**ENTREPRENEURSHIP EDUCATION- P230/1**

**Course /syllabus outline**

**Senior five term one**

* 1. Introduction to entrepreneurship education.

senior five term two

* 1. Entrepreneurial environment.
  2. Social entrepreneurship.
  3. Business ideas.

senior five term three

* 1. Business opportunities.
  2. Small and medium enterprises.
  3. Gender and entrepreneurship.

senior six term one

* 1. Business planning.
  2. Production management skills.

senior six term two

10) Marketing management skills.

11) Sales promotion.

13) Business taxes.

14) Personnel management/ Human resource management.

senior six term three

15) Business competition.

16) Capital markets.

**Topic 1: INTRODUCTION TO ENTREPRENEURSHIP EDUCATION.**

**Definition of entrepreneurship education:**

It is the subject that 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.

**Or**

It is the subject that aims at providing a person/learner with basic knowledge and skills required to start /create and operate his /her own business successfully for the development of self, community and the country.

Entrepreneurship education aims at enabling individuals to recognize commercial opportunities (business idea) and giving them self esteem, knowledge and skills to act on them /to turn them into real businesses.

**Components of entrepreneurship education**

Entrepreneurship education involves the following aspects;

* **Opportunity recognition,** this involves identifying a clear business idea.
* **Commercial opportunity,** this involves turning a business idea into a real business that produces goods and services.
* **Allocating resources in the face of risks,** this involves committing resources such as human/labour, capital and land etc. to turn the opportunity into a real business regardless of the risks that may be involved.
* **Initiating a business venture,** this involves starting a business following the necessary/ established procedure.
* **Instruction in traditional business disciplines such as management,** involves equipping learners with traditional business skills to enable/empower them to manage their own businesses properly.
* **Marketing information systems and finance,** involves providing information to learners concerning marketing of the produced goods and services. It also involves providing information on financial management to the learners.

**Why is entrepreneurship education studied?**

(Reasons for studying entrepreneurship education)

(Reasons why entrepreneurship education was introduced)

Entrepreneurship is studied in order;

* To provide learners with skills needed to succeed in business environment.
* To enable learners acquire practical skills for starting and operating business enterprises.
* To emphasize imagination and risk taking in business.
* To enable learners address some contemporary needs of business education in ways that traditional systems do not.
* To instill in the learners the value of creativity, self confidence, innovativeness in the business world.
* To enable teacher teach what has been perceived un teachable i.e. the idea that entrepreneurs are born but not made
* To cater for the needs of persons who are interested in self employment so that they get the skills for starting up business.
* To encourage learner to become job creators instead of job seekers after their studies. This is aimed at reducing unemployment.
* To change the belief / attitude that people had that business is for academic failures so that the educated people can also start running business as part of their career.

**An entrepreneur**, **intrapreneur and enterprising person**

**An entrepreneur;** this is a person who recognizes, operates and assumes the risks for business ventures.

**Or**

A person with a vision and skills of identifying and generating new business ideas and implementing them by raising capital, hiring land, labour, coordinating production of goods and services to meet the needs of society.

**Or**

An individual who identifies opportunities and uses them for economic benefits

**Or**

A person with a vision, original idea and eagerness to try

**Characteristics of an entrepreneur**

These are features /qualities which enable a person to perform effectively as an entrepreneur or to do what is expected of him/her successfully. They include;

* **Self confidence,** for an entrepreneur to be successful he/she, should have strong belief in their abilities to complete different tasks/goals he/she has set for him/her self or to meet the challenges of the business however difficult they may be.
* **Persistent**, entrepreneurs should persevere all the ups and downs of their businesses. They should not give up easily but persist until when they have solved a particular problem in the business or until when they succeed.
* **Hard working,** entrepreneurs should make sure that they work better and more than other people. They tend to work for longer hours in order to achieve their goals i.e. they tend to cope with less than a normal amount of sleep.
* **Goal oriented,** for an entrepreneur to be successful, he/she should be able to set specific, measurable, realistic and easy to attain target/goals with the existing resources and such goals should have a time frame and he/she should work with determination to achieve them.
* **Profit oriented,** an entrepreneur should be interested in generating money in the business. In this case the business should be treated as number one priority and other things should follow.

After profits are made, the entrepreneur can use them to expand the

business, or for his personal /family consumption

* **Builds for the future,** entrepreneurs aim at building a secure job and income for themselves and improve livelihood and wealth for their families. At the same time they know that it may take some years to build up business income to a reasonable standard.
* **Risk takers,** because being an entrepreneur involves some risks, they should be able to under take well calculated risks which can be managed. This involves establishing the likely costs and gains both on the business and on his/her private life, the chance of success and the belief in oneself to make the risk pay off. An entrepreneur may be taken to be a risk avoider when he reduces the business risks by having other (banks, insurance company etc.) assumes part of the risks.
* **Profit oriented,** an entrepreneur should be interested in generating money in the business. In this case the business should be treated as a priority and other things should follow. After profits are made, an entrepreneur can use them to expand the business or for his personal or family consumption.
* **Reliability and integrity,** an entrepreneur should possess the qualities of honesty, fair dealing and reliability ie he/she should do what they promise to do.
* **Copes with failure,** an entrepreneur should know that business involves disappointments, failures as well as successes. Coping with failure involves recognizing these failures, drawing lessons from them and seeking new opportunities. An entrepreneur with out this quality is likely to be short-lived by the early failure of his business.
* **Responds to feed back,** for an entrepreneur to be success full, he/she should be interested in knowing how well they are doing and in keeping track of their performance. In this case they should seek useful feed back and advice from other people.
* **Committed to his business,** an entrepreneur is committed to his/ her business in terms of time, money and life style.
* **Copes with uncertainty**, an entrepreneur should be able to cope with the uncertainty in his/ her business with out being stressed. This is because starting a business is more uncertain than taking a wage employment and this uncertainty is in terms of sales, profits, prices.
* **Sets own standards,** for an entrepreneur to be success full he/she should be able to set standards of performance and then to work towards achieving them. These standards may include sales, income, quality of goods or services etc.
* **Willing to listen,** an entrepreneur listens and asks for help from other people such as accountants, bankers, business consultants etc. when there is need. An entrepreneur is not an inward looking person.
* **Demonstrates initiativeness,** a successful entrepreneur takes the initiative and put him/ her self in position where he/she is personally responsible for success or failure in his business.
* **Innovative,** an entrepreneur has the ability to do things in a new and better way or to change old ideas into new ideas.
* **Creative**, an entrepreneur should be able to generate new ideas or new ways of doing things in business.

**Types of entrepreneurs**

* **Initiative/innovative entrepreneur,** this is the one who comes up with a new idea, gathers the necessary resources and starts a project
* **Imitative/adoptive entrepreneur,** this adopts the techniques innovated by other entrepreneurs
* **Visionary/opportunistic entrepreneur,** this the one who ventures into projects where they expect profits
* **Drone entrepreneur,** this is the one who are comfortable with the achievements they have made and therefore they are not willing to change under any circumstances**.**
* **Craftsman entrepreneur,** this the one who uses his skills and experience to start a project e.g. a carpenter starting a work shop
* **Fabian entrepreneur,** this is the one who is not ready to change from one business to another even when the current is not doing well
* **Net work entrepreneur,** the one who gets a business idea from the social net works e.g. from friends

***Challenges of an Entrepreneur***

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

**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.

**Challenge of market**. Some times it becomes difficult for the entrepreneur to find quality customers to whom he / she can sale the products.

**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.

**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.

**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.

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.

**Production and maintaining capital output.** At times it may be difficult for entrepreneurs to produce quality out put because of factors that may be difficult to control.

**Challenge of acquiring and maintaining quality man power in a business**. This may internally affect the quality of output.

***Remedies / Solution to the Above Challenges***

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.

The challenge of inadequate market may be addressed by intensifying sales promotion activities such as advertising i.e. giving free gifts, discounts customers etc.

Proper book keeping is an appropriate measure to poor funds management. In this case the entrepreneur may employee qualified financial managers and effectively supervise them to ensure that business funds are not dis-appropriative.

Purchase of quality inputs such as raw materials, machinery, human resource (labour) and the effective supervision of the product process will help to crate quality output for consumers satisfaction.

Profit maximization can be achieved through reducing business operation costs and proper handling of customers.

**Entrepreneurial management skills**

* **Finance management skills,** ability to manage business funds
* **Leadership skills,** ability to influence other people to take-up a course of action
* **Time management skills**, ability to manage time efficiently and effectively
* **Decision making skills,** ability to take up the course of action
* **Budgeting skills,** ability to allocate business fund to important activities
* **Communication skills,** ability to pass on information to various parties
* **Planning skills,** ability to determine what to do when, low and by who in the business or ability to set goals and objectives for the business and how to achieve them
* **Purchasing skills,** ability to source business requirements
* **Marketing skills,** ability to promote the sales of the business

**An intrapreneur,** this is a person who focuses on innovation and creativity and who transforms a dream/ideas into a profitable business by operating in an existing business.

A person who identifies an opportunity with in an existing business and create profits for the business from that opportunity

**Characteristics of an intrapreneur;**

* Works in an existing business using his/her creativity and innovative skills to make profits for the business or to ensure success of the business.
* Is employed to manage the business.
* Identifies new products or opportunities for an existing business.
* Is creative and uses his ability to produce a product or services.
* Organizes and controls resources to ensure a profit for the existing business.
* Prefers benefits of an existing business such as a salary and available resources.

**An enterprising person,** this is a person who takes on imaginative and risky projects to generate profits.

He/she is an ambitious and energetic person who takes initiatives in order to be successful.

**Characteristics of an enterprising person;**

* He works hard to achieve the set targets i.e. He/ she is not lazy/ he is energetic.
* He is self motivated and takes personal decisions
* He/ she turns challenges into opportunities
* He/she sees the future in the present.
* He always finds away to take advantages of a situation i.e. he/she is not burdened by the situation.
* He/she does not wait for opportunities to come to him/her but instead he/ she goes for the opportunities.
* He is goal oriented i.e. he tries different strategies to achieve the set targets

**Entrepreneurship**

This is the process of creating an opportunity and pursuing it regardless of the resources currently controlled with a view of maximizing financial and rewards

**Or**

It refers to the process of identifying opportunities, mobilizing the necessary resources, starting and sustaining a business with an aim of making profits.

**Role of entrepreneurship in economic development**

There is need for entrepreneurship (small enterprises) for an economy to realize development because of the following roles it plays;

* Provision of employment opportunities to the people in the community such as shop attendants, accountants etc which improves their welfare
* Enabling utilization of locally available resources in the environment such as labour, land etc.
* Promoting regional balance in an economy through establishing small business in rural areas which makes those areas to develop.
* Enabling the production of goods and services necessary to satisfy the needs of the people in society.
* Promoting innovation and creativity with in small businesses
* Improvement on the country’s balance of payments through reduction of imports
* Generating revenue to government through taxation which enables government to finance its budget.
* Transforming back ward rural areas into modern and attractive centers to many people.
* Creation of market for goods and services produced in the economy. This is because new businesses set up need inputs like raw materials, offices supplies, utilities e.g. Water, power etc., thus creating market.
* Promotion of technological development in the economy, entrepreneurs normally carryout research and come up with new ideas of production which improved on the quality and quantity of products produced.

**Barriers/limitations/hindrances/obstacles to entrepreneurship development in Uganda**

* **Limited role models/shortage of successful entrepreneurs,** who can inspire others to join and promote the development of business career, this limits entrepreneurship development
* **Limited business ethics,** many entrepreneurs fail to sustain their businesses due to unethical behavior e.g. failure to pay employees in time, production of sub standard products etc
* **Career dependence,** many people in Uganda depend on the professions/job in which they are trained in formal schools and hence conduct business as a last resort
* **Unfavorable policy on entrepreneurship,** some government policies like imposing high taxes etc tend to discourage the potential entrepreneurs which limit the development of entrepreneurship
* **Limited mobility and exposure,** many of would be successful entrepreneurs do not want to move to different parts of the country or do not want to carry out wide research which affects their ability to identify new opportunities. This limits the development of entrepreneurship
* **Limited access to finance**, some entrepreneurs at times finds it difficult to access credit due to unfavorable terms and conditions put in place by commercial banks e.g. high interest rates on loans
* **Limited market for products** due to purchasing power resulting from low incomes earned by people in Uganda
* **Poorly developed infrastructure**, the infrastructure in Uganda are under developed e.g. roads, communication facilities, power facilities etc which makes it difficult for entrepreneurs to operate their businesses more effectively and efficiently
* **Bureaucracy** in form of long and complicated procedure to be followed to obtain a trading license and to register a company, this discourages the potential entrepreneurs which limits the development of entrepreneurship
* **Economic instability,** high rates of inflation, high interest rates, exchange rates etc make it hard for entrepreneurs to plan effectives for their businesses hence affecting entrepreneurship development
* **Political instability and insecurity** which results into destruction of business property hence leading to losses. This also limits development of entrepreneurship

**Measures/ways of encouraging entrepreneurship development in Uganda**

* Training the existing entrepreneurs on issues related to management through workshops, seminars etc
* Protecting infant businesses from external competition especially by imposing high taxes on imported goods
* Teaching entrepreneurship education in schools, colleges and universities in order to prepare the future entrepreneurs
* Providing soft loan to potential entrepreneurs i.e. loans that attract low interest rates and payable after a long period of time
* Expanding the market through joining economic integration such as the east African community
* Stabilizing economic variables such as interest rates, inflation rates, exchange rates in order to create a conducive business environment
* Promoting the development of infrastructure like roads, banks, communication facilities etc to encourage smooth operation of business activities
* Privatizing public enterprises to ensure that they are operated by private entrepreneurs who tend to be more efficient and effective
* Providing subsidized land to potential entrepreneurs to enable them to start their businesses, sustain them or expand them
* Recognizing and rewarding outstanding entrepreneurs in the country eg giving them certificates of merit/appreciation
* Carrying out market research on behalf of entrepreneurs to enable them identify the needs/requirements of their customers so that they are able to produce in relation to their demand

**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/reasons for developing the entrepreneurial culture**

To acquire formal / informal managerial knowledge and practice in business.

To link with a wider network of independent family / business contacts.

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.

To get support from financial and technical institutions

To embrace opportunities to practice entrepreneurial competencies

**Career options**

**A career** is defined as an activity/ work/occupation that a person does over a period of time for his/ her survival and to achieve his/ her goals.

People engage in economic activities to earn a living, generate wealth and improve their standards of living.

**Examples of career options in the community**

* Accountant
* Lawyer
* Teacher
* Doctor
* Farmer
* Engineer
* Nurse
* Surveyor
* Journalist
* Actor
* Musician
* politician
* etc

**Career guidance**

This is the process of assisting/helping a person to choose a career. It is normally done by parents, teachers, counselors etc

**Process/ steps involved in choosing a career**

* Defining one’s needs and targets/objectives
* Defining resources required for a given career
* Identifying career options available
* Carrying out research on the career options identified
* Deciding on the career to undertake after comparing the costs and benefits of the identified careers
* Implementing the career selected for survival and to achieve the intended targets/objectives

**Factors that influence one’s choice a business career**

**(Factors considered when choosing a business career).**

* **Job security,** people normally select careers which guarantee high level of job security e.g. government jobs
* **Personal interest of an individual,** people normally choose careers they prefer and those that lead to their satisfaction than those they do not have interest in
* **Talents and abilities of a person,** a person selects in a career in line with his talents and abilities e.g. a person who is talented in football ends up playing football as his career
* **Nature of the society where one lives,** a person who lives in farming society chances are high that he will be a farmer
* **Family bias or preference,** some people take up careers that are favoured or liked by their family members than those disliked by family members
* **Demand for the career in the job market** careers with a high level of demand are usually preferred to those whose demand is low
* **Peer/ colleague influence/pressure**, some youth normally do what their friends are doing, so they end up choosing careers of their friends.
* **Government policy in relation to career,** government may support a certain career hence encouraging people to choose such careers e.g. in Uganda to day people are taking careers in the science fields due to government support of science
* **Influence of teachers and career masters** especially in high schools
* **Natural resources in the community,** one chooses a career basing on the resources available in a given area e.g. presence of minerals in a given area makes people join mining as their career
* **Expected income/ profits from the business career,** people normally select careers that generate high incomes compared to those that generate low incomes
* **Job satisfaction,** careers that are satisfying in terms of goods and regular pay are preferred to those which are not satisfying

**Categories of career options/ Types of employment**

There are two broad categories of career options from which one can choose. These are**;**

* Wage/ paid employment.
* self employment /entrepreneurship/ becoming an entrepreneur

**Wage employment.**

This is where an individual works for another party and he/she is paid a wage or salary periodically i.e. weekly, monthly etc.

One may work for the government, individual, non governmental organization, church etc .In this case a person follows instructions put in place by the employer. One may work in a public sector or private sector.

**Advantages of paid employment**

* A paid employee is assured of his/ her regular payment at the end of a given period of time whether the business has made profits or not.
* A paid employee is given specific duties and responsibilities depending on the agreed upon payment.
* A paid employee is given fringe benefits such as medical allowance housing allowance etc as may be agreed.
* It reduces fatigue of the employee because he/ she works for fixed and favourable working hours.
* A wage employee incurs fewer risks because the business is not his/ hers and he/she is assured of his/ her income regardless of the business performance.
* Wage employment makes an individual acquire skills which may help him/ her to become self employed.
* The income one gets from wage employment helps him/her to improve his/her standard of living.
* It promotes an individual’s financial discipline i.e. one becomes responsible in the way he/ she uses his/ her funds.
* A paid employee normally works under set and well organized systems of control/ administration.
* A paid employee may be assured of promotion and a certain future as long as the employer is operating well.

**Disadvantages of wage employment**

* A wage employee can lose the jobs any time e.g. incase of fall in demand for the business’ products.Therefore, there is no job security, the job depends on the employer’s preference to a particular worker, therefore one can be terminated any time
* Some employers are unfair, rude, highly emotional and therefore they make work un pleasant.
* The wage employee gets a fixed wage/ salary as agreed which may not be increased even when the business makes more profits.
* It hinders creativity/ initiativeness of a worker because he/ she does only a task(s) agreed upon.
* Loss of independence of the worker, one is required to follow strict orders/ instructions from the employer without deviating.

**Causes of wage differences between careers**

* Differences in the nature of work done by different people
* Differences in bargaining power of individuals
* Differences in terms of employment of different employers/organizations
* Differences in experience by different people
* Differences in seniority/responsibilities of different people
* Differences in levels of profits made by different businesses
* Differences in demand for the services rendered by the workers
* Government policy of setting different levels of payments/wages
* Differences in duration of training for different careers
* Differences in strength of trade unions
* Differences in levels of education and training of different people

**Self employment**

This refers to a situation where an individual starts his/her own income generating activity using his/her own resources and gets employed in it

**Benefits of self employment/ being an entrepreneur**

* It makes one his own boss and independent when performing business activities.
* Provides employment and other benefits to the owner and other people in the community.
* Gives financial benefits to the person in form of profits which leads to improved standards of living.
* Leads to provision of goods and services to the community.
* It is a source of government revenue through taxation.
* Encourages creativity/ innovativeness on the side of the entrepreneur through making his/ her decisions.
* It improves one’s status in the community i.e. one becomes recognized and respected due to the contribution of the business to the society.
* It leads to job and income security i.e. the entrepreneur is assured of his/ her job and income as long as the business is still in existence and successful.
* It encourages self motivation especially when the business is doing well.
* It leads to self actualization/ self fulfillment, a self employee is able to get all his/ her needs in life.
* Develops self confidence and self esteem as the person develops the attitude of managing activities

**Disadvantages of self employment/ being an entrepreneur**

* It leads to fatigue/ exhaustion due to long hours of work which reduces the entrepreneur’s quality of life.
* Leads to neglect of personal responsibilities such as attending to family matters. This is because an entrepreneur spends most of his/ her time in his/ her business.
* The entrepreneur is uncertain of income i.e. he engages in business without knowing how much profits he is going to get at the end of a given period.
* It creates frustrations to an entrepreneur in case there is failure in business.
* Makes an entrepreneur to sacrifice other important aspects of life like leisure.
* A self employee/ entrepreneur faces the risks of his business alone.
* The business of the self employed person is exposed to possible favourable government policies, possible unfair competition from other businesses etc.
* There is limited delegation of tasks since one may not find people he trusts in the business
* It is associated with many risks, all risks of the business such as bad debts, loss of sales are suffered by the self employee

**Differences between wage employment and entrepreneurship/ self employment/ being an entrepreneur**

* In wage employment one works for other people while in self employment one becomes his/ her own boss.
* In wage employment one follows instructions of the employer while in self employment one makes his/ her own plans or generates his her own ideas.
* In wage employment one does a routine job i.e. a job agreed upon with the employer while in self employment one becomes creative and innovative.
* In wage employment one gets a fixed pay while an entrepreneur gets surplus income.
* In wage employment one can hardly create wealth/ become rich while self employment creates wealth for an individual and contributes to the national income of a country.
* Wage employment is rarely negative i.e. it rarely yields negative returns to the employees while an entrepreneur may get losses/ negative profits.

**Measures that should be taken by government to encourage self employment**

**The following should be done in order to encourage self employment;**

* vocationalizing the education system i.e. the government should encourage vocational subject such as entrepreneurship education, fine art, agriculture, wood work, technical drawing , music, computer etc.
* Extending soft loans/ credit facilities to potential entrepreneurs.
* Maintaining peace and stability in the country.
* widening the market of the products both domestically and internationally.
* ensuring infrastructural development i.e. provision of roads, water, power etc. to facilitate production.
* sensitizing the masses about the importance of self employment.
* Recognising and rewarding successful entrepreneurs to encourage others to come up.
* providing incentives for small scale/ cottage industries such as tax holidays, tax waivers, tax reduction etc.
* furthering liberalization of the economy ie remove unnecessary restrictions on trade to encourage people to engage in trade activities.
* ensuring macro economic stability such as controlling inflation in the country.

**Unemployment**

This refers to a situation when a person is looking for a job and willing to take whatever is offered as a salary or wage but can not find one.

**Causes of unemployment in Uganda**

* + **High population growth rate,** this makes the speed at which jobs are created slower than the speed at which the population is growing. This renders many people unemployed.
  + **Discrimination in the job market,** some employers in Uganda recruit particular genders, tribes or religions, family members and leave others with similar skills hence um employment.
  + **Rural urban migration**, many people tend to move from rural areas to towns searching for jobs which become more scarce and they end up becoming unemployed.
  + **Inappropriate education and training**, the education system in Uganda mainly trains job seekers instead of job creators. This makes may fail to get jobs.
  + **Poor attitude towards work,** some people from wealth back grounds minimize low income jobs. This leaves them unemployed.
  + **Lack of information on available job opportunities,** some people do not know where the jobs exist. This ignorance makes them fail to access jobs hence unemployment.
  + **Political instability in some parts of the country,** this makes people abandon jobs yet they can not exploit any other opportunities.
  + **Use of advanced technology,** this makes some workers are laid off from their jobs and substituted with fewer machines such as computers, ATMs etc
* **Change in seasons in the agricultural sector,** farmers are normally rendered unemployed during the dry season.
* **Inadequate capital,** some people fail to create jobs on their own due to shortage of resources hence rendering them unemployed.
* **Physical and mental disabilities,** this makes some people unemployed because they are unable to perform certain jobs.
* **Nature of land ownership,** some land lords own very large pieces of land especially in rural areas leaving others with out land where they would be employed.
* **Displacement of local labour force by foreign labour force.** In this case the jobs that would be done by the local people are taken by foreigners.
* **Restructuring in ministries/companies/industries,** this leads to retrenchment and downsizing of labour force hence rendering many people unemployed.
* **Closure of industries** leading to labour lay off e.g. due to over taxation.
* **Privatization of state enterprises,** this makes new management reduce the number of workers employed by the enterprise
* C**hanging jobs,** some people become unemployed during the short time of looking for another job after leaving the previous job e.g. builders, plumbers etc

**Suggestions on how to reduce unemployment in Uganda**

* Providing proper career guidance on subject combinations to do courses that provide skills needed in the current job market.
* Developing a positive attitude towards science and technical subjects as they equip skills on job creation than job seeking.
* Measures such as family planning methods should be put in place to minimize on the high population growth rate
* Government should encourage local an d foreign investor by providing favourable terms like low taxes, tax holidays etc
* Setting up and improving on infrastructure by government to encourage entrepreneurs to establish industries.
* Public enterprises should be privatized to facilitate expansion and creation of more jobs
* Employment bureaus should be created to collect information and advertise jobs to the public
* Rural electrification should be emphasized by the government to enable rural people start small industries
* Government should create political stability that leads to peace and creation of more jobs
* Diversification of the economy
* Training and retraining of people an entrepreneurship skills.
* Provision of credit facilities at favourable terms to enable people start economic activities
* Migration and labour policies to specify what jobs can be done by foreigners
* Curriculum reform to emphasize skills development
* Redistribution of land to enable poor people get land for job creation.
* Sensitizing people on the value and importance of work to change people’s attitude towards work

GRADUATE UNEMPLOYMENT

This is a type of unemployment that occurs when a student graduates, looks or searches for a job, willing and able to work at the on going wage rate but fails to secure one.

Causes of graduate unemployment in Uganda

Inappropriate education systeme, some students tale courses that are irrelevant to the society needs /job market.

High level of discrimination in the labour market basing on sex, religion, ethinicity etc

Ignorance about available jobs, most People lack knowledge about the source of jobs

Limited capital to start own business due to low savings resulting from low incomes

Graduating at a young age like 22-24 years ,some employers want people with experience yet fresh graduates lack experience

poor manpower planning by training institutions, lack of proper manpower planning by the government to start ventures for absorbing graduates

Most graduates prefer white collar jobs to blue collar jobs and end up failing to their desired jobs

Most employers prefer to employ semi qualified People because they are cheaper than qualified persons

Over reliance on foreign man power (expatriates), Some businesses prefer to employ expatrietes than local citizens

Abstract things among fresh graduates who still think of ideal situations and not real situation on the ground, at times fresh graduates prefer paid employment to self emploment which makes them lack jobs

political instability in some parts of the country causing fear to work there

Dispising some jobs by fresh graduates

Limited special skills eg Computer skills required by the employers

High retirement age

Rural urban migration, most graduates tend to move from rural areas to urban areas in search for jobs which jobs are not there. This results into unemployment.

Measures being adopted to curb the problem of graduates unemployment in Uganda

Restructuring of the education system by emphasising vocational subjects

Emphasizing Entrepreneurship development to produce graduates who are job creaters

Ensuring political stability and security

Developing rural areas eg through rural electeification

Encouraging graduates to attain information technology skills which is incorporated in most courses

Establishing a graduate loan scheme

Advertising to graduates the available jobs eg in press

Provision of industrial training for acquiring experience

Fighting corruption in the labour market especially government institutions /public sector

Further privatization and libéralisation of the economy to create more jobs

Carrying out decentralised planning to create more jobs eg creation of more districts

**Delegation**

This refers to the process of granting authority to subordinates in executing responsibility. It takes place when the superior gives the subordinates to perform work on his /her behalf and in his /her name.

**Merits of delegation**

* Enhances good spirit of work in the organization
* It prepares the junior staff promotion
* Acts as a tool for extension of management to other workers
* Instills confidence among the subordinates
* Enables office work to move on smoothly even in absence of the boss
* Gives the bosses more freedom to concentrate on major planning and creative work
* Leads to development of staff and full use of their skills
* Enhances staff morale, motivation and commitment to work
* Enables decisions to be made by those closer to the action resulting into faster implementation

**Demerits of delegation (why managers fear delegation)**

* Fear of job replacement as the subordinates learn about what they do
* Fear that their hidden weaknesses may be revealed by the subordinates
* Fear that some subordinates would be spies of others
* Dishonesty of subordinates which may result into terrible losses to the organization due to embezzlement
* Selfishness of some bosses who don’t want subordinates to know more than expected
* Ignorance of some managers about why and when to delegate
* Desire to get self praise and retain it for good and the urge to cling on power.

**Reasons why subordinate fear to be delegated authority to**

* Lack of self confidence, capacity and initiative to handle the task given
* Inadequate information (resources) to handle a particular task given
* Fear of criticism i.e. a subordinate who fears to make mistakes and who does not accept criticism will not accept delegation
* Dependence on superiors’ subordinates who depend on their superior to take decisions will not accept to be delegated.

**Major competencies required for successful entrepreneurship.**

Competencies are the abilities required by an entrepreneur in order to be successful. There are three major competencies needed for successful entrepreneurship namely;

* Knowledge.
* Skills.
* Traits.

**Knowledge**

This refers to a set/ body of information which is stored and can be recalled/ retrieved at the required time.

This knowledge in business is shown by one’s information on;

* Customers.
* Business processes.
* B business management.
* Marketing.
* Competitors.
* Technical matters.
* Source of assistance in case of need.

However, knowledge of business alone is not enough for one to start and operate a business successfully. There is need for skills e.g. reading/ learning about carpentry equips you with knowledge but there is need to apply that knowledge so as to acquire skills**.**

**Skills**

Skills refer to the ability of an individual to apply the knowledge/ information he/she has. Skills are acquired or developed through practice e.g. joining a table, a chair etc.

In business skills can be; technical or managerial in nature.

**Examples of technical skills are;**

* Catering.
* Mechanics.
* Carpentry.
* Sewing.
* Computing.
* Engineering.
* Architecture.
* Brick laying.

**Examples of managerial skills are;**

* Marketing.
* Planning.
* Leadership.
* Financial management.
* Time management.
* Organization.
* Decision making.

**Traits**

This refers to the aggregate of unique qualities/ characteristics that make an in individual’s personality. These take time to be developed and can not easily be changed or acquired.

**Note:**

**(**i) A person who lacks all the three competencies will face difficulties in operating business enterprises to successful levels.

(ii) If a person has only knowledge and skills, he/ she may not survive for a long period even if he/she manages to start, that person can not persist when faced with major challenges or may not be willing to take calculated risks of under taking a business with out personal traits.

(iii) A person with only knowledge and traits may not be able to apply them in any thing with out skills. In this case he/she depends/ employs other people who have the required skills.

(iv) A person with skills and traits but without knowledge may be able to start the business in a competitive environment but the lack of knowledge of (e.g. marketing, customer care etc.) may lead to business failure. This is because knowledge or information is so important for the success of any business.

**Illustration of the competencies**

**Entrepreneurial skills**

An entrepreneur should possess the following skills in order to be successful in his/ her business operations;

* Ability to cope with change.
* Decision making skills
* Creativity.
* Innovation.
* Motivation.
* Risk taking skills.
* Negotiation skills.
* Business ethics.
* Communication skills.
* Personal branding

**Coping with change**

This refers to giving a completely different form or appearance to an object. Chance is a fact of business life which cannot be avoided, however, the different kinds of change that businesses experience need different strategies and plans so as to gain employee’s acceptance.

**Types of change**

There are three types of change that normally occur in business /organizations. These include;

* Developmental change.
* Transitional change.
* Transformational change.

**Developmental change**

This is a type of change that involves making improvements to the current business/product such as improving on its production process, performance standards. For an enterprise to remain competitive there is need for developmental change and this should not cause a lot of stress to the current workers.

Therefore, there is need to explain to the workers the reasons for the change and educate them on the new techniques adopted or to be adopted.

**Transitional change**

This is a type of change that involves gradually replacing the existing process/ procedures with something that is totally new to the business.

A transitional phase is the period when the old process is being dismantled/ removed and the new process is being installed. The transitional change is more challenging to implement than the developmental change.

**Examples of transitional change;**

* Introduction of new technology in the business.
* Introduction of a new product.
* Business reorganization.
* Merging of the business with another one.

**Implications of transitional change**

* It causes stress among the employees as they adjust to new processes/procedures
* It creates uncertainty among the employees concerning the future of their jobs in the business
* Its expensive /costly because it involves retraining the employees to match with the new methods or processes

**Solutions to the above implications**

* By educating/sensitizing employees on the new process/procedure/change
* By involving workers whenever change is being implemented
* By providing assurance to workers that they are not going to lose their jobs to reduce the feeling of insecurity/uncertainty
* By developing programmes that support /help workers to make personal adjustments e.g. organizing workshops, seminars etc

**Transformational change**

This is a type of change that involves the drastic change of the production process i.e. abandoning the old methods and introducing new methods/systems. It involves both developmental and transitional change.

A transformational change takes place in organizations or businesses when there are major change in demand, emergence of totally different technology, sudden competition and other shifts which may make the developmental and transitional changes unable to offer a solution.

In this case organizations have to drastically transform themselves.

**Reasons why people resist change**

Change is rarely accepted by all people involved in the business organization due to the following reasons;

* **It is costly,** change involves an initial financial investment or some short term economic hardships before long term benefits can be realized.
* **Fear of consequences,** change normally benefits some people and hurts others. Therefore people resist change for fear that it may hurt them
* Change involves **investment of time and effort** for it to be implemented. This makes individuals to resist it e.g. adopting a new record keeping system for a growing business.
* **Fear of uncertainty,** Change involves some degree of uncertainty e.g. unemployment therefore people resist change for security purposes.
* **Inadequacy,** this refers to the feeling of inability to handle change. This is due to lack of self confidence, ability, experience etc.
* **Stubbornness and need to be independent,** even when the evidence is convincing that a certain change is good some people tend to resist it in favour of their ideas, decisions etc.

**Ways of fostering/ encouraging change in business.**

* **By assessing readiness,** this involves trying to find out how prepared workers are to handle change.
* **By rewarding success,** it involves acknowledging/ appreciating what someone has done well. This changes the attitudes of the workers towards change i.e. it makes workers accept change.
* **Having an explanation** of why change is taking place in the business.
* **By encouraging feedback,** in this case leaders should give workers chance to tell them their thoughts and concerns about change.
* **Managing/ getting prepare for resistance;** this involves being prepared for anything that workers may do to resist change.
* **Proving adequate training of workers** to meet the challenges that change may cause to them**.**

**Techniques for coping with change**

After establishing the reasons why change is resisted, an entrepreneur finds out what to do so as to cope with change more effectively and in a positive manner.

In this case the best solution lies in developing feelings that are more conducive to change and making appropriate decisions on how to handle change.

An entrepreneur can effectively cope with change through the basic decision making techniques below;

* **Understanding the situation,** this involves finding out forces acting/ working on the business e.g. competition, whether they are likely to increase or decrease and how they are going to affect the business in the short term and long term.
* **Defining the problem,** a problem is a need to take some kind of action. In this case an entrepreneur identifies the problem that his/ her business is facing that need to be acted upon to ensure that his/ her business remains competitive.
* **Finding alternatives**, this involves establishing the alternative actions/ solutions to undertake in order to overcome the identified problem. In this case, an entrepreneur needs to make research on each alternative action to find out its advantages and disadvantages, costs and benefits, short term and long term effects etc.
* **Selecting an action,** this involves selecting the best alternative action after analyzing each of them in terms of their impact and potential. The selected alternative should be the one that will enable the business to achieve its goals and objectives and it should be within the entrepreneur’s abilities.

**Critical change areas**

Below are the critical areas of planning in which small business operations may experience some changes in future. These areas include;

* **Capital,** this will be more difficult and expensive to obtain and some small businesses will fail to get it totally.
* **Raw materials,** these will be increasingly expensive and difficult to get. In this case small businesses will either switch to other substitutes or depend on larger inventories.
* **Labour,** there is a possibility of labour being substituted for capital yet labour is an abundant resource in poor countries like Uganda and capital is scarce.
* **Technology,** in future technology will become more important for small businesses. They will need to advance their technology in order to be able to get profits yet capital and energy factors may negatively affect the flow of new technology i.e. may make small businesses un able to acquire new technology.
* **Market,** the market for products which consume large amounts of increasingly costly resources will tend to decline while the market for the products which conserve or need smaller amounts of irreplaceable resources will increase. The consumers who are faced with inflation and economic uncertainty will put more emphasis on price and durability of products and they will be willing to pay for them.

This should encourage retailing businesses which focus on repair, reuse and recycling of products and those dealing in localized production of hand crafted furniture and other durable home furnishing products.

* **Government regulations,** these are likely to increase as elected officials struggle to make the country prosperous.
* **Economic situation,** entrepreneur s need to do a lot in order to guide their small businesses through a period of economic scarcity which is likely to happen in future. Profits are likely to reduce due to the rising cost of raw materials and energy, consumer resistance to constantly increasing prices are likely to increase and the expense of cleaning up and maintaining/ conserving the environment.

**Factors that bring change**

The following are the factors that affect change;

* **Need for efficiency,** this refers to a technique of operations that result in achieving the objectives of a business in an optimum and effective manner so that the resources of time, talents and capital are utilized fully and without waste.

A successful entrepreneur/ management introduces methods that are help in achieving the set targets.

* **Environment change,** businesses result into environmental changes such as pollution, exploitation of irreplaceable resources. Entrepreneurs need to improve their activities so that they do not cause negative environmental changes/ effects.
* **Social change,** these are changes that result from the growth of the population in an area, change in the needs of the people in the community etc. in this case, entrepreneurs need to implement changes that satisfy the growing needs of the people in the community.
* **Competition,** competition exists between or among businesses that sell similar products or provide similar services i.e. businesses that target the same customer. Competition makes an entrepreneur to carry out research and improve the quality of his/ her products continuously.
* **Change of technology,** as technology changes, the consumers’ needs also change. This makes an entrepreneur develop new methods/changes to be able to satisfy the changing needs of the customers
* **A change of desire, an entrepreneur makes** changes to achieve the new desired targets/objectives depending on his/her attitudes to control the conditions in his/she business.
* **Economic changes,** changes in economic conditions such as change in the rate of inflation, interest rates, exchange rates etc tend to force entrepreneurs to make changes in their business operations so as to match with the prevailing economic factors
* **Changes in government policy in relation to business,** changes involving governmental support for business activities or changes involving government policy of reducing support

**Positive effects/Importance/ benefits of change**

* Helps a business to adopt/use new technology which leads to increased productivity.
* Helps the entrepreneur to respond to customer’s changing needs, change enables the entrepreneur to respond to the ever changing needs/requirements of customers so as to produce products in relation to customers’ tastes and preferences.
* determines the direction of the economy i.e. change enables the entrepreneur to cope up with the changing situations/circumstances in the economy that may have both positive and negative effects on business activities e.g. change in demand
* Helps in the growth of opportunities, change enables workers to learner new skills, explore new opportunities which in the end leads to increased quality and quantity of output.
* Leads to acquisition of new ideas and innovations, change helps the organization to come up with new and better ways of carrying out activities to ensure high level of quantity which leads to competitive advantage.
* Improvement in skills, some changes require training or retraining of workers which results into development of new skills

**Negative effects of change**

* Leads to Increased dependence on computers, change makes organizations to depend on computers which limits creativity
* Leads to technological unemployment as technology improves, workers tend to be replaced with machines hence resulting into unemployment.
* Leads to geographical relocation of businesses/ industries and workers to other areas which inconveniences workers e.g. due to change in market.
* Promotes the need for workers to acquire new skills or to improve on the existing competencies or abilities.
* Increased complexity of the methods of production.

**Decision making skills**

This refers to the process of identifying and selecting a course of action to deal with a problem or to take advantage of an opportunity

For an entrepreneur to be successful, he/she needs to have decision making skills

**Factors that influence decision making**

* **Nature of the situation,** the situation that requires a decision to be taken affects the kind of decision that an entrepreneur can make.
* **Availability of resources,** decision making normally depends on the availability of resources. If the resources required to implement a decision are readily available, the process of decision making is easy and faster and vice versa if resources are not available.
* **Environmental factors,** depending on the type of business for which decisions are being made, the environment in which the business is located /operating affects any decision to be made. The decision taken depends on the impact it will have on the natural environment and whether the community will accept it.
* **Expected benefits**, the benefits to be realized from the out come of the decision once it is implemented is normally put into consideration when making a decision. A decision is made basing on how much it will improve the market, how many people will benefit and whether it enable the entrepreneur to achieve the set goals.
* **Costs involved,** for any decision to be made, the cost to be incurred in the process of making and implementing it is put into consideration
* **Time pressure,** time normally influences the making and implementing of any decision. If the decision to be taken is urgent, then is has to be taken very fast and vice versa**.**

**Steps involved in decision making**

* **Investigating the situation,** this involves identifying the problem and finding out the causes of the problem.
* **Developing alternative solutions,** this involves coming up with various ways of solving the identified problem. This can involve consulting experts or knowledgeable people
* **Selecting the best alternative/solution,** this involves evaluating the identified solutions one by one considering the resources needed to implement the alternative, the capacity to implement it, it benefits and how it will affect others presently and in the future.
* **Implementing**
* **monitoring the decision,**

**Creativity**

This refers to the ability to come up with innovative solutions to needs and to market them. Creativity means the ability to come up with new ideas and applying them to satisfy people’s needs.

Creativity is a basic characteristic in all human beings and it is absent in animals. For one to be creative he/she has to allow him/herself to make mistakes.

**Importance of creativity in business**

* It helps entrepreneurs to solve every day problems in their businesses.
* It is used to promote the produced products of the business.
* It helps the entrepreneur to update/ improve the business products.
* It enables an entrepreneur to make proper use of the limited resources that may be available.
* It increases entrepreneur’s potential /chances for success in the business through developing different products/ideas.
* It helps the entrepreneur to develop new and original ideas by using the existing ideas as the starting point.
* It increases awareness by paying attention to insights and sounds that we usually ignore hence enabling people to open up their minds to new ways of thinking.

**Factors that limit creativity**

There are a number of obstacles limitations/hindrances to creativity in business. These are;

* **Fear of failure**, fear of looking a fool or being laughed at limits creativity; however entrepreneurs should know that failure is a necessary condition or a path to success.
* **Thinking negatively**, focusing on the negative aspects of the problem/idea than the positive outcomes of the idea and spend time and energy on worry.
* **Failure to have time to think creatively**, this is due to stress or work commitment which reduces the individual’s ability to think objectively.
* **Too much obedience to the rules and regulations**, trying to do things in a way that is in accordance to the set rules limits creativity.
* **Applying too much logic in issues**, having too much analytical and calculative thinking without proper imagination hinders creativity. Creativity is not a result of logical thinking.
* **Thinking that one is not creative** due to lack of self confidence.
* **Making assumptions,** assuming that things are done in certain way without getting proper information about them may limit creativity.
* **Looking for one right answer,** believing that there is only one right answer to a problem limits creativity
* **Sterile environment**, an environment that is too hectic that does not provide enough time for reflection and introspection hinder creativity.

**Techniques/strategies/ways of developing/promoting creative ability**

An entrepreneur should do the following in order to be creative;

* Thinking beyond the visible frame works that surround problems or situations to encourage creativity.
* Recognizing where assumptions are being made and making attempt to challenge them in order to provide a solution to the problem.
* Identifying narrow minded thinking and widening the field of vision- drawing on the experience of other businesses/ individuals.
* Adapting ideas from more than one source. This enables one to choose the best ideas from the alternatives listed/identified
* Transferring technology from one field to another so as to solve the problem at hand.
* Being open and prepared to use chance or unpredictable events to one’s advantage.
* Noting down thoughts and ideas that apparently drop into the mind to avoid forgetting them.
* Stimulating own curiosity in everything and the skills of observation, listening, reading and recording in order to encourage creativity.
* Trying to make the strange things familiar and the familiar things strange in order to generate/ come up with new ideas.

