence that their money is protected from fraud, thieves and other abuses. The CIS Act and regulations made under it provide the desired regulatory framework that will protect investors in Uganda.
- vi) **It makes Liquidity easy.** It gives an opportunity to easily liquidate investments by selling your units back to the manager.

DISADVANTAGES OF COLLECTIVE INVESTMENT SCHEMES (CISs)

- i) **Loss of control/ownership rights.** When you invest in CISs, you are not involved directly in deciding how your money is invested. As long as the unit trustee manager invests your money in the scheme, there is little that you the unit holder can do if you disagree with their investment decisions. The unit trust fund managers are more likely to make right investment decision than small investors.
- ii) **It leads to high operational costs due to fees and charges.** The services provided by the fund managers are not free. There are fees and charges paid by the unit holders to the collective investment schemes.

COLLECTIVE INVESTMENT SCHEMES – PURCHASE PROCESS.

- i) Going to Unit Trust Manager – African Alliance (Workers House Floor 1).
- ii) Filling in an account opening form.
- iii) Selecting the type of unit trust account; short term or long term.
- iv) Depositing money on account given.
- v) Sending copy of deposit slip to African Alliance.
- vi) You become a unit trust account holder.

RAISING LONG TERM FINANCE THROUGH CAPITAL MARKETS.

Many businesses struggle with financing especially long term financing. Questions arise as to how to expand a business.

Advantages of raising long term finance through capital markets.

- i) **Raising funds.** Through the sale of shares on the capital markets, businesses are enabled to raise funds. Unlike in commercial banks, interest rates may be very high, security required, and others. But in capital markets the raising of funds is cheaper, easier and faster.
- ii) **Provision of market to sell and buy shares.** They provide members of the public or company a chance to buy shares. This provides them an alternative method of investing their savings. They can also sell their shares in case they would like to opt out of the company.
- iii) **Inflow of international capital.** Foreign investors who may wish to invest in the country will find it easier to do so through the capital market where they will easily buy shares. This leads to inflow of international capital for a country's economic growth.
- iv) **Better standards of living.** A well organized increased investment by companies due to the existence of capital market will lead to more employment opportunities being created, more income generated and more disposable income that people may use for consumption and saving. By this, people's standards of living are expected to increase.

AVENUES OF RISING LONG TERM FINANCING THROUGH CAPITAL MARKETS.

There are two avenues for raising finance through capital markets.

- i) **Equity financing;** Here, the business raises finance by issuing shares to the general public. Those who buy shares of the company then become part owners of the company and hence shareholders. However, a company should first apply and then seek approval from the CMA before it offers them to the public.

DEBT FINANCING.

A business can also raise finance by borrowing from the public and institutions through capital markets. The examples of debt instruments include;

- i) Corporate bonds; which is an arrangement that enables a company to borrow money from the public for a long period of time.
- ii) Government bonds / municipal bonds which is an arrangement that enables both government and local councils to borrow funds from the public for a long period of time.
- iii) Commercial paper (an arrangement that enables a company to borrow money for a short period of time.)

ADVANTAGES OF DEBT FINANCING;

- i) The company does not have to give up any ownership of the company.
- ii) The lender has no control over how to run the company whose bond he has purchased. All that the lender requires of the company is that the loan and interest should be paid back.
- iii) The company is not required to pay the lender dividends when it makes a profit, as is the case with shareholders.

DISADVANTAGES.

- i) The company is required to pay back the principal and interest regardless of its financial position
- ii) The company must have sufficient cash flow to repay the loan and interest.

Other sources of long-term finance for Business in Uganda.

Raising capital is one of the major questions that an entrepreneur needs to deal with. Other sources include;

- i) **Joint venture;** Find an individual or organization to both invest in and work with a company in its business project.
- ii) **Banks for working capital;** Short-term finance necessary to fund the day-to-day running of the business. This can take the form of an agreed overdraft, where the interest will be calculated on your daily outstanding balance and charged on a monthly or quarterly basis.
- iii) **Banks for medium term loans.** A loan paid back over an agreed term (typically three to ten years)' where principal and interest are paid off monthly. This type of loan is used mainly to invest in equipment, expansion, and development.
- iv) **Banks for long term loans;** This type of loan is normally used to purchase assets such as a business , land, buildings, plant, etc that can be shown to directly or indirectly add to profit over a number of years.
- v) **Leasing.** Provides finance for the acquisition of specific assets, such as cars and machinery. Leasing involves a deposit and repayments over typically 3 to 10 years. The

financier purchases the equipment you require and then leases it to you in return for regular payments for the duration of the lease period.