**Characteristics of a non creative person**

* He/she is unable to think positively about problems i.e. he/she does not see problems as opportunities.
* He/she is not inspired even when he/she has a new idea.
* He/ she is too busy or stressed to think objectively or the think at all.
* He/she fears to put forward a new idea, in other wards he/ she fears to be laughed at.
* He/she applies a lot of logic in every aspect. He/she is self critical

**Characteristics of creative people/ creative thinkers**

People who are creative possess the characteristics below;

* **Originality**, they are able to do something that nobody else has done. They think of an idea, redesign it and make something new out of it.
* **Search for better ways of doing tasks**, they work hard to find out new ways of doing things.
* **Ask questions**, creative people ask questions about the things they do not understand. They do not just accept/ take things as they are.
* **Sensitivity**, creative people are sensitive to what is taking place in the environment so that they do things according to the demand in the environment.
* **Flexibility,** creative people are not fixed in the way they do things i.e. they change according to the challenge ahead of them.
* **Independent thinking**, creative people always think for themselves. They think independently, gather information and come up with their own findings
* **Growth and change**, creative people constantly search for change i.e. they do not restrict themselves to using the same old way of doing things. They learn to change for the better so as to grow and succeed.
* **Innovation**, creative people have a capacity to transform the resources of the enterprise in to new resources to make them more productive/useful.

**Stages of the creative process**

The creative process has four stages namely;

* **Preparation**, this involves gathering data, opinions, information and speculations to obtain an in depth understanding of the problem at hand. It involves brain storming oneself.
* **Incubation**, this involves letting the person’s mind work on the information gathered to continue the process of generating solutions to the problem. It involves making necessary connections, linkages, associations with concepts already formed so as to come up with the idea/ solution.
* **Illumination/ inspiration,** this involves thinking about a problem or an idea when an individual is in a relaxed state of mind in order to come up with a solution to the problem.
* **Verification,** this involves testing ideas, solutions, etc. to find out whether they are applicable.

**Creativity questionnaire**

This is a document containing a list of well arranged questions and statements prepared by the business/researcher to be filled in by the respondent intended to collect data for measuring the creativity level of the respondent.

**Question: You operating a restaurant in your home area;**

(a)Design a creativity questionnaire for employees

(b) Develop the guidelines to promote the creativity ability among your employees

TOM HUNG CLINIC

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CREATIVITY QUESTIONNAIRE FOR EMPLOYEES

Name of the employee……………….. Age………………..gender……………….

Marital status………………department date………………

Questionnaire no………………….

How much are you prepared to tolerate uncertainty…………………………….?

How quick are you at perceiving the nature of the problem

How flexible are you in your thinking process..............................................?

How adventurous are you………………………………………………?

How free are you from the fear of authority………………………………………?

How do you react to new ideas…………………………………………….?

General comments………………………………………………………….

End

(b)

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GUIDELINES TO PROMOTE THE CREATIVE ABILITY AMONG WORKERS

The employees shall adapt ideas from more than one source

Technology shall be transferred from one field to another

Workers shall identify assumptions and make attempts to challenge them

Workers shall stimulate their own curiosity in every thing

Etc

**Revision questions**

1(a) Explain the obstacles to creativity in business

(b)Describe the techniques of developing one’s creative ability in an enterprise

2(a) Describe the steps involved in the creative process

(b)Discuss the attributes of creative people

**INNOVATION**

This refers to the way of transferring the resources of a business through creativity of people into new resources and wealth.

It involves making improvements with in the business. For this improvement to take place, it is necessary for people to change the way they make decisions on choices out side their norms.

Innovation is different from invention which means discovery of something new within the business which may be a good, new technique, skills etc.

The major goal of innovation should be to bring a positive change which can make some one or some thing better.eg leading to increased productivity which is a source of increasing wealth in the business and an economy at large.

Innovation that leads to new products or that increases productivity is considered to be the major factor promoting economic growth.

**TYPES OF INNOVATION**

1. **Business model innovation**, this involves changing the way business is operated in order to increase the value of the out put
2. **Marketing innovation**, this involves improving the marketing strategies e.g. improving on the product design, packaging style, product promotion, price etc.
3. **Organizational innovation**, this involves changing the business organizational structure, practices and models. E.g. splitting the organization into departments e.g. Uganda revenue authority(UEB)
4. **Process innovation**, it involves the application of a new or improved production or delivery methods in the business.
5. **Product innovation**, this involves the introduction of a good or service that is new or improved e.g. improvement in product characteristics, making it easy to use etc.
6. **Supply chain innovation**, this involves changing the sourcing of inputs, products from the suppliers and the way products are delivered to customers.
7. **Service innovation,** this type of innovation involves improvement in the way services are provided to customers e.g. introduction of ATM in the banking sector

**HOW TO BECOME INNOVATIVE**

For a person to become a better innovator, he / she need to develop a creative approach below;

* **Improving one’s questioning skills**, this involves identifying a problem and then writing many questions about it over along period of time. This enables one to investigate a problem and come up with ideas that can be implemented to solve a problem. (The questions will change along with the understanding of the problem. Compare the questions from the 1st day with those from the last day; in this case you will easily notice the change in the thinking pattern)
* **Enhancing/improving one’s observation skills**, this involves choosing a business, customer or supplier and spend some time trying to find out how they operate/how they handle issues under consideration.
* **Networking with various people**, in order for one to become more innovative he/she needs to network with as many people as possible who possess different ideas about a given situation. This is because people who work in different organizations and who come from different backgrounds have different skills and deal with different issues, therefore when you interact with them, you will be exposed to different ideas.

**Advantages/importance/benefits of innovation in the business**

* **Increases productivity,** it enable s the entrepreneur to increase the volume of out put produced through the application of innovative ideas that ensure greater out put in short period of time.
* **Leads to improvement in the process of production in the business**. This makes the business more efficient and effective
* **Facilitates the provision of a variety of products to the customers.** Innovation enables an entrepreneur to diversify the range of his/her products which widens consumer choice hence improvement in the standard of living
* **Leads to reduced cost of production,** through innovation, an entrepreneur is able to discover better production methods or techniques that require less raw materials and energy.
* **Improves the quality of the products**, innovation enables an entrepreneur to improve on the quality of his/her products and these enable the entrepreneur to command higher prices and profits from the products
* **Improves marketing of business products,** through innovation, an entrepreneur is able to discover or identify improved marketing strategies order to sustain the customer e.g. packaging of coca cola products in plastic bottles
* **It enables an entrepreneur to conserve the environment** which reduces the negative effects of business activities on the environment
* **Leads to improvement in the business** e.g. in the service delivery, marketing systems etc.
* Helps in developing new distribution channels and added value to make the business products competitive.
* Helps to locate new technologies that help to improve the product design and quality.

**Disadvantages of innovation**

* It is expensive i.e. it increases the cost of business operation.
* It renders some people unemployed e.g. adoption of new technologies in an organization.

**Sources of innovation**

Innovation normally occurs as a response to a problem or opportunity that arises either inside or outside the business / organization. Management expert Peter Drucker (1909) identified **four** internal and **three** external/ sources/ impetuses/ forces for innovation.

**The internal forces / impetuses include;**

* **Unexpected occurrences**, these may be as a result of bad luck such as a failure of a newly introduced product. Through such unexpected failures new ideas are generated from the new information that may arise.
* **Incongruities,** this refers to the difference between a business / organization’s perception and reality. This leads to the state of feeling out of place which in turn forces innovators/entrepreneurs to develop new ideas.
* **Process needs,** innovations inspired by process needs are those generated to support other products or processes e.g. advertisement were introduced by newspapers publishers to cover the printing costs of newspapers.
* **Industry or market changes,** these changes make innovators to generate new ideas that make them successful.

**The external forces for innovation include;**

* **Demographic changes**, population changes/shifts have a direct effect on the way business is conducted which motivates an entrepreneur to develop innovative ideas of responding to population changes e.g. an increase in the number of people in the country increases market demand for the most products which necessitates innovation that leads to greater output
* **Changes in perception**, changes in the way people think, ways of life, tastes and preferences etc affect the kind of products people buy which necessitates innovation.
* **Emergence of new knowledge / technology**, introduction of new technology motivates an entrepreneur to think of how to utilize such technology to improve their products and market e.g. emergence of computer soft ware has promoted the music industry. This is the greatest external force for innovation when a new knowledge / technology emerges, innovative companies can adopt it thereby gaining profits from it.

**Characteristics/features/traits/attributes/qualities of innovators**

* **They are opportunity oriented/ seekers**, innovators always seek to find opportunities in any situation and develop innovative ways to act up on them. They are optimistic persons who look beyond what is happening now, to what could happen and have the ability to find the people and situations to make it happen.
* **They have a compelling vision**, an innovator has the ability to formulate and articulate a compelling vision for his / her dept or organization i.e. even when an innovator is unable to make decisions his / her company or department, and he can articulate his / her vision to a person who can make it happen. An innovator articulates his / her vision with passion, zeal and spirit which makes other people to adopt it.
* **They befriend positive people**; innovators surround themselves with people who have a positive attitude towards creating something new. These can inspire them in their attempts to develop new products or ideas
* **They are extremely persistent**, innovators do not give up on what they are trying to do i.e. they just keep going and they are not barred by obstacles. They are committed to achieving their set goals and objectives and this commitment and persistence makes them achieve even the hardest goals.
* **They are self disciplined**, innovators are self disciplined because they know that it takes self discipline to achieve results. Innovators prioritize their time so that they do the important work first.
* **They are inner directed**, innovators are self motivated i.e. they do not need to be told by others what they are supposed to do. They have the ability to focus, so they wake up in the morning and get going.
* **They are passionate about what they want**, innovators tend to develop a strong desire for what they want to do and they give it everything they have. They are normally passionate about one thing and go after it with all their hearts and souls to ensure that they achieve their goals.
* **They are trend – spotter**, innovators have the ability to identify / spot something new and its social responsibility.

**Ways/measures of promoting/ fostering innovation in small businesses**

* **By expecting change**, expecting change motivates/inspires one to be alert in order to become innovative so as to be able to adapt to new changes
* **By implementing new rules**, this enables one to go beyond the existing limits of competition which enables him/her to have a competitive advantage and profits compared to the competitors.
* **By developing innovative strategies**, this involves developing methods/mechanisms that can promote consistent innovation in an enterprise. Entrepreneurs need to innovate all the time.
* **By avoiding barriers**, this involves preventing obstacles that can interfere with the development of innovative ideas.
* **By being fast at implementing innovations**, this involves putting into action the innovative ideas as fast as possible to avoid another person from adopting/stealing it and use it to out compete one’s business (an innovator should rather be 80% right and quick than being 100% right but late).
* **By thinking as entrepreneurs**, this is because entrepreneurs make things happen accept failure, learn from failure and improve it.
* **By thinking global**, this is intended to ensure that the innovative innovations developed have a wide application. This is important because the fastest growing market may be at the international level.
* **By being a learner all the time**, becoming innovative requires learning so that one can develop knowledge and skills than the competitors in order to stay ahead of the competitors (innovators should be able to learn faster and better than the competitors and to turn learning into new goods, services and technologies before the competitors so as to gain a competitive advantage).
* **By measuring one’s progress,** innovation requires one to measure performance indicators to establish the extent to which innovations lead to progress in business.
* **By doing well to produce better products that can satisfy the needs of the customers.** This stimulates the expansion of the market hence leading to more innovation this makes it easier to achieve success in the business.
* **By recognizing innovators,** this involves identifying those people who have made improvement in the production of goods or in transforming the resources of the enterprise and rewarding them accordingly. This can encourage other people to be come innovative as well.

**Factors/qualities that make small businesses use innovation more successful than large businesses**

* Most small business owners are willing to try new approaches to improve on their performance than already established businesses that tend to be contented with the usual methods of production.
* Small businesses pay personal attention to customers and therefore they are better placed to get customers views which they apply to make innovations compared to large businesses where there is no personal contact with customers.
* Small businesses are flexible; they can easily change according to the changing needs in the market compared to large businesses which are not flexible to the changing market conditions.
* Small businesses can easily carry out experiments and improvise compared to large businesses which suffer big losses/risks if the experiment is not successful
* Small businesses operate with limited resources which motivates them to make innovations to ensure maximum use off the limited resources compared to large businesses which operate with plenty of resources
* Small businesses mainly rely on social net works to access the information needed to develop innovative ideas compared to large businesses which are under closed systems
* Decision making concerning innovation is easier in small businesses since there is no need of consulting many people as many of them are proprietorship than large businesses that require consultation of many members since they operate as partnerships or joint stock companies.

**Revision questions**

1(a) Describe the various types of innovation in business

(b)Discuss the characteristics of innovative people in society to day

2(a) Explain the sources of innovation in an organization

(b)Explain the need for adopting innovation in an organization

3(a) Explain the qualities that make small scale firms more innovative than the large scale firms

(b)Suggest ways of promoting innovation in small businesses

**Motivation**

This refers to the inner state which consist of wishes, desires or drives that influence the behavior of an individual

Motivation is a psychological process which is concerned with sustaining, directing or discouraging behavior most human behavior is goal oriented i.e. one behaves in a certain way because of the desire to achieve a given target or goal which satisfies psychological needs such as recognition, self esteem, belongingness, self actualization etc

**Motivation process**

* **Felt need**, this stage of the motivation process involves determining what one wants to be motivated to do or accomplish. A felt need is the starting point in the process of motivation
* **Goal oriented behavior**; these are things that one needs to do to maintain motivation
* **Need satisfaction**, this stage of the motivation process involves removing distractions or obstacles, hindrances so that one remains motivated

**Entrepreneurial motivation**

This refers to the strong desire, impulse, dedication or drive possessed by an individual that encourages him or her to accomplish a specific business goal or target.

**Classical concepts of entrepreneurial motivation**

* **Unconscious motive**, this is the motivation that occurs without some being aware, it involves desires/attitudes which influence/change one’s behavior.
* **Power motive,** this is the ability to influence others to behave in a particular way that suits one’s interest. It involves the desire to influence others
* **Competence motive(achievement motive)**, this is the desire to excel i.e. the desire to do some thing better than others
* **Affiliation motive,** this is the desire to be with other people i.e. the desire to gain company of others regardless of whether they help him or her to achieve an objective or not

**Achievement motivation**

This is a strong/intense desire/urge to excel and do some thing unique

**Characteristics of people with high achievement motivation**

* They want to be challenged i.e. they want situations that challenge them so that they are motivated to take action to overcome that challenge
* They set moderately difficult goals but which are possible or achievable to ensure that they are challenged
* They take realistic risks which they can afford to manage
* They assume personal responsibility for the out come of what they have done
* They prefer specific and prompt feed back to be able to measure progress or to establish whether they are successful or not
* They are goal oriented i.e. they set realistic targets/goals and work hard to achieve them

**Behavioral characteristics associated with strong need for achievement**

* Have work objectives, they have specific objectives in relation to what they do to achieve the set goals in a specific period of time
* They net work with success full entrepreneurs in order to acquire their ways of carrying out activities or their characteristics
* They get involved in positive activities i.e. they are involved in relevant or positive activities that enable them to achieve the set target or goal
* They identify successful entrepreneurs in society to be their role models and mentors so as to inspire them to achieve their objectives
* They are result oriented i.e. they aim at accomplishing specific tasks in a specific period of time
* They avoid negativity i.e. they try to avoid negative ideas or avoid negative activities (non productive activities)
* They take advantage of opportunities to improve the prevailing situation in relation to personal life and life in the community
* They have faith i.e. they have a strong belief to be successful in every venture or activities undertaken
* They have a positive mental attitude ie they always develop positive expectation (possible success)
* They seek help from experts rather than from any body to overcome both external blocks as well as internal or personal limitations
* They do not worry about possible failure; failure in business may not stop them from working towards the set goals
* They work for long hours, in order to achieve their set targets they always work for extra hours they anticipate possibilities of success and failure and try to overcome obstacles which may bring failure

**Benefits/importance/merits of motivation**

* Promotes self confidence among entrepreneurs and this is achieved after attaining success in the set target/goal
* It encourages entrepreneurs to take calculated risks because of the satisfaction one derives from the risky activities
* It promotes self evaluation/assessment as one tries to find out the progress or the attainment of the set target
* It encourages an entrepreneur to scan or analyze the environment to identify possible opportunities which can be undertaken to ensure or achieve success
* It promotes goal setting which inspires an entrepreneur to work hard to achieve them in order to be successful
* It enhances other entrepreneurial skills such as creativity, innovation etc which lead to success in business ventures

**Challenges of motivation**

* Setting goals which are too low because one wants to achieve or attain success
* Setting goals which are too high which results into failure and negative motivation
* Negativity, this involves person thinking about weaknesses, problems and threats in the environment which discourage him/her from undertaking activities which are intended to achieve the success
* Challenge of over coming fear which in most cases makes one unable to even try to carry out an activity that leads to motivation
* The challenge of getting the right people to deal with i.e. those who have a positive mental attitude

**Factors that hinder/limit/retard entrepreneurial motivation/obstacles / barriers to entrepreneurial motivation**

* **Some socio- cultural rigidities/beliefs in society which act as barriers** e.g. they believe that high profits are un ethical , believe that some activities are for a specific class, gender etc
* **Unfavorable political and government policies on entrepreneurial activities** e.g. government policies that discourage private freedom, free operation of the forces of demand and supply
* **Poorly developed infrastructure,** i.e. inadequate provision of physical, social or economical infrastructure in a given area e.g. roads, banks power etc
* **Limited number of role models,** shortage of role models to inspire others to develop entrepreneurial culture or spirit
* **Psychological factors such as security, orientation, high need for affiliation** etc which do not promote entrepreneurial excellence
* **Political instability,** this discourages individual freedom, free market economy and private enterprises which affects individual desires to excel
* **Societal barriers,** there are some cultures in societies that do not facilitates spirit and the urge to excel which hinders entrepreneurial motivation
* **Un favorable economic environment in terms of policies**, this could be in form of high taxes on business, high rate of interest on borrowed money which hinders motivation
* **Inadequate labour and skills,** limited skilled labour to implement policies in business limits motivation great risk, risks are high in low developed countries since there is lack of reliable information, market for products among others. This limits motivation

**Ways of developing one’s achievement motive (positive mental attitude)**

* Through networking with successful entrepreneurs in order to acquire their thinking, characteristics, feelings and ways of doing things
* Through having work objectives that are achievable and have good impact
* By taking advantage of opportunities in the environment to improve one’s situation ie one’s personal life, work life etc which affects one’s performance
* Having faith in oneself, having self belief that one can do some thing helps in improving motivation
* Identifying successful entrepreneurs to be your role models motivates one to do better
* Being result oriented, focusing on activities that lead to positive out come.
* Avoiding negative thoughts and ideas, thoughts that are liukely to discourage you, should be ignored
* By getting involved in positive activities that can encourage you to be motivated
* By taking each experience as a learning opportunity i.e. drawing lessons from the results or feed back
* Having a positive mental attitude is essential for achieving success

**Revision questions**

1(a) Explain behavioral characteristics associated with a strong need for achievement

(b)What are the obstacles to entrepreneurial motivation in your country?

2(a) Distinguish between achievement motivation and entrepreneurial motivation

(b)Explain the reasons/rationale/purpose/necessity/aims for, motivation in business

**BUSINESS ETHICS**

**Business ethics,** these are theacceptable behavior that should be exhibited by businesses/entrepreneurs when dealing with customers, employees, society, government and other businesses.

**Or**

These are moral principles and values that should govern and control the activities of a business enterprise.

**Or**

The ways by which businesses should conduct themselves towards their employees, customers, community, government and shareholders or owners

Business ethics may be written down or not.

**Principles of good business ethics**

* **Being honest,** this means testing the truth, not cheating, misleading, and being fair. There is need for honesty while operating business transactions/ activities.
* **Keeping promises**, this means keeping commitment or making promises that one can fulfill.
* **Respecting others**, this means honoring and valuing the abilities and contributions of other people.
* **Compassion**, maintaining an awareness of the needs of other people and acting to meet those needs whenever possible. An entrepreneur should minimize harm wherever possible and act in ways that are consistent with his/her commitment to social responsibilities.
* **Integrity**, living up to ethical principles or being morally up right even when faced with personal, professional and social risks or economic pressures.

**Parties/beneficiaries to business ethics**

* Customers/clients
* Employees
* Government
* Society
* Shareholders/owners
* Other businesses

**Business ethics towards customers**

* **Honesty,** an entrepreneur should be honest to his/her customers in terms of price charged for the quality and quality of goods purchased.ioe he should not cheat his customers
* **Courtesy** – an entrepreneur should be polite, patient and sincere when dealing with the customers i.e. the entrepreneur should not sell damaged, expired, or underweight products to customers.
* **Responsibility**, an entrepreneur should try to meet his/her obligations as agreed upon egg he should deliver on time
* **Geniality**, an entrepreneur should be kind, cheerful and try to balance his/her temper when dealing with customers. Never abuse, shout or bark at customers.
* Widening the distribution system in order to avail goods and services to the customers.
* An entrepreneur should ensure that the goods or services provided to customers have no negative effects.
* **Understanding customers’ needs** an entrepreneur should understand the needs of his customers and try as much as possible to satisfy them.
* **Providing sufficient information about the use of the product including its side effects,** an entrepreneur should give full information about his products including the risks involved to the customers.
* **Providing after sales services,** entrepreneurs especially those who deal in technical products such as computers, radios, TVs, machinery etc are required to provide sufficient after sales services to their customers
* An entrepreneur should increase production so that customers get what they want at the time they want it

**Business ethics to wards employees**

An entrepreneur should treat his/her workers in an ethical manner through observing the following;

* **Giving employees a fair pay (wage or salary),** an entrepreneur should pay his her workers fairly and timely however, this should depend on ability of the business and value of work done by the worker.
* **Provision of good working conditions**, workers should be provided with healthy working conditions because they spend most of their time at their work places. In this case an entrepreneur should provide fringe benefits such as transport, accommodation, medical allowance, lunch and protective gadgets to them e.g. gloves, overalls, goggles, helmets, bolts etc.
* **Providing clear and fair terms of payments.** In this case workers wages and salaries, duties and responsibilities should be clearly specified. More so workers should be given appointment letters which state whether they are employed on contract, temporary or permanent basis.
* **Giving room for creativity to workers**, an entrepreneur should treat workers as human beings who have the right to think and act i.e. they should be given chance to exercise their thinking while carrying out the b/s activities.
* **Providing on job training to workers** in order to improve their skills and performance.
* **Appreciating**, recognizing and encouraging special skills of workers to motivate them.
* **Listening to workers personal problems,** an entrepreneur should listen to the personal problems of the workers and where possible should assist to solve them.
* **Respect,** an entrepreneur should respect his workers for the positive contribution they make towards the success of the business.
* **Job security,** employees should look with certainty in respect to their jobs.
* **Politeness**, an entrepreneur should treat his employees politely in all situations.

**Business ethics towards government**

* Observing business laws such as registration, licensing, labor laws etc.
* Paying all taxes to government as required by law.
* Meeting production standards in terms of quality and weights.
* Producing/ selling acceptable products only i.e. not engaging in illegal trade such as selling opium.
* Contributing to the national effort of building a better society e.g. by not polluting the environment
* Contributing to research and development of the country.
* The business should comply with occupational, hygiene, environmental regulations etc

**Business ethics towards society**

* Preserving /conserving the environment, an entrepreneur should ensure that he does not release waste materials that may pollute or destroy the environment such as water, air, swamp etc.
* Ensuring that business operations do not harm people’s health i.e. poisonous gasses, loud noise and explosions should be well handled.
* The business should have strict consideration for the norms of the society where it is located.
* Providing employment opportunities to the members of the society where it is located before foreigners.
* Helping society in case of emergence situations e.g. floods.
* Involving in society’s needs by helping the sick, poor, orphans etc.

**Business ethics towards owners/ share holders**

The manager and the workers have to practice the following business ethics towards the business founders.

* Management should ensure protection of the business’ property.
* Safe guarding the capital of the shareholders i.e. management of the business should ensure that business capital is not misused
* Management should work to uplift the business’ public image to make the founders enjoy self esteem and recognition.
* Management should protect the interests of the founders/shareholders.
* Management should ensure that the business makes profits to enable the owners to achieve their goals.
* Management should work to ensure that the business attains financial independence.

**Business ethics towards competitors/ other businesses**;

* Avoiding persuading employees of competitors
* Avoiding de-campaigning competitors’ products
* Ensuring fair trading practices e.g. avoiding price wars
* Discussing with competitors on how to improve the quality of the product e.g. through carrying out research jointly
* Carrying out restrictive trading policies e.g. conniving with the competitor to charge a price that prevents others from joining production of the same
* Referring customers to competitors for what is missing
* Adapting anti-competitive practices i.e. relating well with competitors
* Observing copy right i.e. respecting the competitor’s brand

**Benefits of observing ethics to the business**

The business that practices ethics towards the various groups enjoys the benefits below;

* Society is willing to provide human resources to the business which leads to efficiency and increased production.
* The assets of the business are safe guarded.
* Its market expands through maintaining its old customers and attracting new ones.
* Business is able to get raw materials at low costs from the society.
* Business operates with out fear of being closed by government.
* Ensuring fair-trading practices such as fair pricing, fair treatment of customers etc. leads to high business turn over.
* Business gets good reputation in the society.
* It can easily get government support and sympathy during times of need e.g. subsidies, winning tenders etc.
* Practicing ethics leads to increased profits which lead to business growth.
* It creates customer loyalty to the business.

**Revision questions:**

1(a) Define the term business ethics

(b)What are the business ethics that should be practiced by a business when dealing with customers?

2(a) Explain the ethics expected of a business when dealing with;

(i) Society

(ii) Employees

(iii) Government

(iv)Competitors

(b) Explain the benefits enjoyed by a business that practices ethics towards the various groups of people.

**BUSINESS COMMUNICATION SKILLS**

Communication is the process of exchanging information between the sender and the receiver.

**OR**

It’s the process of transmitting information, thoughts, feelings and ideas from one person to another.

Communication is a must in business because it is always necessary to pass on information to workers, customers, government and the general public.

**Effective communication**

This refers to a situation where the information is sent and the receiver gets it as the sender wanted and at the right time

Effective communication is so important for the existence and success of a business.

**Essentials /features of effective communication**

These are aspects which must be taken into account for communication to be effective. They include;

* **Completeness**, the message sent should include all the relevant facts that the receiver needs to know about the subject matter being communicated.
* **Clarity**, the message should be as clear as possible therefore, the sender should use clear words and language that are understood/ familiar to the receiver.
* **Accuracy/correctness,** the message sent should be as accurate/ correct as possible with out any alteration for it to be effective.
* **Timing,** the message should be sent at the appropriate time when the receiver is able to receive it.
* **Courteous**, the sender should be as sincere as possible when sending the message and should avoid hurting the receiver but at the same time he should not avoid addressing the issue under consideration.
* **Considerate**, the sender of the message/ information should have the receiver in mind when sending the message. Positive words are better than negative words
* **Environment,** the environment in which the message communicated should be enabling the intended receiver to get the message.
* **Conciseness,** the sender should package the message/ information in the fewest words possible to avoid confusing the receiver but should ensure that the message is complete i.e. the message should be as brief as possible
* **Concreteness,** the message should be concrete by being specific and not vague or too general
* **Medium/channel,** the sender should use the medium that the intended receiver uses or that the intended receiver has access to.

**Limitations/Obstacles/barriers/hindrances to effective communication**

These are things that stop the intended receiver from getting the message the way the sender sent it. Its any block/ hindrance that stops the intended receiver from understanding the message as intended by the sender, they include;

* **Language barrier**, communicating a message in a language that a receiver does not understand means that the receiver can not interpret the message. This renders communication ineffective.
* **Wrong/inappropriate channel/medium,** using a channel that the receiver does not have access to limits effective communication e.g. communicating to the deaf through telephone or a radio; using written communication to the illiterate
* **Lack of interest by the potential receiver**, where the receiver is not interested in the information/message being communicated by the sender, communication becomes ineffective.
* **Non attractive message to the receiver,** when the receiver perceives the message sent as not being attractive, especially when the sender is using vague language, failure to package the message well etc communication becomes ineffective.
* **Distractions from the environment/communicating in an inappropriate environment**, distractions such as noise/ loud music stops one from hearing the message being communicated verbally. This renders oral communication ineffective.
* **Unclear message**, if the message communicated is not clear i.e. if it missing the target group, time, venue or purpose etc it becomes ineffective.
* **Emotional blocks,** blocks such as fear, problems etc. make communication ineffective.
* **Poor listening skills by the intended receiver,** some people do not have good listening culture which renders a message ineffective.
* **Poor timing of the message**, if the message is communicated at a wrong time, the receiver may not be interested in the massage. This makes communication ineffective.
* **Failure to be considerate**, if the sender fails to put the receiver into consideration when sending the message, the communication becomes ineffective.
* **Poor hand writing**, this makes the written message UN readable which hinders the potential receiver from understanding it.
* **Poor net work**, this renders telephone and internet communication ineffective.
* **Use of wrong address**, this makes the message misplaced thereby not reaching the intended receiver.
* **Poor personality of the sender**

**Summary of 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 destructions 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 over road

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 under stood 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 an easily be received by the receiver to avoid information over load.

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

**Ways of reducing communication barriers.**

* By making sure that the message is clear.
* By using the language which is familiar to the receiver(s).
* Using an appropriate channel of communication e.g. using gestures when communicating to the deaf.
* Ensuring that the message is as interesting as possible to the receiver. This can makes them concentrate and listen to the message.
* Making sure that the physical conditions are appropriate/ good for the message to be understood by the receiver.
* Putting the receiver’s into consideration when communicating.
* Communicating at the right time i.e. a time when the people are ready to receive the message.
* Using the right address when sending the information/message e.g. checking the telephone number before calling, post office box number before sending a letter.

**Importance of effective communication in business**

* Enables the entrepreneur to implement his/her policies in the business by giving instructions to the workers/ subordinates and their supervisors.
* It helps the entrepreneur to constantly pass on relevant information to his/ her workers, customers, government and the general public
* It helps an entrepreneur to recruit and employees for his/her business i.e. All procedures for recruitment such as job advertising vacancies, interview, induction/ orientation etc. depends on effective communication.
* It helps an entrepreneur to make decisions from an informed position
* It helps an entrepreneur to negotiate with customers so as to get the best bargain in his dealings
* It enables entrepreneurs to maintain good relationships with old customers and attracting new ones. This improves the image and reputation of the business.
* It helps the entrepreneur to coordinate the operations of his/her business that are done by the different departments in the business.
* It enables the government and other regulatory authorities to monitor, guide and direct business operations .This enables the enterprise to operate to the set regulations
* It enables business men to out compete their competitors. This is because entrepreneurs get know what exactly is done by the competitor’s so as to come up with better methods of competing favorably.
* It facilitates the use of business documents, through effective communication, business documents such as purchase order, invoice, and inquiry letters can be put to use.
* It acts as evidence of a contract between the enterprise and the workers or clients. This is written communication e.g. giving appointment letters to workers.
* It helps the entrepreneur in market research, through effective communication; researchers collect data by using various methods such as interviewing, questionnaire etc. which help the entrepreneur to know the feelings/opinions of its customers.
* It promotes price stabilization; through effective communication goods can be transported from areas of plenty to areas of scarcity to stabilize prices.

**Communication process**

This refers to the various steps through which the message moves from the sender to the receiver.

It involves a sender, message, encoding, medium/ channel, receiver, decoding and feedback.

**It is illustrated as below;**

Sender Message Encoding Medium

Feed back Decoding Receiver

* **The send,** this is the source of the message, he/she generates an idea or thought and initiates communication.
* **Message**, this is the information, idea, thought etc. that the sender wants to send to the receiver.
* **Encoding,** this is when the sender critically analyses the impact of the message to be communicated
* **Medium/ channel,** this is the method of transmission of a message from the sender to the receiver. It involves oral communication, written communication, gestures etc.
* **Receiver**, this is a person who receives a message from a sender i.e. the person to whom the message is intended.
* **Decoding**, this is the process by which the receiver analyses and interprets the message received in order to get meaning out of it.
* **Feed back**, this refers to the reaction on the sender’s message. This can be through nodding the head, spoken acknowledgement etc.

**Communication flow**

Communication flows in different directions depending on the person who is sending the message. It can be down ward communication, upward communication or horizontal/ diagonal communication.

* **Down ward communication,** this is when the message flows from top to bottom i.e. from managers down to junior workers.
* **Upward communication,** this is when the message flows from bottom to top i.e. from the subordinates/junior workers to the supervisors.
* **Horizontal/ diagonal communication,** this takes place between different functional departments of the organization.

Managing directors

General Manager

Production manager marketing manager finance manager

Casual workers

**Down ward communication**

This is when the message flows from top management to lower level workers (top to bottom) i.e. from managers down to junior workers.

**Forms of down ward communication**

* **Company periodicals**, these are used to pass on information about the company, company products, company policies etc through company publications.
* **Meetings,** these are used to convey information by top management to subordinates
* **Posters and notice boards**, here the information is communicated through posters and notices. It’s usually common for short messages addressed to many people where sending it to each one of them may be tiresome.
* **Letters**, these are used when top management wants to present special information to employees through direct contact incase the information is confidential
* **Annual reports**, these give a summary of the performance and the position of the organization in a given period of time. It’s intended to let stake holders know the performance of the organization.
* **Employee hand books and pamphlets,** these are used to provide information to those within the organization or out of the organization for a given period of time.

**Up ward communication**

This is where the information flows from the subordinates to the top management.

**Forms of up ward communication**

* **Meetings,** through meetings lower level employees/subordinates tend to inform top administrators about company issues.
* **Suggestion box**, this is a channel through which the top management is able to get the suggestions, ideas and complaints from the subordinates. Usually a suggestion box is placed in a place that is easily accessible by the employees.
* **An open door policy**, in this case the manager invites the employees to discuss problems about the company with him/her freely. In this case the manager makes him/her self accessible by the employees.
* **Counseling**, here counseling is used to subordinates who fear their superiors. Such subordinates may channel their problems through a counselor who passes it to the top administration.
* **Labour union**, this involves the leaders of the workers’ associations conveying the problems of the employees to the top management for the action to be undertaken.

**Forms/methods of communication**

These are the media/ channels/ways through which one can communicate his/her message. They include;

* **Oral communication**, this involves communicating by using the word of mouth either face to face, telephone or radio.

This is a good method of communication because the response is got immediately. This is the most commonly used form of communication in business between entrepreneurs and customers, workers, suppliers etc. it’s also used during negotiations, interviews, meetings,workshops etc.

* **Audio communication,** this is a form of communication in which the message to be conveyed to the recipients is recorded in form of a sound e.g. radio
* **Visual communication**, this involves presenting the information through diagrams, pictures, charts, and graphs. It is used to show business performance e.g. profitability, productivity etc.

**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.

**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.

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.

**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.

**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.

* **Audio visual,** it involves communicating by means of recorded slides e.g. television, video etc
* **Body language communication**, this involves the use of signs between individuals without speaking. it involves communication by using body movements such as signs or gestures, facial expressions, eye movements, nodding etc. This is common among the deaf.
* **Written communication**, this is where one sends a written message to the receiver. It involves writing letters, notices, minutes, circulars, memos, reports, bulletins, etc

**Forms of written communication/writing skills**

**BUSINESS LETTERS**

These are written communications from one organization to another or from one individual to another.

A business letter should be clear, topical, brief, complete and should be able to promote the image of the business.

**Elements/ features/components/contents of a business letter**

* Name and address of the enterprise.
* Date
* Reference,
* Inside address.
* salutation i.e. dears sir or madam
* Subject line i.e. stating the reason for writing the letter.
* Body of the letter.
* Complementary clause.
* Enclosure i.e. ENC.
* Carbon copy ie CC

**Example**

You are the procurement manager of a large scale restaurant in your nearby town.

(a) Write a letter to your supplier of eggs complaining about the quality of eggs that were supplied.

MUKONO HIGH WAY RESTAURANT

P o box 120 Mukono

Tel: 0774101010

Date: 15/ 06/2015

The sales manager

Katosi poultry farm

P.*obox* 1983 mukono

Dear sir/madam

RE**: POOR QUALITY EGGS SUPPLIED:**

The purpose of writing this letter is to inform you that it has come to our notice that the quality of the eggs you normally supply to us deviate from the sample that you gave us. We beg you to comply the terms and conditions of our contract otherwise we shall contract another supplier. Thanks.

Yours faithfully

………………………

OKOT DAN

Procurement manager

**Appointment letter**

This is a letter that is issued to the employee by the employer indicating that a job has been offered to him or her. The appointment letter may include the following; name and address of the business, date, reference, inside address, salutation, subject line, body which should include the post/job title, date of appointment, appointing authority, date of commencement of duty, terms of employment, salary and other benefits etc, complementary clause

**Example**

You are the manager of a large scale restaurant in your nearby town.

Write an appointment letter to the newly recruited accountant

MUKONO HIGH WAY RESTAURANT

P o box 120 Mukono

Tel: 0774101010

Date: 15/ 06/2016

Your ref……………

Our ref MHR/WH/15/06/16

Madam, Wafera Helen

P o box 7019 KAMPALA

Dear MADAM

**RE: APPOINTMENT FOR THE POST OF ACCOUNTANT:**

Following the interview you had with us on 10/06/2016.am glad to inform you that you were successful and therefore you are hereby appointed as an accountant of Mukono high way restaurant effective 15/06/2016.

The details of the job are as below;

Your net pay after all deductions will be shs 600,000 (six hundred thousand shillings only). Other benefits such as transport allowance, housing allowance, medical allowance and training opportunities are also attached

Please if you are satisfied with the terms and conditions of this job and you are willing to start work, append your signature and return a copy to the human resource manager not later than 25/06/2016.yours faithfully

Signature………………..

Name …………………….

Title………………………

CC- human resource manager

CC-financial manager

CC-board of directors

**Termination letter**

This is a letter that is issued by the employer to the employee indicating the end of contract between the two parties. A termination letter should include the following, name and address of the business, date, reference, inside address, salutation, subject line, body which includes; appreciation for the good service initially rendered, reason for the end of service, benefits to the affected employee, complementary clause and carbon copy

**Example**

You are the manager of a large scale restaurant in your nearby town.

Write a termination letter to your accountant who has become inefficient.

MUKONO HIGH WAY RESTAURANT

P o box 120 Mukono

Tel: 0774101010

Date: 15/ 08/2017

Your ref……………

Our ref MHR/WH/15/08/17

Madam, Wafera Helen

P o box 7019 KAMPALA

Dear MADAM

RE: **termination letter :**

I would like to extend my appreciation to you for the good services you have been rendering to Mukono high way restaurant since 15/06/2016.however due to the inefficiency you have exhibited in relation to your duties for the past four months and failure to adjust regard less of the many warning letters given to you, your services with us are hereby terminated effective 15/08/2017.

The termination package of one million two hundred thousand shillings (shs 1,200,000) has been prepared there fore pass by the cashier’s office and pick your cheque

Yours faithfully

Signature………………….

Name……………………….

Title……………………….

CC-cashier

CC-board of directors

CC-Chief security

Other letters

* Acceptance letter
* Appreciation letter

**MEMOS**

A memo is a written communication from one office to another with in the same business. It’s mainly used for internal communication.

**Features of a memo**

* Name and address of the business.
* Document identity i.e. MEMO.
* From i.e. position of the writer/ source of the message.
* Date of writing i.e. it should be a current date.
* Subject line i.e. reason for writing.
* Body i.e. details of the reason for writing.
* Name and signature of the writer.
* enclosure(ENC)
* carbon copy

**Example**

(1) Assuming you the examination officer of springs high school, write a memo to the store keeper requesting him for reams of paper.

SPRINGS HIGH SCHOOL-MATUGGA

PO BOX 128 MATUGGA

TEL: 0774702034

MEMO

Date: 15/06/2015

From: Examinations officer.

To: Store keeper.

Dear sir/ madam

RE**: REAMS OF PAPER:**

I here by request you for five reams of photo copying paper for the purpose of printing end of term exams. Thanks.

Yours faithfully

………………………….

Attu Ann

Examinations officer

You are the head teacher of OLAM and you have received a message of an entrepreneurship seminar.

(a) Write a memo to the director of studies informing him about the seminar.

**NOTICES**

These are written documents intended to send short message to the concerned parties.

Features of a notice

* Name and address of the business.
* Date of writing the notice.
* purpose of writing
* Target group i.e. addressed to body of the notice.

**Example**

Assuming you are the head teacher of OLAM, write a notice informing you staff members about the end of term one meeting.

SPRINGS HIGH SCHOOL P. O BOX 128 MATUGGA

TEL: 0775586879

**NOTICE**

Date: 20/06/2015

To: all staff members

RE: END OF TERM ONE STAFF MEETING

This serves to inform you that the end of term one staff meeting is scheduled to take place on Thursday 13th /08/2015 starting at exactly 11:00am. The issues to discuss are very vital endeavor to attend without fail.

Yours faithfully

…………………….

Ocelot Keith

Head teacher

**CIRCULAR**

It is a form of written communication used by an enterprise to give the same kind of information to many people at the same time e.g. school circulars, ministry of education and sports circulars etc.

Features of a circular

* Name and address of the business
* Circular number
* Date of writing a circular
* Target group
* Subject line
* The body of the circular
* Complementary clause

**Example**

Write a circular for end of term two 2015.

SPRINGS HIGH SCHOOL

P O BOX 128 MATUGGA

TEL: 0776265347

**CIRCULAR**

Date: 12/08/2015

Circular number024

To: our dear parents /guardians.

From: OLAM

RE: end of term two circular.

Greetings from OLAM

**End of term:**

To day we have come to the end of term two 2015 and term three begins on 22/09 /2015.

**Report cards**

Our students have been released with their report cards. You are requested to look at the performance of your son or daughter and advise accordingly.

**Development**

This term we have managed to roof our storage building and we launched it, it’s now in operation.

Yours faithfully

……………………..

Okello Keith

**Techniques of communicating with customers**

**(1) How to present a product**, the entrepreneur should consider the following when presenting a product to the customers;

* Identifying the needs of the target market/customers.
* Estimating customers’ ability to use the product.
* Giving out samples and guarantees etc to back up the product
* Using relevant presentation aids such as charts, photographs, catalogues etc. to back up the product.
* Handling any objections of the customers tactfully
* Giving chance to the potential customers to give their personal opinions regarding the product being presented
* Providing correct information about a product being presented to the potential customers

**(2)How to bargain with customers**,

* Being good at communicating when bargaining to convince customers to pay a higher price
* Offering after sales services such as price reductions, discounts, delivery services etc to customers to encourage them to buy the product
* Trying to convince customers why the product is being sold at that price.
* Avoiding dominating the bargaining process by allowing the customer to give his/her views during the bargaining process

**(3)How to give personal attention to customers**

* Understanding the needs of the customers in order to provide the products that can satisfy their needs
* Being willing and able to serve customers at all times
* Charging prices that are affordable by customers
* Ensuring that the right products are availed to customers at the right places at the right time

(**4**)**How to** f**ollow up orders from suppliers**, an entrepreneur should;

* Always be in contact with the suppliers to ensure that supplies are received in time
* In case of delays, an entrepreneur can send polite remainder letters to the suppliers, make telephone calls, send an E-mail or physically visit him.

**(6)How to collect over due accounts**, incase credit is granted customers and the credit period has expired the following should be done;

* Identifying all the debtors for a given period from the books of accounts
* Arranging the debtors according to the credit period and assigning responsible persons to each of them to help in the collection of funds from the debtors
* **Preparing** and dispatching polite debt reminders to the debtors suggesting the date for clearing the debts
* Collecting payments from debtors and up dating their records
* Issuing statements of account to each customer
* Sending the last/strong reminders to the debtors
* Publishing a list of shame/list of defaulters and giving them the final date of clearing the out standing balances
* Taking legal action against debtors who have failed to settle their debt as agreed

Debt/credit recovery programme for a business

Business name and address

P O BOX…… ………………

Tel:....................