- vi) **Personal loans.** If it is impossible to obtain a loan in your business' name, you could consider obtaining a personal loan. However, the conditions should not jeopardize control of the business and that you are very confident of being able to repay or you may lose assets put up as collateral.
- vii) **Family and friends.** You can borrow money from friends and family, however, to avoid misunderstandings or resolve any dispute if things go wrong, it is better to make an agreement including the loan time period and interest payments.

The advantage of raising finance is that it helps to avoid the dissolution of business control or share capital.

Disadvantages

- i) Joint ventures can often result in the loss of control over aspects such as policy and development.
- ii) Banks have the power to place a business into administration or bankruptcy if it defaults on debt interest or repayment.
- iii) Borrowing from family or friends can lead to disputes or interference in the management of the venture.
- iv) When seeking financing, consider what source and type of finance suits your needs. Then match the method of funding and the term of the loan the reason for the finance. You may have an impact on business cash flow and other obligations such as taxation.

Advantages of Equity Shares

Equity shares are the most common and universally used shares to mobilize finance for the company. It consists of the following advantages.

1. Permanent sources of finance: Equity share capital is belonging to long-term permanent nature of sources of finance, hence, it can be used for long-term or fixed capital requirement of the business concern.

2. Voting rights: Equity shareholders are the real owners of the company who have voting rights. This type of advantage is available only to the equity shareholders.

3. No fixed dividend: Equity shares do not create any obligation to pay a fixed rate of dividend. If the company earns profit, equity shareholders are eligible for

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profit, they are eligible to get dividend otherwise, and they cannot claim any dividend from the company.

4. Less cost of capital: Cost of capital is the major factor, which affects the value of the company. If the company wants to increase the value of the company, they have to use more share capital because, it consists of less cost of capital (K_e) while compared to other sources of finance.

5. Retained earnings: When the company have more share capital, it will be suitable for retained earnings which is the less cost sources of finance while compared to other sources of finance.

Disadvantages of Equity Shares

1. Irredeemable: Equity shares cannot be redeemed during the lifetime of the business concern. It is the most dangerous thing of over capitalization.

2. Obstacles in management: Equity shareholder can put obstacles in management by manipulation and organizing themselves. Because, they have power to contrast any decision which are against the wealth of the shareholders.

3. Leads to speculation: Equity shares dealings in share market lead to secularism during prosperous periods.

4. Limited income to investor: The Investors who desire to invest in safe securities with a fixed income have no attraction for equity shares.

5. No trading on equity: When the company raises capital only with the help of equity, the company cannot take the advantage of trading on equity.

Advantages of Retained Earnings

Retained earnings consist of the following important advantages:

1. Useful for expansion and diversification: Retained earnings are most useful to expansion and diversification of the business activities.

2. Economical sources of finance: Retained earnings are one of the least costly sources of finance since it does not involve any floatation cost as in the case of raising of funds by issuing different types of securities.

3. No fixed obligation: If the companies use equity finance they have to pay dividend and if the companies use debt finance, they have to pay interest. But if the company uses retained earnings as sources of finance, they need not pay any fixed obligation regarding the payment of dividend or interest.

4. Flexible sources: Retained earnings allow the financial structure to remain completely flexible. The company need not raise loans for further requirements, if it has retained earnings.

5. Increase the share value: When the company uses the retained earnings as the sources of finance for their financial requirements, the cost of capital is very cheaper than the other sources of finance; Hence the value of the share will increase.

6. Avoid excessive tax: Retained earnings provide opportunities for evasion of excessive tax in a company when it has small number of shareholders.

7. Increase earning capacity: Retained earnings consist of least cost of capital and also it is most suitable to those companies which go for diversification and expansion.

Disadvantages of Retained Earnings

Retained earnings also have certain disadvantages:

1. Misuses: The management by manipulating the value of the shares in the stock market can misuse the retained earnings.

2. Leads to monopolies: Excessive use of retained earnings leads to monopolistic attitude of the company.

3. Over capitalization: Retained earnings lead to over capitalization, because if the company uses more and more retained earnings, it leads to insufficient source of finance.