**CREDIT/DEBT RECOVERY PROGRAMME**

|  |  |  |  |
| --- | --- | --- | --- |
| Date/time frame | Activity | Person in charge | Remarks |
|  | * Identifying all debtors for a given period * Arranging the debtors according to the credit periods and assign responsible persons to each of the to help in collection of debts * Preparing and sending debt reminders to the debtors * Collecting payments from debtors and updating their records * Issuing statements of account to each debtor * Sending the last reminder to the debtors * Publishing a list of defaulters * Taking legal action on the defaulters |  |  |

Prepared by

Signature……………….

Name……………………

Title……………………..

Approved by

Signature………………..

Name……………………

Title………………………

**(7)How to handling difficult customers**

An entrepreneur should handle difficult customers in the following ways;

* Acknowledging and evaluating customer objections fairly to establish whether they are genuine or not before an action is taken
* Apologizing to the customer verbally or in writing depending on the magnitude of the complaints
* Letting the customer open up so that you can understand the basis for his/her being difficult
* Listening carefully to the words being used and the feelings being expressed difficult so that an appropriate action can be taken
* Buying time by suggesting to a customer to come back later in case one does not have an immediate solution/answer.
* Maintaining his argument until the customer is convinced.
* Compensating customers incase the previous purchase had a problem. This can be done by refunding or replacing the product(s).
* Instituting a customer care desk and employing a well trained worker to handle the complaints of the customers
* Calling the security personnel to help in handling the difficult customer when he/she becomes violent

**Developing entrepreneurial listening skills**

**Listening** refers to paying attention to what is being said by some body. The following suggestions can improve ones listening skills;

* Avoiding anticipating what the other person is going to say before saying it.
* Sending signals to the person communicating through the eyes and body gestures so that he/she gets to know that you are attentive.
* Improving ones concentration i.e. paying attention to only one thing at time. This helps to enhance ones listening skills.
* Avoiding forming a reply before you learn what the other person has to say.
* Avoiding being defensive about ones point of view.

**Benefits of listening**

* + It draws customers to the entrepreneur since customers feel that they will be listed to incase of any problem.
  + Entrepreneurs who listen are able to develop long term relation ships with customers hence leading to repeated buying.
  + It enables entrepreneurs to manage conflicts more effectively through using all possibilities to reach a solution.
  + It enables the entrepreneur to increase productivity and to see opportunities for growth.

**Factors considered when choosing a medium of communication.**

* **Cost of the medium,** usually a less costly channel is more preferred to an expensive channel.
* **Speed and urgency of the medium**, if some thing needs to be communicated immediately/ quickly, telephone or face to face communications are better.
* **Need to record the message**, in case there is need to record the message for future purpose, written communication is better.
* **Distance between the sender and the intended receiver**, some media are suitable for long distance communication e.g. telephone while others are good for short distance communication e.g. face to face communication.
* **Reliability of the channel,** an entrepreneur chooses which makes the message reach the intended receivers at the right time, place and in the right form.
* **Need for confidentiality**, if the message is confidential, then written communication is better than oral or telephone communication.
* **Availability of the medium of communication**, entrepreneurs usually choose a medium which is readily available.
* **Nature of the message being sent,** incase a manager/ entrepreneur wants to make a comment to a worker about work not done, he can use face to face or a letter.
* **Direction of the communication,** some channels are suitable when communicating to juniors e.g. posters, circulars, notice etc. while others are suitable when communicating to seniors e.g. face to face or letter writing.
* **Accuracy of the channel,** an entrepreneur should choose a channel which is accurate or exact e.g. face to face/ oral method.

**NEGOTIATIONS**

This refers to the process of bargaining that takes place between two or more parties before an agreement / contract.

**Or**

The process of bargaining that precedes an agreement.

When negotiation is successful; it results into an agreement / contract between the negotiating parties.

It describes any communication process between individuals with the intention of reaching an agreement to the satisfaction of all the parties involved.

Negotiation requires adequate preparation, knowledge, negotiating techniques and experience. The parties entering negotiation should be with a positive attitude rather than a competitive one.

**Basic concepts of negotiation**

* **Preventing “zero sum perception**” (**winner takes it all perception),** negotiation aims at producing a positive sum situation i.e. Reaching a compromise/agreement in which all parties involved benefit
* “**Homes theorem**, this implies that different items are evaluated differently by different parties. These evaluations can under go a change by using negotiation devices such as inducements, offering alternatives etc
* **Toughness/softness,** this means holding out or giving in. Each party has to decide when to hold out or give in

**Nature of negotiation**

* **Negotiation is a balanced process** i.e. all parties involved in the negotiation are on an equal level in terms of information, facts and approach and hence either party can go soft or tough
* **Negotiation is not finite**; there is no determined8 winning strategy especially when the elements of the situation are not known
* **Parties involved tend to anticipate/expect and react during the process of negotiation**. This means that different behavior can be exhibited in different situations and therefore successful negotiators have to be accommodating

**Principles of negotiation**

These are the rules and regulations that help negotiating parties to resolve their disputes and negotiate like a professional regardless of what they are negotiating about. They include;

* **You do not have to be right to settle**, this principle emphasizes that the negotiator does not have to be right to settle the issue under consideration. When one has a feeling that he/she is right, it becomes difficult for him/her to adjust/compromise/accommodate the other party hence failure to resolve the situation.
* **Look to the future**, there is no need of focusing on what happened in the past. Each party should focus on what is currently required to resolve the issue under negotiation instead of blaming each other. One party should ask the other party what they want so as to resolve the dispute.
* **Focus the goal**, in this case the parties involved in negotiation need to focus on the target/goal and avoid being destructed by personal such as anger, anxiety which can make a party lose temper during the process. Even when the other party is rude, insulting and horrible, ignore these issues and focus on resolving the disputes i.e. even when the other party provokes you.
* **Set the tone and look the part**, a negotiating party should create an environment that can enable him/her to achieve the objectives of the negotiation e.g. proper dressing code, having the required tools such as note book, maintaining the eye contact, being a good listener, showing knowledge of the issue to be discussed, being fair/honest to the other party.
* **Be prepared and do your research**. The party to the negotiation should carry out research and get adequately prepared for it List your arguments on how you will make your request and the rationale behind each request you make. Have a good estimate of costs so as to avoid being embarrassed when someone asks questions about the accuracy of your figure and you cannot explain well.

Adequate preparation and research also helps one to avoid making an agreement that can be regretted later

* **Know what you want and what the other side wants,** each party to the negotiation should have a detailed plan of what he/she wants and what he/she is willing to sacrifice in order to get what you want. One should avoid starting negotiation when he/she does not know what he/she wants from the negotiation process. More so one should know what the other party wants so that he/she prepares how to react in order to reach a compromise.
* **Always have a plan B**, this principle requires a negotiating party to have an alternative plan/ backup plan or strategy in case the first option fails. The alternative plan should help all the parties to reach a compromise.

**KEYS TO SUCCESSFUL NEGOTIATION**

* The outcomes of the negotiation should be a win – win for both parties.
* Both parties should feel satisfied with the results.
* Do not become emotional during the negotiation process.
* Focus on resolving disputes / problems
* Use the negotiation style of the other party to achieve positive outcomes.
* Be flexible in your demands and not static
* Be prepared to compromise i.e. do not expect all your demands to be met.
* Be a good listener and ask relevant questions. You should know that you cannot learn anything when you are talking.

**CHALLENGES IN NEGOTIATION**

In the course of the negotiation certain things may occur which are challenging. Anticipating challenges and developing strategies to deal with them helps one to handle them effectively. They include;

* **Time pressure**, one party may see that he / she does not have time and asks you to say your last word / tell him your last position on the issue e.g. just give me your best time – in case you are negotiating a price for a product.
* **Another decision maker**, in the process of negotiating you may discover that you are not talking to a final decision maker. The negotiator disappears several times from the room to go and ask for concession. Such a person normally says the boss will not agree to that.
* **Delay tactics**, this is normally used by senior people / negotiations against junior people. He / she gives you an appointment for a meeting and makes excuses as time, draws near or he /she keeps you waiting for a long time with an intention of making nervous and agreeing to what they want.
* **Last minute wavering**, when the negotiation is about to come to an end, the other party may ask for another concession.
* **An early concession**, some negotiation starts with an early concession and then waits for you to agree. In this case chances of agreeing are high in order to build a good relationship.
* **Aggressive behavior**, some negotiators use bullying, be lifting remarks etc. with a view of making the other party feel guilty / inferior and therefore compel them to agree.
* **Price only negotiation**, some negotiators take price to be the most important element of the negotiator thereby making it hard to reach a concession. This is because price is not the only important factor in the negotiation.
* **Letting positions over ride interests**, some negotiations tend to champion their positions of the expense of reconciling deeper interest of the issue.
* **Neglecting the other party’s problems**, negotiating effectively requires that you understand what you want and what you do not want, making an agreement requires understanding and addressing the other party’s problems.
* **Linking logic**, this challenge is based on the assumption that when one person is correct in one thing, he / she is correct in another.

**WAYS OF OVERCOMING NEGOTIATION CHALLENGES**

The strategies for handling negotiation challenges include:-

* If the workload is increasing, look for tasks to eliminate, review work you would handle yourself, review way to combine similar jobs or consider the use of temporary or part –time help.
* If the workload is declining, work on improving efficiency, do housekeeping that has been postponed or start projects that could generate new work**.**
* If there are problems of turnover, help new employees identify with their group, try to develop stable work groups with which members can identify or review status implications in jobs.
* If there is a group of employees who are controlling production, remove misunderstandings if there are any, find out if it is to the group’s advantage to slow down or find out and deal with the real problem.
* If employees are dissatisfied with their pay, review benchmark jobs i.e. compare with similar jobs in other enterprises, compare with comparable jobs in the area, adjust assignments or communicate on the broad pay issue.
* If workers are spending too much time on ant one job, review management’s objectives and standards for this job, clarify the degree of perfection needed and why, ask the group for ideas on cost reduction and work simplification, set specific targets and follow up on them or reassure the group members on the quality of their work.
* If you go over the budget, identify the resources of increased cost or expense, ask for suggestions on cost reduction and waste control, get explanations of increased cost or review the results expected from this activity.

**Steps of preparing for negotiation**

A good negotiation requires advance preparation, understanding the need to be satisfied by both parties, basic knowledge of human behavior, negotiating techniques and strategies. The preparation involves the following steps;

* Doing your home work about the other side.
* Analyzing your own side’s needs to find out the objectives of the negotiation.
* Deciding whether to use an individual or a team as your representative this depends on what the other side is doing.
* Choosing a chief negotiator, this person should have experience and training in negotiations and strong background area of the problem to be negotiated.
* Selecting the meeting sites, whether to have negotiations on the business premises or to have a neutral negotiation site. Whatever site chosen, it should be large enough to accommodate all parties and should have a telephone, comfortable seats, visual aids and refreshment.

**Personal attributes of good negotiators**

A good negotiatior should show the following characteristics / qualities;

* **Integrity**, a negotiator should be honest so as to build trust and cooperation which is important in creating free and open exchange of ideas.
* **Empathy**, a negotiator should be able to understand the other party’s point of view. This can be used to one’s advantage during the negotiation.
* **Patience**, endurance to the prevailing state of affairs. It makes a person able to accommodate another party’s views during the negotiation.
* **Self assurance,** this means confident belief in one’s own abilities and powers or certainty about something.
* **Self confidence**, belief in one’s abilities helps a negotiator to be successful in the negotiation process.
* **Having stamina**, ability to achieve much physical and mental strain or having long lasting energy helps a negotiator not to give up easily on the issue under consideration.
* **Ingenuity**, cleverness and originality in finding new or simple solutions for complex problems.
* **Tenacity**, ability to keep a firm hold on principles enables a negotiator to succeed in negotiations.

**Negotiation skills**

* Being clear in your communication
* Sticking to the objectives and avoiding personalizing situations.
* Controlling your emotions i.e. avoiding losing temper in the process.

**Negotiation tactics with customers**

For a business to be successful it should not only communicate with customers for special sales but it should maintain a good relationship with them by using the following strategies;

* **Communicating to them frequently**, this can be done through face to face, telephone call, direct mail, e – mail etc. the messages you send to them should also vary.
* Offering customer rewards / gifts / prizes, where possible offer rewards that will keep reminding the customer of your business and products it offers.
* **Holding special events**, this involves sponsoring events especially those that will allow you and your staff to interact with your customers. Choose a venue that is appropriate for your customers and business.
* **Promoting two – way communication during negotiations with customers,** in order to build customer relations, “listening” to customers is as good as “telling” them. Encourage feed back through appropriate means such as carrying out a customer survey.
* **Improving your customer service**, this is done by having a dedicated staff to handle customer complaints quickly and effectively. This adds value to the business and enables it to have a competitive advantage over the competitors.
* **Launching multicultural programmes**, this involves a multi lingual component to your marketing program e.g. translating adverts in local languages, using ethnic print and broad cast media to reach various markets.
* **Visiting customers**, this involves moving to customers’ location to find out their problems and how you can help them. It helps in building relationship with your customers.

**Negotiating with employees**

Below are the rules of negotiating with business workers;

* **Balance your strengths and weaknesses**; know what you want to tell your employee. Using a direct approach is better / effective.
* **Listen actively to what your worker has to say**. In case of a problem a solution can be found through hearing what some one is saying and reading between lines.
* **In case of salary increases you should have a fallback position** i.e. you should know the limits you are willing to offer.
* **Make concessions together**, both parties should feel that they are getting something from the negotiation. One party should not feel that he / she has to win and another loses.
* **In case a worker asks for a salary increase**, you may find that there is a performance – related expectations tied to it – emphasizes it.

**SALARY NEGOTIATION TACTICS WITH EMPLOYEES**

In order to have successful salary negotiations with your employee the following needs to be put into consideration;

* **Setting a ceiling:-** This is concerned with establishing how much you can spend on salaries as this helps the employer not to waste time on employees who are too expensive.
* **Setting a floor:**- This is concerned with establishing the last amount you will pay out. This is often the ruling market rate.
* **Deciding how to make payments:**- In this case an entrepreneur makes decision on how to pay the workers that is to say either piece rate or fixed rate or other means by considering the implications of each.
* **Making the salary attractive:**- The entrepreneur should ensure that his offer is attractive so as to attract good and talented employees. This can be done by giving fringe benefits to workers.
* **Avoiding legal tussles:**- the entrepreneur needs to first familiarize himself with the labour laws in place so as to avoid contradicting with them when it comes to minimum wage payments to employees and other requirements.
* **Being sensitive:**- This involves keeping employees personal needs in mind before offering a compensation package.

**BASIC RULES FOR NEGOTIATING WITH EMPLOYEES**

* Balance both strength and weaknesses. So know the gist of what you want to get across to your employee.
* Listen actively to what your employee has to say. Offer if there is a problem, the solution can be found through hearing what someone is saying and reading between the lines.
* When it comes to salary increase, have a fallback position. Know that the employee may want more than you initially offer and so you have to know whether the issue is flexible and the limits you are willing to accept.
* Make concessions together- if an employee asks for a larger increase, perhaps there can be a performance related expectation tied to it. Do not fell you have to win or they have to lose.

**Strategies to successful negotiations**

* Negotiating outcomes should be a win-win for both parties.
* Both parties should feel satisfied with the results.
* Not becoming emotional.
* Focusing on solving problems.
* Using the negotiation style of other party to achieve positive outcomes.
* Being flexible in one's demands.
* Compromising . one should not expect all of his /her demands to be met.
* Asking good questions and being a good listener. One cannot learn anything when talking.

**RISK TAKING IN BUSINESS**

A risk is a possibility of an un desirable event occurring to a business in future.

**Or**

A possibility of suffering harm, loss or danger

Any factor (s) that may have a negative impact on the success / profitability of a business.

A business risk may originate from internal issues within the business or from external factors that a business may have no or little control over.

**RISK SITUATION**

A risk situation occurs when one is required to make a choice between two or more alternatives whose potential results / outcomes are unknown (predictable).

A risk situation involves potential success and potential loss. The greater the possible loss or gain, the greater the risk involved.

**Types of risks**

Risks are classified as;

**Low / minimal risks**

These are risks which have minimum negative effects on the business when they occur. Business with low risks normally called low returns / profits. This discourages potential entrepreneurs from investigating resources in such businesses due to fear of failure / loss or low profits.

**Moderate / medium risks**

These are risks that can be forecasted / predicted/ calculated and managed by an entrepreneur. The possibility occurrence can be controlled e.g. robbery, theft, burglary, machine damage etc. these can be anticipated and managed by taking necessary precautions or seeking necessary insurance policy corners. Potential entrepreneurs are accused to undertake businesses with moderate risks. There are higher chances of managing and ensuring that such risks do not take place to affect the entrepreneurs business.

**High risks**

These are risks whose possibility / chances of happening are very high and yet the entrepreneur has very little or no control over them.

When such risks occur to the business, they cause serious damage to the business and the chances of recovering the resources invested in that business are very low.

**Common risks faced by businesses in Uganda**

* Risk of failure to produce due to shortage of R/ms, power, fuel and other factor inputs.
* Risk of losing market due to changes in customers’ tastes and preferences
* Risk of getting out of business due to changes in technology i.e. change in technology may have your business behind and therefore unable to complete favorably.
* Risks of financial losses due to embezzlement or misuse of business funds by workers / entrepreneurs.
* Fire outbreak.
* Theft and burglary.
* Natural risks such as sickness, floods, earth quake, death of workers, drought etc.
* Losing property/assets through various ways such as compensation in courts of law, banks due to failure to repay a loan.
* Risks of commodities of the business perishing or going back.
* Accidents mush cause material and financial losses to the business.
* Risks of strikes occurring in the business due to poor industrial relations / poor welfare. This leads to destruction of business property.
* Faulty management decisions as regards the use of capital and other factor inputs which may affect the running of the business hence leading to financial losses.
* Pollution of water, air and noise which have negative effects to workers.

**ASSESSING A RISK SITUATION**

This involves the systematic assessment of the potential success of the business and the extent to which the entrepreneur can influence this success.

Risks are assessed basing on the following factors;

* **Experience and abilities,** if the person involved in promoting and managing the business has the required knowledge, experience and technical abilities, the risks are likely to be low and the reverse is true.
* **Availability of market,** whether the people in the area are willing and to buy the products of the business.
* **Viability of the idea**, whether the selected business idea will be profitably undertaken in the area given the available resources e.g. skilled labour.
* **Pricing policies,** whether the proposed price for the product will be competitive in the market given the prevailing competition in the market.
* **Honesty and reliability,** whether the people whom the business is dealing with are honest and reliable e.g. workers, suppliers, customers etc.
* **Flexibility of the business**, whether the selected business can be changed easily without having any disastrous effects on the resources invested.
* **Cash flow**, one should establish whether the business will generate enough cash inflow to finance the planned expenditures (cash outflow) and if not one should determine whether the business will be able to raise cash from other sources to fill the gap and the implications it will have on the business.

**Procedures for analyzing a risk situation**

The procedure for analyzing a risk situation involves following steps;

* **Assessing / analyzing the risk**, this is when one determines / establishes whether or not a risk is invested in a particular / selected alternative. This involves determining whether there is a potential loss involved in selecting a particular alternative.
* **Determining goals and objectives**, a company objective might be to achieve, increase growth therefore it involves assessing whether the risks taken are in line with the objectives.
* **Clarifying the alternative**, this involves surveying the various alternatives which should be assessed and determine the cost involved in each alternative.
* **Gathering information and weighing alternatives**, this step involves making intensive information gathering in order to achieve a realistic assessment of alternatives.
* **Minimizing the risks**, this involves a realistic assessment of the extent to which the entrepreneur can reduce the risks.
* **Planning and implementing the best alternative**, after selecting an alternative, a plan has to be made for its implementation.

**Types of risk takers**

**Low risk takers**, these are needed in the business to do the routine activities.

**Moderate risk takers**, these are the managers at the middle management and they are risk takers because they are needed to be innovative and make rumor improvements in the business organization.

**High risk takers**, these are the creative and innovative entrepreneurs who are willing to accept shape and try different alternatives so as to come up with innovations for products.

**MANAGING RISKS IN BUSINESS**

There are two methods of managing risks in business namely;

1. **Shifting the risk**, this is when the burden of carrying a risk is shifted to an insurance company by getting suitable insurance policy callers.
2. **Minimizing the risks**, this is done in order to reduce on the chances of the risks occurring to the business. It is done in the following ways;

* **By employing experienced personnel**, this helps to reduce on the production cost and to help in the management of risks. This will reduce on the problem of faulty management decisions regarding the use of capital, machines, R/Ms, wrong specifications, defective products etc.
* **By maintaining and upgrading production technology**, this helps to minimize the problem of changes in customers’ tastes and preferences. This ensures that the business products remain in line with customers’ tastes and preferences.
* **By installing firefighting equipment** e.g. fire extinguishers.
* **By maintaining adequate security of premises**, this can be done through hiring security guards, security lights, fencing etc, this will help to check on the risks of theft, burglary etc.
* **By paying workers** on time and providing the necessary fringe benefits.
* **By ensuring extensive training** of self and all staff on new technologies. This minimizes the risk of getting out of business due to changes in technology.
* **By spreading risks over various activities**, this is done so that when the risks occur they do not affect the whole business. This can be done by opening up various branches of the same business to reduce on the risk of financial loss occurring to one business.
* **By making / signing contracts with R/M suppliers**, this enables an entrepreneur to have a stable flow of R/Ms in order to ensure continuous productions.
* **By installing a proper book keeping system** in the enterprise. This helps the entrepreneur to minimize a risk of fraud.

**PERSONAL BRANDING**

**A brand** is a name by which a particular product, business or organization is known

**Branding** is the act of giving a name trade mark or symbol to the product, business or organization to distinguish it from others

In a business environment characterized by stiff competition i.e. where one person is just like another in terms of skills and experience, it’s the personal brand that differentiates them.

Examples of personal brands

* Omo
* Pepsi
* Toyota
* centenary
* fortune oil
* Samona
* etc

**Importance of developing a personal brand**

* A brand speaks for the business and builds reputation for the business among customers.
* it increases perceived value for the product that the entrepreneur produces/sells
* It positions the entrepreneur’s intended message in the minds of the target customers.
* A brand associates an entrepreneur with his/her product hence popularity of the business.
* A good brand helps an entrepreneur to compete with already established brands in the market as he/she builds a brand loyalty with the customer.
* It also attracts the right people and opportunities to business e.g. government support, investors etc.
* It increases business sales.
* It creates a sense of individuality and uniqueness.
* It helps in voicing out the promises of entrepreneur.
* It increases ones’ brand visibility.

**Guidelines in creating a personal brand**

* **Determining who you are,** a personal brand has a direct reflection on the person behind it, therefore, one’s personal brand originate from his/her identity and meaning.
* **Determining what you do**, this involves writing down one’s greatest area of professional interest i.e. the kind of work one wants to do in life to make him/her distinguished.
* **Positioning your self**, this involves identifying what to do to make your self different from the competitors. This is because the aim of a personal brand to be clear, easily understood, come out unique etc.
* **Managing your brand**, the major tool used to market a personal brand in the word of mouth marketing i.e. what people say about your brand is what the market will take. In this case friends, customers etc are very important in marketing a personal brand.

**Characteristics of a personal brand**

* It should be clear.
* It should be distinctive from other producers/competitors.
* It should be easily understood by the people.
* It should express a unique, compelling benefit that people believe in.

**Laws/principles of creating an effective/Lucrative personal brand**

Given the rate of competition in the business world, an individual has to be his/her own brand and he/she needs to understand the importance of branding. The laws below can help one to develop an effective and profitable personal brand;

* **Specialization**, an effective personal brand should be precise and concentrated on a single core strength, talent or achievement.
* **Leadership,** for a personal brand to be effective the entrepreneur/company must be with authority and credibility as perceived by people.
* **Personality**, for a personal brand to be effective it must be built on the personality of the source [person behind it].
* **Distinctiveness,** for a personal brand to be effective, it has to be expressed in away that is different from the competitors.
* **Visibility**, for a personal brand to be effective it must be seen for along time so that it can write itself on the minds of the people.
* **Unity,** the private person behind personal brand must conduct him/herself in away that reflects the public image of the brand.
* **Persistence,** any personal brand takes time to grow, one can speed up the process but he/she can not replace it with promotional tools such as advertising.
* **Good will**, a personal brand only produces positive returns and remains for along time on a market when the person behind it [source] is perceived in appositive way by people.

**Questions:**

1 (a) of what importance is personal branding to an entrepreneur?

(b) Why is it necessary to develop a personal brand in business?

(c ) what are the objectives of developing a personal brand?

**THE ENTREPRENEURIAL ENVIRONMENT**

**Entrepreneurial environment**, this refers to a combination of external factors and their organic integration which make an impact in the business start up process by the entrepreneur.

A conducive environment influences entrepreneurial success and development while an unfavorable environment discourages entrepreneurship development.

**Characteristics of the entrepreneurial environment**

The entrepreneurial environment is characterized by;

* **Resource scarcity**, the entrepreneurial environment is characterized by limited resources such as limited capital, labour, land etc. This hinders new firms from entering this environment or from being established.
* **Opportunity orientation**, the entrepreneurial environment is characterized by chances/ opportunities that individuals can take advantages of. Opportunity orientation is the ability of an individual to recognize and analyze market opportunities.
* **Uncertainty**, this refers to a possibility of unexpected occurrence or risk.

The entrepreneurial environment is full of unknown circumstances.

This implies that entrepreneurs have to demonstrate the ability to accommodate unexpected circumstances/situations.

* **Flexibility**, the entrepreneurial environment keeps on changing thus it presents diverse/different opportunities/ chances which may not remain open for long. There fore individuals must take up every opportunity as fast as possible.

**Types/forms/ Components of entrepreneurial environments**

* Economic environment.
* Social-cultural environment.
* Political environment.
* Global environment.
* Demographic environment.

**Economic environment**

This refers to the nature of economic system of a particular country/ society that directly affects the level of entrepreneurial development.

**Economic factors that influence entrepreneurial attitudes and opportunity identification**

* **Economics policy**, where government leaves the forces of demand and supply to control the distribution of resources in the country allows entrepreneurship development while where government restricts the distribution of resources the rate of entrepreneurship development is discouraged.
* **Administrative issues**, the level of legal requirements for starting up a business e.g. registration and licensing, taxes etc. either encourage or discourage entrepreneurial activities. Countries where the legal requirements are a few, the rate of entrepreneurial development is higher than where the requirements are many.
* **Level of infrastructural development**, availability of infrastructure and utilities such as roads, power, communication facilities and absence on corruption in obtaining such utilities encourages entrepreneurship development while absence of infrastructure discourages entrepreneurship development.
* **The financial system**, this includes banks, non bank intermediaries and securities markets. countries where accessing loans by potential entrepreneurs is easy, interest rates on loans are low etc, the level of entrepreneurial development is higher than where accessing loans is difficulty and interest rates are high.
* **Legal requirements**, clear and effective legal requirements that provide protection to entrepreneurs while doing business, encourages entrepreneurship development while inadequate protection to entrepreneurs by the legal frame work leads to lo entrepreneurship development.
* **Resources availability**, societies which are blessed/ endowed with resources such as raw materials, land, equipment, credit facilities/capital etc. encourages people to start up business ventures; however areas with limited resources limit entrepreneurial development.
* **Cost of business**, countries with low cost of land, transport, inflation rates, favorable interest rates, low taxes, low insurance premium etc. have higher levels of entrepreneurial development compared to countries with high cost of doing business.
* **Economic incentives**, economies/ countries where potential entrepreneurs are given economic support/ incentives such as tax holidays, industrial parks tax waivers etc., the levels of entrepreneurial development are higher than in countries where incentives are not provided**.**

**Economic factors that limit /hinder entrepreneurship development**

* Unfavorable economic policy
* Rigid administrative issues
* Unfavorable/rigid legal requirements
* Underdeveloped infrastructure
* Scarcity of resources
* High cost of business
* Limited economic incentives
* Under developed financial systems

**(b) Measures being taken by the government of Uganda to overcome the economic factors that prevent/limit the development of entrepreneurship;**

* Liberalizing the economy to give entrepreneurs freedom to undertake economic activities
* Setting favorable administrative rules e.g. shortening the registration process for businesses
* Developing infrastructure such as roads, co tommunication facilities etc to facilitate business activities hence promoting entrepreneurship development.
* Providing economic incentives like tax holidays, tax exemptions etc to reduce the cost of doing business by entrepreneurs
* Promoting the development of the financial system to enable entrepreneurs access credit facilities at favorable interest rates hence ensuring the development of entrepreneurship.
* Establishing laws that protect entrepreneurs to ensure that their business operations are successful
* Ensuring macro economic stability e.g. stabilizing interest rates, exchange rates, prices etc to create confidence and certainty among entrepreneurs.
* Increasing access to resources to the potential entrepreneurs who have the potential to exploit such resources.

**Social- cultural environment**

This refers to the social and cultural valves, attitudes and practices of a given society.

It involves the value attached to innovation risk taking, entrepreneurship/ business start, hard work, independence etc. and the criticism associated with failure and error.

**Social- cultural factors that influence entrepreneurial attitudes and opportunity identification**

* **Culture**, this refers to the customary practices and beliefs that people uphold. A society with a social system that places a high value on entrepreneurship will have a high rate of entrepreneurship development compared to the one which does not.
* **Social financial support**, availability of capital creates favorable conditions for the entrepreneurs but absence of capital discourages entrepreneurship development.**The availability of the capital depends on the culture of the society**. This is because the culture of the society influences whether excess capital is available to entrepreneurs or if established firms are given financial support.
* **Social identification**, this refers to how individuals relate to their surrounding environment or how a person sees herself or him self as an entrepreneur, as more appreciated or less appreciated. In an environment where people are proud about entrepreneurship as a career, the chances of success are higher than where people do not appreciate themselves as entrepreneurs.
* **Role models**, interacting with a successful entrepreneur influence one’s attitude towards entrepreneurship. Role models are individuals influencing an entrepreneur’s career choice or styles. Where people/ potential entrepreneurs come into contact with role models, they are inspired and motivated to be come entrepreneurs but absence of role models hinders entrepreneurial development.
* **Religion**, this shows how the values developed in religious beliefs and practices shape entrepreneurship. in some societies, people’ decisions to start business depends on their religion. a national religion that provides some kind of support for entrepreneurship encourages entrepreneurial development while a national religion which does not support entrepreneurship discourages entrepreneurship development.

**Political environment**

This consists of all laws, government agencies and lobbying groups that influence or restrict individuals or organizations in the society.

**Political factors that influence entrepreneurial intentions and opportunity identification.**

* **Political climate**, political stability encourages people to do business while political instability hinders entrepreneurship growth because it affects economic activities in the society.
* **Government policy**, government policies may have a negative or positive effect on establishing businesses in the countries. Policies which increase demand, grant, subsidies etc. to entrepreneurs increases the rate of entrepreneurship development while unfavorable policies such as absence of subsidies discourages entrepreneurship development.
* **Government expenditure**, incase government expenditure on a particular sector e.g. health, education or defense is high, entrepreneurs emerge to respond to the opportunity hence development of entrepreneurship, however, low government expenditure implies low entrepreneurial development.
* **Government institutions and departments**, where government institutions and departments are insensitive and access to them by entrepreneurs is limited, it discourages entrepreneurship development but where the departments realize the importance of entrepreneurship it will be encouraged.
* **Taxation**. High taxes discourage potential entrepreneurs while presence of tax incentives such as tax exemption, tax holidays etc. encourages entrepreneurship development.
* **Legal environment**, a country with weak laws which can not protect entrepreneurs the rate of entrepreneurship development is low/ discouraged while presence of strict and strong laws encourages entrepreneurship development.

**Political factors limiting entrepreneurial intentions and opportunity identification.**

* Political instability
* Unfavorable government policies
* Low government expenditure
* Insensitive/limited access to government departments
* High taxes
* Weak laws

**Global environment**

**Globalization** refers to the greater movement of people, goods, capital and idea due to increased economic integration which in turn is promoted by increased trade and investment. Globalization opens up access to the large potential market; factors of production e.g. raw materials, labour etc. however, such opportunities also carry many political, social and economic risks.

Globalization has positive and negative effects/implications/consequences. These are;

**Positive implications**

* Promotes labour mobility ie movement of workers from one area to another
* Leads to improvement in technology resulting from technology transfer
* Increases investment that eventually creates employment opportunities
* Promotes expansion of market for the produced goods and services due to opening up of the world trade
* Promotes development of advanced means of communication such as internet
* Leads to increased access to raw materials which facilitates the production of goods.

**Negative implications**

* Accelerates spread of diseases such as Ebola, AIDS, Nkumunye etc
* Leads to moral decay due to importation of pornographic materials and cultures
* Leads to foreign dominance especially of developing countries by developed countries
* Leads to capital flight especially in developing countries
* Promotes inequality between developing and developed countries
* Promotes brain drain especially from developing countries to developed countries e.g. exportation labour

**Factors in the global environment that influence entrepreneurial intentions**

* **Global finance**, globalization has brought in new opportunities to entrepreneurs in terms of international finance. Global finance presents opportunities in the areas of international payments systems, currency exchange rates and international finance bodies such as the World Bank, IMF etc. which encourage development of business/ entrepreneurship.
* **Global trade**, trade between or among countries provides opportunities to different individuals and industries as well as negative impact to other industries. Entrepreneurs there fore need to be alert of global changes so as to take advantage of those opportunities. This encourages entrepreneurship development.
* **Government global policy**, economies which are liberalized (such as Uganda) realize a high rate of business start up compared to countries which are not liberalized.
* **Democracy,** this refers to the freedom of individuals to start up their own business ventures and freedom of thought, speech and action. This supports innovation and creative recognition of/ identification of opportunities which encourages entrepreneurship development but absence of freedom limits entrepreneurship development.
* **Export policy**, a country with a good/ favorable export policy expands for entrepreneurs hence encouraging them to set up businesses to take advantage of the opportunity compared to the one with unfavorable export policies.
* **Import policy**, a conducive import policy helps entrepreneurs to get resources that are not available in the country at a reduced cost hence increasing profit levels. This encourages entrepreneurship.
* **Market openness**, this means freedom to sale products in the international market. This widens the market for the entrepreneurs’ products which encourages entrepreneurship development while dependence on only a local market narrows market for the products and discourages entrepreneurial development.

**Global factors that limit entrepreneurship development**

* Low level of democracy
* Decrease in global finance
* Decrease in global trade/limited global trade
* Unfavorable export policy
* Unfavorable import policy
* Unfavorable government global policy
* Market closeness

**Demographic environment**

This deals with variables such as family, population size and growth rate, gender marital status, age, education levels of individuals etc.

**Demographic factors that influence entrepreneurial attitudes and opportunities.**

* **Family back ground**, parents normally influence entrepreneurial career of their children because they act as role models. Therefore where individuals’ back ground is related to entrepreneurship e.g. having parents who are entrepreneurs, encourages entrepreneurship compared to unfavorable family back ground.
* **Population,** the rate at which the population is growing determines how great the business opportunities in a country emerge. a big population presents opportunities like a wide market and cheap labour which encourages entrepreneurial intentions and development. However, a small population size discourages entrepreneurial development.
* **Gender differences**, usually males tend to have a higher level of entrepreneurial interest than females. Therefore, males are more entrepreneurial than females.
* **Level of education and training**, a person’s ability to start and operate a business is influenced by his/her experience and level of education and training. Therefore, high levels of education and training implies higher levels of entrepreneurial development compared to low levels of training and development.
* **Income levels**, high levels of income among the people mean more investments and business hence leading to high entrepreneurship development. However, low levels of income discourage entrepreneurship development.
* **Age structure**, age plays an important role in decision making. The youth find it easy to start business especially singles. However, the old married people do not have high degree of entrepreneurial spirit
* **Family size**, people from large extended families face a lot of hardships, this forces them to start up business as away of survival hence more entrepreneurship development while people from small families rarely invest in business.

**Ways of improving the entrepreneurship environment**

* Improving the infrastructure to facilitate business activities
* Improving the political climate i.e. ensuring political stability through peace talks with pressure groups/rebel s to create a conducive environment for business operations
* Avoiding back ward cultural practices and beliefs which do not promote entrepreneurial development
* Recognizing mentors/role models especially those who have succeeded in business and learn from them
* Developing a positive saving culture to accumulate funds for undertaking business activities
* Lobbying for economic incentives from the government like tax holidays, tax exemptions free inputs etc in order to minimize the operation costs
* Acquiring loans from financial institutions that have favourable terms and conditions and using the borrowed funds to expand or start business ventures
* Observing all the legal requirements for operating the business ventures
* Recognizing market opportunities that are able to generate profits

**Organizations that support entrepreneurs in Uganda**

Uganda Manufacturers Association (UMA)

Uganda Revenue Authority (UIA)

Educate Uganda

Enterprise Uganda

Uganda Chamber Of Commerce

Capital Markets Authority (CMA)

Business Uganda Development and Enterprise Development Support

Private Sector Development Foundation

International Labour Organization (ILO)

National Agricultural Advisory Services (NAADS)

Uganda National Bureau of Standards (UNBS)

Uganda Tourism Board (UTB)

**Social responsibilities/contributions /role of a business**

* Creating employment opportunities, provision of jobs to different groups of people directly or indirectly which solves the problem of un employment
* Providing market, businesses provide market for the products produced in the community e.g. raw materials
* Provision of goods and services to the people in the community
* Training of the members of the community, businesses train community members to equip them with the required skills
* Reducing harmful effects on the environment through sensitizing people on how to conserve the environment
* Providing revenue to the government, businesses provide revenue to the government through paying taxes. This helps government to finance its expenditures
* Developing infrastructure, businesses promote the development of roads, communication facilities, railway lines etc to facilitate the business activities
* Supporting community development activities e.g. planting of trees, infrastructural development etc

**Questions:**

1(a) Distinguish between demographic environment and social- cultural environment.

(b) Explain the demographic factors that influence entrepreneurial attitudes and opportunities.

2(a) Describe the characteristics of the entrepreneurial environment.

(b) Examine the economic factors that influence entrepreneurial attitudes and opportunities.

3(a) what is a political environment?

(b)Explain the political factors that limit entrepreneurial development in your country.

(c) What measures should be taken to improve the entrepreneurship environment?

**Social entrepreneurship**

**Social entrepreneurship** refers to the creation of innovative enterprises mainly to make a positive and sustainable impact in society or on the environment. It provides solutions to social and environmental problems.

**Social problems/concerns** are those hardships/happenings that affect the society at large such as

* deforestation,
* pollution,
* poverty,
* unemployment,
* irresponsible waste disposal,
* disease such as HIV/AIDS,
* prostitution,
* street kids,
* domestic violence,
* school drop outs,
* moral decay,
* Natural hazards such as floods, landslides, famine etc.

**Objectives of social entrepreneurship**

* To improve the image of the local area, this can be done by creating a sustainable positive impact in the community.
* To improve the standard of living of the people in the community, this can be through creation of jobs, increasing access to health care by setting up health centers.
* To empower people in society to change their lives and be motivated especially the disadvantaged. This can be done through social and economic empowerment.
* To use local and regional resources in a creative and effective manner so as to improve on resource utilization in the community.
* To create wealth for the community or society, this is through generation of investment which brings economic development

**Social enterprises,** these are businesses/organizations established with a major aim/objective of solving problems/challenges in a given community. Or

These are innovative enterprises created to make a positive and sustainable impact on society

Social enterprises are not established to make profits but instead to eliminate social hardships.

**Types of social enterprises**

**Non-profit social enterprises**, these are enterprises that do not make financial profits from delivering their goods and services and they mainly rely on donations for funding their activities. These are established to purely give assistance to members of the community at no or low cost e.g. Nsambya babies home, Sanyu babies home, charity babies home, send a cow etc.

**For-profit social enterprises**, these are enterprises that sell their products for profits but focus on creating a positive and sustainable impact/change to society.

**Hybrid social enterprises**, these are enterprises which mix non-profit and for profit strategies or components to create a sustainable impact.

Most social enterprises are hybrid enterprises.

**Characteristics/features/traits/attributes of social enterprises**

* They have clearly stated objectives which later benefits the society.
* The governance and structures of the social enterprises is based on equal participation of the volunteers and other stake holders.
* They exercise honesty, integrity and humanity while carrying out their activities.
* They have developed and creative ways to work together with volunteers. This helps them to achieve their objectives…
* They use entrepreneurial skills of the private sector to enable them achieve their social mission and objectives.
* They practice an effective communication system; this enables stake holders to be well informed about issues of the enterprise.

**Concepts/terms used under social entrepreneurship**

* **Natural resource**, this refers to something important to people’s survival that is available on the earth in limited quantity.
* **Empowerment**, this refers to increasing some ones power, ability, strength and capacity to do something.
* **Positive,** this refers to the ability of an enterprise to create a positive social or environmental impact.
* **Sustainability,** this refers to the ability of an enterprise to renew its resources or maintain its impact.
* **Sustainable development,** this is the development that meets the needs of the present generation without harming the ability of the future generation to meet its own needs**.**
* **Impact,** this refers to the effect/outcome resulting from an activity that is carried out by a person, group of people or government
* **Impact sustainability** refers to the ability of the impact to continue and be long lasting without putting in more resources or efforts.

**Social entrepreneur**

This is a person who recognizes a social problem and uses entrepreneurial principles to organize and manage a venture in order to address the problems/social concerns in the society. A social entrepreneur aims at making a difference / social impact and he works hard to achieve the end goal. He/she contributes towards solving the social and environmental problems.

**Characteristics/traits of social entrepreneurs**

* **Personal leadership**, social entrepreneurs normally lead by example and they have the ability to start up a venture and influence other people to follow them.
* **Ethical and principle centered**, social entrepreneurs usually make decisions according to the values and principles they believe in.
* **Goal oriented and visionary**, social entrepreneurs usually start a venture with a positive vision and they usually set attainable goals to achieve the vision.
* **Good listeners,** social entrepreneurs usually listen to people’s ideas and comments to learn their mistakes so as to come up with ways of improving their performance.
* **Risk takers**, social entrepreneurs usually under take moderate risks i.e. risks that have a reasonable chance of success and they try to reduce the level of risks in the venture.
* **Advocators,** social entrepreneurs normally speak out and take action for what they believe is right even if there is opposition.
* **Empowering**, social entrepreneurs normally believe in empowering people in the community. This can be empowering them socially/ economically etc. they use people’s potential to achieve the set targets.
* **Optimistic and flexible**, social entrepreneurs usually tolerate uncertainty despite challenges, they remain positive and determined to achieve success.
* **Hard working and committed,** social entrepreneurs devote time to the activities that help to solve social problems and are dedicated to their duties.
* **Innovators,** social entrepreneurs are able to transform the resources of the community to create productive resources through the creativity of the people.
* **Good time managers**, social entrepreneurs value time as a resource and therefore tend to carry out their activities on programme i.e. they make a to-do- list for their activities

**Differences between social enterprises and business enterprises**

**Business enterprises** are organizations involved in trading on products (goods and services) with the aim of making profits so as to improve the wealth of the entrepreneurs**. Or** enterprises established with a major aim of making profits

The differences are as below;

* **Target market**, social enterprises aim at serving the vulnerable and disadvantaged groups in society **while** business enterprises aim at serving potential customers.
* **End goals**, social enterprises aim at making a sustainable impact **while** business enterprises aim at maximizing profits.
* **Type of enterprise**, social enterprises are a combination of nonprofit, for-profit and hybrid forms (projects) **while** business enterprises are basically for profit.
* **Rewards**, Social enterprises yield profits for social and environmental benefits (for the society) **while** business enterprises yield profits to the private investors.
* **Customer orientation**, social enterprises empower partners in development **while** business enterprises offer superior services to meet consumers’ needs.
* **Impact created**, the impact of social enterprises leads to environmental and economic development **whereas** for business enterprises the impact leads to production of goods and services.
* **Source of funds**, the source of funds for social enterprises is mainly donations especially non- profit enterprises **while** the sources of funds for business enterprises is basically loans, personal savings etc.
* **Time frame**, social enterprises aim at achieving long term results or goals **while** business enterprises aim at achieving immediate results e.g. increasing sales.