4. Tax evasion: Retained earnings lead to tax evasion. Since, the company reduces tax burden through the retained earnings.

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5. Dissatisfaction: If the company uses retained earnings as sources of finance, the shareholder can't get more dividends. So, the shareholder does not like to use the retained earnings as source of finance in all situations.

Advantages of Debenture

Debenture is one of the major parts of the long-term sources of finance which consists the following important advantages:

- 1. Long-term sources:** Debenture is one of the long-term sources of finance to the company. Normally the maturity period is longer than the other sources of finance.
- 2. Fixed rate of interest:** Fixed rate of interest is payable to debenture holders, hence it is most suitable of the companies earn higher profit. Generally, the rate of interest is lower than the other sources of long-term finance.
- 3. Trade on equity:** A company can trade on equity by mixing debentures in its capital structure and thereby increase its earning per share. When the company apply the trade on equity concept, cost of capital will reduce and value of the company will increase.
- 4. Income tax deduction:** Interest payable to debentures can be deducted from the total profit of the company. So it helps to reduce the tax burden of the company.
- 5. Protection:** Various provisions of the debenture trust deed and the guidelines issued by the SEBI protect the interest of debenture holders.

Disadvantages of Debenture

Debenture finance consists of the following major disadvantages:

- 1. Fixed rate of interest:** Debenture consists of fixed rate of interest payable to securities. Even though the company is unable to earn profit, they have to pay the fixed rate of interest to debenture holders, hence, it is not suitable to those company earnings which fluctuate considerably.

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- 2. No voting rights:** Debenture holders do not have any voting rights. Hence, they cannot have the control over the management of the company.
- 3. Creditors of the company:** Debenture holders are merely creditors and not the owners of the company. They do not have any claim in the surplus profits of the company.
- 4. High risk:** Every additional issue of debentures becomes more risky and costly on account of higher expectation of debenture holders. This enhanced financial risk increases the cost of equity capital and the cost of raising finance through debentures which is also high because of high stamp duty.
- 5. Restrictions of further issues:** The company cannot raise further finance through debentures as the debentures are under the part of security of the assets already mortgaged to debenture holders.

INTERNAL

BUSINESS TRANSACTIONS

These refer to dealings between two parties that involve exchange of value (goods and services or goods for goods).

TYPES OF BUSINESS TRANSACTIONS

There are majorly two types of business transactions namely:-

- (a) **Cash transaction.** This is the dealing between two parties that involves exchange of goods or services and payment for them is at that particular time.

- (b) **Credit transaction.** This refers to the dealing between two parties that involves exchange of goods and services and payment is made at a later date.

CASH SALES AND CREDIT SALES.

Cash sales is when goods and services are sold and payment for them is made there and then.

OR

Cash sales are sale that involve exchange of goods and services whose is made there and then.

Credit sales. This is when goods and services are sold and payment for them is expected at a future time i.e. the seller and the buyer agree on when payment should be made.

OR

Credit sales are sales that involve exchange of goods and services whose payment is expected at a future time.

ADVANTAGES OR MERITS OF SELLING ON CASH BASIS.

1. It helps or enables an entrepreneur to get cash needed to meet immediate cash requirements hence facilitating the smooth running of the business.
2. It provides constant supply of working capital and this helps the business in short of cash and saves it from unnecessary delays.
3. It enables proper management of stock and constant supply since cash is always available thus avoiding shortages in supplies of goods and services.
4. It saves the business from bad debts hence reducing losses which could have been caused by bad debtors.
5. It helps the business to avoid administrative expenses and debts associated with credit sales e.g. transport costs.
6. Selling on cash basis helps the business to reduce procedural formalities e.g. documentation (involving recording debts), time etc associated with credit sales.
7. It enables the business to sell goods to buyers from unknown or unfixed places e.g. travelers.
8. Enables an entrepreneur to sell goods whose value is low or small
9. Enables an entrepreneur to sell goods or services effectively to new customers. This reduces losses from bad debts.
10. Selling on cash basis helps the business to easily expand and grow due to constant flow of cash in the business.
11. It enables the business to achieve the set goals and objectives e.g. quality improvement, brand awareness.