**Steps/procedure/process of becoming a social entrepreneur**

There are several steps involved in becoming a social entrepreneur. These are;

* **Developing an idea for becoming a social entrepreneur**
* **Discovering one’s personal vision**, **passion, skill and experience**, this involves discovering what one wants to be in future and what one is capable of doing.
* **Identifying opportunities in the community** that can be undertaken to achieve the vision.
* **Matching one’s vision, passion**, **skills and** **experience with the** **identified opportunity**. One’s vision should be in line with the opportunities that exist in the community.
* **Acting and spreading the change**. This involves starting a social enterprise so as to cause a positive impact.

**Role/responsibilities/contributions of social entrepreneurs**

**Creating sustainable impact on society,** social entrepreneurs try to address the root cause of the problems in the community and generating solutions to them instead of providing short term sales.

**Generating government revenue,** some activities undertaken by social entrepreneurs are taxed by the government hence contributing towards the government revenue.

**Providing sustainability,** social entrepreneurs tend to prevent the end or expiry of some things/ goods which create positive impact in society.

**Increasing opportunities to the disadvantaged**, social entrepreneurs ensure provision of opportunities for the marginalized that include understanding, disadvantaged etc especially by providing information that enable them access such opportunities.

**Encouraging people to identify business opportunities,** social entrepreneur encourage members of the society to identify attractive investment ideas that provide a possibility of realizing profit

**Utilizing the would be idle resource,** social entrepreneurs make use of the would be idle resources in the society by creating business opportunities hence minimizing resource wastage

**Promoting innovation and creativity**, social entrepreneurs educate or teach the community to transform the available resources into new resources.

**Providing market**, social entrepreneurs ensure provision of market for the local products provided by the members of the community.

**Empowering people**, social entrepreneurs ensure training of the community members to equip them with survival skills

**Encouraging unity and harmony,** social entrepreneurs promote projects which ensure joint participation of the community members.

**Improving infrastructure**, social entrepreneurs promote activities in the community that facilitate the development of infrastructure such as roads, communication networks etc

**Creating employment**, social entrepreneurs especially through establishment of profit making social enterprises provide job opportunities to different groups of people which solves the problem of un employment.

**Reducing harmful effects**, social entrepreneurs tend to establish or carry out activities that are environmentally friendly hence avoiding negative impact on the environment.

**Improving the quality of life** **of the people,** this is done through provision of access to educational facilities, health services etc

**Making a social impact in the community**

* Making the world a better place to live in.
* Increasing the quality of life of other people in the community
* Turning a wrong thing into a right.
* Preventing the end of something good

**Indicators of the positive impact of social entrepreneurship in the community;**

* Number of sources of clean water developed e.g. bore holes
* Schools opened for the needy/sponsorship of children of needy community members
* Trees planted/a forestation
* Health centre opened/free medical services given to the people
* Number of jobs created
* Improved transport and communication facilities
* Increased food security
* Introduction of new goods
* Wealthy community members/reduced poverty
* Safe and secure environment
* Lighting facilities
* Houses built clean environment

**Positive and negative opportunities in the environment**

**Positive opportunities** in the environment try to identify the assets possessed by the members of the community and the strengths which the members of the community have that enable them to solve the prevailing problems. Positive opportunities include;

* Educated and empowered members of the community
* Clean and sustainable environment
* Safe water
* Wealth in the society etc

**Negative opportunities**

These involve problems in the society, needs to be satisfied and threats to the development of the society, they include;

* Poverty
* Environmental degradation/pollution
* Diseases such as AIDS
* Domestic violence
* Uneducated and disempowered community

**Vision and Visionary leadership**

**Vision, this refers to the ability to see a clear, detailed mental picture of an idea or the future and its achieved after a long period of time**

**while**

**Visionary leadership, refers to the ability to lead and inspire others to see a clear, detailed mental picture of an idea or the future.**

**Principle and perception**

**A principle** is a basic rule that forms the basis of ethical decision making

**Perception**

This refers to personal understanding or interpretation of something.

**Perceptions of conflict**

Social entrepreneurs believe in having win-win solutions. Win-win solutions are the solutions that benefit all the parties involved in the conflict.

There are four perceptions of solving a conflict which include;

* **Win-lose perception**, this is a selfish attitude where one party does everything possible to win at the expense of the other side.
* **Lose-win perception**, this refers to the attitude of letting others get what they want at the expense of the other side. The problem with this attitude/solution is that the loser can become annoyed/bitter.
* **Lose-lose perception**, this describes a solution in which neither side wins.
* **Win-win perception**, this is a good attitude which seeks mutual benefits to all the parties involved in the conflict.

**The visionary approach to problems/conflicts (the bridge the gap approach)**

**Visionary approach to conflict** refers to a success strategy that requires a person/group of people/businesses/country to have a clear and strong vision that enables change from the current position to the desired future position/state.

The following are the steps taken when implementing a visionary approach;

* Defining a vision that is to be attained ie stating what one wants to achieve in future.
* Examining one’s current state or current reality by stating the extent of the need
* Identifying and acknowledging the gap to be filled
* Setting action steps to be followed to fill the gap between the current state and the vision
* Identifying resources required to achieve the vision or to achieve the future position or state
* Setting priorities by arranging the activities to be done in the order of importance
* Choosing people to implement the various activities needed to achieve the vision
* Getting commitment from the people selected to perform the activities
* Fixing the starting and ending time /date for the activities needed to achieve the vision
* Drawing the action plan/work plan and starting the implementation of the activities to attain the vision
* Developing a personal vision statement, developing a personal vision statement involves the following steps;
* Identifying the target/goals of interest
* Identifying challenges to achievement of the goals of interest
* Establishing action steps that can be taken to achieve the goals of interest. The action steps have the following characteristics;
* They produce clear impact
* The have start and end times
* They have measurable results
* They are simple
* They are arranged in a logical order
* Writing a short and specific vision statement e.g.
  + - To become the leading waste management social enterprise in Uganda.
    - To be leading provider of health services to the helpless
    - Etc
* Identifying a social enterprise that can be started to accomplish one’s vision statement

**Advocacy skills in solving social problems/conflicts**

**Advocacy** is the use of the verbal, written or symbolic actions to promote a mission, vision or cause. Advocacy involves speaking and writing to others in order to spread ideas, innovative strategies so as to get support

Social entrepreneurs are skilled advocators of their vision and social innovations and they aim at maximizing the positive impact of their work

**The process of advocacy**

The advocacy process involves five steps which are summarized as **GEPIC**

Where;

**G**-greet

**E**-engage

**P**-problem/opportunity

**I**-inform

**C**-call to action/challenge

**Greet**-this involves introducing oneself, recognizing and welcoming the audience and introducing the purpose of writing or speaking e.g. good morning/afternoon/evening every one

**Engage-** it involves getting attention of the audience. It can be done by reading a quotation, telling a story or presenting shocking factors

**Problem-**it involves expressing a problem using clear factors without personal opinion

**Inform-**it involves explaining to the audience the measures that can be taken to solve the problem identified

**Call to action-**it involves inviting the audience to support one in his/her attempt to handle the problem identified

**For example**

You have come up with an idea of starting a waste management social enterprise. Write a GEPIC structure for advocacy that you are to use to sensitize the community to join you.

Tom solid waste management social enterprise

P.O BOX 1960 **K**ampala

Tel: 0752836189

GEPIC STRUCTURE FOR ADVOCACYTO USE WHILE SENSITIZING THE COMMUNITY

Venue………………………Date………………. Time ……………………..

Greet: good morning/afternoon/evening every one

**Engage:** proper management of waste materials creates a conducive environment to live in

**Problem:** the major problem affecting the community is irresponsible waste disposal

**Inform:** the members of the community are hereby required to install dustbins to manage the waste materials

**Call to action:** all community members are called upon to support Tom solid waste management social enterprise for this matter therefore, all community members are called up to attend the work shop under the theme ‘how to manage waste materials’

**Social enterprise planning**

A social enterprise should not look at personal preferences/passions, experience and courage as the only factors considered when planning a social enterprise. Social enterprise planning must as well include clearly identifying threats and opportunities in the community.

**Structure of a social enterprise plan**

It consists of the following elements;

* **Introduction,** this includes the title, vision statement and the summary of the enterprise
* **Theory of change,** this shows the entrepreneurs end goal/target and how he is going to accomplish it.

Elements of the theory of change

* **Impact**-long term activities followed to achieve the vision e.g. To save the environment through sensitizing people to plant trees
* **Outcomes**-these are measurable direct results or outputs of the activities carried out by the social enterprise e.g. 100 people benefited in the project through getting jobs/income.
* **Activities**-the work/tasks performed/done by the social enterprise to achieve the desired results e.g. training the community members on the importance of saving the environment
* **Inputs**- resources needed so as to achieve the vision e.g. funds, labour, land, knowledge/skills etc
* **Opportunity,** this component outlines the external aspects that enable the achievement of the set goals/target.
* **Innovation,** this involves improvement on the productive resources of the social enterprise to make them more useful
* **Management and operation,** this involves management role and opportunities, delivery of products and operation of activities.
* **Sustainability plan,** this shows how the project renews its own resources. The elements of the sustainable plan include, the budget of the social enterprise, startup funding strategies i.e. sources of funds/capital, ways of maximizing of profits and profit management strategies.

Summary of a social enterprise plan

***Structure of a social enterprise plan***

(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 plan

(i) Budget

(ii) Start up funding strategy

(iii) Renewal of resources or profit making

(iv) Profit management

**Strategies for community development used by social entrepreneurs**

Social entrepreneurs use the following strategies to achieve their objectives;

* **Increasing access to basic goods and services**, this involves increasing access to goods such as food, education, health services etc. to improve the welfare of the disadvantaged.
* **Increasing knowledge through education and awareness**, this involves awareness on issues such as diseases like malaria, HIV/AIDS etc.
* **Increasing the opportunities for the disadvantaged group**, here various opportunities that exist in the community such as employment are made available to certain individuals to avoid inequality, social tension and poverty.

**Social entrepreneurship opportunities that exist in the society**

There are different opportunities in the community that can be used to start a social enterprise. They include;

* **Social investment funds**, social investments pull together various sources of funds from different donations from rich and wealthy people in the community.
* **Community based organizations (CBOS) and nongovernmental organizations (NGOS**), these usually do not aim at making profits but have a social mission.
* **Government and embassies, movements usually provide policies**, technical assistance to people who are positively impacting the society.
* **Foundations**, these mainly give donations and grants to people who are willing and able to start up social enterprises.

**Threats to community development**

* **Discrimination**, this refers to unfair treatment of a person or group of persons based on age, financial status, place of birth, gender etc. Which limits community development?
* **Dishonesty**, this is the use of lies/ misleading words and actions. This leads to corruption and exploitation in society which limits development.
* **Illiteracy,** this refers to the state were people are not educated; this limits skills development of the people in the community hence limiting development.
* **Dependence**, this is the state of relying on someone for support/ survival. A high degree of dependence limits community development.

**Environmental threats that exist in the community resulting from unsustainable use of resources**

* **Deforestation**, this involves cutting down trees on a large scale and this threatens the community. This is also known as devastation.
* **Pollution,** this can be in form of air, water and noise pollution that results from establishment of industries in the community.
* **Global warming**, this refers to the general rise in temperature of the planet as a result of destruction of the ozone layer.
* **Swamp reclamation**, this refers to activities being done in swamps or wetlands that affect their existence which results into destruction of aquatic life.
* **Land degradation**: this refers to spoiling of land due to various human activities. It results into loss of soil fertility and affects agricultural production (production the agricultural sector).
* **Exhaustion of natural resources such as minerals**, this leads to inadequate supply of raw materials needed in production of various products.
* **Moral decay/ loss of morals**, this refers to behaving in a way that contradicts with the social norms of the community.

**Measures to minimize the environmental threats**

* Setting up environmental standards that should be followed/ observed strictly by entrepreneurs.
* Treating industrial wastes before disposing them into water bodies. This minimizes their effects on the aquatic life.
* Carrying out environmental impact assessment before setting up industries. This reduces the adverse effects on the surrounding areas.
* Ensuring proper waste disposal, businesses should have disposal units where waste materials are disposed to avoid disposing them anyhow.
* Recycling the bi-products to avoid endangering the soil e.g. polythene bags, plastics can be recycled to reduce their effects on the soils.
* under taking soil conservation methods to reduce the effects of soil erosion on the environment e.g. mulching, intercropping, contour ploughing ,etc
* using alternative packaging materials that are less dangerous to the environment e.g. use of paper bags that can decompose
* Using chemicals that are less dangerous to plants, animals, birds and human life. This helps to reduce the impact/ effect to the environment.
* Looking for alternative sources of power such as electricity, biogas, solar etc. this helps to reduce wood consumption hence reducing the rate of deforestation.

**Climate change**

This refers to the changing temperature of the planet.

**Global warming**, this is an increase in the temperature of the planet.

**Effects of climate change on the environment.**

* **Melting of glaciers in mountainous areas**, this makes rivers to increase in size and change their course thereby resulting into loss of farm land and displacement of people (eco refugees)
* **Changing the pattern of seasons**, this disorganizes farmers and they end up migrating to urban areas.
* **Causing extinction of some species that can not survive in the changing temperatures**; some species go extinct or forced to change location due to changing vegetation belts. This results into reduced tourism because of loss of biodiversity.
* **Changing vegetation belts from forests to savannah and savannah to deserts**. This forces people to migrate to better areas/ urban areas

**Ways of saving the environment**

The environment can be saved by using the 5Rs, namely:

* **Reducing**, this refers to the act of decreasing the amount of natural resources used e.g. using less fire wood or charcoal by using energy efficient stoves.
* **Re-using**, this means getting creative ways to use resources in new ways e.g. filling plastic bottles with soil and using them as bricks to construct a house.
* **Re-cycling**, this involves collecting waste materials that would be thrown away or burnt and taking them to a recycling facility in order to turn them into a new product.
* **Repairing**, this means that if a product is broken or damaged, instead of wasting it find a way of repairing it and use it again.
* **Restricting,** this involves limiting the use of resources

**Root cause analysis**

**A root cause** refers to the primary cause of a situation/problem.

**Root cause analysis** involves a careful examination of a problem by an expert or social entrepreneur in order to find out a long lasting workable solution.

**Format of a root cause analysis**

Business name

PO box ….

Tel…..

Root cause analysis for………..

Problem statement………..?

Why………?

Why ………?

Why ……..?

Root cause……?

Necessary ……..?

**Qn:** you are operating a restaurant and bar business in your nearby urban Centre. Your business is experiencing a gradual decline in sales. Perform a root cause analysis for the declining sales.

**NICE RESTAURANT AND BAR**

**P.O BOX 150,**

**KAMPALA**

**0774701960**

**Root cause analysis for declining sales**

Problem statement; declining sales

Why: inappropriate customer care

Why: limited skilled labour

Why: limited training of workers

**Root cause** -Limited training of workers to equip them with the required skills

**Course of action**- training of workers to equip them with the required skills

**Qn**. Having identified a problem of irresponsible waste disposal in your home area. You have come up with the idea of starting a social enterprise to deal with the problem

1. Carryout a root cause analysis for the problem

**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

**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 a d foreign e.g. Uganda National Chambers of commerce and industry/provision of mancets

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

Components of social innovation

Action and results ie its dors not involve only ideas

Change, for innovation to be a new matter, enough things have to be different from the known methods

Improvement, it is seen as an Improvement by those who are affected

It takes many forms such as changing what you are doing, where you are working with whom and how.

Social value, refers to providing a solution to the problems and creating value to individuals and ultimately the community.

**Impact assessment**

This refers to the process of establishing whether the project has achieved its goals or not Or the process of measuring the impact of a social enterprise to the community.

**Importance of impact assessment**

* It enables the entrepreneur to establish whether he/she is successful or not
* It indicates what is working and what is not working about a social enterprise
* It provides a valuable opportunity to an entrepreneur to listen to the people e.g. with them to solve a problem
* It gives a social entrepreneur chance to understand what is effective and what is not effective about a social enterprise
* It enables entrepreneur to revise and improve their social enterprise basing on what works and what does not work

**Reasons why it is necessary for an entrepreneur to carry out impact assessment for an enterprise;**

* To establish whether he is successful or not
* To indicate what is working and what is not working about a social enterprise
* To provide a valuable opportunity to listen to people they work with
* To get a chance to understand what is effective and ineffective about a social enterprise
* To refine and improve the social enterprise based on what works and what does not work
* To reduce on the cost and time of project implementation
* To increase project acceptance
* To improve project performance

**Role of finance in the sustainability of a social enterprise**

* + - Paying employees for their duties and responsibilities in the enterprise
    - Renting buildings/premises were the business is carried out
    - Hiring skilled labour for the day to day running of business or production of goods and services
    - Purchasing raw materials /inputs used for day to day business operations such as stationery
    - Installing high level of technology for running business activities
    - Conducting workshops and seminars equip workers with skills to run business activities better
    - Registering and obtaining the right to produce i.e. registration and licensing
    - Undertaking research to find out various views /opinion of customers about products produced by the business
    - Carrying out benchmarking with other enterprises that are profitable in order to copy their practices/techniques

**Ways of sustaining a social enterprise**

* Lobbying for regular donations
* Insuring the business
* Training employees
* Ensuring democratic leadership
* Negotiating for community acceptance
* Diversifying of the business activities
* Promoting social responsibility
* Re investing profits into the business
* Encouraging savings for future investment
* Using locally available resources to replace scarce materials

**SMALL AND MEDIUM ENTERPRISES (SMES)**

**Micro enterprises**, these are enterprises employing a maximum of four people with annual sales turnover of twelve million Uganda shillings as the maximum and total assets valued to the maximum of twelve million Uganda shillings.

Examples include: - Kiosks, hawking, groceries, bicycle repairing, roadside selling etc.

**FEATURES/CHARACTERISTICS OF MICRO ENTERPRISES**

* They require very little capital to be started.
* They required very simple technology to be operational.
* They usually register low sales.
* They are normally run and managed by the owners with the assistance of one or two family members.
* They may not need fixed premises to operate from but where they do, they may be housed in temporary structures.
* They do not have to be registered before they commence operations but may have to obtain operating licenses from the local authorities.
* They are highly flexible.

**Small enterprises,** these are business organizations employing a maximum of fifty people with annual sales turnover of 360 million Uganda shillings and the total assets are valued at a maximum of 360 million shillings. Examples include: - retail and wholesale shops, bakeries, millers etc.

**FEATURES/CHARACTERISTIC OF SMALL ENTERPRISES**

* Their periodic sales are relatively higher than those of micro businesses.
* They may use some basic and simple technology in their production systems.
* They are generally easy to start and operate since may not require formal registration.
* They sometimes produce items for export either directly or through large businesses.
* They are mainly sole proprietor or Limited Liability Company or partnership.

**Medium enterprises,** these are enterprises employing between 50 and 100 people with annual sales turnover of more than 360 million Uganda shillings and total assets valued above 360 million shillings only.

Examples include big bakeries, milk processing and packaging businesses, coffee hulling factories, mattress manufacturing factories etc.

**FEATURES/CHARACTERISTICS OF MEDIUM ENTERPRISES**

* They operate from well established and permanent business premises.
* They use advanced technology and produce on a relatively big scale.
* They require a lot of capital to be started and such businesses are formally registered as limited liability companies.
* They may produce both for local and export market.

**FORMAL AND INFORMAL BUSINESS**

**Formal businesses,** these are businesses which are registered with registrar of companies. For one to start a business he/she must be aware of License, labour laws, taxes and permits required to avoid breaking the country’s rules and regulations.

**ADVANTAGES OF FORMAL BUSINESSES**

* They are legally known and registered. This helps entrepreneurs to operate business without any fear since it is legally allowed in the country.
* They are properly organized. This is because they can employ skilled personnel in running the activities of the enterprises.
* Easy to acquire loans. It may be easy for them to get loans from financial institutions since they are able to produce all the necessary documents required.
* Expansion is possible. They have a sound base for further growth and development since they are legally recognized.
* They are reliable and somehow permanent and therefore it is easy to get skilled human resources.

**DISADVANTAGES OF FORMAL BUSINESSES**

* *Inflexible: -* they are always governed by laws and rigid regulations thus their activities can not easily be changed.
* They are not adaptable to changes.
* *Many procedures involved*. This makes them difficult to be started.

**Informal businesses,** these are businesses that are generally not registered though they may have licenses. People with such businesses do not pay taxes nor do they comply with government regulations.

**ADVANTAGES OF INFORMAL BUSINESSES**

* Highly flexible: - they are easily adaptable to changes.
* Easily established: - they are easy to start so most people can run them on a full or part-time basis.
* They lead to fast employment generation.
* They promote the idea of initiating new businesses.

**DISADVANTAGES OF INFORMAL BUSINESSES**

* They are not legally recognized.
* They are not properly organized.
* They are not reliable as profit making enterprises as they can close down anytime.
* They do not have clear access to loans from financial institutions.
* They do not comply with social security regulations.

**Reasons why formal businesses are preferred to informal businesses**

* Formal businesses are legally recognized unlike informal businesses which are not recognized
* Formal businesses are properly organized compared to informal businesses which are not properly organized
* It is easier for them to get loans from financial institutions compared to informal businesses that usually lack collateral security
* They have a sound base for further growth and development due to large capital compared to informal businesses which have a weak base for further growth and development
* They are reliable and some how permanent and can easily get skilled manpower unlike informal businesses which are reliable and some how temporary
* Formal businesses comply with social security regulations unlike informal businesses which do not comply with social security regulations

**ROLE OF SMALL AND MEDIUM ENTERPRISES IN DEVELOPMENT**

* Provision of social services like health units, schools etc.
* Development of infrastructure for example the transport network.
* Provision of revenue to the government through payment of taxes.
* Provision of goods and services to meet society needs.
* Provision of a centre for training and developing of local manpower.
* Provision of market for society’s products.
* Creation of employment opportunities to the society.
* Participation in community development programmes for example providing assistance to charities, welfare facilities etc.
* Improvement of food security through processing agricultural products.
* Providing information for research and study purposes to students and researchers.
* Recycling wastes that would have harmful effects hence cleaning the environment.
* Improving the environment through planting trees.
* Utilizing idle resources such as land, labour etc.
* Sponsorship of community activities like education, environmental conservation programmes etc.

**Advantages of small and medium Enterprises**

* Decision making is easier as compared to large enterprises.
* They use locally available resources
* They are easier to manage
* They require relatively simple technology compared to large enterprises
* Fewer formalities are involved compared to large enterprises
* They require relatively less capital to be started unlike large businesses.
* They have low operation costs due to fewer numbers of workers.
* They are flexible in that they can even be located in rural areas.

**Disadvantages of Small and Medium Enterprises**

* They do not enjoy economies of scale like large enterprise.
* It is not easy for them to obtain a loan from the bank like large enterprises.
* They usually collapse as soon as the owner dies.
* They frequently suffer from customer changing tastes and preferences.
* They have shortage of facilities especially for perishable goods.
* They produce low quality products leading to limited market.

**Challenges faced by small and medium enterprises (causes of high rate of failure of small and medium enterprises in Uganda)**.

It is a common practice that most business are started and fail to take off due to the following factors.

* **Unsuitable location of the business**:- even if a business is properly managed, a bad location leads to its failure, for example locating a business far away from the market or the source of raw materials.
* **Limited market for the business products**: - this normally results from competition, changing customer tastes, uncompetitive prices etc.
* **Poor management of the business**: - this can be in form inefficient use of resources, not keeping proper records, wrong costing and pricing methods etc this may lead to fail and close up of a business.
* **Poor handling of customers**: - a business whose owner or employees are rude to customers and do not bother to listen to them and attend to their individual needs may lead to its collapse.
* **Limited market research**: - this leads to failure to clearly define and understand your market and your customers and your customers’ buying habits.
* **Over expansion**: - This often happens when business owners confuse success with how fast they can expand their business.
* **Inadequate financing**: - there is also a challenge of insufficient funds to buy the required technologies to improve their operations.
* **Choosing a business that is not very profitable**: - if the profits generated can never materialize to the extent necessary to sustain an on-going business.
* **Low quality of products for sale**: - low quality of the products in terms of customers’ expectations as well as the competing products leads to failure.
* **Inadequate support services**:- Services needed to provide entrepreneurs with facilities to enable them operate well may not be sufficient e.g. roads, telephones, water and electricity, credit services etc.
* **Shortage of skilled man power:** - Manpower is needed to operate some production technologies. Due to its shortage forces businesses to hire expensive foreign experts or use unskilled workers who may produce poor quality products.
* **Use of inappropriate technology:** - this does not optimize productivity and profitability.
* **Competition from imported manufactured products**:- Products from well established businesses producing on large scale are lowly priced hence outcompeting those from less developed business.
* **Unreliable sources of raw materials**: - This forces some businesses to operate seasonally especially agro-processing businesses.
* **Improper product pricing**: - There may be failure to clearly define pricing strategy for business and this may result into over pricing the products which makes customers shy away to buy them.
* **Un conducive government policies**:- this is concerned with high taxation location of business and most businesses complain for such hence business failure.
* **Unfavorable economic and monetary policies**:- this may include scarcity of credit, high interest rates which makes it very expensive for businesses to operate with borrowed capital.
* Failure to anticipate or react to competition, technology or other changes in the market place:- At times these businesses assume that what they have done in the past will always work. They tend to do things in the same way despite new market demands and changing times.
* **Mistakes made by the entrepreneur/founder’s inability**:- in some cases entrepreneurs lose interest in business because it does not suit their personal characteristics and as such, they get relaxed in their commitment in terms of supervision, funding, initiatives and creativity etc and this makes a business loses direction and in a short period it collapses.
* **Industrial unrests**:- These in form of strikes at the workplace which makes operation of business difficult.
* **Shortage of storage facilities**:- This is common to perishable products where is lack of insufficient proper storages which makes products go bad.
* **Insecurity/hostility**: - This makes it difficult for businesses to operate in some areas for instance Northern and Eastern Uganda during rebel activities.

**WAYS OF OVERCOMING THE CHALLENGES FACED BY SMALL AND MEDIUM ENTERPRISES IN UGANDA**

* Locating a business in areas where they can easily access support services, market and raw materials
* Undertaking research and development to come up with new products that the customers need so as to be able to beat off competition
* Ensuring good business management, for example through creating a work environment that encourage productivity
* establishing good relationship with the customers and ensuring that they are always satisfied with the products
* conducting thorough market surveys before starting business to be able to produce competitive products
* regularly training workers to ensure that they are skilled enough to manage the business operations
* advertising and promoting business products so that they can attract new customers and keep the old ones
* monitoring and finding out what competitors are doing so as to learn from them
* avoiding over expansion of business enterprises
* saving and reinvesting business profits to ensure that adequate working capita is maintained to finance business operations
* forming and being a member of relevant business associations so as to access a range of services and assistance like Uganda manufacturers association

**INSURANCE FOR SMALL AND MEDIUM ENTERPRISES**

**Insurance** is an aid to trade where people who are exposed to a particular risk contribute money towards a common pool from which the few who actually suffer loss from the stated risk can receive compensation. There fore insurance refers to protection against events which may or may not happen such as theft, fire, accidents, robbery etc.

Insurance is an agreement / contact between the insured and the insurer.

**Insured –** This is the business person or an organization seeking to be covered against a risk and he / she is promised to be compensated in the event of a loss.

**While**

**Insurer** – is the insurance company that accepts to manage the pool and compensate the insured in case the insured risk materializes

**Examples of insurance companies in Uganda**

* National insurance corporation (NIC)
* Excel Insurance
* State Wide Insurance Company
* jubilee insurance
* Excel insurance
* Etc.

**Principles/doctrines of insurance**

There are five principles on which insurance companies operate their activities. These are

* principle of Insurance interest
* principle of utmost good faith
* principle of Proximate course
* principle of Indemnity
* principle of Subrogation
* **Principle of Insurable interest**, this refers to the interest one has in a property or business he/ she is insuring. This principle requires the party to insure only the property in which he/ she has interest i.e. property whose destruction results into a financial loss to him/ her.
* **Principle of ut most good faith**. This is the principle which requires the insured party to disclose / reveal all the maternal facts about the property being insured. This enables the insurer to assess the suitability of the property and calculation of the premium (fixed small contributions paid by the insured).

In this case if the insurer discovers that some information on the insurance application form was deliberately concealed then it will not compensate the insured in the event of a risk being insured.

* **Principle of Proximate cause**. This principle stated that the immediate cause of the loss must be related to the event insured against or that there must be a fairly close connection between the cause of a loss and the actual risk insured against to enable the insured to qualify to seek compassion.
* **Principle of** i**ndemnity**. This principle states that the insurance company compensates the insured up to the extent of the loss

Insurance does not benefit a person but it is supposed to restore the insured to his/ her financial position which existed immediately before the event against took place.

* **Principle of Subrogation**, this principle states that if the insured has received full compensation in the event of total loss the insured acquires the rights that the insured had in the property destroyed. After compensation has been made the insurer takes the scrap / destroyed property.

**Common terms used in insurance**

1. **Insurer**, this is the company that gives protection to the insured’s property. It is the company that receives the premium and guarantees protection to the insured.
2. **Insured**, this is the business, person, organization or firm taking up the insurance policy and he is promised to be compensated in the event of a loss.
3. **Risk,** this is the event insured against or the event against which an insurance policy is taken up e.g. when one insures his vehicle against accident, then the accident is a risk.
4. **Insurable risks**, these are risks whose probability of happening can be determined such risks may include fire, accident, theft, damage of goods in transit etc. with such risks the insurer can be able to estimate the possible future loss thus premium can be calculated.
5. **Non insurable risks**, these are risks which the principle of insurance does not accept to be insured against e.g. Diseases, natural disasters such as floods, thunder storm, Losses due to war etc. These risks are also referred to as **uninsurable risks**.
6. **Sum insured,** this is the total value of the property insured as stated by the owner at the time of applying for insurance. The calculation of premium s abased on this sum. The higher the premium and the reverse is true.
7. **Loss**, this is the occurrence of the event insured against e.g. if one insures his vehicle against accidents and a vehicle is later destroyed in an accident the loss of the vehicle has occurred. If part of the property is destroyed it is said to be a **partial loss** and if the entire property is destroyed, it is a **total loss**.
8. **Pooling of risks**. This is where several individuals, businesses or organizations that expect to suffer from a certain risk bring such risk together so as to create a fund into which they all pay and only those who actually suffer loss are paid from the fund.
9. **Proposal form**, this is a document issued by the insurer to the person intending to become insured which he/ she fills seeking insurance.
10. **Cover note**, this is a document issued by the insurance company to the insured as a proof that premium has been paid and accepted by the insurance company.
11. **Policy,** this is the major document issued by the insurance company containing terms and conditions of agreement between the insured and the insurer.
12. **Surrender value**, this is the amount of money paid back to the insured party when he decides to counsel the insurance agreements before the agreed period.
13. **Assignment**, this means the act of transferring the title and interest in the policy to any another person. Life insurance policies are freely transferable. You

**14. Re-insurance** is a situation where an insurance company which has undertaken to protect a certain firm against a big loss also ensures itself against such big claims with another insurance company. **Or** when one insures his property with an insurance company and it also insures the same property with another insurance company.

This takes place when very large risks are involved e.g. loss of ship, air craft etc.

**15. Co- insurance,** this is where a property is insured against a similar risk with more than one insurance company. **Or** when more than one insurance company are in a direct contractual relationship with the insured for any parts of the same risk. In this case insurers come together to take up a risk each accepting to take up only part of the risk, when the insured suffers loss the insurers will each pay a proportion of the risk accepted.

**16. Over insurance** is when the insured over declares the value of the property being insured when taking out the insurance policy. Though he is required to pay high premium depending on his declaration, in the event of total loss he will be paid according to the correct value.

**17. under insurance** is when the insured under declares the value of the property being insured at the time of taking out the insurance policy. Compensation depends on the sum insured. The part of the loss not declare will be assumed to have been insured by the insured him self (self insurance)

**18. Actuary**, this is an insurance officer assigned with the responsibility of calculating premium to be paid by the insured basing on available statistics and information.

**19. An adjuster / assessor,** is an insurance officer given the responsibility of calculating the extent of the loss suffered by the insured party.

**20**. **Annuity**, the amount of money paid to the insured every year in life insurance until when he dies.

**Types /Classes of insurance**

There are two major types of insurance that can be taken by entrepreneurs to cover themselves and their business against the risks faced / encountered these include;

**Life insurance and general insurance**

**Life insurance**

This covers the instance of human life. A person can insure the life in which he/ she has an insurable interest e.g. is own life, life of his wife, debtors life (up to the extent of the debt), business partner’s life etc.

There are two polices under life insurance namely;

* Endowment policy
* Whole life policy.

**Endowment policy**, this is a policy of insurance which requires the insured to pay premium for a specific period of time only with sum injured being payable at the expiry of such a period or at death which ever is earlier.

**Whole life policy**, this is a policy of insurance which requires the insured to pay premium throughout his/ her life or for a specific period of time but sum insured is payable only after the death of the life insured.

**GENERAL INSURANCE**

This is the insurance policy which covers the insurance of property. A person can insure any property in which he has insurable interest. General insurance is divided into three sections namely;

* Accident section
* Marine section
* Fire section

**Accident insurance**

This deals with the insurance of vehicles, workers, premises; goods etc. against damage and other associated eventualities e.g. brake down of a biding and the life on board.

**Polices under accident insurance**

1. **Motor accident insurance**

This covers the insurance of the vehicle against loss or damage in an accident. There are two polices under motor insurance an entrepreneur can choose from, these are;

* **Third party policy**, which covers the damage upon any other person (third party) who may be hurt by the vehicle. The third party is any other claimant other than the insurer or insured.

Third party insurance policy is compulsory in Uganda.

**Third party’s claims cover the following**,

1. Passengers travelling in the assured’s car.
2. Any person injured as a result of the accident.
3. Owners of any other vehicles damaged as a result of the accident.
4. Third party whose property is damaged because of an accident.

* **Comprehensive policy**, this covers the loss or damage to the vehicle by accident plus the third party’s claims. This policy is more expensive than third party insurance i.e. higher premiums are involved in this policy.

1. **Goods or cash in transit or at premises**
2. **Employer’s liability or works men’s compensation**, this covers the protection of workers against injuries suffered while at the work place and during working hours.
3. **Fidelity guarantee,** this covers (insurance) against dishonest and embezzlement of funds by workers.
4. **Machinery break down and consequential loss**, Covers against losses resulting from breakdown of machines.
5. **Public liability policy**, this covers against injuries which may occur to the members of the public while passing near the property of the insured.
6. **Aviation insurance,** this is covers against losses resulting from personal accidents and cargo damages due to air craft crashes.
7. **Theft and burglary**, this involves insurance against loss resulting from theft or burglary of the business merchandise or property.
8. **Loss of profits,** this covers insurance against operational losses. If an entrepreneur takes this policy he will be compensated up to an agreed percentage of the loss suffered.

**Marine insurance**

This is the insurance of water vessels, cargo and passengers on board against damage, injury or loss arising from water body uncertainties. Marine insurance is divided into two sections namely:

**Marine cargo insurance,** this covers the goods transported by water vessel.

**Marine hull insurance,**this covers the insurance of the water vessel owner against loss or damage to the vessel and other legal liabilities incurred towards thus third party us and passengers.

**Polices under marine insurance**

1. **Voyage**, policy this covers the property for a particular journey from one port to another no matter how long the journey may be.
2. **Time policy**, this covers the vessel for a specific period of time.
3. **Open policy**, this is insurance against damage which may occur to the vessel on any journey at any time.
4. **Floating policy**, this covers regular voyages. In this case a round figure is agreed upon for cover shipment for a stated of time.
5. **Mixed policy /mixed time and voyage**. This policy covers the vessel for a specific period of time and voyage e.g. from Mwanza to Entebbe for five (5) months.

**(c) Fire insurance**. This policy protects an entrepreneur’s business against loss resulting from fire burning business property.

**STEPS INVOLVED I N ACQUIRING AN INSURANC CONTRACT**

* **Making inquiries,** a person intending to buy an insurance policy makes inquiry to at least three insurance companies either directly to insurance companies or indirectly through the brokers or agents on how to get the cover for the risk.
* **Filling a proposal form,** this is a form where a person intending to be insured discloses all the material facts about the property to be insured. In this case the principle of utmost good faith has to be respected.
* **Calculating the premium**, on receipt of the proposal form, the insurance company or its agent calculates the premium to be paid. This depends on the information given in the proposal form.
* **Issuing the cover note (binder),** after paying the first premium, a cover note is issued as a proof that the premium has been accepted by the insurer who now takes to compensate the insured. The cover note is valid for the period of 30days after which a policy is issued.
* **Receiving an insurance policy/insurance certificate**, this is a document that confirms that an entrepreneur has paid or has agreed to pay premium at a specified time and that the insurance company has accepted to compensate him in case of loss resulting from the insured risk. This is the contract between the insured and the insurer.
* **Filling a claim form,** incase of loss resulting from the insured risk, the insured person or business fills the claim form in which he gives details of the loss.

**IMPORTANCES/ROLE/SERVICES OF INSURANCETO THE BUSINESS COMMUNITY**

* **It compensates the unfortunate few** who suffer loss as a result of the effects of the risk insured against.
* **It instills confidence among business men** hence enabling them to under take risky business ventures because they feel that the protection of the insured company is behind them should any misfortune happen
* **It encourages savings** i.e. it is a form of saving and a suitable way of providing for the future e.g. life insurance policy where a person provides for his /her family after his/her death
* **Acts as** **collateral security** by entrepreneurs while seeking loans from the lending insurances. Incase of life insurance policy, the holder can use it to acquire loans from financial institutions
* **It acts as a trustee;** insurance companies can act as trustee for business men. They tend to know most of their customers and can stand in for them in case of reference
* **Insurance promotes international trade**; insurance encourages international trade because traders are able to export and import without fear of losses
* **Provides security to workers**, employees feel a sense of security if there is an insurance policy for them at the place of work e.g. work men’s compensation
* **It contributes to the growth of the economy,** this is because the pooled resources are invested so as to generate more wealth in the country
* Insurances companies provide employment opportunities to people e.g. managers, accountants etc.
* Insurance companies provide **revenues to government** through taxation.

Responsibilities of an insurance company to the business community in Uganda,

Giving confidence to entrepreneurs to undertake investment since they are safeguarded against the insured risks.

Compensation is made to those who suffer losses hence assurance of business continuity

Acting as collateral security to provide business finance to business firms/traders.

Acting as a means of saving eg life assurance policy like endowment policy and whole life policy.

Acting as trustee for businessman.

Promoting international trade because traders are able to import or export without fear of loss.

Contributing to the growth of the economy though pooled resources which are invested in infrastructure like road, buildings etc.

**Demerits/disadvantages of insurance**

* **Insurance can not cover all risks**, certain risks are non insurable and there fore not covered by insurance companies e.g. famine, floods, war, land slides etc
* **Uncertainty,** it is not guaranteed that the sum insured will be paid when the risk occurs one can either lose all the money insured or get compensated
* **Delay in effecting compensation,** most insurance companies do not settle people’s claims immediately due to difficulty in assessing the loss or because of disputes with the insurer
* **Confusing insurance principles,** the terms used as insurance principles are not easily understood by business men e.g. proximate cause, subrogation etc
  + **Limited information about insurance**, most people are ignorant about insurance business and its importance and this is a problem on the side of the insurance companies
  + **Inadequate income earned by the people**, most people are law income earners and therefore they do not have excess money to pay as premium so as to get insurance policies
* High premium prevents people who would wish to be members of insurance.
* Insurance companies have business in city canters ignoring rural settings.

**Revision questions**

1(a) Define the following terms as used in insurance; premium

1. Sum insured
2. Risk
3. Cover not
4. Insurance policy

(b)Explain the steps taken when buying an insurance policy

2(a) Describe the basic principles of insurance

(b)Outline the procedure of claiming for compensation from an insurance company

3(a) Explain the importance of insurance to entrepreneurs

(b)What are the problems faced by the insurance industry in Uganda

**FAMILY AND BUSINESS**

There is a high presence of family owner ship of business in Uganda just as it was in developed counties such as USA, Britain etc.

There is need for good managerial techniques and strategies to be able to manage the emotions of the family members (included in the business) in the course of making important business decisions.

**FACTORS THAT GUARANTEE/NECESSITATE GOOD RELATIONSHIP BETWEEN FAMILY AND BUSINESS**

There are several factors that necessitate good relationship between family and business. They include;

* **Joint pooling of resources (funds) to fund the business**, some family members tend to pool their resources together which are used to establish a family business.
* **Inheritance of business**, some enterprises are inherited by family members and passed on from one generation to another. In this case the business is seen as a family property/ business.
* **Managerial decision making**, the family members are very important as far as making decisions is concerned in the business such as planning, organizing, supervision etc.
* **Fear of hired management**, most family members fear to employ out siders to manage their businesses they fear that they may embezzle their money. This makes them look at family management as a way to reduce and protect the family property, hence necessitating the relationship between family and business.
* **Sources of employment for family members**, the family businesses are considered as the main source of employment to family labour since it guarantees job security.

**Challenges associated with family businesses**

* **Difficult of making decisions**, family businesses involve many members who may not agree on a given idea hence causing difficulties in decision making.
* **Inappropriate succession planning**, most family members do not have clear plans for passing on the business to the next generation.
* **Difficulty of sharing profits among family members**, when it comes to the sharing of profits family members normally tend to disagree. This affects the success of the business.
* **Businesses conflicting roles and responsibilities,** they duties of each member in the business may not be specified hence causing conflicts among members**.**
* **Unclear policies,** family businesses do not have clear rules and regulations which limits development of family businesses.
* **Challenge of emotions**, family problems such as divorce, separations death etc. lead to conflicts among family members there by affecting the business.
* **Inadequate managerial skills**, family members normally have limited or no managerial skills which tend to affect the business.
* **Conservatism of family members, some family members tend to resist modern changes such as new methods of production and this limits the success of the family business.**

**SOLUTIONS TO THE CHALLENGES ASSOCIATED WITH FAMILY BUSINESSES**

* Sharing information with other firms on issues as marketing, source of raw materials etc. this leads to the success of the business.
* Counseling and guiding undisciplined members of the family enterprise who act contrary to the set guidelines.
* Inviting experts in the field of management, law, finance etc. to clarify controversial issues in the business.
* Paying members according to work done in the family business.
* Advising and convincing the family members to register the enterprise and have it operate as a company with a legal entity.
* Spelling out clearly the specific roles and functions to be performed by every member of the family in terms of the specific lines of authority and responsibilities.
* Convincing members of the family to hire a professional manager from outside the family circle.

**Role of family saving in establishing small and medium enterprises**

* **Paying for business license**, this enables the business to operate smoothly.
* **Payment of rent for the business**, family buildings that the business is occupying may be paid for by family savings.
* **Buying tools, equipment and machinery**, this enables the production process to take place.
* **Hiring external labour**, non family labour is very important in the operation of the business and such labour can be paid for using family savings.
* **Purchasing raw materials/stock** from the suppliers so as to enable production to take place.

**Factors that influence the levels of saving in Uganda**

* Level of income
* Level of investments
* Level of education
* Political situation.
* Availability of financial institutions.
* Level of taxation and subsidization.
* Rate of inflation
* Saving culture of the people.
* Level of infrastructural development.
* Health status of a person

**Revision questions;**

1(a) Describe the challenges faced by family businesses in your country.