DISADVANTAGES

1. It discourages customers who may not have ready cash.
2. It reduces sales and competitive advantage of the business since salary earners may not be accommodated.
3. It weakens/limits relationships between the business and its customers who may want to buy goods on credit

Sample questions

- (a) Explain the objectives of selling on cash basis in an enterprise.
- (b) Why is it necessary to sell on cash basis in a business
- (c) Of what necessity is cash selling in an enterprise
- (d) Why is there a need to sell on cash basis.

Answers

1. To enable an entrepreneur to meet the immediate requirements in the business that requires cash e.g. purchasing raw materials.
2. To provide constant supply of working capital to enable enterprise not to run out of cash.
3. To reduce on the chances of bad debts in an enterprise
4. To ensure proper management and constant supply of goods to the business.
5. To ensure proper growth and development of an enterprise
6. To enable the business to achieve the set goals and objectives since to implement such goals, money to cash form is highly needed.
7. To enable the business to avoid administrative expenses associated with selling on credit.
8. To reduce on procedural formalities which may arise from selling on credit? That is to say, reducing on the procedures taken up or gone through while recovering the money e.g. writing invoices, writing messages, calling on telephones etc or preparing some documents which are being written
9. To enable the business to sell goods to new customers.

Qn: Under what circumstances may an entrepreneur sell goods on cash basis? (Use when, if, incase. E.g.)

1. When there is need to meet immediate cash requirements
2. When the entrepreneur wants to sell goods of low value
3. When an entrepreneur is dealing with new customers
4. In case an entrepreneur wants to reduce bad debts in the business
5. In case an entrepreneur wants to reduce on procedural formalities
6. When the entrepreneur is in need of working capital
7. In case an entrepreneur wants to achieve the set goals.

WAYS OF ENSURING PROPER CASH MANAGEMENT

The following are the ways through which an entrepreneur can manage cost sales in his or her enterprise.

1. By documenting (receipting) all the cash received in the business. All cash received in the business should be documented and accounted for by balancing physical cash and cash records by the end of each day.
2. By banking all the business cash. Businesses should run current accounts with creditable banking institutions so as to avoid fraud (embezzlement)
3. By storing all cash receipts and other documents related to accountability. Proper storage of all receipts in the business should be done since they are used for reference purposes.
4. By making proper accountability whenever expenditure is made to enable proper planning.
5. By keeping cash at the business premises under lockers and the entrepreneurs should avoid or keeping a lot of cash for the daily expenditure
6. By avoiding spending business cash on personal matters since this reduces the business working capital.

7. By authorizing and documenting all documents to do with cash and cash disbursements by the entrepreneur personality.
8. Through receiving bank statements on a regular basis is proper accountability in the business.

ADVANTAGES OF SELLING ON CREDIT

An entrepreneur enjoys the following advantages for selling his or her goods on credit.

1. It enables an entrepreneur to sell goods at high prices which increases profits in the business. This is because goods sold on credit are highly priced than goods sold on cash basis.
2. It enables an entrepreneur (seller) to meet the buyers' requirements especially those without ready cash. This creates customer loyalty in the business.
3. Acts as a marketing tool and this increases sales in the business. It enables an entrepreneur to market his or her products since it attracts many customers.
4. Enables an entrepreneur to get rid of goods which are about to expire or whose fashion is about to change. This reduces huge losses that would have been incurred if such goods expire.
5. It builds a good and long term relationship between the entrepreneur and the debtor. This improves on the image of the business in the community.
6. It enables an entrepreneur to compete favourably with rivals since selling goods on credit creates customers' loyalty which enables the enterprise to retain its customers.
7. It increases the bargaining power of the buying party since the system is convenient to him or her. This is due to the enough time given to the buyer to settle the debt.
8. It reduces the storage costs of the enterprise since some goods are taken on credit.
9. It enables an entrepreneur to sell off slow moving goods in an enterprise since it accommodates all customers' i.e. low income earners, middle and high income earners.
10. It enables an entrepreneur to dispose of the highly valued goods that can not be sold easily to cash basis.
11. It attracts new customers into the business thus expanding the market share.
12. It creates space for new stock as the old stock is cleared.