(b) Suggest measures of overcoming the challenges faced by family businesses in Uganda.

(c) Explain the role of savings in the development of family businesses

**BUSINESS IDEAS**

**A business idea,** It refers to a thought that an entrepreneur may come up with for the purpose of developing it into a business.

**Or**

A response of a person or an organization to solving an identified problem or meeting perceived needs in the environment, market or community.

A business starts as an idea in the mind of an entrepreneur. Therefore, identifying a good idea is the first step in transforming the entrepreneur’s desire and creativity into a business opportunity.

**Reasons why entrepreneurs need to generate business ideas**

* To respond to market or customers’ needs.
* To respond to natural threats such as drought, pests and diseases, pollution etc and scarcities such as lack of water, feel etc.
* To respond to changing fashions and requirements.
* To out compete competitors through coming up with new ideas, goods and services which are different/better than others.
* To help specific groups of people such as the elderly, disadvantaged, those with disabilities etc.
* To generate technology to do things better in business and remain competitive.
* To introduce new products and manage their growth as the old ones complete their life cycle.
* To be able to spread risks and allow for failures (over 80% of new products introduced on the market fail) that may occur from time to time by constantly generating new ideas.
* To enable business to be successful at the start and remain competitive afterwards i.e. through generating good ideas.

**Importance of generating business ideas**

* **Maintains/sustains competition,** generating business ideas helps an entrepreneur to come up with businesses that produce better quality products which are competitive in the market hence being able to stay ahead of the competition
* **Responds to market needs,** its important to generate business ideas to enable the entrepreneur to provide products that meet the needs of the customers.
* **Enables the entrepreneur to respond to changing fashion and requirements of customers,** it helps the entrepreneur to develop a product which is up to date to address the current needs of the customers.
* **Enables the entrepreneur to respond to natural threats and scarcities,** developing business ideas enables the entrepreneur to come up with strategies of handling challenges existing in the environment e.g. shortage of raw materials, water etc
* **Enables an entrepreneur to develop new technology,** business ideas enable an entrepreneur to generate technology to do things better in business and remain competitive.
* **Enables the entrepreneur to respond to the product life cycle,** generating business ideas helps an entrepreneur to introduce new products and manage their growth as the old ones complete their life cycle.
* Enables the entrepreneur to address the needs or requirements of different specific groups of people e.g. the elderly, those with disabilities etc
* It enables the spread of risks and allow for failure.

**Sources of business ideas**

* **Reading newspapers**, magazines, journals etc.
* **Carrying out research/survey** to find out what customers need. This can help you identify new ideas. The survey can use informal or formal.
  1. Informal survey, this is conducted through talking to family members and friends and observation of business activities in the community. This may reveal to you the need for particular businesses.
  2. Formal survey is conducted by using questionnaires and interviews.
* **Visiting trade fairs and exhibitions** national or international. This provides information about new products to potential entrepreneurs.
* Personal creativity.
* **Personal skills** obtained through training and experience e.g. a person who has ever worked in a juice making factory can easily start a juice making firm.
* Business organizations such as UIA, UMA, development banks etc which assist potential entrepreneurs in discovering and evaluating business ideas.
* **Success stories of others,** most entrepreneurs start business ventures basing on the success of those they know e.g. relatives, friends etc.
* **Brainstorming,** brainstorming is a technique used to solve a problem by generating as many ideas as possible. One can brainstorm by him/herself or by getting together with other people.
* **Personal hobbies/interests,** hobbies are activities pursued for pleasure and relaxation. An individual can generate a business idea from such activities and a business identified from this source enables the entrepreneur to spend more time doing what he/she enjoys most.

**Identification of business ideas from the environment**

An entrepreneur has to come up with a business idea that no one else has thought of and the one that can easily be translated into a big business. This can be done through the following;

* Determining what one can do best or what one are interested in
* Taking note of the obvious problems that one encounters in everyday life. These are very good sources of business ideas.
* Reading daily newspapers, these contain valuable business ideas.
* Listening to and observing what is going on around you.
* Modifying one’s business idea in order to come up with a new one.one should never fear change.
* Determine whether your idea will succeed or not. Measure your interest in the idea and find out whether it is something you are passionate about / interested in.
* Studying one’s hobbies,
* Listening to advice from other people i.e. friends or entrepreneurs to help one come up with views about such business ideas

**Classification of business ideas**

Business ideas are grouped into:

* **Trading** – this involves all businesses dealing in buying and selling of goods and services e.g.
* Retail shop
* Grocery
* Wholesale shop
* Stationery
* Import trade
* Export trade
* **Service provision** – this involves businesses that deal in provision of services of people e.g.
* Restaurant
* Salon
* Transport
* Education
* Education
* Cleaning services
* Security services

Etc.

* **Agribusinesses** – this involves any business that deals in growing of crops and rearing of animals e.g.
* Poultry
* Piggery
* Bee keeping
* Fish farming
* Horticulture
* Dairy farming
* **Manufacturing** – this involves any business that deals in the change or form and shape of raw materials into either semi finished or finished goods e.g.
* Carpentry
* Metal fabrication
* Bakery and confectionary
* Cereal milling
* Tailoring

Etc.

**NOTE**: Agribusinesses and manufacturing businesses are also referred to as output or production businesses because they all involve production of output.

**How to research a business idea?**

**(Steps of researching a business idea)**

* **Developing/generating idea**, this is when an entrepreneur gets the idea and imagines the possibilities of the idea. The entrepreneur carries out market research to determine his / her ideas’ potential for success.

The market research information is got from;

* Magazines
* Newspapers
* Government depts.
* Directories
* Industry associations
* Web sites

This is done to find out the type of customers that will demand your products.

* **Analyzing/evaluating the idea**, this involves carrying out a SWOT analysis for the business or product to determine whether the product will succeed in the current market or will have a competitive advantage. SWOT stands for – Strengths, Weakness, Opportunities and Threats.
* **Checking out the competition**

After identifying your competition through your research process, you need to find out what they are doing. This can be done by talking to your competitors’ customers and asking them what they like and what they don’t like about the competitors’ product. This helps you to improve and do the same but in a better way e.g. you may find that the competitors’ product (service or tangible good) is of poor quality, production costs are high etc.

* **Reworking the idea when it looks like a flop**

After the first three stages, you may find that your idea has weaknesses but this does not mean that you abandon it after investing a lot of time and money in the first three stages, you may first need to rework on it to ensure that it works out because there must be a reason as to why you thought of that idea. Many times some ideas may seem like they will fail but end up being great success after a little research.

* **Implementing the idea when it is ready to go**

At this stage the market research you have carried out should be in position to indicate where you need to go next with your idea.

The key factor to consider at this stage is the finding of your product, you have to set a price which is affordable by your potential customers and it should be set in relation to the competition that exists on the market.

The price should be changed depending on the market conditions.

When you are ready to get started, make sure that you are selling where your target market is likely to buy. You should also make sure that you have a good distribution strategy in your marketing plan.

**Factors considered when evaluating different Business Ideas**

* **Size of the market,** an entrepreneur selects a business idea that has a big market for the produced products
* **Business risks,** One assesses the risks of the business to establish whether they are high or low. Therefore, one selects a business which involves manageable risks
* **Personal interest,** an entrepreneur selects a business idea in which he/she possesses personal interest/passion.
* **Personal skills,** one chooses a business idea which is in line with his/her abilities.
* **Government policy,** one selects a business idea that is in line with the government policy e.g. the one which is acceptable, less taxed etc
* **Acceptability of the planned business in the community,** one chooses a business idea that is in line with the values, beliefs, norms etc of the community.
* **Level of competition,** one selects a business idea which has a competitive advantage in the market
* **Availability of raw materials,** one selects a business idea that requires the use of raw materials that are readily available
* **Return on investment,** one selects a business idea that is profitable
* Social costs, one chooses a business idea whose social costs such as pollution are low
* **Availability of the required technology,** one selects a business idea which requires technology that is readily available.
* **Cost involved**, one selects a business idea whose costs such as start up costs, labour costs etc are low.

**Steps/stages/process involved in turning a business idea into a business opportunity**

If you have got an idea or an invention, make sure that you turn it into a marketable product

Before you start talking about your invention (idea) to the wrong person you need to protect it by filling a patent.

This is done through the following. The steps below are followed when turning a business idea into a business opportunity;

* **Documenting you invention**,

Having an idea is not enough, there is need to have proof / evidence of when you came up with the idea for your invention.

Therefore you have to write down everything that you can think that relates to your invention, starting from what it is, how it works, how you will make it and how you intend to market it.

* **Researching your invention**, there is need to carry out research on the legality and other aspect of the idea.

Carry out a research to establish whether no one else has a patented the idea and also to find out whether there is no any sort of design related to your idea because if this exists you cannot patent your idea even when prior patent has been filed.

* **Making a prototype,** a prototype is a model of one’s invention that puts into practice all the things one has written in the inventors’ journal. A prototype demonstrates the design of your invention and it is important when presenting your invention to the potential lenders and licensees.
* **Filing a patent,** after finishing working out one’s design, it is now time to file his/her patent. In order to avoid getting disappointed when a competitor finds a loop hole that allows him / her to copy your idea, it is important to get a skilled patent professional/ patent attorney to look at it first.
* **Marketing your invention,** at this step you have to make a decision on whether one will produce and sell the product himself or he is to license it for sale through another company.

**Revision questions**

a) Explain the need /rationale of generating business ideas

b) Describe the sources of the business ideas

c) Explain the factors considered in evaluating business ideas

d) Describe the steps involved in turning a business idea into a product

**BUSINESS OPPORTUNITES**

**A business opportunity** refers to an attractive investment idea that provides the possibility of a monetary return for a person taking the risk.

**Or**

An identified situation that can be changed into a real and profitable business

**Or**

It is a prospect of going into business brought about by identifying gaps in the market or the market needs that are not being satisfied.

Business opportunities are brought about by the identified needs of customers in the market which are not being satisfied by the existing businesses.

**Types of business opportunities**

* Retail or wholesale type of business
* Franchise or independent type of business, franchise is the right given to a given person or business to sell / produce the parent company’s good or service in a specific area. In this case one is required to pay a franchise fee, royalties etc to the franchisor while an independent business is the one that one creates and nurtures into on his own. This type of business gives one control and freedom which cannot be get from a franchise operation.
* Product or service (or a mixture of both) types of business.
* Store front or non store front type of business operation.
* Industry type of business

**A viable business** is the one which is profitable.

**Viability of a business** **idea,**  is the degree to which a given business idea is profitable.

Viability study, the study carried out to establish whether the selected business Opportunity is profitable or not.

**A feasible** business is the one that can be implemented using the available resources. **Feasibility of a business idea** is the extent to which a business idea can be implemented using the available resources.

Feasibility study, is the study carried out to establish the extent to which a business idea can be implemented using the available resources.

**Types/ components of a feasibility study**

**Market feasibility study** – This is the study aimed at under standing in details the product one wishes to produce, who the users are and expected size of the market for the product.

Elements of a market feasibility study

Target customers

Location of the market

expected market growth in future

competing firms in the industry

competitors' prices

uniqueness of the products from those of the competitors

**Technical feasibility study** – This is the study aimed at determining the adequacy of the manufacturing process, plant and machinery to be used in order to produce a given product within the frame work of predetermined quality, raw materials and time without longer or expensive breakdown problems.

Elements of the technical feasibility study

Cost of building

possible location of the facility

size of the facility needed

infrastructure and services such as utilities

raw materials needed

labour requirements

technology needed

quality specification

potential suppliers of the business

**Financial feasibility study,** this is the study aimed at establishing whether the business idea is profitable or not. It reveals how attractive or hopeless the business idea is from the financial point of view. The financial viability study is divided into the following components.

Project cost

Means of financing the project

Capacity utilization and income estimation

Expenditure estimates

Profitability estimates

Risk analysis

importance of carrying out a feasibility study

Helps an entrepreneur to list in details the things that are needed for the business to move

it identifies the reasons for either proceeding or not proceeding with the idea

promotes success of the business by identifying problems in advance

provides quality information for decision making

it enables the entrepreneur to secure funds from financial institutions

it helps to identify the cheap ways of marketing the products

it helps the entrepreneur to convince the investors that the business is worth investing in

**Indicators of a good business opportunity**

* **Presence of real demand**, it should respond to the unsatisfied needs of customers who have the willingness and ability to buy.
* **Availability of factor inputs** required for the business operation e.g. Labour, raw materials, capital, skills etc.
* **Ability to meet objectives of the investor** or those taking the risk.
* **Competitive advantage**, it should be equal or better than other products available on the market.
* **Return on investment** should provide acceptable rewards/profits for the risk and effort required.
* **Acceptable in the community,** an opportunity may look profitable to the owners but destructive or disliked by the community e.g. a disco business may be profitable in a school but it destructive and therefore unacceptable.
* **Legal acceptability,** should be legally acceptable

**Characteristics/features of a good business opportunity**

* **Good income potential,** a business opportunity is one that has the potential to give a good, steady, fulltime income to the investor so as to support him / her in a reasonable life style.
* **Low start up costs,** a good business opportunity is one which requires low start up costs/ low capital investment.
* **Reasonable ease of entry into the market,** it is advisable to enter into a business in which one has general background knowledge or required skills and experiences.
* **Good growth potential**, it is advised to select a business opportunity which has the chance to survive for a long time while generating sufficient income for the investor (s).
* **Sufficient demand,** a good business opportunity should be able to attract people, institutions that are willing to and able to buy the products of the business
* **Reasonable return on investment,** the profits/rewards realized from the business should be acceptable or attractive to the entrepreneur
* **Properly timed,** a god business opportunity should respond immediately to the needs or requirements that have not been satisfied
* **Related to one’s skills and experience,** for the entrepreneur to ensure good or attractive business opportunity, he/she should be having the required training or knowledge or experience so as to manage the business successfully

**Steps/stages/procedure/process involved in determining the profitability of a potential business (steps of evaluating business opportunities)**

* **Deciding on the type of business,** this involves establishing the type of business to undertake given the available resources e.g. trading, service provision or manufacturing business.
* **Choosing the location for the business**, this involves selecting a place where to establish the business.
* **Fore casting/estimaring sales,** this involves estimating the size of the potential market for the business product.
* **Estimating /estimating costs**, this involves estimating the cost of operating the business i.e. cost of goods (wages, advertising, taxes, power. Loan payments, rent, transport, insurance etc)
* **Estimating /estimating profits,** this involves determining the profits by getting a difference between the sales and the costs i.e. Estimated profits = Estimated sales – Estimated costs

**Local organizations that provide Guidance about business opportunities**

* Private sector foundation
* National Agricultural Advisory Services (NAADS)
* Non governmental organizations
* Uganda industrial research institute
* Enterprise Uganda
* Uganda Women Entrepreneurs Association
* Uganda Small Scale Industries Association

**Revision questions;**

1(a) Distinguish between a business idea and a business opportunity

(b)Explain the steps involved in determining profits in an enterprise

(c )Explain the features of a good business opportunity

2(a) Distinguish between market feasibility study and technical feasibility study

(b) What are the indicators of viable business opportunity?

**GENDER AND ENTREPRENEURSHIP**

**Gender,** refers to the way in which males and females are differentiated and ordered in a given socio-cultural system.

**Or**

It refers to the social relationships between men and women.

**Terms used under gender and entrepreneurship**

* **Sex,** this refers to the biological differences between males and females.
* **Culture,** this refers to the permanent rules/ principles or way of behavior and thinking of people in a given community/ society.
* **Society-** refers to an organized body/ group of people bound together by common beliefs, attitudes, customs, rules and modes of action within a given social/ political boundary.
* Access, this refers to the right or means to obtain goods or services.
* **Labour market** refers to a place where human resources can be bought.
* Gender equality, this refers to an arrangement where everyone is given the same opportunities and ensures that the obligations are similar for all groups so that no body feels or is treated as more or less worthy than others.
* **Division of labour,** refers to the belief that there are certain activities that men can or can not do and which women must or must not do.
* **Gender identity,** refers to the subjective awareness that one is a member of the male or female sex with the consequence that one conforms to culturally determined expectations of appropriate masculine or feminine behavior. Gender identity is a result of the conditioning process.
* **Gender roles**, these are culturally determined patterns of behavior that are expected of males and females.
* **Gender partnership,** refers to the idea of men working harmoniously with women as joint partners.
* **Partnership** refers to an agreement between two or more equally recognized individuals or organization to engage in a task.
* **Empowerment** refers to a process by which people take control and action in order to overcome obstacles.

**Or**

The collective action by the oppressed and deprived to overcome the obstacle of structural inequality which have previously put them in a disadvantaged position

* **Gender equality**, this refers to a situation where every body is given the same opportunities and that the right and obligations are similar for all groups so that no body feels or is treated as more or less worthy than others.
* **Gender myths,** refers to the false beliefs that are related to gender

Examples of gender myths

* Girls are less capable in the fields of science and technology
* Women can not afford managerial responsibilities
* Parents see science studies as being of little relevance to girls
* Girls are believed to be weaker, Lazier and more irresponsible than boys
* Men tend to display spatial skills while females tend to show verbal skills
* **Gender stereo types,** refers to the fixed mental impressions (negative attitudes) that are related to gender.
* **Gender relations,** refers to how men and women are related and interact in society.

**Ways of enhancing/ promoting gender partnership in a business or an organization.**

* Ensuring that each member is fairly rewarded for the services he/she renders in the organization regardless of gender.
* Ensuring that there are no threats of exploitation or victimization in an organization
* Ensuring that partners are aware of their own membership and that of others.
* Ensuring that each partner gets satisfaction from participating in any activities taking place in the organization
* Ensuring that there is two way communication in the business
* Ensuring that each member strives to communication his/her feelings and ideas as clearly and accurately as possible.
* Ensuring that the development of each partner is improved regardless of gender
* Ensuring that each partner has a sense of identity and/or belonging in the organization.

**Reasons why it is necessary to promote gender partnership**

* To increase the abilities of women to participate in the labour market.
* To promote the development of women entrepreneurs.
* To ensure that each member is justly rewarded for his//her services.
* To eliminate the threats of exploitation and victimization.
* To promote employment for women for women as away of reducing poverty.
* To increase the number, sustainability and success of women in business.

Factors that affect /determine women participation in entrepreneurial activities in Uganda

Level of discrimination in the labour market

women role models

level of education

marriage age of women

accessibility to capital

marital responsibility

Nature of education system /curriculum

Responsibilities/demands on girl child

women's attitude towards emtrepreneurship /business

Level of sensitization

Child care facilities

career guidance offered to girls

**Barriers to women participation in entrepreneurship**

***Causes of Women Magnalization In Business***

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

* Relegation of women to the home duties due to colonialism that was associated with training of women for assistant administration roles. This limits women participation in entrepreneurship.
* Limited role models and career counseling, absence of women role models who could serve as examples to encourage other women to involve in entrepreneurship.
* Poor education facilities needed to enhance women participation such as teacher and supply of other equipment.
* Limited access to funds (loans & grants) by women that is needed to start up business.
* Female seclusion practices and early marriages of women limit their participation in business.
* Double demand on girls i.e. traditional and school learning activities.
* The masculine image of science projected in text books and the media i.e. sciences are presented as subjects for men. This discourages women to take part and consequently in business.
* Nature of science occupations which can not easily be combined with child care. This limits women to take on science occupations consequently limiting their involvement in entrepreneurship.
* Parents’ perception of cost –benefits educating girls. Some parents have a belief that educating girls is wastage of resources.
* Discriminatory labour market, employers prefer employing males to females due to the many home roles attached to women. This discourages women participation in entrepreneurship.
* Irrelevance of curricular presentation to science to girls’ views and experiences. The curriculum of science does not support girls’ views and experiences hence limiting women participation in entrepreneurship.
* 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.

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.

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

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.

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.

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.

Strong opposition from men/males. Women some times are denied a change of participating in business activities by their husbands

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

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

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

Limited capital owned by women. This limits the business start up process hence leading to low women participation in business activities

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

Early marriages of girls. This gives them added responsibilities which limit their participation in business activities

**Measures/ ways of encouraging women participation in entrepreneurship**

* Providing equal education facilities to both boys and girls i.e. availing chances for education for both boys and girls so as to encourage women to participate in entrepreneurship.
* Recognizing the abilities and talents of girls especially as regards business. This will encourage more women to take part in business.
* Providing special incentives to girls such as scholarships in schools both high school and higher institutions of learning. This encourages women to take part in business.
* Promoting/ encouraging women to undertake micro or small business. This will serve as an example and it will encourage more women to take part in business.
* Up grading science school facilities and adequate training of sufficient teachers.
* Developing career guidance sensitive to girls needs and make visible the existing successful women in science to serve as role models.
* Discouraging the habit of girls choosing subjects related to home and personal care and boys taking technical subjects such as math, physics, technical drawing etc.
* Availing job opportunities for women combing flexible work patterns and child care facilities as well as discouraging discrimination in the labour market.
* Combing all science needs with special needs of rural women and girls so as to cater for their views and experiences…
* Providing subsidies, grants or soft loans to potential entrepreneur to encourage them to participate in business.
* 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;
* 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.

By providing easy access to productive resources to the woman so as to encourage them to take part in business.

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.

By creating female based entrepreneurial society and clubs to promote female business in the community.

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

Giving special incentives to girls to encourage them to study science subjects

Through recognizing the abilities/talents of girls to avoid skill shortages from exclusively one half of the population

Organizing international women based workshops and conferences and hiring international women role models to arouse interests of women in business activities

Benefits of women participation in business activities /entrepreneurship

promotes economic growth

yields wise decisions in business

guarantees continuity of family businesses

generates more governement revenue

reduces costs of hiring labour since women have a weak bargaining power

promotes competition in the labour market hence leading to efficiency

It improves the image of the business in the eyes of the public

It reduces the work load for men in enterprises

(d) (i) Meaning: Gender partnerships refers to the idea of men (with all

their attributes) working harmoniously with women as joint partners in enterprices.01mark

(ii) Three factors that lead to low entrepreneurial activities among women in Uganda include:

Limited women role models and career guidance.

Discrimination against women in the labour market

Inappropriate education systems

High risky occupations that disfavour females

Domestic work over load on women

Early marriages

Unfavourable colonial training and influence

Limited entrepreneurial knowledge /sensitization

Wrong parental perception on girl child education viewed as a cost than benefit.

Limited funds for establishing enterprises.

Limited child care facilities

Unfavourable government policy in regard to women participation in Entrepreneurship e.g high taxes.

**Questions;**

1(a) Describe the barriers to women participation in entrepreneurship.

(b) Suggest ways of encouraging women participation in entrepreneurship.

2(a) Distinguish between gender partnership and gender identity.

(b) How can gender partnership be promoted?

3(a) Distinguish between gender myths and gender identity

(b) mention the gender myths which Various societies believe in.

**BUSINESS PLANNING**

**Business planning** refers to the process of deciding what needs to be done in the business, when it needs to be done, how and who is responsible.

In planning an entrepreneur sets goals and determines how to achieve them. Planning is the beginning of the management process i.e. before a manager can organize, lead or control, he/she must have a plan.

**A business plan**

This is a document that summarizes the operational and financial objectives of the business and contains the detailed plans and budgets showing how the objectives are to be realized.

This document shows the goals objectives of the business and clearly outlines how they will be achieved

**Or**

It is a detailed action programme outlining every activity of the proposed business venture

**Or**

It is a management tool that acts as a control device against which management can measure its achievements

Preparing a business plan is a major step in starting an operating and successful business. There are two types of business plans, namely;

* Formal business plan
* Informal business plan

**A formal business plan** is the one which follows a standard format normally useful when securing outside funding for a business

**While**

**An informal business** plan is the one which is not presented to other people but it is used by the business owner.

**Values/benefits/importance / uses of a business plan**

Qn 1.Why is it necessary to prepare a business plan?

2. What are the benefits of preparing a business plan to an entrepreneur?

A business plan is used by investors, financiers, suppliers, employees, customers and consultants. It is written for the following benefits;

* It provides adequate preparation for the business, it helps an entrepreneur to think through his/her business thoroughly in a systematic way so as to prepare for aspects that may require urgent attention
* It acts as the time table for implementing business activities in a logical manner
* It helps an entrepreneur to remain focused on the goals and objectives of the business
* It helps the financiers such as commercial banks to decide whether to give a loan to a business or not
* It helps an entrepreneur to define specific goals and objectives which act as a bench mark to measure the progress of the business
* It is a guiding tool for opening and operating a business
* Helps an entrepreneur to obtain permission to operate legally
* Helps an entrepreneur to monitor the performance of the business over time based on the set goals and objectives as a standard measurement such that any deviation from the plan can be detected and corrected in time during the implementation of the plan
* It is a basis of determining taxes to be paid by the business e.g. profit tax
* It helps employees to know their expected production targets, it shows hw the business will be in both medium and long term
* It helps an entrepreneur to know the challenges in advance and lay strategies of overcoming them
* It provides employees with information about where the business is going and their role it i.e. it shows how the workers will be engaged in the business which gives them a sense of job security
* It encourages an entrepreneur to be focused by thinking about the business he/she wants to do in future. It encourages one to think about where he/she is going and where he/she wants to be in future

Rreasons for preparing a business plan

To provide adequate preparation for the business, to help an entrepreneur to think through his/her business thoroughly in a systematic way so as to prepare for aspects that may require urgent attention

To act as a time table for implementing business activities in a logical manner

To help an entrepreneur to remain focused on the goals and objectives of the business

To help the financiers such as commercial banks to decide whether to give a loan to a business or not

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To encourage an entrepreneur to be focused by thinking about the business he/she wants to do in future. It encourages one to think about where he/she is going and where he/she wants to be in future

**Steps followed in preparing a business plan**

* Selecting a business opportunity/ type to under take such as trading, manufacturing, service provision or agri business
* Conducting a market survey for the selected business type to identify the gaps in the market that can be taken advantage of
* Gathering all the relevant data about the selected business such as cost of machinery and equipment, environmental protection regulation, raw materials, selling and administrative requirements etc
* Drafting a business plan to be discussed with experienced people in the similar business i.e. this involves writing a rough copy of the business plan
* Discussing the drafted business plan with knowledgeable persons in a similar business
* Making a final business plan after having discussions with knowledgeable people i.e. writing the final copy of the business plan to be followed when implementing the business idea
* Preparing an action plan for implementation of the planned business activities

**Structure of the business plan**

Business plans take different formats however all of them have certain elements in common that all potential investor hope to find.

**Elements/components/contents of a business plan**

* Executive summary
* General description of the business
* Statement of purpose i.e vision, mission, goals and objectives
* Marketing plan
* Production plan
* Organization/management/administration plan
* Financial plan
* Action plan/idea implementation plan

**Executive summary**

This content summarizes the whole business plan for readers saving them time and preparing them for the upcoming content. It includes;

* **Back ground of the business,** this shows the name, location, address, contacts and ownership of the business
* **Business over view**, describes the types of the business, the industry were it’s to operate, the key benefits to consumers, the target consumers etc
* **Objectives of a business,** involves the short term aims of the business
* **Overview of the market for the business products,** involves high lighting the marketing strategies to be used by the business
* **Competitive advantage,** involves highlighting the advantages/strengths that the business has over the competitors

**General description of the business**

It is a summary statement of the business, it consists of;

* Name and address of the business
* Business location of the business
* Date of establishment
* Products offered by the business
* Sources of funds
* SWOT analysis
* Uniqueness of the business
* Customers served
* Description of business assets
* Nature of the businesses i.e. whether trading, service provision, manufacturing or agri business

**Statement of purpose i.e vision, mission, goals and objectives**

**Vision statement**

This is statement which shows the mental image of the business or what an entrepreneur wants his business to be in future e.g. To be the best provider of……………………… in Uganda

**Mission statement**

A brief statement which indicates the over all purpose of the business and how it is to be achieved i.e. it shows “what” and “how”.

**Examples of mission statements**

**To provide high quality products by using improved technology**

To improve the standard of living of the people through providing high quality goods and services

To uplift the welfare of the rural poor by providing soft loans to them

Uses of a mission statement in an enterprise

It defines the scope of the business

It provides a basis for stating the goals and objectives of the business

It gives strategic options to be taken to achieve the business targets

It facilitates communication about business to both investors and customers

It provides a permanent point of reference during periods of change

It reminds customers what the business offers

**Goals**

These are medium and long term target that an entrepreneur wants the business to achieve basing on the mission statement. Goals are those things that an entrepreneur expects to achieve after a given period (more than one year)

**Examples of goals**

* To open up 10 branches in four (4) years
* To realize an increase in profits by 10% in two years
* To increase sales by 60% in 2 years

**Objectives**

These are specific and short term targets that an entrepreneur sets to enable him move into the direction of achieving his/her goals and finally his mission statement.

Objectives are developed from goals that are set for the business i.e. one goal may have many objectives e.g. from the goal of realizing an increase in profits by 10% in two years, you can have the following objectives;

* To increase sales by 15% per year for a period of two years
* To increase productivity by 10% in 6months
* To open up outlets in various areas so as to improve on the distribution of the goods

**NB**: goals and objectives should be;

**S**-specific

**M**-measurable

**A-**attainable/achievable

**R**-realistic

**T**-time bound/time frame

**Marketing plan**

It refers to an analysis of the possible position and opportunities of the business being planned in the present market situation. This section explains how an entrepreneur is going to get customers to buy his/her goods or services. It consists of;

* **Target market,** an entrepreneur is required to establish who the likely buyers/customers are and where they are located
* **Position of the competitors,** an entrepreneur has to find out the firms dealing in the similar products. This is possible through market research where an entrepreneur finds out the strengths and weaknesses of the competitors.
* **Pricing strategies,** an entrepreneur determines the prices at which to offer his products in relation to the products of the competitors. i.e. the price should be affordable but it should make an entrepreneur earn a reasonable profit
* **Sales and distribution strategy,** an entrepreneur has to establish his proposed sales per given period of time i.e. per day, week or month. He should also choose a distribution channel that will effectively take the products to the customers.
* **Advertising and promotion plan,** this is where the entrepreneur analyses the various ways in which to communicate to customers and influence them to buy the products
* **Projected marketing expenses,** an entrepreneur needs to find out the expenses which are likely to be incurred while marketing his products e.g. expenses on advertising, paying sales personnel etc
* **Terms and conditions for selling,** here an entrepreneur points out the terms of sale he is going to use e.g. credit sale and cash sale.

**Importance of the marketing plan**

(What are the merits of the marketing plan to an entrepreneur? )

It helps an entrepreneur to establish his /her target customers

It enables an entrepreneur to assess the position of competitors

It guides the entrepreneur in deciding on the promotional method to use

It assists an entrepreneur in selecting the effective distribution channel for his/her products

It enables an entrepreneur in evaluating the sales performance of the business

It helps the entrepreneur to estimate the projected marketing costs and how to meet them

It enables him /her to produce in relation to the demand of the customers hence minimizing resource wastage

It enables an entrepreneur to identify market gaps to be filled

It shows the business market share

It helps the entrepreneur to know how much to produce

**Production plan**

This is an analysis of the projected needs of producing or buying the proposed goods or services. It describes the physical necessities of the business operations. It consists of;

* **Business site/location,** the entrepreneur needs to establish where to locate his/her business giving reasons for choice of such a location.
* **Production process,** flow and layout of the various machines in the productions area
* **Plant capacity,** this involves establishing the level of production of machines in relation to the market demand. The out put should meet both the long term and short term demands
* **Machinery, tools and equipment to be used in production,** the entrepreneur should clearly identify the machinery and equipment to be used in the production process
* **Raw materials to be used,** the entrepreneur should establish the type and quantity of raw materials to be used to produce the products
* **Labour requirements,** the entrepreneur should establish the type of workers needed in the production process, level of skills, amount to be paid, fringe benefits to be given to the workers
* **Inventory plan,** an entrepreneur should establish the tools he will use to control and manage inventory(raw materials, work in progress, finished products)
* **packaging requirements,** the entrepreneur should establish all the products to be packaged
* **disposal of waste products,** the entrepreneur should have a waste disposal point
* **power and utility requirements in the business’ production process** i.e. where the business will need electric power, water etc and estimate the cost involved
* **Any research and development plan,** an entrepreneur show whether there is any research plan in the business
* **Purchasing and re-order level plans**

**Organization/administrative/management plan**

This describes the employees needed in the business and how they are to be recruited.It consists of the following elements;

* People to be employed in the business in terms of number and type
* Tasks to be performed by the workers and supervisors
* Skills and knowledge /qualification required
* Remuneration i.e. salary to be given to the workers
* Organizational entry (recruitment) and exit procedure
* Summery of administrative expenses

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| position | No | responsibility | salary | Other allowances | Total |
|  |  |  |  |  |  |

* Organizational chart/structure/organ gram

**An organization chart** is a lay out that shows the number of departments in an organization and their relationships.

It involves the arrangement of workers, division of activities, allocation of duties, flow of authority and delegation of responsibilities.

It shows who is above who in an enterprise

**Sample of the organization chart**

Shareholders

Board of directors

Managing director

General Manager

Purchasing

Manager

Production manager

Marketing manager

Financial

Manager

Human resource manager

Assistants Assistants

Casual workers Casual workers

**Importance of an organization chart**

* It shows the various departments or sections of the business and their relationship with one another
* It shows the chain of command and delegation of authority
* It portrays the type of an organization and defines the spheres of authority for the supervising staff
* It shows the span of control basing on the quality of the staff ,variety of work and capabilities of supervisors
* It is useful when explaining to new workers in the organization, the type of an organization they are to work in and their role in it

**Financial plan**

This is an analysis that covers the financial requirements of the proposed business. It involves projections of income and expenditure, balance sheet and cash flow of the proposed business. It consists of;

* Total cost to set up and operate the proposed business i.e. fixed capital requirements, pre-operating expenses and working capital/operating expenses
* Sources from which funds will be got and the associated costs e.g. loans, grants, trade credit, sell of personal property.
* How the funds are to be used
* Projected profits of the proposed business/expected return on investment
* Over head costs/expenses/fixed capital requirements i.e. expenses such a salaries to the top managers, land, vehicles, premises and machines etc
* Working capital for operating expenses e.g. salaries, telephone, storage etc
* Pre-operating expenses/star up expenses e.g. power installation, business registration, business licensing etc
* Projected sales over a long period of time
* Break even analysis i.e. point where total cost equals total revenue

An illustration of a financial plan

|  |  |  |  |
| --- | --- | --- | --- |
| Item | Quantity  (shs) | Unit cost  (shs) | Total amount(shs) |
| **Fixed capital requirements**  Land  Premises  Machines  Furniture  Vehicle  Total fixed capital  **Pre-operating expenses**  Power installation  Rent deposit  Water installation  Registration  Licensing  Advertising  Total pre-operating expenses  **Working capital requirements**  Labour cost  Purchase of raw materials  Marketing expenses  Total working capital  Grand total |  |  | Xxx  Xxx  Xxx  Xxx  Xxx  **Xxx**  Xxx  Xxx  Xxx  **Xxx**  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  **Xxx**  **Xxx** |

**Source of funds**

|  |  |
| --- | --- |
| **source** | **Amount (shs)** |
| Loan  Personal saving  Sale of personal asset  Total | Xxx  Xxx  Xxx  **Xxx** |

**Action plan**

This is a logically drawn time table which lays out the steps to be followed when implementing the business plan/idea so as to achieve the set business goals and objectives. It involves

* Sequence of activities to be followed
* Expected duration/time
* Requirements involved at every step
* Indicator of success/remarks
* Person in charge

**An illustration of an action plan**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Time frame** | **Activity** | **Person in charge** | **Resources needed** | **Remarks** |
| Week 1 | Carrying out market research | Entrepreneur | Money, stationery |  |
| Week 2 | Acquiring land | entrepreneur | Money |  |
| Week 3 | Construction of business premises |  |  |  |
| Week 4 | Ordering and installing machines |  |  |  |
| Week 5 | Recruitment of workers |  |  |  |
| Week 6 | Carrying out trial production |  |  |  |
| Week  7 | Inauguration/launching of the business |  |  |  |
| Week 8 | Starting commercial production |  |  |  |

**Illustration 2**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Time frame | Activity | Resources needed | Person in charge | Indicator of success |
|  | Preliminary survey of the products |  |  |  |
|  | Market research and finalizing the business plan |  |  |  |
|  | Selection of business site and other formalities |  |  |  |
|  | Ordering for machinery and other equipment |  |  |  |
|  | Construction or renting of premises |  |  |  |
|  | Installation of machinery and equipment |  |  |  |
|  | Selecting personnel |  |  |  |
|  | Applying for utilities such as water, power telephone etc |  |  |  |
|  | Production trial |  |  |  |
|  | Commencing Commercial production |  |  |  |
|  | Carrying out necessary training of manpower |  |  |  |
|  | Carrying out publicity, promotion, selling and distribution |  |  |  |
|  |  |  |  |  |

**Importance of an action plan**

* It guides and helps an entrepreneur to remain focused when implementing the business idea
* It helps the entrepreneur to find business barriers in advance so that appropriate steps to remove them can be taken
* Helps the entrepreneur to locate the source of information and resources needed in the business
* It helps an entrepreneur to obtain information on the progress during business establishment
* It helps the entrepreneur to identify strengths and weaknesses, opportunities and threats of the business and those of the competitors
* It acts as a time table for implementing business activities

**Tools used in monitoring business operations**

**Monitoring business operations** refers to a set of activities undertaken to ensure that the desired goals of the business are achieved. The tools include the following;

* **Sales target,** an entrepreneur can set a target in relation to sales in a given period of time
* **Cash flow,** is a monitoring tool which shows an entrepreneur how much and from where the business will get its cash and how it will spend it
* **Bank statement,** is a statement showing the transactions between a bank and a client. It shows the deposits, withdrawals and other transactions made which helps the entrepreneur to monitor various transactions
* **Balance sheet,** is a statement drawn to show the financial position of a business for a given period of time. It helps an entrepreneur to monitor the assets and liabilities of a business’ stock records, this helps an entrepreneur in keeping an up to date record of what is in the stock.
* **Departmental records,** this is a monitoring tool that requires heads of departments to give written information about the performance of their departments in relation to the set target
* **Books of accounts,** these include the cash book, journals, receipt books etc which help the entrepreneur to monitor the incomes in a given period of time
* **Work order forms,** this involves monitoring the business through having an accurate record of customers’ orders so as to assign work to different employees. This enables the entrepreneur to price his goods appropriately

**Why is it necessary to monitor business operations?**

* To monitor the financial position of the business at a particular time
* To follow up the materials issued and received into the store in a given period of time
* To find out how much and from where the business will get its cash
* To compare profits realized and planned profits in a given period
* To determine profits made or losses suffered by the business in a given period
* To evaluate the workers’ performance against the set standards of the business
* To minimize the cost of production
* To ensure proper financial management in the business
* To minimize time wastage by workers while at work
* To assess the extent to which the business targets are being achieved

**Reasons for business plan failure /factors limiting the successful implementation of a business plan**

* **Interference by the government,** the government may stop the operations of the business due to various reasons such as poor location which limits the implementation is limited
* **Political instability,** where the business is located in an area with political instability such as wars, business plan implementation is limited
* **Corruption and embezzlement,** some members with in the planned business some times use the business funds for their personal gains. This limits plan implementation
* **Limited skilled labour,** the business may fail to implement its plan in case the necessary skilled manpower is lacking
* **Personal weakness/laziness of the entrepreneur,** an entrepreneur may fail to give time to the business due to engagement in other activities which may limit plan implementation
* **Unrealistic action plan** i.e. not having proper strategies on how to implement the business plan, this limits success of the business plan
* **Threats such as competition,** stiff competition from other businesses dealing in similar products may render the business unable to implement the plans successfully
* **Break down of infrastructure;** this limits most of the resources necessary for the planned business hence hindering its successful implementation
* **Inadequate resources** e.g. capital, land, raw materials etc
* **Failure to involve stake holders** in the preparation of the business plan
* **Lack of contingency plans,** alternative methods to either take over the earlier plans if they seem to fail due to in expected circumstances or modify them as the situation demands

**Suggest measures that can be undertaken to ensure successful implementation of a business plan**

* Involving stake holders in decision making at all steps in the process of making a business plan
* Ensuring political stability in all parts of the country
* Identifying reliable suppliers of inputs such as raw materials, stock, machinery, tools etc
* Ensuring economic stability i.e. stability of prices, exchange rates
* Setting realistic targets to be achieved in a given period of time
* Employing skilled and experienced workers to implement business activities
* Ensuring availability of funds needed to start and operate the business
* Lobbying the government through business associations for tax holidays, subsidies etc

**Revision questions**

1(a) Describe the various components of a business plan

(b)State eight uses of a business plan to an entrepreneur

2(a) Define a financial plan

(b) Give the factors which should be considered when preparing a financial plan

3(a) Distinguish between an operational budget and an action plan

b) Outline the steps involved in preparing an operational budget

4(a) Explain the importance of preparing an operational budget

(b)Why is it necessary to carry out budgeting in an enterprise?

**5(a)Why is it necessary to monitor business operations**

**(b) Describe the tools used by entrepreneurs to monitor business operations**

**6(a) Mention the production needs which are considered when developing a production plan**

**(b) What are the problems that may hinder the successful implementation of a business ?**

**MARKETING MANAGEMENT SKILLS**

Marketing refers to the various activities undertaken by an entrepreneur in order to find out who his /her customers are and their needs. Or the process of identifying anticipating and satisfying customers needs effectively and profitably

It involves all activities which are necessary to make products from the producer to the consumer. Marketing aims at satisfying customers’ needs and ensuring that the entrepreneur gets the desired level of profits. It consists of market research, pricing, promotion, distribution, customer care and sales activities.

Selling is the process by which you accumulate as much information about the needs of your clients as possible and present a solution while at the same time marketing your company and your products.

**Marketing activities undertaken by an entrepreneur**

* Identifying what people / customers need
* Providing products that can meet the identified needs of the customers.
* Setting the price which is affordable to the customers and which enables the entrepreneur to make profit.
* Availing products to places where customers can easily access them.
* Promoting products to attract customers to buy them and to maintain their interest in the products.
* Selling the products to the customers

**DIFFERENCES BETWEEN SELLING AND MARKETING**

* In selling an entrepreneur converts goods and services into cash where as in marketing the seven converts customers’ needs into products.
* Selling focuses on sellers needs while marketing focuses on customers’ needs.
* In selling profits are realized through sales volumes while in marketing profits are realized through customer satisfaction.
* In selling there is caveat emptor in let the buyer be aware whereas in marketing there is caveat vindicator. I.e. Let the seller be aware.
* In selling there is a fragmented approach to achieve immediate gains while in marketing there is an integrated approach to achieve long term goals.
* In selling a product enjoys supreme importance while in marketing, a customer enjoys supreme importance.

**TARGET MARKET POPULATION**

This refers to a group of people the entrepreneur intends to sell his/ her goods and services. In marketing its vital for an entrepreneur to identify the likely buyers of his / her product in order to plan a marketing strategy to use.

The buyers may include;

* Students
* Rural people
* Urban dwellers
* Rich / high income people
* Poor / low income people
* Youths
* Men
* Women
* Children
* Institutions like churches, schools etc

The entrepreneur has to find out the market share of his / her good or service. Market share refers to the percentage of the target market population that is wiling and able to buy the businesses good or service.

If consumers are not willing or willing but not able to buy a business product it implies that there is no market for that product.

**FACTORS THAT INFLUENCE THE TARGET MARKET POPULATION FOR A PRODUCT**

* The consumption behavior of consumers / TMP, consumers’ behavior so much determine their expenditure patterns on certain items e.g. alcoholics, smokers, sports funs etc.
* Age and gender of the target population, different age and sex groups require different items such as colours, size, shape etc in a product.
* Level of competition i.e. businesses that deal in producing or selling of the same products. The behavior, size and strategies of competitors influences the target market that an entrepreneur can have. This is because they have the same objectives.
* Income levels of the target market population,this determines people’s ability to buy a given good or service. If earnings of the people are high, they may consume more goods and services compared to when the earnings are low
* Market trends, this can be in form of population shifts, change in people’s life styles , change in people’s tastes and preferences, change in people disposable income etc. when these change in favour of the business' products, the target market population expands and vice versa.
* Regulatory developments, in case the government regulations are in favour of the production and consumption of the products of the business, the target market is high and if they are against the consumption of the products the TMP is low.

NB: For an entrepreneur to be able to get information regarding the above mentioned factors, he / she has to carry out a market research / survey.

**MARKET RESEARCH / SURVEY**

**This is the process of collecting and analysing of information from customers about the opinions, ideas and complaints on a given product.**

**or**

**The study aimed at identifying market gaps to be filled by an entrepreneur.**

**Or**

Marketing research is the systematic gathering, recording and analyzing of data about the problem relating to the marketing of goods and services.

Entrepreneurs carryout market research in order to find answers to the questions below about customer and competition.

* Who are my customers and potential customers.
* Where do they live i.e. far or near. Rural areas or urban areas.
* Am /offering the kind of goods or services they want at the best place at the best time and in the right amounts?
* Is my proposed price rights?
* Are my sales promotion activities rights?
* What are the strengths and weaknesses of my competitors?
* What are my likely future sales/ market share?
* What do customers need in my products?

**Reasons for carrying out market research**

Why is it necessary to carry out market research?

* To identify problems in the current market
* To reduce business risks
* To get basic facts about the market to help you make better decisions and setup plans of actions.
* To estimate future sales and expected share of the market.
* To identify the market trends e.g. population shift.
* To identify the nature of the customers in terms of age, sex, occupation etc.
* To identify where to locate the business
* To identify the potential customers of the business
* To check on the effectiveness of promotional methods
* To identify the competitors’ strengths and weaknesses.
* To identify the best channel of distributing goods.
* To identify customers needs in terms of types, quality and quantity of good and services.

**Tools / means / methods through which data can be collected during market research**

* Telephone surveys, TV and radio callers this method is becoming popular these days and it is fast and convenient, people are willing to respond over the phone than in a face to face interview because it is less intimidating.
* Questionnaires here a self/ list of questions is prepared and then used during interview. People in the community especially those who are potential customers to the business should be interviewed. The respondents may fill the questionnaire or the interviewer may fill in the respondents’ answers.
* Brain storming, this is a technique used to solve a problem by generating as many idea as possible. You can brain storm by your self or by teaming up with other people. In this case one of the members should be a leader and another recorder of the generated ideas. A brain storming process begins with a question from the leader.
* Personal contacts here you can conduct an informal survey by talking to your family members and friends. This can be done by asking them the new products or businesses that they think are needed in the area. Their answer may give you some new ideas to think about.
* Observation, by just observing business activities in the community you is conducting an informal survey. This observation will reveal to you the need for particular business or products in the area.
* Interviewing different groups of people. This involves conducting formal discussions where the people concerned give their views on different areas of interest. In the course of the interview business problems can be identified these problems.

**PROCESS / STEPS OF CONDUCTING MARKET RESEARCH**

* Defining the research problems this gives a justification to be conducted.
* Deciding on the method of data collection to use e.g Questionnaire, interviews etc.
* Going to the field to collect data
* Analyzing the collected data.
* Writing and presenting the report about the research findings.

**Market assessment**

This refers to the process of collecting and using market information in order to determine the market for the products of a business and also identify the real or potential problems.

**OR**

It is a process of obtaining information to determine the market for a business’ product

**Or**

The process through which an entrepreneur finds out how much market his/her products will have when come on to the market

Market assessment helps the entrepreneur to find out the real and potential market of the business products.

**Objectives of carrying out market assessment**

To establish the interest/needs of customers.

To identify the competitors of the business.

To determine the size of the market.

To establish the challenges in the market.

To promote the business’ product.

To assess the effectiveness of the promotion channel used.

To determine the business’ market gap.

To establish the trends of the market.

To establish the prices customers are willing to pay.

To obtain customers’ view about the design and quality of the product.

**Factors to be considered when conducting a market assessment**

**The target market for the products,** this refers to people, businesses or institutions the business intends to serve. An entrepreneur may wish to look at their age,sex,income levels, education etc

**The nature of the products to be produced and what the market wants**, here the entrepreneur looks at the products variety, quality, design, features, brand name etc. all these are checked against what the customers would wish to have.

**The competition and substitutes business’ products will face and how this affects their market,** the entrepreneurs have to check on the competitors he/she will face in the market and establish the level of competition his/her products are going to face.

**The target market trends and their implications on the business market,** the entrepreneur would wish to know how the market he/ she intend to join has been behaving in the recent past.

**The information to look for when conducting a market assessment exercise**

**Identify customers’**

Age

Occupation

Family size

Marital status

Residence

Income

Interest and hobbies

Special interests

Etc

**Customer needs**

Is the product needed for alimited time?

How often are the products required?

Will customers come frequently or seldom?

Are customers looking for wider distribution or more convenient location?

What product variety,quality,design,features, brand,packaging and range of sizes are they looking for?

**Competition**

Who are the competitors?

Where are they located?

What are their weaknesses?

What are their strength?

How are their products compared with yours interms of function,appearance,performance,quality etc

**What are the company’s marketing activities? How does it market its products?**

What is the company’s price structure?

Who supplies the company with goods, raw materials etc?

What are the strength and weaknesses of the business?

Is the company expanding or reducing in size?

What is the competitor’s market share?

How much sales volume do they do?

**Trends: Are there;**

Population shifts(e.g. are more people coming to live in the area)?

Legal or regulatory developments that may affect the market in the future?

Positive or negative changes in the economic growth or situations e.g. are more people getting employed now than before?

Cheaper and more fashionable goods coming on the market than before?

Do people now have more disposable income than before?

Are the people’s lifestyles changing?

Is the market stable or volatile?

How does the market treat new entrants?

What are the major factors that are driving the market trends, is it the price,seasons,population,income,government policies?

**Using SWOT analysis to determine the competitive advantage of a business**

SWOT stands for strengths, weaknesses, opportunities and threats.

SWOT analysis is a tool used by an entrepreneur to check the chances of success of his/her business in the market. It helps the entrepreneur to decide whether to undertake the business or not.

It helps to find out whether the business has a competitive advantage over the competitors

When the strengths and opportunities are more than the weaknesses and threats, then the business is worthy under taking and vice versa.

**Strengths**, these are the internal things, factors or qualities that put the entrepreneur’s business at an advantage when compared to the competitors.They include;

Ability to produce high quality products

possession of capital

Charging customer friendly but profitable prices

Ability to produce products that can meet customers’ tastes and preferences

Being efficient and effective when serving customers

Ability to attract customers/possession of marketing skills

Good location of the business

possession of a good and trained marketing team

Having a high and effective entrepreneurial sprit

possession of good customer care skills

Being creativity and innovative

**Weaknesses,** these are the internal constraints/ factors that the business' products may face in the market .They include;

Being new in the market and having a weak marketing image

Possession of limited capital

production of poor quality products

poor pricing of products /charging high prices

Having poor marketing skills / poor customer care

Incurring higher unit costs relative to key competitors

Inability to finance needed marketing changes

Limited product variety / narrow product line

improper location of the business ie location not being close or easily accessible to customers

**Opportunities,** these are external chances that may happen and benefit the entrepreneur's business. They include;

Possibility of big orders being placed e.g. by government, organisations etc

Sudden shift in tastes and preferences of customers in favour of the entrepreneur’s products

Change in the market trends due to new developments e.g. a new school being opened up in the neighborhood, a large business being established in the area etc

Removal of trade barriers which widens foreign market

Faster market growth/expansion

Complacency among competitors

Development of infrastructure eg road

Favourable government policy eg reduction of taxes

**Threats,** these are undesirable external happenings that may occur in the market and negatively affect the entrepreneur's business. The business has no control over these happenings. They include

Emmergency of stronger competitors in the market

Rising sales of substitute goods

Adverse shifts in foreign exchange rates and trade policies

Costly regulatory requirements

Growing bargaining power of customers or suppliers

Changing buyers' needs ,tastes and preferences

Adverse demographic changes

Sudden negative changes in the government policie

Competitors reducing their prices

**MARKETING TECHNIQUES**

**These are tools that are employed by an entrepreneur so as to carry out his marketing effectively. They include;**

* Advertising
* Giving free gifts to customers.
* Proper handling of customers
* Using of attractive display of product , this can be done in side or outside the business premises.
* Using effective communication , this helps an entrepreneur to pass on the massage about his / her products to the target customers. This message can be conveyed through various media such as radio, TV, newspapers etc.
* Negotiations, this refers to the bargaining process which takes place be
* Ensuring good customer relations, this is done to create a good public image of the business.
* Providing of prompt services to the customer.
* Extending discounts to customers especially regular customers especially regular customers.
* Extending credit facilities to the credit worthy customers.
* **Offering favourable pricing policies and strategies**
* **Quality improvement**
* making a decision on how to market or distribute a product
* **personal selling**
* **price reduction**

**Customer relations**

**This refers to the good ways a business deals with customers.**

**indicators/manifestations of good customer relations in business**

**pleasantness, ability of an entrepreneur or employees to deal with customers with happiness.**

**Honesty, ability of an entrepreneur to tell the truth about the business products.**

**Being available to assist customers, this makes them develop confidence in the business / entrepreneur.**

**Handling customers' complaints, this involves carefully attending to the complaints presented by the customers eg poor quality, delays in delivery etc**

**Customer care, giving attention to customers by showing concern, rendering the service as required etc**

**Being tactful, ability to handle difficult situations with wisdom in order to build confidence in the customer and to avoid disappointing him.**

**Possessions of sound knowledge, this involves having proper knowledge of the goods and services that are sold by the business so as to be able to inform customers.**

**Providing prompt service, providing services immediately to the customers without unnecessary delays.**

**Good business language, this involves using impressive speaking style that can encourage customers to continue buying from the business.**

**indicators/manifestations of customer care in business**

**Increased turn over /sales levels**

**increased profit level**

**increased market share**

**Good public image /popularity of the business**

**increased customer loyalty**

**Expansion of business interms of stock and new branches**

**limited intervention from the government**

**Steady and reliable business supplies**

**Benefits of good customer care in business**

**It leads to increased sales**

**It makes the entrepreneur's business popular and acquire good will**

**It helps the business to retain its market**

**Attracts customers away from the competitors**

**It promotes publicity of the business**

**It creates direct contact between the business and the customers**

**It helps the entrepreneur to introduce new products or designs**

**Ways of handling difficult customers**

**Being calm and pleasant when dealing customers**

**Listening to customers ie not arguing with customers**

**keeping promises building rapport with customers through empathy**

**Lowering the entrepreneur's voice**

**Taking the customer as a King**

**Avoiding getting upset /angry with customers**

**Avoiding taking issues person**

**Knowledging but not agreeing**

**Being specific with customers' needs**

**Marketing mix**

This refers to a combination of various elements (inputs or decisions) which constitute the core of a company’s marketing programme

Or

The key marketing decision areas that have to be made in the business' marketing programme. The elements are precisely referred to as the5ps of marketing mix.

The components of marketing mix **include;**

* Product planning and development
* Pricing
* Place identification
* Promotion
* Positioning

Note: The entrepreneur has to combine these five elements or areas into the business' overall marketing programme.

1. **Product planning and development**

A product is either a physical good or service that can be offered by the entrepreneur for satisfaction of people’s needs.

Marketing specialists make surveys to find out what good ands and services people need in order to produce products which can meet people’s needs. Commodity colour, quality, design etc. must put consumer needs into consideration.

When developing a product the following should be considered

* Develop a product that the customer need.
* Use product attributes that customers want e.g. shape, colour, packing brand name, quality, size etc.
* Find out whether you can make a better product or similar to these already on the market (those of your competitors).
* Check out the possible sources and costs of raw materials.
* Identify the major competitors in the market.

**Pricing**

The entrepreneur should determine the price at which the product is to be sold. The price should reflect the value of the product. More so the price should be law enough to attract buyers but at the same time it should be high enough to enable an entrepreneur to generate profit and cover the cost of producing a good or service.

**Factors need to be considered when determining the price of a product.**

The Cost of producing the good or service

The quantity in which people buy and how much they are willing to pay

The price of the competitor/ Price of other similar products on the market

The need to make the price more attractive to customers e.g. making special offers and price discounts.

The segment of the customers to be served e.g. rich or poor

Nature of the product i.e. durable or perishable, durable products are normally sold at higher prices than the perishable ones

Seasonal products, these are normally sold at higher prices during their seasons compared to those which are not seasonal

**Methods used in pricing of a product**

* Cost based method, here price is based on the cost of producing a product or expenses incurred to produce the product.
* Supply oriented pricing, price depends on how much is supplied and the number of the competing supplied of the similar or related products.
* Completion based pricing, here price is based on the prices on the competitors i.e. those who deal in the same product.
* Demand / customers oriented pricing; here price is based on demand in the market. In this case where demand is high a high price is charged and vice versa.
* Fashion oriented pricing, price depends on the fashion of the product i.e. whether new or old.
* Contract or treaty pricing, price is based on the agreement made between the supplier / seller and the buyer.
* Government pricing policy, government can set law prices to encourage consumption or a high price to discourage consumption

1. **Place / distribution**

In order to satisfy customers, the entrepreneur or whole seller should avail his/ her products at the right time and in a convenient location.

Any marketing manager should choose and manage the distribution channels, through which the products can reach the right market at the right time.

In this case the following aspects should be put into consideration.

* Delivery of the product i.e. directly or through middle men.
* Methods of transport to be used in the place
* Storage facilities available
* Is the product having an effect on the environment around or not?

1. **Promotion**

This refers to all activities aimed at telling consumers about the product and trying to persuade them to buy it. An entrepreneur needs to look at promotion as a very important variable because:-

* It increases public awareness of the product.
* Educates customers about how products are used
* Renews customer’s interest in the product.
* Retains market for the products of the business / stabilizes sales
* reminds the public of the products available for sale
* helps the business to out compete competitors
* helps the entrepreneur to introduce new brands to the market
* maintains sales of seasonal products

However, there is need to consider the costs involved in the means of promotion selected.

The ways of promoting sales include:

* Through offering free samples to potential customers.
* By using attractive window / act side display of products.
* By using trade faire and exhibitions
* By using attractive packing materials for the products.
* By using sign posts / means signs / bill boards etc.
* By giving discounts to customers.
* By extending credit facilities to credit worthy customers.
* providing money back offer
* Using exchange schemes

1. Positioning

This refers to putting of a product strategically to target a particular segment of customers eg. Putting dolls, chocolate, Biscuits, sweets at the counter where children can easily see them and develop interest in them.

An entrepreneur should be guided by the following questions when positioning his/her products.

* What good or service do /offer?
* Who are my target customers?
* Where do they want to find the products?
* How would customers wish to be served?

**Marketing strategy**

**These are policies of identifying customer groups or target market which a small business can serve better than its competitors and use its marketing tools/ techniques towards that particular market segment.** They include;

**Tools for effective marketing strategy**

* Net working, this involves establishing relationship with new people by giving them referrals, business cards, contacts etc. This technique is commonly used by small business/ entrepreneurs
* Adverting, most adverts focus on the campaigns, product features instead of the customers’ problems. One should create a great advert by concentrating on the problems that a product can solve.
* Offering guarantees, this gives customers an assurance that the products offerred are of good quality.
* Give free information to interested people, giving information about products and what it can do in solving the problems of the target customers.
* Cold calling, this involves opining up a conversation with another person about one's business. The conversation should be enticing to capture the other person’s attention.
* New letters, the new letters should be issued to your customers and prospects and it should be carrying valuable information to your customers.
* Writing, this involves sending information to customers and prospects through magazines, web sites etc.
* Referrals, in this case one asks his clients to refer new customers to him. Do An entrepreneur should not just sit back and assume that a satisfied customer will refer some one to him.

**Potential customers**

These are the people who share common needs and characteristics that a business decides to serve.

**Characteristics of potential customers**

* Age, people of different age, have different requirements for different reasons.
* Sex, are your potential customers mainly males of females?
* Location, customers can be defined in terms of where they live or work.
* Income level, customers can be low a high income earners.
* Employment / occupation, there is a relationship between a persons’ occupation and tastes or attitudes.

**MARKET SEGMENTATION**

This refers to the diving of the market into groups of individual markets with similar wants / needs. An entrepreneur divides these markets into district groups which have distinct needs, behavior or which might need different products.

**Objectives / reasons of market segmentation**

* To group customers with similar needs.
* To meet the needs of particular/ selected customers
* To increase sales and minimize advertising costs by targeting people who are likely to buy.
* To increase opportunities for growth through increased sales.
* To increase profits for the business through charging different prices in the different market segments.
* To determine the market segment to serve.
* To ensure better matching of customers’ needs
* To increase market share in the segment selected.
* To be able to retain more customers
* To be able to deliver the marketing message to a relevant customer audience

**Basis of market segmentation**

Market segmentation is done basing on the following factors.

* Demographics, here customers are grouped according to characteristics such as age or house hold composition.
* Socio - economic characteristics, customers are grouped basing on income, occupation and education. These characteristics indicate customers' lifestyles, sensitivity to price, brand preference etc.
* Product usage, here segmentation is done basing on the potential to use the firm's product. The potential to use the products can be determined by asking questions such as; are you able to use the products? Have you used it in the past? Are you considering to use it?
* Psycholgraphic, here segmentation is based on people's personality, attitudes, opinions and lifestyles.
* Generation, this refers to people born in the same period of time.These tend to have similar likes, tastes and preferences. This is a good basis of segmentation.
* Geo-demographics, this is the combination of demographics and geography. This identifies groups of small geographical area which have similar demographic profile.

**Criteria for selecting a segmentation basis**

The market segments identified should satisfy the following conditions;

* Internal homogeneity / external heterogeneity.

This means that potential customers within a segment should have similar responses to the marketing mix variables of interest but a different response to members of other segments.

* Parsimony. This refers to the degree to which the segmentation makes every potential customer a unique target. The segmentation should identify a small set of grouping of substantial size.
* Accessibility, this refers to the degree to which marketers can reach segments separately using observable characteristics of the segments.

**How market segmentation can increase sales**

By better meeting of customers’ needs, through better positioning to chosen segments, you may be able to increase market share and volume of units sold.

Through better meeting of customers’ needs, you can be able to increase product price without sacrificing much volume.

By targeting only the most profitable segments, you may be able to reduce marketing costs.

**Product promotion**

**This refers to the form of communication used to inform, persuade and remind people about an entrepreneur's products.**

**Types of product promotion**

**Sales promotion, various ways used by an entrepreneur to attract or influence people to buy more of his / her products.**

**Advertising, spreading of information to the public about the availability of the products to customers in order to increase sales.**

**Personal selling, a situation where a team of sales force is employed to sell the business' products directly to customers.**

**Publicity, the Planned and sustained effort to establish and maintain good will and mutual understanding between a business and the public. This is done through press releases, corporate social responsibility such as planting trees , use of corporate logos etc**

**Reasons / objectives of carrying out product promotion**

To increase public awareness of the product.

To educate customers about how products are used

To renew customer’s interest in the product.

To retain market for the products of the business / stabilizes sales

To remind the public of the products available for sale

To help the business to out compete competitors

To help the entrepreneur to introduce new brands to the marke

**PROMOTION OF GOODS AND SERVICES**

Sales promotion refers to all activities other than advertising and personal selling that are carried out by an entrepreneur so as to increase sales of a particular commodity.

Sales promotion can also be defined as any attempts made to boost the sales of a product.

**Objectives of carrying out sales promotion**

Reasons for carrying out sales promotion

* To increase sales of a business through attracting new customer and maintaining the exiting one’s. This is the major objective of sales promotion.
* To introduce new products e.g. through giving of free samples to potential customers.
* To out compete competitors
* To bridge the gap between the producer and the customers
* To maintain sales of seasonal products e.g. through giving off seasonal discount for these products such as room heaters, winter clothes etc.
* To stabilize sales of the products / To retain the market
* To remind the public about the products available for sale
* To target a particular segment of the market to whom the products are to be sold

**Importance of sales promotion to manufacturers**

* It helps to increase sales in a competitive market hence increased profits.
* It helps to introduce new products in the market by drawing the attention of potential customers.
* It stabilizes sales volume by maintaining the existing customers.
* It helps to introduce new products and to dispose off existing stock when there is change of fashion, tastes and preference.

**Importance of sales promotion to consumer**

* It helps the customers to get products at cheaper prices.
* It helps to raise the standard of living of people by using the latest items available in the market.
* Certain scheme such as money back offer creates confidence in the mind of customers about the quality of goods.
* It helps customers to get all information about the quality, features and uses of different products.
* It gives financial benefits to the customers by way of providing prize and sending them to visit different places.

**Methods used to promote sales of a product**

The entrepreneur or wholesaler can use the following methods to communicate with his/ her customers so as to increase sales.

Giving out free samples to potential customers

Premium or bonus offer, here a free item is given on purchase of a product e.g. a tooth brush with a tooth paste.

Exchange schemes, refers to an offer to exchange an old product for a new one at a price less than the original price of the product.

Offering sales services such as delivery of goods, repair and maintenance etc

By giving money back offer to customers, here customers are given assurance that full value of the product will be returned to them if they are not satisfied with the product.

By using attractive window activity, this method is affordable by small business but to be effective, the display should be changed every after a given period of time e.g. a week, month etc.

Through scratch and will offer, in this scheme the customer scratches a specific market area on the package of the product and gets the benefit according to the message written there.

By using trading stamps, in this case trading stamps are distributed among thee customers according to the value of their Purchase. Customers are required to collect stamps of a given value within a specified period of time to get some benefit.

By selling good on credit to credit worthy customers.

By offering cash discounts to customers who buy in large quantities and those who buy on credit and pay promptly.

Through giving donations to form of cash or goods to people who are in need e.g. disabled orphans, sick etc.

By organizing competitions or games.

By marinating links with current or potential customers, whole sales and retailers. This keeps the right people well informed about your products.

Though trade fairs and exhibitions, these are normally organized at local, regional, national or international level.

Through price offer, her products are sold at a price lower than the original price. This scheme is normally used to boost sales in off peak seasons and when introducing a new product in the market.

By using coupons, coupons are issued by the producers either in the packet of a product or though an advert printed in the newspaper, magazines etc.

Through creating the right attitude in your workers. This is done by training employees to be friendly to customers and to be knowledgeable about the product they are selling.

**Sales promotion strategies**

This refers to any activity that is designed to help boost the sales of a product.

Because sales are the back bone of the business i.e. the business can not exist without sales,therefore, if a business is to succeed an entrepreneur should have a sales promotion strategy in mind.

Sales promotion boosts sales by attracting new customers and retaining the old ones.

**Sales promotion strategies can be done through,**

* An advertising campaign
* Public relation activities
* A free sampling campaign
* A free gift campaign
* Demonstrations and exhibitions
* Prize giving competitions
* Temporary price cuts.
* Door to door sales
* Etc

Points to consider when developing a sales promotion strategy for one's business

* Consumers' attitudes and buying patterns
* One's brand strategy
* One's competitive strategy
* One's advertising strategy
* Other external factors that can influence one's products availability and pricing

Types of sales promotion strategies

* A push sales promotion strategy,

This strategy involves pushing distributors and retailers to sell the entrepreneur's products to the customers by offering various kinds of promotions and personal selling efforts.

In this case the producer promotes is products to a retailer who in turn promotes it to the consumer.

Examples of push sales promotion strategies

* Buy back guarantees
* Free trails
* Discounts
* Contents
* Etc
* “**Pull” sales promotion strategy,** this involves attracting the customers to buy the products directly from the producer.

This strategy focuses on the consumer instead of the retailer or distributor.

The aim of this strategy is to direct marketing efforts directly to the consumers with the hope that it will stimulate interest and demand for the product.

Examples of pull sales promotion strategies

* Samples
* Coupons
* Cash refunds
* Etc.
* A combination of sales promotion strategy, this is a combination of push and pull strategies. This strategy focuses on both the distributors and the consumers, targeting both of them directly.

**ADVERTISING**

**This refers to spreading of information to the public about the availability of the products to customers in order to increase sales.**

Or

It is the means by which information is spread by producers and sellers about the availability of their goods in an attempt to increase sales.

Or

It refers to the act of informing customers of the availability of a product and attracting them to buy that product

The wise men once urged that, “the person who saves money by not advertising is like a man who stops the clock to save time”.

Every business must advertise in some way if its to succeed.

**TYPES OF ADVERTISING**

There are majorly two types of advertising namely:- Informative and persuasive or competitive advertising.

*Informative advertising*:- This is a form of advertising which aims at making the public aware of the products available for sale and where they can be obtained and sometimes the prices are mentioned.

This kind of advertising is normally used when there are not many competitors in the business.

*Persuasive or competitive advertising:* - This is a form of advertising which is designed/aimed to induce or persuade members of the public to emphasize the consumption of a certain good. This type of advertising tries to persuade the public through indicating the best taste, flavor or the price of the product, the convenience of using the product etc.

Objectives of advertising in an enterprise

To persuade customers to buy the product

To increase sales ie to facilitate speedy movement of the product

To stabilize sales

To position the business' products

To respond to inquiries of customers

To educate customers about the product

To sustain the interest of the customers

To promote the image of the enterprise ie to create goodwill for the business and entrepreneur

To remind customers about the availability of a product

To facilitate competition

**ADVERTISING MEDIA**

They refer to the channels of communication used by the advertising industry to pass over the information to the customers.

**Or**

These are tools or means used to convey the advertising message to costumers.

The advertising media include;

**Radio**

This is where the advertising message is passed over a radio to the potential customer. Advertising on radio is done by the commercial section of any particular radio station.

**Advantages of radio advertising**

**Covers a wide area**: - it covers a very wide area in most cases it is a nationwide. The introduction of private radios has enabled all major towns in Uganda to have their own radios.

**Broadcasts in different languages:** - advertisement can be conveyed in different languages which benefits every clan and social class of people.

**It favours all societies**: - it is good for both literate and illiterate societies. So it does not call for reading or writing.

**It is fast:** - it saves time and it is effective. Messages are received as soon as they are sent. It does not call for delays in processing, posting etc.

**Explanations are possible**: - Radio messages are always clear, since they give all details. Such messages are run over and over again for some time.

Corrections can be made, it can be corrected immediately; unlike written message which may take time.

Radio advertising is cheaper than news paper hence affordable by many people.

Radio is a personal advertising medium, because station personalities have good rapport with their listeners, when they announce your commercial, it is equivalent an endorsement.

Radio advertising can be used to support your printed advertising e.g. you can inform your potential customers that, see our advert in the daily monitor”.

Radios cover a wider geographical area at the same time because they have a wider usage compared to new papers and magazines

Radio caters for even the blind people unlike newspapers.

**Disadvantages of radios in advertising**

**Favours radio owners**:- Only people with radio sets are reached. Those areas where radio waves cannot reach will not get the message.

**No visual element:-** The sense of seeing doesn’t prevail like it is the case for T.V.

The youth may not respond/listen to adverts:- Many people with radios especially teenagers do not listen to commercial programmes. They only prefer music to detailed advertisements.

**No reference**:- a radio can not store information, once a message is sent on radio, it is gone. If a person is not physically present, he will miss the message.

**Limited languages used**:- languages used to advertise on radio are limited. There are many languages spoken in Uganda, so all of them cannot be used on radio because of limited time.

**It is costly**:- it is expensive to advertise using radio. Radio advertisements need to be repeated ove r and over again so that they can be effective and this makes is costly.

**They exaggerate information concerning products:-** radio advertisements tend to exaggerate by using many persuasive words which may encourage a person to buy or attend to a service which does not conform to standards.

There are so many radio stations and therefore the total listening audience for any one radio may be small.

People do not listen to the radio all the time but only during certain times of the day. E.g. morning hours, news hours and late evening.

You can not review a radio commercial, if it plays and you fail to capture the entire message, you can not go back and hear it again.

Commercial costs are much higher during drive time. Drive time is the time when people driving to or from work i.e. 6:00 am- 10:00am and 3:00pm – 7:00pm.

Radio adverts do not give detailed message about the business or product it can only sell one or two ideas almost about the product

**TELEVISION**

This is a medium used to show slides and short films displayed on the screen about a particular product or business being advertized.

Or

This is a medium of advertising where advertisements are brought to the notice of the viewer and listener in a short time. In Uganda the television channels used in advertising commodities include:- Uganda Broadcasting television, WBS, NTV, Bukedde, Top T.V, Light House T.V, NBS T.V. etc.

Television advertising is very effective because many people spend more hours watching TV per day than paying attention to any other medium. However it is an expensive medium.

**Advantages of television advertising**

**It is fast**:- Time taken is short and messages are effective. Advertisements on television are always up to date as they are relayed as soon as they arrive.

**Favours all societies**:- it is desirable for both literate and illiterate societies. Television does not require reading and writing, but seeing and listening which is good for both literate and illiterates.

**Visual reception**:- messages can be receive visually. This makes the message clear as the sense of listening is backed –up by that of seeing.

**Covers a wide area**: - it can cover a relatively wide area. Televisions cover all those areas with transmission waves hence the message reaches a wide area.

**Immediate reception**: - messages are received immediately they are sent. There are no delays involved and this encourages the listeners to respond to the goods advertised immediately.

It reduces many people at the same time than some newspapers. This increases the publicity of the community.

Advertising on television gives the product instant validity and prominence.

Each given television audience is larger than that of any radio because there are fewer TVs stations in any given area than radio stations. This enables you to reach a large and more diverse audience.

You can easily reach the audience you have targeted by adverting on TV. E.g. children can be reached during cartoons programming, the working population, during afternoons etc.

Television offers the greatest possibility for creative advertising. This is because with the camera, you can take your audience any where and show them almost any thing.

**Disadvantages of television advertising**

**Benefits only those with T.V sets**:- It is limited to a few who have televisions. Televisions are relatively expensive and can not be afforded by all people.

**Limited to few who have televisions**: - televisions are relatively expensive and can not be afforded by all people.

**Less detailed information**: - information given is usually not enough compared to newspapers. Some of the features of a product may go unexplained.

**Limitation in transmission**: - television transmission is limited to particular geographical distances. Most areas especially those in hilly or mountainous regions are not reached.

**It is costly:-** costs of advertising on television are high. This may not be afforded by small businesses and hence leaving it to a few rich businessmen.

**No reference in case of need**: - once a message is seen it is forgotten. There is no room of reference; one must be present to benefit from television advertisements.

**Does not favour the blind:** - it is not desirable for the blind. Most of the messages require seeing hence it is good for only those who can see.

It is more expensive than the other media of adverting

The massage comes and goes, the viewer can not see your commercial again unless you buy more placements.

TV adverts do not adequately serve the blind because they can not see the product being advertised.

Television transmission does not cater some areas, thereby leaving out people in those areas.

**NEWSPAPERS**

**News papers, this is where the message about the business products and illustrations are printed on papers in black and white or colour**

The print quality of photographs in news papers is often not good.

These may be published on daily, weekly or monthly advertising products either locally or nationally and internationally. Newspapers in Uganda New vision, Daily monitor, Observer, Bukedde, the voice, E-top, Orumuri etc.

**Advantages of using Newspapers in advertising**

**Affordable**: - they can be afforded by many people since they are less expensive and hence the message becomes effective.

**Wide circulation: -** they are easily circulated. A newspaper bought by one person can be read by many people and they are sent to many countries.

**Reference is assured:** - An advertisement in a newspaper can stay there permanently, so it cannot easily be forgotten. Anytime a person reads the newspaper, the message will be received.

**Wide coverage:** - newspapers have both local and far coverage within a country and beyond.

**Publication in different languages: -** Newspapers are published in different languages and this favours all those people who can read in all languages used.

**Favours the deaf and dump**: - it favours those who can read i.e. both the deaf and dump since it involves seeing and reading only.

In case of production changes you can easily insert a new advert on short notice.

They offer a variety of advert sizes. This means that even if you don’t have a lot of money you can still place a series of small adverts without, making a sacrifice.

A news paper advert can contain details such as location, prices, contracts etc.

A news paper advert can be examined at one’s leisure time.

You can reach certain types of people by placing your advert in different sections of the news paper.

**Disadvantages of using Newspapers**

**Ignores the illiterates: -** it is only good for literate societies. People who can not read may not benefit a lot from newspapers advertising.

**Caters for urban centres:** - newspapers are mostly found in urban areas and very few reach remote areas. So a product demanded by rural people may not be effectively bought if advertised in newspaper.

**It is costly**: - Newspapers can be afforded by few people. It requires one to buy a newspaper daily which is quite expensive.

**Published in limited languages:** - Newspapers are found in limited languages

There is no assurance tat who ever buys the news papers reads advert.

Your advert competes with other adverts for the reader at tension

The page size of the newspaper is large and small advert can look tiny.

News papers are usually read once and thrown away.

News papers are usually read once and thrown away. nsidered to be with a big following

**MAGAZINES**

These are published commonly on monthly basis to advertise products to a selected type of readership. They contain a wide range of information both for adults and the youth e.g. Trust and drum appeal to teenagers, bridal appeals to women etc.

Categories of magazines

Trade magazines- Publications that go to certain types of businesses and industries

Consumer magazines- Publications generally found on the average news stand.

**Differences between magazines advertising and news paper advertising**

Magazines are usually weekly or monthly publications instead of daily.

Advertising messages are more image oriented and less price oriented

The quality of the pictures and paper are superior to news print.

Magazines adverts involve more colour than news paper adverts.

Because magazines adverts are not immediate, they take more planning e.g. an advert for a monthly magazine as to be prepared at least a month in advance of the publication.

**Advantages of magazines**

**Widely circulated**: - They are widely circulated both domestically and internationally.

**Pictures are coloured**: - they are desirable where provision of colours is concerned hence they are attractive.

**Record of reference:** - Adverts can be stored for quite a considerable period in a magazine.

**Disadvantages of magazine**

**Costly: -** They are more expensive as compared to newspapers therefore few people can afford.

**Limited language: -** They are mainly in foreign languages neglecting local languages**.**

**Exaggerative: -**Magazines tend to be more persuasive than informative thus they promote impulse purchase.

**Promote immorality:** - some magazines carry immoral pictures, which may be a problem to the teenagers e.g. spice, onion etc.

**OUT DOOR ADVERTISING**

This involves all advertisements displayed outside shops, on tree trunks, outside stadiums, on walls of buildings, on bus stops, cinema halls; streets etc. e.g. include posters, signposts, neon signs and banners.

**Posters**

These involve all paper advertisements hanged up for displays. They are attractively designed which encourage people to read them.

This is commonly used to advertise products of low price range and only of interest to low-income earners.

**Sign posts**: - These are permanent in nature and are designed on wooden or metal materials and are displayed in strategic places alongside roads.

**Banners: -** These are in form of clothes, plastic materials bearing the message advertised. They are effective when displayed in areas where many people pass by.

**Neon signs**: - These are normally hanged outside shops and are lighted at night so that the message can be read both during the day and night. This medium is very expensive both in initial coast and maintenance.

**ADVANTAGES OF OUT-DOOR ADVERTISING**

They are displayed at a low cost.

They have a wide spread coverage.

They are successful especially in densely populated areas.

They are available to all those in the area where they are displayed.

Out door advertising reaches its audience because people can not switch it go or throw it out like for the case of news papers, radios, TV.

It fulfills the advertising principles of frequency. This is because the message stays in the same place for along period time and therefore the people who pass by see the message for a number of times.

It is most effective when used together with other media.

Particular locations can be acquired for certain purposes e.g. You can put a bill board in front of your business to direct people to your showroom.

**DISADVANTAGES OF OUT-DOOR ADVERTISING**

It is limited to given geographical areas.

They are desirable for only literate markets.

They are affected by heavy rains especially posters and banners.

Installing and maintainingneon-signs is too costly.

Disadvantages of out door advertising

It is a glance medium i.e. It only draws very little (2-3 seconds) of a reader’s time.

Messages must be brief to fit 203 second time frame.

It is not conducive to very short advertising campaign.

**Exhibitions and Trade Fairs**

This is where producers display their products to potential buyers. Trade fairs are usually held in large towns and important areas in the country. Uganda Manufacturers Association (UMA) always holds trade fairs at Lugogo and farmers have theirs at Jinja agricultural show ground**.**

**Advantages of trade fairs**

They attract many buyers both domestically and internationally.

Physical goods can be visually seen on display.

Producers can be able to contact prospective buyers physically.

**Disadvantages of trade fairs**

They are undesirable for the blind.

They are limited to very few areas.

They are in most cases temporary.

They are expensive to organize.

**WINDOW DISPLAY**

This is the attractive arrangement of goods in glass windows of shops in such a way to attract passer-by customers who window shop and plan to make purchases at a later date.

**Advantages of window display**

It leads to window shopping which influenced the buyer’s mind to the commodity.

It is not costly to arrange goods on display in the shops.

The prospective consumers are able to see the advertised products physically unlike radio or newspapers.

**Disadvantages of window display**

Windows glasses are expensive to buy and install.

The blind persons can not benefit from this form of advertising.

The breakage of glasses may cause injuries to the passer-by.

**DIRECT MAIL ADVERTISING**

This involves the use of catalogues, circulars, pamphlets, brochures, trade journals and post cards to convey the advertising message to a particular audience.

It is mainly used in mail order business where suppliers send catalogues to potential customers. This normally takes place in reply to letters of inquiry and it provides the necessary information about the goods, terms of sale and terms of payment.

**Business directions**

A business directory is a book containing telephone numbers and other contacts of different business. This allows you to place your advert in selected classifications within the book, when people need your product, they will look into the classification and contact you.

**Advantages of business directory advertising**

* One advert works for along period of time.
* Can help you to describe the difference between you and your competitors.
* It makes it easy for potential customers to locate your business and contact you even if they did not know you initially.

**Disadvantages of business directory advertising**

* Your advert is placed with a group of your competitors and this makes it easy for the prospects to compare.
* You must commit to an entire year of advertising.
* It is only effective if a prospect knows the correct classification tom look you up.

Other advertising media are;

* Direct mail advertising
* Internet advertising
* Specialty advertising – it involves give a ways e.g. calendars, stickers, pens etc.

**ADVANTAGES OF ADVERTISING TO THE CONSUMER**

It educates the consumers by informing them of what commodities are available for sale.

It helps consumers to quickly get what they want to buy thus saves time in buying.

It informs the consumers about the price, quality, size etc of the product.

It explains the use and value of the products to the consumer.

It enables the consumer to compare prices and other features of different products so as to make a better choice/a variety of goods.

It leads to competition among trader/producers thus leading to better/improved quality of goods and services thus reduction in prices.

It increases the consumers’ awareness about the changes in prices and other offers on the market.

* It creates awareness of the availability of the availability of a product to the customers and potential customers.
* It helps in increasing the sales of your product.
* It creates brand awareness in the public which makes the business more popular among potential buyers.
* It increases the profits of the business through increasing it revenue.

**DISADVANTAGES OF ADVERTISING**

*Expensive*:- The cost of advertising increases the prices of goods thus items become expensive.

Leads to impulse buying:- Consumers may be tempted to make unplanned purchases due to intensive advertisements.

*Some advertisements are misleading*:- Misleads consumers because of the intensive adverts i.e. Deceitful or some goods are inferior of poor quality.

Difficulty in choice of goods:- Persuasive advertisement may make the choice difficult for consumers.

*Consumer exploitation:-* intensive advertisements create monopolies leading to consumer exploitation in form of high prices and this limits output.

*Brand loyalty:-* Advertising may lead to brand loyalty which may result into exploitation of consumers.

*Creates immorality:*- Some advertisements may have negative effects on morals of society.

*Conceals negative effects:*- Advertising points out only the positive effects of product and the negative ones are left out e.g. adverts for beer and cigarettes do not point out the harmful effects.

*Living beyond their means:*- Consumers may be forced to live beyond their means because advertisements induce them to borrow to buy what they can not afford and makes consumers to live in a superficial life.

Preparing an advertising message advertising message should include.

* The appeal- the underlying idea that captures the attention of a massage receiver.
* Value proposition- a reason for customer to be interested in the product. The benefits one obtains from using the product.
* Slogan-word or phrase that in repeated across several different messages and different media outlets. It helps to position the product in a customers mind and to distinguish it from those of the competitors.

**Factors to consider when selecting an advertising medium**

The social class to which the medium appeals e.g. newspapers are effective for ordinary people while television appeals to the well to do people and magazines appeal to elite class and teenagers.

**The age group to which the medium appeals**:- Magazines, cinemas and T-shirts appeal to teenagers but radio and newspapers appeal to mature class of people.

**The geographical area covered by the medium**:- Newspapers or radio have countrywide appeal, while posters and cinemas have a more local appeal.

**The cost of advertising through the medium**:- More expensive products can be advertised through television, the press and radio while relatively cheap products can be advertised through posters and direct mails.

**The economic group to which the medium appeals:-** Machinery can be advertised through specialized journal to the well to do professionals.

**The number of people reached by the medium:-** Newspapers reach more people than magazines yet the radio reaches more people than television.

**The purpose of advertising campaign**:- if the aim is to announce a sale at a local store, use a local newspaper or radio, but if the aim is to explain the use of a technical product, then television or cinema show will suffice.

**Availability of the medium:** - advertisers use means which are in their reach or readily available than those means which are non-existing. A trader near a radio station uses a radio instead of travelling long distances to place adverts with newspapers or television.

**Speed and urgency of the information**:- Urgent information of goods or services in the market are advertised in the fastest media like the radio and television while magazines, trade fairs and exhibition tend to take long.

**Ability of the medium to each the intended market audience**: - religious magazines are suitable for religious people yet medical journals appeal to doctors and the accountants’ newsletter for the accountants.

**The nature of the product being advertised:** - technical items such as computers are better advertised through television or brochures.

**Distribution channels for goods and services**

A distribution channel is the method that a company uses to get its products into the market place for consumer use.

Every entrepreneur prefers a channel that can distribute his/ her products to the right customers at the right place, time and cost.

* **Direct distribution.** The entrepreneur sells his / her products directly to consumers. It is also known as short channel, direct selling.
* **Retail distribution.** In this channel the entrepreneur sells products to retailers and retailers sell to the consumers.
* **Whole sale distribution.** In this channel the entrepreneur sells the products to the wholesaler in large quantities who in turn sells to retailers in relatively smaller quantities and retailers sell to the final consumers. It is the traditional channel in distribution of products.
* **Marketing and selling agents,** here the entrepreneur employs agents to sell products on his / her behalf and he pays them a commission depending on the value of the amounts sold.

**NB.** The channel chosen determines the price of the product i.e. The longer the channel the higher the price of the product to the final consumer and vice versa

The above channels give rise to the marketing flow chart.

**Factors considered when selecting a distribution channel for products.**

Selection of a distribution channel refers to choosing among distributors, agents, franchisees etc.

It is important for an entrepreneur to select the right distribution channel fro his / her product. In this case the entrepreneur is required to compare the costs, sales, volume and profits expected from the alternative distribution channels. The following are the factors to consider:-

* **Nature of the product,** perishable and expensive products eg milk, vegetables, gold products, cars etc require a direct / short distribution channel
* **Cost effectiveness of a channel,** a less costly channel is most preferred by an entrepreneur in order to maximize profits to an expensive one.
* **Reliability of the channel,** a channel that can avail goods to customers when needed is preferred. This encourages repeat purchases among customers.
* **Nature of the business being operated** financially strong business may use direct selling because they have the ability to sue the necessary marketing techniques which can attract customers to the product and vice versa.
* **Location of the target customers.** If customers are near a direct channel is better to reduce the distribution costs and vice versa if the customers are far from your business.
* **Desire by the producer to have control over the distribution of his/ her product.** In this case a direct channel will be preferred but in case of no desire to have control over the distribution of products, there channels can be used so as to supply good to various customer in different regions.
* **Degree of completion,** if an entrepreneur works in a highly competitive environment, he/ she needs to use a long channel which can distribute goods to a wider market (different areas) in order to increase the market share and the reverse is true.
* **Nature of market.** Direct selling would be preferred when the market is small and located with in a narrow area. If the market is big and geographically scattered then the long channel can be used.