DISADVANTAGES OF CREDIT SALES

1. It ties up working capital of the business in debts. This limits the effective operation of the business activities.
2. It may spoil the relationship between the business and the customer in case of the debtors failure to pay. This may reduce the number of customers.
3. It involves a lot of paper work and record keeping which increases administrative cost in the enterprise. This is because sellers are required to prepare invoices, producer's notes which all require printing and stationery costs.
4. Credit sales lead to loss of value of money in case of inflation situations. Since customers spend time with the money and by the time they pay back its value is less than the value of the item of taking goods.
5. In case of death of a customer who has bought goods or services on credit, the business may find it very difficult to recover the money used

6. Some times the goods sold on credit by sellers, buyers are of poor quality hence reducing on the standards of living of the customers.

CIRCUMSTANCES UNDER WHICH AN ENTREPRENEUR MAY SELL GOODS ON CREDIT

Qn: Under what circumstances may an entrepreneur sell goods on credit

Explain the conditions under which an entrepreneur may sell goods on credit.

E.g. approach use when/in case/where etc

1. When the goods are about to expire. An entrepreneur may sell goods on credit so as to clear old stock that is yet to expire in order to avoid losses.
 2. When the entrepreneur can also buy goods on credit. Buying goods on credit by the entrepreneur from his or her supplier enables his or her to also sell on credit.
 3. In case the entrepreneur expects prices to fall in the near by future. This may force him or her to sell old stock so as to avoid losses.
 4. When there are strong laws to enforce recovery of the debts. This may enable an entrepreneur to sell goods on credit since he or she is assured of the pay back.
 5. In case the entrepreneur with pressure from competitors who sell goods on credit. This may force an entrepreneur to sell goods on credit so as to compete favourably with other entrepreneurs.
 6. In case an entrepreneur has carefully assessed the credit worthiness of the customer. An entrepreneur may sell goods to trust worthy customers because he is expecting them to pay back.
 7. In case the entrepreneur wants to market his or her products. This helps to attract more customers in business.
 8. In case the entrepreneur wants to reduce storage costs or to create new space in the store for new stock. The entrepreneur may sell goods on credit in order to reduce costs incurred on keeping old stock and create space for the new stock in the business.
 9. When the entrepreneur wants to meet the buyers requirements especially salary earners (those without ready cash).
 10. When the entrepreneur has sufficient working capital to carryout business operations. This allows an entrepreneur to constantly supply goods or services to customers with ready cash.
 11. In case the entrepreneur wants to maintain and improve the existing relationship between the business and customers since selling on credit increases customer's trust in the business.
- (a) Why is it necessary to sell goods on credit in an enterprise
 - (b) Explain the objectives of selling goods on credit
 - (c) Explain the reasons of selling goods on credit
 - (d) Why may an entrepreneur sell goods on credit.

Approach

Use to, in order to, at the beginning of every point

1. To increase profits in the business. This is because goods sold on credit
2. To meet the buyer's requirements
3. To mark the entrepreneurs products
4. To get rid of goods which are about to expire
5. To build a good and long term relationship between an entrepreneur and the customer
6. To compete favourably with rivals.

MANAGEMENT OF CREDIT SALES

The following are ways of managing credit sales.

1. By identifying and educating people who should approve credit sales and the amounts would be approved. An entrepreneur should educate people and make them known to people and customers in charge of credit sales.
2. By documenting all the credit sales properly e.g. invoices should be prepared to show the goods that have been sold on credit and delivery notes to show that goods have delivered and received by the customers.
3. By depositing all credit sales to the debtor's ledger for easy follow up.
4. Through recording all the cash received from the debtors in the cash book immediately when the debt is cleared.
5. By giving a short payback period so as to enable the business to receive the money in time.

CREDIT PURCHASES

Refers to situation where an entrepreneur obtains goods from a given supplier and pays for them at a future date

ADVANTAGES OF CREDIT PURCHASES

1. Buying on credit is a source of funding (working capital) for the business since the business access and use goods it has not paid for.
2. It enables an entrepreneur to solve or pay for goods or services bought.
3. It encourages hard work in the business since the entrepreneur work hard in order to get the money out of the goods purchased on credit to pay creditors
4. It enhances a good relationship between the entrepreneur (purchaser) and the supplier

DISADVANTAGES

1. The goods and services purchased on credit are normally charged a high price than goods or services bought on cash basis.
2. It may lead to buying of poor quality goods or low quality goods since the entrepreneur has no choice.
3. The desire to take advantage of credit facility offered reduces the entrepreneur's choices

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