**Personal selling/ creative selling /salesmanship**

This is a situation where a team of sales persons is employed to sell products directly to customers with a view of increasing business sales.

**Steps of creative selling process**

This process is made up of eight steps and each of these steps is important if you are to realize an effective selling. They include;

**Prospecting,** this means locating the customers/prospects. Prospects are people or firms that are likely to buy the business’ products. In this case therefore an entrepreneur finds out where to go, who to see and what to do and say

**Types of prospecting**

New customer prospecting. This involves approaching a person that you think may need your product.

Regular customer prospecting, here a sales person makes a call to regular customers on a periodic basis to tell them about the products. For this to be effective, it should not be so frequent.

**Pre-approach,** in this step, an entrepreneur gathers information about his/her own products and the products of his/her competitors and the prospective customers i.e. establishing customers personal information about age, preferences, interests, income etc. This helps the entrepreneur to sell products that meet his/her customers’ needs

**Approaching /m**aking an initial contact, at this stage, an entrepreneur or sales person introduces his/her self, reveals the purpose of the visit and the product he/she is selling in a polite way. This is because the first ten words used are more important than the next thousands of words. This step aims at creating a good impression and to win the customers interest in the product. The entrepreneur or his/her sales person should open with a smile and where possible with a hand shake and self introduction.

Presenting of the product, at this stage the sales person presents the product to the customer and describes its features benefits etc briefly in order to gain customer attention and develop interest in the product.

**At this step, the sales person should ;**

Tell a customer the benefits of the product.

Involve the customer i.e. allowing a customer to try the product e.g. putting a necklace, watch or suit etc.

Limit the choice / alternative to almost there you should not display very many pieces or alternative because the customer may either lose interest or fail to make choice.

Be creative in the way he/ she presents the products to the prospects customers (s).

Decide on the information needed to tell to a particular customer and how that information should be presented to the customer.

**Handling objections,** this involves clearing all doubts that may have been created during presentation. These have to be cleared because they can lead to objection of the product. At this stage the sales person or entrepreneur should not lose temper and instead he/she should give a testimony about the product, give guarantees, be polite, patient etc a sales person should never get tied of questions but instead encourage customers to ask more questions. The sales person should be guided by a belief that ‘the customer is always right no matter how wrong he may be’

Avoid the following statement when a customer refuses to buy.

I knew you don’t have money to buy this product and in any case you can not afford it.

Next time do not waste my time if you know you will not buy.

Try else where this is not your class.

Closing the sale, here the sales person helps the customer to make the buying decision. Example closing techniques that can be used.

May I reserve one unit for you?

Offer a service e.g. let us deliver it to you this afternoon or tomorrow etc. a “yes” means a purchase.

Give a choice e.g. What color do you prefer?do you want a grey or black ? Either choice implies a purchase.

Offer an incentive e.g. if you buy now I give you a discount to say 20%.

Better not wait e.g., if you want this product better get it now because it is the only piece remaining in stock. In this case you need to be honest, do not lie to a customer.

Making suggestion selling. After a customer as bought a product do not stop there suggest any other possible additional product related the one e has brought. Business sales normally increase through positive suggestion selling e.g. if a person buys a shirt, suggest a tie.

Making post sale follow up, this refers to the activities under taken to ensure that the customer is satisfied with the product and the business. These activities include thanking a customer for shopping at your store.

Checking on any thing that was promised to the customer after the sale e.g. if promised.

Promised to deliver the goods to the buyer’s premises, please endeavor to do so if there is any problem, and notify him / her.

Post sale follow up builds good will and repeat business or purchase.

Ways of achieving creative selling

Creative selling should be achieved through;

Making strong points about the product right from the beginning of the presentation

Mentioning more of the benefits of the product than its features e.g. this shoe is comfortable and durable instead of saying that it’s a leather shoe

Giving the customer complete attention

Involving the buyer in the discussion or conversation

Listening to a customer to make him/her feel important and to understand his/her needs

**Advantages of a creative selling process**

It helps an entrepreneur to develop good relations with his /her customers

It helps an entrepreneur to gain quick feed back about his/her goods and services as well as suggestions for improvement

It enables the entrepreneur through the sales person to deal directly with the customers. This enables the entrepreneur to meet the customers’ needs as well as increasing the sales of the product

It helps an entrepreneur to have a wide market coverage by employing sales persons in various geographical areas

It makes the buyer gain confidence in the product

It provides technical assistance to customers on how to use and maintain the product

It enables customers to get genuine products

It plays a big role in removing ignorance and doubts about different aspects of the product

**Disadvantages of the creative selling process**

It is expensive since it involves paying the sales persons

Sales persons become very tired at the end of the day

**BUSINESS COMPETITION**

This refers to the battle between businesses to win customers’ acceptance and loyalty. An entrepreneur should undertake the right competitive strategy in order to become successful in the market.

**Types of competition in business**

* **Monopoly**, this exists where there is only one seller/producers of a commodity without a close competitor e.g. UMEME, NWSC etc.
* **Perfect competition**, this exists where there are many sellers/ producers of a similar product and many buyers.
* **Monopolistic competition**, this exists where there are several/many sellers/producers of similar but differentiated products.eg bread firms, tooth paste firms, detergents firms etc.
* **Oligopoly**, this exists where there is a small number of sellers/producers of products which are either similar or differentiated. Businesses experiencing this competition include telephone network firms, tissue firms, petroleum firms etc.

**TECHNIQUES/ WAYS OF WINING COMPETITION**

These are the various ways of attracting more customers to buy an entrepreneurs cope with competition in the market. They include;

* Charging cheaper/ affordable prices for goods and services than those charged by the competitors i.e. competitive pricing.
* Producing or providing high/ better quality products to attract more customers.
* Ensuring good presentation and appearance of a variety of aspects related to the businesses that attract customer’s attention e.g. attractive packaging of the products, decency of the sales personnel, attractive layout/ display etc.
* Ensuring added convenience to the customers e.g. opening the business early and closing late i.e. serving customers in times when your competitors businesses may be closed e.g. during lunch time or even public holidays.
* Treating the customers with respect more than the rivals e.g. avoiding arguing with a customer if you are to win his/her loyalty. This can be done by adopting the attitude that a customer is always right no matter how wrong he/ she may be.
* Rewarding loyal and regular customers e.g. giving them gifts etc.
* Offering credit to loyal and credit worthy customers.
* Communicating regularly with customers i.e. communicating to them major changes in the business, availability of new products etc.
* Providing appropriate after sales services to customers eg offering delivery services etc.
* Advertising both informatively and persuasively.
* Using attractive branding, giving a product a name that distinguishes it from the competing products.
* Using attractive packaging of the products to catch the attention of the customers.
* Using unique sizes/quantities /weight of the product to meet the needs of different customers high land packs 650mls of water while Rwenzori packs 500mls. This makes most people to go in for high land.

**FACTORS TO CONSIDER WHEN ANALYSING COMPETITION**

1. **Size of competition**, this involves finding out the assets and sales volume of your major competitors. This will help you to know whether you are going to compete with businesses with similar size or with bigger enterprises.
2. **Profitability of your competitor**, low profits earned by the competitors mean high competition while high profits of competitors mean low competition.
3. **Operation methods**, operating for long hours, improved quality, fair prices etc. mean existence of high competition while absence of such means low competition.
4. **Level of advertising,** intensive advertising means stiff competition while absence or low advertising means low competition**.**
5. **Level of customer care,** high level of customer care signifies presence of stiff competition while absence or low levels of customer care show that there is low competition.
6. **Nature of packaging**, attractive packaging by competitors means stiff competition while absence of it means low competition.
7. **Description of competitors**, this involves identifying and characterizing the business which are competing with you, if they are bigger than you then competition is high and vice versa

**FACTORS AFFECTING COMPETITION**

Competition is easily noticed among businesses that deal in similar products and located near each other. Business competition is affected by the factors below;

* **Mobility and accessibility overlap**; distance plays an important role in competition. Businesses that are located near each other experience high compete with each other. While competition between businesses located far away from each other experience relatively low competition. However with improvement in transporting goods over long distances makes businesses compete with businesses located far away.
* **Product overlap**, favorable product overlap minimizes competition between or among different firms that deal in similar or identical products. For instance, when a big supermarket combines with a grocery store, boutique and stationery shop to provide a one stop shopping Centre for consumers’ needs competition reduces while absence of this creates competition among firms for consumers.
* **level of substitution**, stiff competition exists among businesses that deal in similar products(substitutes)e.g. restaurants compete for a share of the public who eat in restaurants, transport companies compete for a share of those who need travelling while absence of close substitutes leads to low competition.
* **Public awareness**, presence of perfect knowledge of the prevailing price of the product in the market leads to high competition while consumer ignorance leads to low competition.
* **Product priority**, whenever there is limited money for everything, there is high competition for product priority while presence of high disposable incomes among customers leads to low competition for product priority.

**SUSTAINABLE COMPETITIVE ADVANTAGE**

This refers to an advantage that a firm has over its competitors. OR an advantage that enables a business to survive against the competitors over a long period of time.

This allows the maintenance and improvement of the business competitive position in the market.

There is need for stronger and more efficient business operations for better chances of surviving competition.

**WAYS OF MANTAINING A COMPETITIVE POSITION IN BUSINESS**

* **Advertising,** this helps to attract the public’s attention and build priority for one’s product.
* **Creating a good business image**, the way customers are treated, the location of the business, dressing code of the workers all contribute to good image of the business and these enable a business to compete effectively.
* **Ensuring customer convenience and services**, good location and service have a great influence on competition. The services that can attract customers to buy your product include; repair services, delivery services etc.
* **Using competitive pricing**, this involves pricing your products in relation to the price of the competitors. In this case avoid charging a price below your costs of production because it will lead to losses which will reduce your competitive advantage.
* **Providing sales prices**, this involves reducing prices of some items during certain seasons. This is intended to attract new customers to come for those products and end up buying other items which are sold at regular prices. In this case the sale prices should not be too low, because it may lead to losses.
* **Everyday low prices**, in this case a business sets up a standard policy of competitive pricing at all times without advertising specific sales.
* **Offering money back guarantees to customers** i.e. allowing customers to return products in case they are not satisfied with the products.
* **Ensuring product differentiation especially in markets with several/many sellers/producers producing similar goods or services.** Identifying customers’ in terms of where they stay, their age income levels, needs in terms of price, quality and quantity.
* **Defining business competitors in terms of their strengths, weaknesses, opportunities and threats, products, customer base, profit margins promotional and marketing strategies etc.**

**EVALUATING BUSINESS COMPETITION**

Whenever you come up with a business idea, just know that there are other people who may come up with the same idea. When this happens, it marks the beginning of competition for you.

Therefore, when monitoring changes and competition in your business, ensure that the following aspects are carefully put into consideration;

* Flow of customers into the business per day is always affected by competition.
* Production orders, these may reduce due to competition.
* Cash flow may be affected by competition.
* Technology, businesses that have modern machinery and knowledge are more competitive than those without dated technology.
* Personnel/ workers, these may abandon non competitive firms and join other firms which are more competitive for higher payments and other benefits.

**EFFECTS/ IMPACTS/ IMPLICATION OF COMPETITION IN BUSINESS**

**Positive effects**

* It leads to improvement in the quality of the products.
* Helps employees to be paid well, competition forces employers to pay their highly skilled workers well for fear of being taken away by the competitors.
* Leads to more efficient production, competition forces entrepreneurs to look for methods of production that are efficient i.e. use less raw materials to produce more output.
* Leads to better customer satisfaction, entrepreneurs are forced to produce goods/ services that give customers maximum satisfaction in order to encourage them to remain loyal to them.
* Competition encourages entrepreneurs to work hard in order to excel and enjoy self esteem.
* Leads to production of a variety of products which increase customer’s choice hence improved standards of living.
* Leads to enjoyment of free services, samples etc. by customers.
* It leads to reduction in prices of products as entrepreneurs struggle to attract customers.
* It leads to improved services delivery.
* Leads to mass production especially where there is free entry of firm.

**Negative effects**

* + It increases the cost of business operations i.e. makes resources to become more expensive.
  + Leads to reduction in market share due to a large number of competitors.
  + It leads to reduced morale/self esteem for those entrepreneurs who lose out.
  + It lowers the profit of the business due to reduction in the volume of sales which limits expansion.
  + Sometimes it misleads customers through entrepreneurs using persuasive advertising.
  + Results into unemployment due to collapse of inefficient firms.
  + Leads to limited research due to reduced profits. This leads to reduced innovations and inventions in the business.
  + Leads to increase d labour/employee turnover i.e. employees tend to move from one firm to another hoping to get better rewards.

**Revision questions**

1(a) Explain the different types of competition in business.

(b) What are the techniques of wining competition?

(a) Define the term sustainable competitive advantage

(b) In which ways can a competitive advantage be maintained in business?

(c) Explain the factors that affect competition in business.

3(a) Explain the factors that are considered when analyzing competition in business

(b) Assess the impact/implication of competition in business

**PRODUCTION MANAGEMENT SKILLS**

**Production management, refers to the process of planning production and ensuring that production plans are put into efficient operation**

**Production** refers to the activity carried out with the aim of bringing a physical change in goods and services so as to make them useful.

A product is anything that can be offered on the market for use or consumption.

**Types of products**

* Tangible products
* Intangible products

**TANGIBLE PRODUCTS**

These are products which are in physical form and can be seen e.g. pen, book, furniture.

Tangible products are divided into two i.e

Durable and Non Durable Products

**NON- DURABLE PRODUCTS**

These are products that don’t last for a long period of time e.g. vegetables, flowers.

**DURABLE PRODUCTS**

These are products which last for a long period of time e.g. furniture, land, buildings, TV, radios etc

**INTANGIBLE PRODUCTS**

These are services that can be used to satisfy human wants e.g. transport service, electricity, entertainment etc

**ELEMENTS OF A PRODUCT**

These refer to attributes / characteristics which make a product different from others. Every producer tries to make his products different from others and those elements include the following;

* **Description**: This refers to the way the product will be described so as to distinguish it from others e.g. brand name.
* **Packaging**: This is concerned with what packaging material should be used for the product, how should it be packaged, entrepreneurs consider packaging materials to come up with proper designs of a product.
* **Product attributes or features**: These are characteristics that make a product different e.g. colour, size shape etc, the product which help to make a product different from others.
* **Product quality**: This refers to the ability of a product to meet customers’ expectations. Different qualities of a product make them look different from others.
* **Labeling and Branding**: The brand name of the product should be unique and the information written on the product should look different.
* **Product design**: Design means style of the product, its shape and simplicity of use of the product; therefore the entrepreneur should always design his / her product differently from those of his competitors.

Production process, this refers to the steps involved in producing a desired goods or

services

**The production process involves the following elements ;**

Carrying out a market survey i.e. to find out customers’ needs

Developing a product idea i.e. deciding on what to produce i.e. good or service

Translating the idea into a product design

Production process design/layout

Purchasing the required inputs/raw materials.

Purchasing and installing machinery, equipment and tools

Carrying out actual production of products (goods or services)

Packaging of the products

Branding/labeling of the products.

Sales promotion/advertising e.g. on the notice boards, assemblies etc

Documentation i.e. recording of expenses and receipts from sales

Participation schedules by each candidate/time table

Construction of business premises, installation of tools and equipment- if any.

Storing of finished products and raw materials.

Selling of commodities.

Seeking feedback from customers about the products performance.

Factors affecting the production decisions

These include;

Facilitaties and organisation, what the entrepreneur requires to produce or sell the product

Sales potential, this involves how much, why and when the customers will buy the products

Cost, involves estimating the cost to be incurred

money requirements, money required to start and operate the business

labour requirements, number of employees required,their cost and where to source them

Supply sources, where to get raw materials from required in terms of quality and quantity and price.

Transportation, focuses on how the raw materials and finished products are to be transported

Acceptance by the community, whether the business is acceptable in the community or not

Legal requirements, this involves the legal requirements for starting a business eg licensing, registration etc

Sales promotion and growth, type of promotion and and possibility of market expansion

**IMPORTANT ASPECTS / CONSIDERATIONS IN PRODUCTION OF GOODS AND SERVICES**

There are various considerations in production of goods and services and these include the following;

* **The quality and nature of the product**. The quality and nature of the product should be in such a way that it can compete favorably with those of other competitors.
* **Technology and its resources**. One should consider the type of technology used while producing products, this is because technology is ever changing hence a need to consider technology that is more flexible and can produce more quality products.
* **Production process**. The entrepreneur should be able to control the manufacturing process so as to reduce costs and maximize profits.
* **Production skills**. The entrepreneur needs workers with the required skills so as to produce quality goods and services.
* **Production support activities**. These include services like financial services, transport, and insurance. These should be considered since they help the production process.
* **Work place management**. Work place is any area where production of goods and services take place. One should have a work place which is well organized so as to produce quality products.

**WORK PLACE MANAGEMENT**

**A work place** is an area where production takes place such as a church, school, factory, shop etc

**A work station** is an area where actual production takes place

**ELEMENTS OF A WORK PLACE**

* Material handling and storage
* Organization of a work place
* Productive machine handling and safety
* Control of hazardous substances e.g. acid
* Lighting facilities
* Welfare facilities
* Work organization.

**MATERIAL HANDLING AND STORAGE**

Materials used in the production process need to be well handled and stored, this can be done in the following ways;

* Provision of a convenient rack for tools, raw materials and finished products.
* Employing store keepers to ensure proper storage of raw materials and finished goods
* Training workers on how to handle and store materials.
* Using mechanical aids such as carts, movable racks, cranes, pulleys, conveyors etc when moving heavy loads
* Keeping track of all semi finished and finished goods for easy stock control
* Provision of mechanical aids such as cranes, movable pulleys, this should be used to handle or remove materials.
* Removing items which are not frequently used out of the work area and keeping them well in the store.

**ORGANISATION OF A WORK PLACE**

When organizing a work place were actual production takes place the following must be observed;

* Putting machine switches and other tools within the reach of the employees.
* Using lifts or other mechanical devices to reduce effort required by the employees while doing work at the work place.
* Providing enough and stable work surface at each work station to every worker.
* Use of devices which hold items tightly and firmly while doing work.
* Provision of chairs and benches which are of the right size, height with steady back rest for comfort of workers.
* The equipment used should be adjustable to avoid bending postures.
* Ensuring cleanliness of the work area

**MACHINE HANDLING AND SAFETY**

This involves the ways that could be applied so as to make the machines more productive and safer, they include the following;

* employing skilled manpower to operate machines
* Cleaning machines regularly
* providing guidelines for ensuring proper handling and safety of machines
* keeping record of the working life and servicing of machines
* ensuring proper installation of machines to avoid power short-circuits and damage to machines
* ensuring close /proper monitoring and supervision of workers when using machines
* removing loose parts of machines and replacing them with spare parts
* covering machines when not in use to avoid entry of dust
* giving clear instructions to workers regarding the use of machines
* switching off machines in case of break down and reporting immediately to technical personnel
* Use of mechanical devices for feeding machines to avoid hazards and accidents during production.
* Putting proper guards/ warning signal to dangerous parts of machines and power transmission equipments
* Training the workers on the usage and maintenance of the machines in order to guard them against dangerous mistakes.
* Making sure that machines are well lubricated to reduce friction e.g. by constantly oiling or greasing them.
* Use of safety devices which prevent machines from hurting the workers incase of danger. eg rubber

**Factors considered when choosing machinery, tools and equipment**

**Cost of equipment or machinery,** an entrepreneur should choose those whose costs are relatively low.

**Ease of maintenance and repair,** an entrepreneur should chose those whose spare parts and repair services are readily available

**Availability of other complementary equipment,** in case of a machine which requires other tools and equipment to operate it, an entrepreneur should choose those machines whose complementary equipment are readily available

**Life span of machinery, tools and equipment,** an entrepreneur should select those which are long lasting or durable in order to reduce on unnecessary costs of buying or replacing other machinery, tools and equipment.

**Flexibility for adjustment in relation to consumer’s changing tastes and preferences,** an entrepreneur should select machinery, tools and equipment that can easily be adjusted to meet the changing needs of the customers

**Simple and easy to use**, an entrepreneur should choose those which are simpler and easier to use than those which are complicated

**Source of machinery and equipment,** an entrepreneur chooses those from a reliable supplier

**Guarantee given by the manufacturer in terms of efficiency,durability,maintenance etc,** an entrepreneur chooses those from a supplier or manufacturer who can give guarantee

**Capacity of machinery and equipment in relation to demand,** an entrepreneur should choose machinery, tools and equipment whose productivity is high and whose quality of output is good

**Complexity of the tasks to be done**, an entrepreneur chooses machinery, tools and equipment basing on the piece of work to be done i.e. if the piece of work to be done is complicated, an entrepreneur should choose complicated machinery which can do the work

Lead time offered by suppliers of machines, entrepreneurs select machines from suppliers with short lead time

Government policy in relation to environmental conservation, entrepreneurs choose machines which are not dangerous to the environment

**CONTROL OF HARZADOUS SUBSTANCES**

A hazardous substance - is any waste material or chemical that brings about a hazard.

A hazard -is a negative/adverse effect resulting from the project’s waste product.

Hazardous substances in business should be controlled to avoid losses and damages to workers; this can be achieved in the following ways;

* Substituting hazardous substances with none or less hazardous substances ones
* Advising any worker who is exposed to dangerous chemicals or substances to wash his or her hands with water and soap or any other detergent before drinking or eating.
* keeping hazardous substances in restricted places which are out of bounds to other people to reduce their exposure to workers
* ensuring proper training of the workers on the usage and maintenance of personal protective gadgets and monitoring their use
* Provision of protective gears to the workers such as gumboots, hand gloves,face masks etc to avoid endangering the health of the workers by exposure to hazardous substances
* Ensuring that the environmental rules and regulations are observed so as to control air pollution.
* ensuring that all organic chemicals like paint are kept in covered containers to avoid being exposed to workers every time.
* reading and understanding instructions regarding usage of hazardous substances before using them to ensure that they are used as instructed
* providing a first aid box and a nurse to ensue immediate treatment of any worker who may be affected by hazardous substances in the work place
* putting warning labels on hazardous substances to minimize accidents resulting from workers getting into contact with these substances

**LIGHTING FACILITIES**

The lights improve the working environment of the workers hence improving productivity. Better lighting facilities should be provided to enhance performance of workers; this can be done through the following ways;

* Cleaning and keeping windows clear to let in natural light.
* painting walls and ceilings with bright colours such as white, cream etc to allow reflection and concentration of the light within the work station.
* By cleaning and maintaining light fixtures such as bulb holders and replacing bulbs regularly.
* Provision of artificial lighting where necessary which is adequate to the type of work being done e.g. by repositioning of lights or installing more lights
* Covering light sources with glasses to reduce the light effects.
* removing out side obstructions which reduce on natural light concentration in the work station.

**WELFARE FACILITIES**

It is very important to enhance workers' morale and productivity. This can be done through the following;

* Providing adequate supply of safe drinking water in all work stations.
* Providing first aid equipment and a trained/ qualified first nurse to handle emergence cases of workers.
* Providing resting time and place for workers to encourage their productivity.
* Provision of sanitary facilities for workers e.g. soap for washing hands, separate toilets for men and women, sanitary towels for the female workers.
* Provision of recreational facilities for workers to refresh their minds during their free time e.g. music, pool table and other indoor games.
* Ensuring regular medical check ups to ensure proper health of workers
* Providing storage facilities for personal belongings such as clothing, bicycles, etc and a private changing room

Qn. Explain the various ways of ensuring good welfare of workers in an enterprise.

**WORK ORGANISATION**

Management and improvement of work place lay out is important and this can be done in the following ways;

* Keeping workers alert and frequently changing their tasks and responsibilities.
* Using of team work or quality circles to improve quality and productivity.
* Re – arranging lay out and order for operations to improve productivity and efficiency at work.
* Ensuring that every task is under a leader who monitors work done to ensure efficiency
* employing specialists in the right tasks and ensuring that all work is done according to the level of specialisation to ensure quality production
* Using machines to do some tasks so as to improve efficiency

**THE PRODUCTION PLANT**

A plant comprises of fixed assets of the business for instance furniture, machinery, buildings etc. therefore any product to be produced, a plant is necessary.

**THE PLANT LAY OUT**

It refers to the arrangement of physical facilities such as machinery, furniture, building etc. therefore within the factory premises the lay out should be arranged in a manner that the workers have quick flow in their work.

**TYPES OF PLANT LAY OUT**

* Manufacturing unit
* Service unit
* Trading unit

**MANUFACTURING UNIT**

it is divided into four sections

1. **Product line lay out**. This is where machines are arranged in one line depending on the operation required to produce a particular product.
2. **Process lay out**. This is where machines of similar types are arranged together at one place for instance a maize milling plant.
3. **Location lay out**. This is where the products being produced are fixed at one location. In this case, the equipment used are moved to the location.
4. **Combined lay out**. This involves a combination of all the other lay outs.

**TRADING UNIT**

This is divided into two;

1. **Self service lay out**. This involves positioning of goods in such a way that customers can lead themselves to what they want.
2. **General lay out**. Is the type of lay out used in the enterprises that serve a few customers

**Service unit**

Is the type of lay out that is established in entertainment centers, hotels, restaurants, saloons, bars, clinics etc

**FACTORS CONSIDERED WHEN DESIGNING A PLANT LAY OUT.**

The design of any lay out is influenced by various factors and these include;

* **The nature and size of the factory**. The enterprise should determine the floor space available for the lay out so as to budget for it.
* **Types of machines to be used**. General purpose machines are arranged as per process lay out however, special purpose machines are arranged according to purpose
* **Human needs**. When designing a plant lay out, adequate arrangement should be made for facilities such as toilets, rooms etc.
* **Repair and maintenance of machines**. Production machines should be arranged in such a way that there is adequate space between the machines to allow movements.

**FACTORS CONSIDERED WHEN SELECTING A BUSINESS LOCATION**

* presence of Land
* accessibility to Transport and communication
* Availability of resources/raw materials
* Availability of labour
* presence of Power and energy
* Government policy on location of businesses
* Political climate/atmosphere
* presence of market for the produced products
* community accessibility

Qn a) Differentiate between a plant lay out and plant location

b) Explain the factors considered by an entrepreneur when choosing a plant location

**COSTS IN PRODUCTION**

Costs are expenses incurred when producing goods and services.

**TYPES OF COSTS**

The following are the types of costs

* **Direct/Prime costs**. These are expenses which include those that are directly charged to a particular job, they include direct labour, direct material costs and other direct charges.
* **Work costs/indirect/overhead costs**. These include expenses necessary to produce different items such as work management expenses, power charges rent, repair costs, communication etc
* **Selling and distribution costs**. These include all expenses incurred in the selling and distribution of goods e.g. transport, advertising, wages to sales person etc
* **Administration,** expenses incurred on the general administration of the business eg postage, stationery, communication/air time, audit fees etc

**METHODS OF COSTING IN PRODUCTION**

The following are the methods of determining costs in production.

* **Job costing**; under this the cost is determined by looking at each work order.
* **Through contract costing**; this is common in contract work where each contract is treated as a separate cost to get the overall costs.
* **Through process costing**; this is common where products go through different processes of production and costs are determined at every stages of production.
* **Through multiple costing**; here different methods of costing are combined to determine the cost of production.
* **Through service costing**; this is common in business which render services and each service offered is determined as a different cost.

**WAYS OF MINIMIZING COSTS IN PRODUCTION**

* Buying quality raw materials from cheaper sources or suppliers so as to minimize the cost and minimize profits.
* Employing few workers. Instead of having many workers, entrepreneurs can focus on using more of machines than human labour.
* Reducing fringe benefits in form of allowances so as to lower the costs incurred in production and maximize profits.
* Training and development of employees, employees can be trained to work efficiently in line with the set targets. This reduces production costs.
* Recycling the damaged raw materials, due to errors in production which avoids wastage.
* Employing skilled and experienced workers, Entrepreneurs can use workers with the required skills so as to avoid wastage hence minimizing costs.
* Using appropriate technology in business, Entrepreneurs should use machines that make work easier so as to reduce production costs.
* Ensuring use of correct inputs, This saves the entrepreneur from unnecessary wastage and losses that would result into poor quality products.
* Ensuring use of efficient and effective methods of production i.e. methods of production that suit the needs of the business.
* Ensuring close and constant supervision of workers, This helps production process to be well planned hence reducing production costs.
* By spelling out duties and responsibilities of each worker, this minimizes conflict of work hence minimizing costs.

**Question**

1. What measures can be taken to minimize costs of production in a business.
2. Suggest measures taken to minimize costs of production in an enterprise.

**TECHNOLOGY IN PRODUCTION**

This refers to the practice of applying science that has practical value i.e. it’s simply “how” of doing something.

**TYPES OF TECHNOLOGY**

There are basically three types of technology namely;

1. Indigenous technology
2. Advanced technology
3. appropriate technology

**Indigenous technology**

This is technology evolves within the country and its usually passed on from generation to generation with little improvement.

**Advanced technology**

Technology that develop from modern scientific principles

**Appropriate technology**, this is technology that matches with the level of development of a country

**Characteristics of appropriate technology**

* It should be simple, for technology to be appropriate it should be easy to operate i.e. the user of such technology should be able to apply it.
* It should be cost effective, the cost of technology should be justified by the benefits achieved i.e. the cost should not be more than the benefits.
* It should be durable, Durable technology requires less maintenance and repairs.
* It should be flexible enough to adopt new changes that come with changing needs of the customers.
* It should be available, appropriate technology should be one that is available that not one that may be preferred but not available.
* Should be efficient in utilization of local resources.

**Factors that influence choice of technology in business**

* **Plant capacity.** This refers to the number of units that can be produced during a given period. Entrepreneurs consider technology that yields high volume than technology that yields a low volume.
* **Technical requirements**. The size of output per day depends on the technology i.e. the technology chosen should match the minimum quantity of output per day than technology that does not meet the minimum quantity.
* **Input**; the input that enhances technology are important entrepreneurs consider technology that can have inputs as opposed to technology with scarce inputs.
* **Cost of the technology;** the cost of technology is important in a way that entrepreneurs consider technology of low costs so as to maximize profits than technology of high costs that reduces the profit margin.
* **Skills of the man power**. The technology chosen is determined by the level of skills of the labour. Highly skilled labour means advanced technology while low skilled labour implies low technology.
* **Government policy**. Government may influence technology in a way i.e. it may encourage certain types of technology and discourage others.
* **Market for the products produced**. High market for the products implies using technology that leads to high production as compared to low market for products.
* **Availability of spare parts**. Entrepreneurs usually consider technology with ready spear parts than technology whose spare parts are scarce.
* **Resources of the business**. This involves financial and management resources. The technology chosen should be in line with the finances and the human resource of the business.

**Questions**

1(a) Describe the characteristics of appropriate technology. (8 mks)

(b) Explain the factors that affect the choice of technology in an enterprise. (12 mks)

**Structuring time for increased productivity**

**Controls for effective time management**

Qn how can an entrepreneur ensure effective time management?

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

* **Spending time while planning and organizing**, spending time while thinking and planning for your business is time well spent. If you fail to take time planning for your business, you are planning for your business’ failure. Organize your business in any way that makes sense to you.
* **Setting goals,** goals give a business the sense of direction. Set goals that are SMART. Your optimum goals are those that make you to ‘stretch’ but not to ‘break’ as you strive to achieve them.
* **Using a to-do list**, this is a list of the items you intend to do in a day, week or month. For the case of a daily to do list, it can be prepared the previous day or in the morning of each day.
* **Prioritizing**, this means identifying items with the greatest reward and concentrates your time on them. Setting a dead line for the items will help you to stick to your priorities.
* **Considering your biological prime time**, biological prime time is the time of the day when you are at your best. You may be a morning, afternoon, evening or night type of person. Knowing when your best time is and planning to use that t time of the day for your priorities is effective time management.
* **Doing the right thing right**, management expert, peter Drucker, argued the “doing the right thing is more important than doing things right”.**Doing the right thing is effectiveness while doing things right is efficiency**. Therefore, first focus on effectiveness and then concentrate on efficiency.
* **Learning to say no**, you should be able to avoid spending time on things which may seem to be important but not planned for. You should focus on your goals and say ‘no’ to the unimportant things.
* **Conquer procrastination**; this involves breaking a big piece of work into smaller tasks and doing just a little at a time. This eventually will complete a task that would seem hard to complete.
* **Eliminating the urgent tasks and putting emphasis on important tasks**, urgent tasks have short term consequences while important tasks are those with long term, goal oriented implications. Work towards reducing the urgent tasks so that you may have time for your important priorities. Highlighting items on your to do list or attaching a deadline to each item may help you keep important items from becoming urgent emergencies.
* **Practicing the art of intelligent neglect**, eliminate from you life those tasks which do not have long term consequences for you. You can delegate or eliminate them from your to do list. Work on only those tasks you can do alone
* **Being flexible**, allow time for interruptions and unplanned emergencies. Planning for only 50% of your time will enable you to handle interruptions and distractions.

**Time wastage in business**

The following are the ways in which entrepreneurs waste time;

* Talking to people about personal matters unconnected with work.
* Having unnecessary or extra-long group meetings.
* Allowing too many interruptions
* Being disorganized.
* Engaging in little or no delegation
* Being indecisive i.e. failure to make decisions in time
* Being late or absent

**Ways of better management of time**

* Conducting meetings properly
* Making decisions quickly
* Delegating duties
* Selecting priorities
* Avoiding un necessary interruptions
* Avoiding queues
* Being punctual
* Choosing the quickest mode of travel
* Reducing paper work

**Time management techniques**

Qn explain the technique of time management that an entrepreneur can use

* Identifying goals make sure that you understand what you want to accomplish each day, week or month. List your goals in order of importance. Start working on your most important goals first.
* **Being self motivated**, you should be able to motivate your self to produce the high out put in the work that you have to do with in a specific time frame.
* **Establishing deadlines**, more work can be done if you set specific deadlines to achieve certain tasks. Make sure that the deadlines are realistic.
* **Taking notes, keep** a note pad/note book/ dairy with you all the time to record thoughts and ideas and to write down things like names, telephone numbers, future appointments and things to do
* **Being goal oriented**, you should do those activities which lead to significant results. Be selective in your work activities and try not to do every thing.
* **Working in blocks of time**, try to do major tasks in blocks of time i.e. 3-4 hours, during the period of the day when you feel most effective.
* **Asking questions before work**, before you start to work, make sure that you have answers to such questions as what?, where? , who? how?, why?
* **Being action oriented,** once you have decided to solve a specific problem, outline your specific course of action and then do it
* **Being reflective**, reflective thinking is the act of learning from one’s past, present and potential future activities
* **Planning in details for tomorrow**, at the end of each day’s work, prepare a time schedule or to do list tor the following day’s activities.

Advantages of time management planning

It enables the managers to spend time effectively

It enables an entrepreneur and managers to allocate time standards to themselves before setting them for others

It makes an entrepreneur and managers more efficient when conducting business activities

**PACKAGING**

Packaging may be defined as wrapping, compressing, filling of products or covering of goods to protect them from atmospheric conditions or to facilitate easy handling and transportation.

**Reasons for Packaging Goods**

* To make them easy to handle
* To make them attractive to customers
* To protect them from spoilage, leakage, breakage or contamination
* To ensure easy distribution/ delivery of the goods to customers
* To ensure easy selling of goods through different channels e.g. automatic machines, shops, supermarkets

**Types of packaging**

Goods can be packaged in the following ways;

* putting in bags-bagging e.g. polythene bags
* putting in boxes-boxing
* putting in bottles-bottling
* putting in tins-tinning
* tying in bales-baling
* putting in plastic containers
* putting in cans-canning

**Note: The method of packaging used depends on the nature of the goods**

**Materials Used In Packaging Goods**

* glass e.g. glass bottles
* wood e.g. wooden boxes
* paper e.g. paper bags
* metal e.g. tin plates, steel aluminum
* plastics e.g. polythene bags, jerry cans, bottles etc

**Importance of packaging**

* It protects the goods from external atmospheric conditions.
* It provides relevant information such as ingredients, weights, and manufacturing and expiry dates of the product. This can be known by a customer.
* It helps in portioning products. Through packaging the products can be portioned into small units to allow small purchases.
* It simplifies selling of goods. Packaging of goods makes it possible to be sold. Here goods can be sold through automatic machines.
* It helps in preservation of goods. Packaging helps to preserve the content against atmospheric germs and contamination.
* Helps in differentiation of products. Packaged goods look differently from others. Customers are able to differentiate products of different manufacturers.
* It helps in distribution of products. packaged goods are easily delivered to the customer.
* It enhances portability of the products. Packaged goods are easily handled and transported by customers eg liquid products are easily transported when packed.
* It helps in selfservice, some times prices are indicated on the packaging materials. This enables customers to do self service.

**Disadvantages of Packaging Goods**

* It is expensive to package goods
* It leads to an increase in the prices of the goods
* Packaged goods are some times of poor quality
* It leads to exploitation of consumers by selling to them goods which are under weighed
* Some packaging materials are harmful to the environment

**Factors considered when choosing packaging materials**

* **Source of the packaging materials,** Entrepreneurs choose reliable and reputable sources as compared to unreliable sources.
* **Availability of the packaging materials**. One may choose materials which may not be available therefore it’s important to use materials that the entrepreneur has got access to.
* **Nature of the goods**. Entrepreneurs choose the materials depending on the nature of the goods i.e. liquid, solid or gas. For liquid products, entrepreneurs prefer bottles, cans etc as opposed to boxes.
* **Means of transport to be used**. For road transport products needs to be packaged in strong packaging materials to avoid damage.
* **Purpose of packaging**. If it is to protect products from atmospheric conditions, then strong materials may be chosen.
* **Quality of the packaging materials**. Entrepreneurs usually choose quality packaging materials so as to have quality out puts.
* **Cost of the packaging material in relation to the value of the product**, the cost must not be more than the value of the products therefore entrepreneur choose materials of lower costs compared to those of higher costs so as to maximize profits.

**Qualities of Good Packaging Materials**

* cost
* availability
* quality/durability
* reliability
* attractive
* environmentally friendly

**1a) define the term packaging**

**b) Describe the packaging materials used by entrepreneurs**

**2a) what factors are considered by the entrepreneur while choosing the packaging materials?**

**b) Of what importance is the packaging material in an enterprise?**

**QUALITY MANAGEMENT IN PRODUCTION**

**Quality**: Refers to the product’s ability to meet the customer's requirements OR

**Quality**: Refers to the ability of the product to satisfy the needs of the customers for relatively a long period of time.

**CUSTOMERS MISCONCEPTION ABOUT QUALITY**

Many times what customers regard as quality may not necessarily mean quality. This is in the following ways;

* **Price:** Many people think that goods that are of high price are of good quality.
* **Brand names**: People feel that products with good brand names are of quality therefore people prefer goods with good brand names e.g. Nokia, sum sung, Phillips etc.
* **Origin of the products**: Many customers take imported products to be of high quality and therefore they prefer foreign products to local products.
* **Expiry date**: Many customers consider quality products to be those that have longer expiry dates.
* **Level of investments**: Many people think it is impossible to produce high quality products with small investments, therefore large investments mean high quality to many people.
* **Customer’s point of view**: Tastes and preferences determine quality according to customers therefore customers would prefer products whose tastes are good to them.

**Common terms used about quality**

* **Quality control:** These are operational tactics and activities that are used so as to fulfill the requirements of quality.
* **Quality policy:** This involves the overall intension and direction of an enterprise with regard to quality as stated by top management.
* **Quality planning:** This involves all various steps the enterprise can take or use so as to achieve quality.
* **Quality assurance:** These are systematic activities implemented within the quality system of an enterprise as an indication that the enterprise will fulfill the requirements of quality.
* **Quality system:** This is the organizational structure or procedures which are needed to implement by management.

**QUALITY CONTROL**

**METHODS OF ENSURING QUALITY IN AN ENTERPRISE**

The following methods can be used to achieve quality output in an enterprise.

* **By using good quality raw materials**, quality raw materials ensure quality output.
* **Through proper monitoring and supervision of the production process**. Proper monitoring of production implies that quality standards are strictly followed hence quality output.
* **By carrying out market research**. This can be done to establish quality of the product and the needs of the customers in the market.
* **By recruiting skilled man power in the production department.** This ensures quality output in a sense that; the skilled workers can perform according to quality specification.
* **By using good storage facilities**. Better storage facilities prevent contamination hence quality products
* **By adopting a short distribution channel, this e**nsures maintenance of quality since goods move from the producer to the consumer as opposed to a long channel.
* **By observing proper formulation/ratios/technical specifications**
* **By ensuring cleanliness of the work place**

**WHY IT IS NECESSARY TO OBSERVE QUALITY IN BUSINESS.**

* To improve the brand image of the business. This is because quality control helps to improve the product/business image hence increasing the market share.
* To reduce cost of production. This results from minimizing wastage of raw materials especially during the production process.
* To comply with qualities requirements set by bodies such as UNBS in Uganda, ISO etc
* To facilitate the standardization of the business products i.e. observing quality means production of uniform goods and services.
* To maintain the current customers in business since quality means satisfying the customer’s needs which helps to keep customers to the business.
* To increase customer’s satisfaction. Quality control ensures the production of the goods which have the exert specifications that the customers want to satisfy their needs.
* To out compete other competitors in the same business industry, improvement in the quality of output in the long run attract more customers against the competitors.
* To enable an entrepreneur to determine the production cost and prices. Always a good quality product fetches more prices or is charged highly compared to low quality products.
* To achieve business objectives about quality specifications.

**SAMPLE QUESTIONS**

1. Explain the various ways through which quality products can be produced in an enterprise.
2. What are the objectives of the quality control in an enterprise?
3. Explain the factors that determine quality of products in an enterprise.

**FACTORS THAT INFLUENCE / DETERMINE QUALITY CONTROL**

These may be referred to as quality standards of an organization or enterprise. As the firm looks towards fulfilling the requirements of quality, the following factors should be put in consideration.

* **The quality of input or raw materials** use of good quality raw materials in production automatically leads to production of good quality products and vice versa.
* **Cleanliness**, the clean environment under which goods and services are produced should have an impact on their quality. It is assumed that a clean environment leads to production of good quality products as compared to dirty environment.
* **Packaging**, it is assumed that products that are well packaged reduce spoilage and contamination. Many people prefer packaged milk, juice as opposed to those carried in containers.
* **Market research**; this may involve finding or carrying out surveys to identify customers needs so as to know the specific expectations from the products i.e. what customers expect the product to be like.
* **Technical specifications as regards quality**; this may involve the use of correct ratios while mixing chemicals or use of proper raw materials recommended. This is because any change will affect quality.
* **Storage facilities**; in situations where products are produced in large quantities and some of it needs to be kept in a store, quality can only be assured if there is good storage facilities.
* **Presence of necessary skilled manpower**; this refers to labour with skills needed in production. Availability of labour with such skills means high quality output.
* **Competition with other firms**; presence of competition enhances quality production among the firms since all the firms will be targeting a big market share to maximize profit.
* **Quality of machinery used in production**. Use of quality machinery in production of a given good encourages high quality output than when unsuitable machinery is used in production.
* **Distribution channel used**. This depends on the nature of the product e.g. perishable or fragile goods are best distributed directly therefore if such commodities are not distributed, through a suitable channel it may affect their quality.
* **The level of monitory and supervision**. Close supervision and monitoring leads to quality products since it gives the enterprise a chance to ensure that instructions given to workers as regards quality are observed.

Ways in which proper financial control promotes the quality of the products of an enterprise

Giving employees adequate remuneration, this makes them work harder to attain the organazational goals

paying workers salaries and wages in time, this makes them to work harder to attain the set quality standards

purchasing of quality raw materials, purchase of high quality raw materials though expensive, the finished products will be of high quality

purchasing high quality packaging materials, purchase of high quality packaging materials which can protect the finished products against contamination, makes the finished products of high quality

Ficilitating research and quality management, this makes the entreprise obtain whatever is relevant to achieve quality hence leading to production of quality products

managing inventory properly to avoid expiry of raw materials, this ensures quality rawmaterials hence leading to production of quality products

Serving machines timely, this leads to production of high quality product

Employing skilled personnel, employment of ailles, qualified workers makes the enterprise attain high quality products

Buying equipment required in the production process, this enables the business to attain quality products

Obtaining and paying for utilities in time, this enables the business to get the required utilities hence production of quality products

Motivating workers using monetory and non monetory rewards, this makes workers performance better and eventuary the quality of the products will improve

**Total quality management**

Refers to the method designed to prevent errors such as poor quality products from happening. It involves management continuously improving the quality of delivered products through the participation at all levels and functions of the organization.

**Elements of total quality management**

* **Company policy and accountability**, a company can improve the quality of its products if it has a good quality policy. More so commitment of workers from top to bottom leads to production of quality products**.**
* **Quality chains,** this emphasizes linkages between suppliers and customers
* **Control,** this involves controlling the factors that affect product’s quality e.g. human, technical etc
* **Monitoring process,** monitoring the business production process enables possible improvements to be made hence leading to total quality management
* **Zero defects policy**, this is aimed at ensuring that every product manufactured is free from defects/errors. This attracts more customers hence improving sales and profits.
* **Team work,** team work leads to improvement in the product quality because it improves employee morale, display skills, knowledge and experience and it also solves problems among workers.

**Benefits of total quality management**

* It enables an entrepreneur to critically analyze all processes tor remove waste and inefficiencies.
* It enables an entrepreneur to achieve quality in all aspects of the business
* Reduces product development time
* It increases flexibility in meeting market demands
* It enables an entrepreneur to utilize human resources better
* It focuses clearly on the needs of customers and relationships between suppliers and customers
* It enables an entrepreneur to find improvements and develop measures of performance
* It enables an entrepreneur to develop a team approach to problem solving
* It enables an entrepreneur to continuously review the processes to develop a strategy of constant improvement
* It leads to development of effective procedures for communication and acknowledgement of work

**Problems of total quality management**

* Training and development costs of new systems are high
* There is too much stress exerted on the process rather than the product
* There is excessive bureaucracy and documentation since regular audits are needed. This is so complex for small firms
* Some workers and unions regard TQM as management by stress.
* It delegates the determination of quality by quality experts since TQM is complicated and not possible by most workers.
* It leads to over working of workers if there is commitment from the entire organisation

**LABOUR REQUIREMENTS IN PRODUCTION**

**An employee or labour** refers to a person who works for the business in return of a wage or salary.

**Types of labour**

* **Skilled labour**: These are workers who have special skills, knowledge or ability on their work. Such labour may have attended a collage, university or technical school.
* **Semi – skilled labour**: It posses certain skills in his area of work and can be able to perform a job.
* **Unskilled labour**: is labour which possess no special training and mainly performs simple duties which may require no independent judgment.

**Need for labour in an enterprise**:

* To increase production of goods and services.
* To increase utilization of idel resources.
* To promote good image of the business.
* To facilitate production by combining with other factors of production.

**Sample questions:**

1. Distinguish between skilled labour and unskilled labour.
2. Mention any two reasons why it is necessary to recruit workers in an enterprise.

**LABOUR PLANNING**

This refers to determining the number of employees’ required by a business, skills and wages or salaries of the labour force.

**Factors considered when deciding on the number and type of the employees to work in the business.**

* **Types of skills required**. Different businesses require different skills and hence different workers eg carpenter in a carpentry shop.
* **Number of jobs available**. these depend on the size of the business, small size of business means few jobs available and few workers needed and vice versa.
* **Cost of hiring labour in relation to profits of the business**. High costs involved in hiring labour, reduces profits and hence few workers employed and vice versa.
* **Level of demand for the products**. High demand for the business products means employing many workers and vice versa.
* **Level of technology used**. High level of technology limits the number of workers. On the other hand low levels of technology mean more workers.

**PURCHASING SKILLS**

Purchasing refers to the process of buying materials, merchandise, components or equipment needed in production in order to maintain the business.

**Objectives of purchasing in business**

* To maintain regular flow of material so as to ensure continuity
* To maintain adequate standard or quality.
* To avoid duplication of materials.
* To maintain the enterprise in a competitive position.
* To develop and maintain social relations with suppliers.

**Purchasing procedure / steps / process**

The following steps are taken when purchasing materials;

* **Determining the needs of the business**. This involves identifying the materials to the purchased in the business.
* **Identifying potential suppliers**. There is a need to find out which suppliers sell the materials needed by the business. This can be done through consulting friends.
* **Contacting the supplier**. Here the entrepreneur contacts different suppliers, this could be by visiting suppliers physically or through other means of communication.
* **Selecting the best supplier**. The entrepreneur compares prices offered by different suppliers. Terms and conditions for sell and choose the most suitable supplier.
* **Ordering for goods**. After choosing the supplier the entrepreneur orders all places and order for the goods to be supplied. This could be done through writing a purchase order.
* **Checking the goods as soon as they are received**. Goods are then checked to ensure no damages are on the goods supplied, Proper qualities are supplied before signing the delivery note.
* **Checking the invoice**. This involves cross checking the invoice to find out whether it corresponds with a purchase order.
* **Making payments to the supplier**. Payments can be effected either by cheque or cash usually a receipt is given to confirm payments.

**PRINCIPLES OF PURCHASING**

These are guidelines followed when purchasing goods and raw materials.

* **Right quality**. This is the quality that is most appropriate for a given purpose. The highest quality of an item is not necessarily the right the quantity. the purchasing manager should be able to determine the right quality the items needed
* **Right quantity**. The right amount of the materials to be purchased can be determined by the amount of raw materials required for production in a given period of time, the purchasing manager should purchase the right quality of materials
* **Right time**. Proper time in purchasing is necessary to avoid excessive stock and stocked out problems.
* **Right place**. Raw materials should be received and stored as near to the factory as possible so as minimize costs and time involved in issuing.
* **Right source (supplier**). The purchasing manager should purchase items from the right source/supplier. It is very important so as to get the right quality and quantity.
* **Right price.** Here the entrepreneur should choose the supplier who supplies at as slightly low prices as possible so as to maximize profits.

**FACTORS CONSIDERED WHEN MAKING A CHOICE OF A SUPPLIER.**

**(FACTORS THAT INFLUENCE THE CHOICE OF SUPPLIER)**

* **Terms and conditions of sale**. One considers a supplier whose terms and conditions are favorable eg credit sales, discounts given etc.
* **Price of the supplier**. One should find out or choose a supplier who sells at relatively low prices in relation to the required quantities so as to maximize profits.
* **Lead time**. This refers to the time frame between placing an order and receiving the supply. Entrepreneurs choose suppliers who can deliver in the shortest time possible.
* **Taxes charged on the products**. In case of importation, one should choose a supplier in the country which has the lowest tax rates in order to reduce the cost of the product.
* **Quality of materials supplied**. One should choose a supplier whose materials have all the specifications to meet the needs of the enterprise e.g. shape, colour, texture etc.
* **The mode and availability of transport**. The most ideal supplier should be one located in the nearby place of the buyer or one that is linked with good transport network to avoid high transport costs.
* **Quantity available for supply**. One should choose a supplier who has capability and capacity to handle large amounts of supply demanded by the purchases.
* **Reputation of the supplier**. Entrepreneurs usually choose well known suppliers in terms of supplying good quality products such information can be got from the supplier’s customers.
* **Past performance,** the purchaser needs to evaluate the past performance of the supplier through his records in terms of supplying quality goods, materials, quick delivery etc and choose the best performer and leave out the weak/poor ones.
* **Consistence and reliability of a supplier**, one should choose a supplier who has the ability to supply the required goods whenever they are ordered for.
* **Ease of communication with supplier,** it is important to choose a supplier who can easily be accessed when ever items are required.
* **Suppliers’ after sales services,** one should choose a supplier who can offer better after sales services.

**Documents used in purchasing**

* **An inquiry date**, on receipt of the purchases requisition, the purchases department sends a letter of inquiry to the suppliers requesting them to quote the prices of s the products required.
* **Quotation,** on receiving an inquiry, the supplier responds by sending a quotation which clearly describes the price of the products specified by the buyer.
* **Purchase order**. This is a document sent to the supplier by the purchaser/buyer requesting to be supplied the goods. For reference purposes, the buyer retains a copy of purchase order.
* **Delivery note.** This is a document sent to the buyer along with the goods; the buyer cross checks the goods in this note and then signs to acknowledge the receipt of goods.
* **Advice /dispatch note,** this document is sent at the time when goods are being dispatched. It is expected to reach the buyer before the arrival of the goods to give him/her enough time to prepare for the goods. It shows when the goods are expected to arrive and the means by which they are transported.
* Credit note
* Debit note
* **Payment voucher,** management has to ensure that payment is not made for goods which are not supplied. To ensure this the purchase order and delivery note must be matched with the supplier’s invoice. If the three documents are matching then the invoice should be cleared for payment. In this case the supplier or his representative has to sign a document known as a voucher when receiving cash or cheque
* **Invoice**. This is a document sent to the buyer indicating the details of goods purchased, balance due and reminds the buyer the time or date of settlement of the debt.
* Statement of account
* **Receipt**, this is a document that acknowledges that payment for supplied goods has been made

**Concepts of inventory**

Inventory means the stock of goods or items held by the business at a particular time for eventual sale.

**Types of inventory**

* **Raw materials**. These are goods which are not yet been committed to production i.e. goods which have not undergone any production process e.g. cotton in the textile industry, sugarcane in the manufacture of sugar.
* **Work in progress**. These are items still undergoing production processes and have not yet been completed.
* **Finished goods**. These are final goods ready for sale and other materials that are used to support the production process.
* **Office supplies**. These are materials used in offices e.g. stationary, furniture.

**NB:** Effective management of inventory requires a sound system of inventory control.

**Inventory control** is a system which ensures that the right quantity and quality of inventory required is supplied at the required time without unnecessary investment in inventory.

**Objectives of inventory /stock control**

* To ensure constant availability of goods when required by the business for production or sale
* To account for the goods which have been purchased
* To reduce storage costs for raw materials, goods etc
* To reduce the risk of materials, goods being wasted, stolen or losing value
* To have an up to date record
* To minimize overstocking and under stocking of materials, goods etc
* To avoid tying up a lot of working capital in inventory
* To meet demand fluctuations and avoid stock outs
* To ensure timely replacement of raw materials for production or merchandise for sale

**Stock levels**

Stock levels should not be too high or too low for them to be beneficial to the firm. Stock levels should be determined according to the production capacity of the firm or its requirements

**Factors that affect stock levels**

* **Durability of goods**, stock levels for durable goods can be maintained
* **Consumption**, items consumed in greater quantity should be maintained at higher level and vice versa.
* **Stock holding cost**, if the cost of holding stock in store is high the stock level should be low and the reserve is true
* **Trade discounts**, incase larger purchases attract s a higher trade discount, then stock level must be maintained at higher level
* **Lead time**, this is the period between the date of ordering for materials and the date of delivery .the longer the lead time, the higher the stock level and vice versa.
* **Availability of materials or goods**, if the goods, materials can easily be obtained whenever needed, then stock level should be low and vice versa.

**Tools for Effective Inventory Management**

The following are the main tools used in inventory.

* **Re – order level**. This is the technique where the entrepreneur places new stock orders as stock is running out.
* **Lead time**. It refers to the time from which one places an order to when the order is actually delivered. If the lead time is long, the entrepreneur needs to place an order a head of time each time orders are to be made.
* **Working capital**. This is the amount of money used to buy stock for a particular business to meet day to day running of the business.
* Assets register, list of business assets

**STORES MANAGEMENT**

**A store** is a place where goods, raw materials are kept

Stores management refers to the process of keeping the stock of raw material, work in progress and finished goods in proper order before they are consumed or soldoff

**Or** it refers to the application of good methods of receiving and keeping goods in store such as having proper record system, proper protection of stock from getting spoilt, stolen or damage

**Types of stores**

* **Centralized stores**, here raw materials are kept in a central place and the issuing process is done from that central point/place
* **Decentralized stores**, this is where materials are issued by the main store to sub stores located in each department
* **Imprest stores**, in this case at the beginning of every given period, the main store issues a specific quantity of materials to the end of that period the quantity used is replaces by the main store. The system used in this case is the same as that of the petty cash imprest system

**Tools for Effective Stores Management**

1. **Physical stock counting/stock taking**. This is where stock is physically counted to ascertain what is available and cross check with what is expected to be available.
2. **Stock reconciliation.** This is where all records regarding what is a stock are updated with records of what is actually reconciliation is after stock taking.
3. **Stock valuation,** this refers to calculating the value of stock to find out how much money has been tied up in stock or to establish the value of stock at hand
4. **Stock card/ bin card**. These are documents where information regarding items kept in the stores is recorded. They normally show the quantities received, issues, stock at hand and the corresponding dates when they were received and issued.
5. **Stock requisition/and issue forms**. This is a document that shows the details of items being requested and the corresponding records of issues.
6. **Stock ledger**, this is similar to the financial ledger. It shows the quantities and monetary values of the stock items.
7. **Stock rotation,** on top of ensuring that stock is available when required an efficient system of stock control should ensure that old stock is used/sold first

This means that whenever new stock is brought in, the old stock is supposed to be brought forward. Failure to rotate stock makes items become dirty, go bad, dusty or damaged. Stock rotation helps the seller to sell the items by their dates**.**

**Rules of stock rotation**

FIFO- First in First Out

LIFO- Last in First Out

1. **Storing stock,** this means handling stock and keeping it safely because damaged stock means money wasted. In this case there fore, security should be ensured to prevent unauthorized personnel from accessing stock.

**Internal control systems used in the operation of the businesses are as below;**

**Purchasing control, this can be done through;**

**diversifying sources of supply business requirements ie buying from more than one source to be able to check on prices.**

**searching for new products and marketing trends. this can be done through visiting trade shows, reading trade magazines, talking to sales people etc.**

**Quality control, this can be done through;**

**checking the goods to ensure that they meet quality standards.**

**spotting slow moving products and reducing prices to get rid of them**

**carrying out customer survey to determine whether customers are satisfied with the level of quality .**

**discussing feed back from customers to obtain areas of discontent and withdrawing the goods not liked or returns with customers**

**supervising and monitoring**

**motivating employees, this can be done through;**

**training of workers to acquire skills**

**carrying out pre-test of raw materials before actual production**

**Employee morale, this can be done through;**

**ensuring open communication with employees to be aware of their complaints so that they don't sabotage business progress.**

**pricing control, this can be done through;**

**setting Price high enough to enable an entrepreneur to make a reasonable profit**

**ensuring that the prices are in line with competitors so as not to lose sales**

**reducing price to get rid of end of season merchandise**

**Sales control, this can be done through;**

**setting sales quotas and keeping track of the sales as well as motivating the sales force**

**advertising business products to attract customers**

**checking the effect of seasonal variations on sales**

**Financial control /analysis, this can be done through;**

**ensuring proper record keeping**

**minimizing costs of business operation**

**eliminating unprofitable ventures**

**Comparing operating cost and profits with other similar businesses to find areas of improvement**

**Cost control, this can be done through;**

**promoting labour efficiency by offering higher wages**

**reducing costs eg by reducing expensive ingredients but without compromising quality**

**Product life cycle**

This refers to the period of time over which an item is developed, brought to the market and eventually removed from the market.

Or

The period between which a product is manufactured (introduced) up to when its demand/market dies off.

When we say that the product has life it means;

* That the products have limited life
* That the product sales through distinct stages, each posing different challenges, opportunities and problems to the seller.
* That profits rise and fall at different stages of the product life cycle
* That products require different marketing, financial, manufacturing, purchasing and human resource strategies at each lifecycle stage

**Stages of the product life cycle**

The product life cycle is made up of five (5) stages /phases, namely;

Product introduction/development stages, during this stage /phase the product is introduced to the market but with high production and marketing costs hence low or no profits

**Characteristics of the introduction/development stage**

* Low sales
* High production costs per unit out put(no economies of scale)
* High marketing costs through advertising, distribution, promotion etc.
* Low or no profits due to low sales and high production and high production and marketing costs
* Existence of a few competitors or only one major player in the market
* Frequent change of product design

**GROWTH STAGE**

During this stage the product is established in the market and there fore, there is rapid increase in sales and profits. Profits at this stage increase due to increase in out put (economies of scale and better prices. here it is cheaper for business to invest in increasing their market share as well as enjoying the over all growth of the market.

**Characteristics of the growth stage**

* Rapid increase in sales due to;
* Customers spreading information about the product
* Promotion effect through advertising etc. which create customer awareness and stimulate interest in the product and encourage s them to try the product

Coming up of competitors with their versions of the product

* Reduced production cost per unit (economies of scale)
* Increased profits due to increase in sales and decline in costs
* Competition continues to grow throughout this stage due to the profit potential recognized in the market. These competitors come in the market with their own versions of product.

**MATURITY STAGE**

This is the most significant stage for all products. At this stage competition is so high because businesses are struggling to maintain their market share. Here the major activities are marketing and financing

**Characteristics of the maturity stage**

* Sales continue to grow during the early part of maturity, but at a much slower rate than experienced during the growth stage. At this stage sales reach a peak and start declining. However, the peak may last for along period of time. This stage is the longest for most products. Most products at any given time are at their maturity stage.
* Costs continue to rise due to high competition and market saturation
* Profits start declining due to slowing sales and increasing costs
* There is intense competition

**DECLINE STAGE**

During this stage sales decline, over supply by competitors keeps prices low and profits decline. In this case the entrepreneur has to decide whether to drop the product, look for new markets, alter the products or seek new uses for the product.

**Characteristics of the decline stage**

* Sales continue to decrease through out this stage.
* Profits continue to decrease with little or no hope of recovery.
* There is still a significant number of competitors at the beginning of the decline stage , but as the decline progresses, the subsidiary competitors will abandon the market leaving their only major competitors with significant market shares

**WITHDRAWAL STAGE**

At this stage there is a down turn in the market e.g. new and more innovative products are introduced or consumer tastes change.

There is intense price cutting and many more products are with drawn from the market. Profits can be improved by reducing marketing expenditure and cost cutting.

In the above phases of the product life cycle, there are a number of activities that have an impact on the quality of a product. These activities include;

* Market research and marketing
* Product design and development
* Purchases of raw materials
* Production of the out put
* Packaging and stit age
* Sales and distribution
* Installation of machinery and equipment
* Technical assessment and servicing

**The product life cycle can be illustrated as below;**

**Criticisms/problems/weaknesses of the product life cycle**

* It is not easy to tell the stage the product is in
* A few products follow such a prescriptive cycle
* The decision of the marketers can change the stage e.g. from maturity to decline
* It is not common for all products to go through each stage. Some go from introduction to decline.
* The length of each stage varies enormously

**Merits/benefits of the product life cycle**

* It helps the entrepreneur in product decision making
* It leads to improved product quality
* It reduces wastage of products and raw materials
* It minimizes production costs through re-use of the original data
* It enables product designers and service providers, government and individuals to make choice
* It enhances the entrepreneur’s ability to quickly identify potential sales opportunities and revenue contributions.

**BUSINESS TAXES**

**A business tax** is a compulsory charge imposed by the government or any other competent authorities on persons or businesses in order to finance government activities

Or

A compulsory non refundable payment made by the business to the tax authorities/government.

The amount of money paid by a business to the tax authorities depends on the nature of business or profits.

**Taxation** is the process through which government obtains money from eligible persons (individuals or businesses) by applying the tax law. This role in Uganda is performed by Uganda revenue authority for central government revenue and local administrations for local government revenue.

**Principles of taxation/principles of a good tax system**

**Simplicity**, the type of tax and method of assessment and collection must be simple to be under stood by both the tax payer and the tax collectors. Complicated taxes lead to disputes, delays, avoidance and high cost of collection in terms of time and resources

**Equity/fairness,** this means that the tax should be levied fairly so that the distribution of the tax burden is equitable. Equity is divided into horizontal equity and vertical equity. Horizontal equity means that persons who earn equal incomes or have equal wealth should pay the same tax **while** vertical equity means that persons who are in different positions in terms of wealth or income levels should be treated differently. Persons who are better of f bear proportionately heavier burden than those who are worse off

**Convenience,** this means that the place, period and season in which tax dues are collected should be convenient to the tax payer.eg PAYE

**Certainty,** this means that time, place, manner/method of payment and the amount to be paid should be certain to the tax payer

**Economical,** the cost of collection and administration of the tax must be much lower than the total tax revenue collected. The collection cost should not exceed 5% of total revenue collected.

**Ability to pay**, the tax payer should be able to pay the tax assessed on him/her with out much difficulty. The payment of the tax should not hinder the operations of the business entities or affect the standard of living of an individual

**Elasticity**, a tax should change directly with the change in the income. If the income increases, the tax imposed on that income should also increase

**Flexibility**, the tax system should be able to accommodate changes in the socio- economic environment of a country.

**Characteristics of a good tax system**

**Characteristics/attributes of a good tax system**

Should be comprehensive i.e. it should cover as many aspects of the economy as possible.

Should be simple and straight to be understood by both the tax payer and the tax collector.

Should yield adequate revenue to the governement ie it should be productive

Should promote equity of sacrifice i.e. it should ensure that it ensures social and economic justice.

Should avoid double taxation i.e. It should avoid taxing an item more than once.

Should direct resources to priority areas hence stimulating savings, investment and productivity.

Should recognize basic rights of the tax payers i.e. tax payers should not be harassed, inconvenienced and exploited by the taxing authority.

Should be convenient i.e. it should be made to know when and where to pay the taxes.

Should be flexible i.e. it should be easy to adjust depending on the changes in the income of the tax payer.

Should be impartial i.e. it should not discriminate among tax payers. Therefore, a good tax system should be productive and it should not discourage the efforts of the tax payers.

It should be economical i.e. the cost of collecting and administering the tax should not exceed 5% of a tax.

Should ensure economic stability i.e. it should not cause instabilities in the economy like inflation.

**Types of taxes**

Taxes are categorized into;

Direct taxes

Indirect taxes

**Direct taxes**

These are taxes imposed on business or individual’s income or property. They include;

**Capital gains tax;** this is a tax imposed on the profit received from the sale of an asset whose value has appreciated overtime. It is levied on the property acquired and sold at again or profit.

**Profit/corporate/company tax,** this is a tax imposed as a percentage of the profit or net income of a business in a given period of time. In Uganda it's 30%

**Personal income tax;** this is a tax levied on the income of an individual. This income can be rent, wage, interest etc. In Uganda it is imposed as PAYE (pay as you earn).

Computation of income tax

**Individual income tax**

This is a tax imposed on the chargeable/taxable income of an individual.

There are mainly 3 sources of income;

Business income

Employment income

Property income

**Gross income**, this refers to the sum of all the incomes earned by an individual minus the income exempt from tax i.e.

**Gross income** = Business income + EmploymentIncome + property income – Income that is exempt from tax.

**Chargeable/taxable income** = gross income – expenses and losses incurred in earning the incomes.

**Example 1**

In the year 2010, Nagudi earned income from different sources as below;

Business income Ugshs 10,000/=

Employment income Ugshs 20,000/=

Property income Ugshs 5,000/=

In the process, she incurred expenses and losses totaling to Ugshs 2000/=.

Ugshs 3000/= out of her income was tax exempt.

Question:

(a) Determine Nagudi gross income

(b) Determine Nagudi taxable income

Gross income = Business income = 10,000/=

Employment income = 20,000/=

Property income = 5,000/=

Total income  **35,000/=**

Less tax exempt income 3,000

Gross income  **32,000 shillings**

Chargeable income = Gross income – Expenses

Chargeable income = 32000-2000

Chargeable income = 30,000 shillings

**Example 2**

Musisi earned income from different sources in the year 2016

Business income 1,500,000 shillings

Employment income 2,500,000 shillings

Property income 1,000,000 shillings

He incurred expenses and losses amounting to 700,000 shillings,

Ugshs 100,000 out of his income was tax exempt.

Question

(a) Determine Musisi’s gross income

(b) Determine Musisi’s chargeable income

Gross income = Business income = 1,500,000

Employment income 2,500,000

Property income 1,000,000

Total income **5,000,000 shillings**

Less tax exempt income 100,000

Gross income **4,900,000 shillings**

Chargeable income = gross income – expenses and losses incurred

= 4,900,000 – 2,100,000

= 2,800,000 shillings

**Example3**

Mugenzi earned income from different sources for the year 2016 as below, business income shs2, 000,000, employment income shs 4,800,000, property income shs 100,000. In addition he incurred expenses and losses amounting shs2, 400,000, shs 300,000 out of the income is tax exempt

**Required**; determine mugenzi;

(i) Gross income

(ii)Chargeable income

**Study the table below and answer the questions that follow ;**

**income earner business income (shs) employment income (shs)property income (shs)**

**kabanda 1400000 800000 2300000**

**Obote 2100000 1200000 3000000.**

**Otim 2500000 1600000 3400000**

**Bwete 29000000 1000000 3750000**

**NB: For all the above income earners, tax exempt income takes 10% of total income and expenses and losses incurred to earn the income takes 15% of the total income**

**(a) Calculate each income earner's**

**(i) Gross income**

**(ii) Chargeable income**

**Tax rate**

Income is taxed in relation to a given year of income. The tax rate for individuals is based on a year except for PAYE where the rates are administratively reduced to monthly rates.

Annual income tax rates

| **Annual income (shs)** | **Tax liability** |
| --- | --- |
| Not exceeding Ugshs 2,820,000 | Nil |
| Exceeding 2,820,000 but not exceeding Ugshs 4,020,000 | 10% of the amount by which chargeable income exceeds shs 2,820,000. |
| Exceeding Ugshs 4,020,000 but not exceeding Ugshs 4,920,000 | Shs 120,000 plus 20% of the amount by which chargeable income exceeds shs 4,020,000 |
| Exceeding Ugshs 4,920,000 | Ugshs 300,000 plus 30% of the amount by which chargeable income exceeds Ugshs 4,920,000 |

Example 1

Katula, and Kaloli are employees of Uganda clays and earn shs 3,550,000/= and shs 4,660,000 annually respectively. Calculate the annual tax liability/payable by ;

Katula

Kaloli

**Pay as you earn (PAYE)**

This tax is withheld by the employer when making payment of employment income of any month. The amount with held depends on the stated withholding PAYE tax rates. The employer is supposed to remit the withheld tax to URA by the 15th day of the following month.

PAYE monthly tax rates are as below;

| Monthly income (shs) | Tax liability |
| --- | --- |
| 0-235,000 | Nil |
| 235,000-335,000 | 10% of the amount by which chargeable income exceeds shs 235,000 |
| 335,000-410,000 | Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000 |
| 410,000 and above | **(A)**Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000  **(B)** Where chargeable income exceeds Shs 10,000,000 per month, an additional 10% is charged on the amount by which chargeable income exceeds Shs 10,000,000 per month. |

**Example I**

Muto enterprise employs James, John, Jose and Jessy earning monthly income of shs 300,000, 400,000, 380,000 and shs 700,000 per month respectively. Use the above PAYE/income tax rates to calculate the income tax payable by;

James

John

Jose

Jessie

NB: Where allowances are given, they are added on the basic pay and then subjected to taxation.

**Example 2**

Kasodde employs Kato, Kaddu, Kaye, Kafu, Kamanzi, Kamaadi and Kasaato who earn shs 310,000, 380,000, 440,000. 905,000, 330,000, 610,000 and 2,000,000 per month respectivelyThe employer uses the monthly PAYE/income tax rates above to calculate PAYE deductions. Calculate the monthly PAYE deductions for the above workers.

Example 3

Given the payment structure below;

| **Monthly income (shs)** | **Tax liability** |
| --- | --- |
| Not exceeding Shs235,000 | Nil |
| AboveShs 235,00 but not exceeding Shs335,000 | 10% of the amount by which chargeable income exceeds shs 235,000 |
| Above Shs335,000 but not exceeding Shs410,000 | Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000 |
| Exceeding Shs410,000 | Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000  where chargeable income exceeds Shs 10,000,000 per month ,an additional 10% is charged on the amount by which chargeable income exceeds Shs 10,000,000 per month. |

Calculate the tax liability for the following employees whose salaries are shown below;

(i)Adam shs 420,000

(ii)Aaron Shs 230,000

(iii)Norah Shs 15,000,000

(iv)Sarah Shs400,000

(v)Suzan Shs 312,000

(vi)Mariam Shs 5,000,000

**Wealth/property tax**; this is a tax imposed on accumulate wealth, capital or savings of an individual or business entity. It can be imposed on land, buildings shares or othe investments. It is common in cities and urban centers e.g. KCCA imposes ground rent on land and buildings.

Computation of rental tax

**Rental tax**

This tax is imposed on every individual who has rental income for the year of income. This tax applies on to rental income from immovable property such as land, buildings located in Uganda.

The income tax act provides that 20% of the rental income be deducted as representing expenditure and loss incurred to earn the rental income.

The tax rate for rental tax is 20% of the chargeable rental income in excess of the threshold, which is Ugshs 2,820,000/=.

**Formula;**

**Chargeable rental income = Rental income - provision for expenditures and losses (20%) - Threshold**

**Rental tax liability = Rental tax rate X Chargeable rental income**

**= 20/100X chargeable rental income**

**Example 1**

Musisi earned Ugshs 22,800,000 as rental income from his house located in Mukono. Calculate his;

(I) Chargeable rental income

(II) Rental tax liability

Rental income = 22,800,000

Less provision for expenditure and losses (20% x 22,800,000) 4,560,000

18,240,000

Less the threshold 2,820,000

Chargeable rental income 15,420,000

Rental tax liability = 20% x 15,420,000

shs 3,084,000

**Example 2**

Matovu owns a building in Kampala where he earns shs 100, 000, 000.Given that the rental tax is 20%, the provision for expenditures and losses incurred to earn the income is 20% and the threshold is shs 2,820,000

Determine his;

(I) Chargeable income

(II) Tax liability

Example 3

Given that the Threshold for rental income is Shs 2,820,000and the rate for rental tax is 20%.Calculate the rental tax payable by the landlords who earned the following rental incomes in 2018

kagga Jim Shs 18,000,000

Jingo copper Shs 10,500,000

Kagimu Joe. Shs 14,200,000

Kagga Jim

Rental income tax =( Chargeable rental income -provision for expenses and losses - threshold) X rental tax rate

Chargeable rental income = Rental income -(20/100Xrental income) -threshold X rental tax rate

=18,000,000-(20/100X18,000,000)-2,820,000 X20/100

=( 18,000,000-3,600,000-2,820,000)X20/100

=11,580,000X20/100

=Shs 2,316,000

Exercise 4

Given that threshold for rental tax is Shs 2,820,000 and the tax rate for the rental income being 20%

(a) Calculate the rental tax payable by the landlords who earned the following rent incomes in 2018

(I) zubeddah. Shs 22,200,000

(II) Medie Shs 34,000,000

(III) Zainah. Shs 66,500,000

(Iv ) John Shs 59,900,000

(v) Mpalannyi Shs 78,000,000

(b) What are effects of tax evasion to the business

**Death duty**; this is a tax imposed on the estate (property) of the deceased person before it is shared out to the different beneficiaries.

**Inheritance duty**; this is a tax paid by a beneficiary from the estate of the deceased. In this case the tax base is normally the market value of the property acquired by such a beneficiary.

**Gift tax**; this is a tax imposed on the transfer of property by one individual to another. It covers assets given by a living person to another living person.

Over TheTop (OTT) tax, a tax imposed on the use of social media to download or transfer information from one person to another

**Merits of direct taxes**

They generate revenue to government.

They reduce income inequality – progressive taxes.

They are certain to both tax payers and collectors.

They are flexible; they can easily change according to economic changes in the economy.

They are used to fight inflation in the country.

They are simple to understand by the tax payers and collectors.

They cannot easily be avoided by tax payers.

**Demerits of direct taxes**

They can easily be evaded or avoided by tax payers.

They discourage workers effort due to fear of being taxed more.

They discourage savings and investment.

They can lead to political unrest in the country.

They reduce the disposable income of the people hence leading to low standard of living.

They can result into cost push inflation as factor inputs become costly.

They have a negative psychological effect to the tax payers where they think that government is stealing their money.

**Indirect/expenditure/outlay taxes**

These are taxes that are imposed on commodities, paid by an individual or business entity and shifted to the final consumer in form of high pricrs. The tax payer does not directly feel the burden of the tax like the case is for direct taxes.

Indirect taxes are voluntary because you only pay them when you decide to buy the commodities on which they are imposed.

**They include;**

**Sumptuary tax;** tax imposed on a commodity in order to discourage its consumption either on grounds of health or morality.

**Import duty**; tax imposed on goods entering the country to raise revenue and to discourage importation of certain commodities into the country.

**Export duty**; tax imposed on goods leaving the country to raise revenue and to discourage exportation of certain goods so as to satisfy the domestic market.

Note: Import duty and export duty make up customs duty.

**Octroi tax**; this is a tax imposed on commodities passing through one country to another.

**Excise duty**; this is a tax imposed on the production or importation of specific goods with a view to regulate their consumption and supply in the local market or a tax levied on any locally produced good whether meant for a domestic market or for export. It is like a license to produce

**Sales tax;** this is a tax imposed as a percentage of the value of the goods sold.

**Value added tax (VAT),this is a tax** imposed on the value added on the commodity at each stage of production a taxable good or service or it is imposed on the amount of profit added on a commodity as it proceeds down the distribution chain from the original supplier to the final consumer. This tax is finally paid by the consumer. The VAT rate in uganda is currently 18% of the value added.

value added is equal to selling price – cost price.

Computation of VAT

**VAT MECHANISM**

**The calculation of VAT involves three major items which include;**

VAT on purchases/ expenses/cost price known as **input VAT**

VAT on sales/selling known as **out put VAT**

VAT liability/payable, this is given as out put VAT- input VAT **or**

**VAT liability = VAT rate X value added**

VAT liability = 18% of value added

**NOTE**: A situation where in put tax is bigger than the out put tax is referred to as a VAT refund i.e. the trader is supposed to claim that money from URA

**Example 1**

Odumuna a trader purchased goods at shs 6,000,000 and sold them at shs 13,000,000.

Calculate;

(I) In put tax

(II) Out put tax

(III) VAT payable/liability

**Example 2**

Tom purchased 6 machines at shs 2,000,000 each and sold them at shs 3,500,000 each.

Calculate;

(I) Input tax

(II) Out put tax

(III) VAT liability

**Example 3**

**Mr. Mubi is a dealer in television sets, he bought 5 tvs at shs 12,000,000 each from Mulungi traders in January 2015 and resold them at shs 180,000,000 .**

**Compute;**

**(I) input tax**

**(II) Out put tax**

**(III) VAT liability**

Example 4

**Given the table below showing the chain of distribution, Compute the total VAT paid**

| **stage** | **activity** | **Purchase price(shs)** | **Selling price(shs)** | **Value added** | **VAT(18%)** |
| --- | --- | --- | --- | --- | --- |
| **1**  **2**  **3**  **4**  **5** | **Imports at customs**  **Local distributor**  **Wholesaler**  **Retailer**  **Final consumer** | **100,000**  **100,000**  **120,000**  **150,000**  **200,000** | **Nil**  **120,000**  **150,000**  **…………..**  **……………** | **100,000**  **20,000**  **………..**  **50,000**  **…………….** | **18,000**  **3600**  **…………**  **…………..**  **36,000** |

From the above illustration, the final consumer pays VAT of shs36,000 which is 18% of 200,000. There fore, the total price that the final consumer pays for the commodity inclusive of VAT is

Final price=sales value+ VAT on sales

Gross sales value/total sales (inclusive of VAT) =sales value +VAT on sales

**Example 5**

The following VAT exclusive transactions were availed by VAT registered businesses for the month of January 2018

(I)Mitala bought goods worth shs 60,000,000

(II) Mitala sold the same goods to Kawalya for shs 79,000,000

(III) Kawalya sold the same goods to Ngabirano a retailer for shs 90,000,000

(iv ) Ngabirano sold the same goods to the final consumer for shs 120,000,000

Calculate the VAT chargeable for the value added at each stage

**SOLUTION**

VAT chargeable = VAT rate x value added

Stage 1(Mitala) VAT chargeable = 18/100x60, 000,000

= Shs 10,800,000

Stage 2 (Kawalya) VAT chargeable= VAT rate x value added

= 18/100(790,000-60,000,000)

= 18/100x19, 000,000

**= Shs 3,420,000**

Stage 3 (Ngabirano) VAT chargeable = VAT rate x value added

18/100(90,000,000-790,000,000

18/100x 11,000,000

**Shs1, 980,000**

Stage 4 (Final Consumer) VAT chargeable = vat rate x value added

18/100(120, 000, 00-90,000,000

18/100 x 30,000,000

**Shs 5,400.000**

Examples 6

TX enterprises had the following VAT exclusive transactions with VAT registered enterprises in Luweero Town council for the month of March 2019

Purchases Shs 236,000,000

Sales Shs259,600,000

(a) Calculate the amount of VAT paid by TX enterprises to Uganda Revenue Authority for that period( use 18% as VATrate)

(b) Compute TX enterprises` total sales value VAT inclusive

Solution

(a) VAT =output tax –input tax

=18/100 x 259,600,000- (18/100x 236,000,000)

=Shs 46,728,000-42,480,000

**=Shs 4,248,000**

Or

VAT = VAT RATE XVALUE ADDED

=18/100(259,600,000-236,000,000)

=18/100X 23,600,000

**=SHS 4, 248,000**

(b) Total sales value (VAT INCLUSIVE)=SALES VALUE +VAT on sales

=259,600,000+ (18/100x 259,600,000

=259,600,000 +46,728,000

**=Shs 306,328,000**

Example 7

The following VAT exclusive transactions were carried out by VAT registered businesses in February 2018 at different stages of distribution.

(I) Mpano bought goods worth shs 9,000,000

(II) Mpano sold all the goods to Ssendegeya for shs 11,000,000

(III) Ssendegeya sold the same goods to Akumu the retailer for shs 14,000,000

(iv) Akumu sold the goods to the final consumer for shs 19,000,000

Calculate the VAT chargeable at each stage using VAT rate of 18%.

Advice entrepreneurs on the importance of paying taxes.

Mulumba is an entrepreneur who deals in wheat buying and selling. His business is VAT registered.

(a) In the month of January 2019, He sold wheat worth Shs 2,500,000 to Nkalubo wheat dealers at Shs 4,300,000. Both transactions were VAT exclusive.

Required : Using 18% VAT rate calculate;

(I) VAT on purchases (input VAT)

(II) VAT on sales (Out put VAT)

(III) VAT paid to Uganda Revenue Authority

(b) Mention any four taxes other than VAT paid by the business

(c) Give any six benefits that the business enjoys by paying taxes

The following VAT exclusive transactions were availed by VAT registered traders in Kampala for the month of February 2019.

(I) Mpanga bought goods worth Shs 13,600,000

(II) Mpanga sold the same goods to Mpindi at Shs 23,800,000

(III) Mpindi sold the same goods to the final Consumer at Shs 47,500,000

Required : Using the VAT rate of 18%

(I) Calculate the entrepreneur,s VAT chargeable for the value added at each stage of distribution

(II) Compute the total gross sales value to the final consumer

VAT inclusive transactions

These are transactions where the prices given include VAT .In this case a VAT fraction is used

VAT fraction

This refers to the ratio used to determine the amount of VAT where the consideration 'price is inclusive of VAT. The fraction is expressed as r/r + 100

Where ris the VAT rate

VAT = taxable value × VAT fraction

Where the VATrate (r) is 18% ,then the VAT fraction =18/(18+100)

= 18/118.

Example 1

A business man purchased goods worth Shs. 5,900,000 which were sold at Shs 9,440,000.Both transactions were VAT inclusive.

Calculate ;

(I) VAT on purchases

(II) VATon sales

(III) the trader's VAT liability

(I) VAT on purchases =VAT fraction X purchase value

= 18/(18+100)X Purchase value

=18/118X 5,900,000

=Shs 900,000

(II) VAT on sales =VAT fraction X sales value

=18/(18+100)X sales value

=18/118X 5,440,000

=Shs 1,440,000

(III) VAT liability =VAT on sales -VAT on purchases

=1,440,000-900,000

=Shs 540,000

Example 2

Mr Lion purchased goods worth Shs 452,000 and sold them at Shs 725,000. Calculate;

(I) input VAT

(II) Out put VAT

(III) VAT liability

Example 3

Matugga Enterprises Limited, a dealer in general merchandise made the following transactions during the month of January 2019

Good purchases vat inclusive(shs) sales VAT inclusive(Shs)

Rice 29,500,000 41,300,000

Utensils 20,060,000 27,140,000

Footwear 41,300,000 48,380,000

Bed sheets 63,720,000 76,700,000

i)using VAT output and VAT input approach,calculate Matugga Enterprises Limited 's VAT liability for each good

a) VAT Liability =18/118X (Out put VAT - Input VAT)

Or

rate /rate X 100 (VAT inclusive value)

Where, VAT inclusive value = sales value - purchase value

Rice

VAT liability =18/118 X( 41,300,000-29,500,000)

soda

VAT liability = 18/118 X ( 41, 300,000 - 29,500,000)

= 18/118 X 11,800,000

=Shs 1,800,000

Tota VAT liability =Summation of all VAT at each stage

Exercise 4

Sempa a dealer in general merchandise made the following transactions during the month of May 2017

Goods purchases (shs) VAT inclusive. Sales (shs) VAT inclusive

baking flour 1,500,000 18,000,000

cooking oil 40,000,000 55,000,000

Sugar 42,000,000 65,000,000

cosmetics 80,000,000 98,000,000

(i) Using VAT out put and VAT input approach;

Calculate Sempa's VAT liability for each good

(ii) Calculate his Total VAT liability

**Ill**

Exercise 5

The following VAT- inclusive transactions were availed to you by VAT registered businesses in your town for the month of June 2018

(I) Dominiko bought goods worth shs 88,070,000

(ii)Dominiko sold the same goods to Francis at shs 323,480,000

(III) Francis sold the same goods to Davido a retailer at shs 521,820,000

(iv) The goods were finally sold to Angozosi the final consumer at shs 998,690,000

Using the VAT rate of 18%

(i) Compute the entrepreneurs’ VAT payable for different stages of sale

(ii) What would be the price payable by the final consumer VAT exclusive?

6(a) The following VAT- inclusive transactions were availed to you by VAT registered businesses in your town for the month of june 2016

Victoria bought goods worth shs 7,080,000

Victoria sold the same goods to Linda at shs 103,840,000

Linda sold the same goods to Shanna a retailer at shs 113,280,000

The goods were finally sold to Noreen the final consumer at shs 141,600,000

Using the VAT rate of 18%

(i) Compute the entrepreneurs’ VAT payable for different stages of sale

(ii) What would be the price payable by the final consumer VAT exclusive?

**Merit of indirect taxes**

They yield much revenue to government because they are many compared to the direct taxes.

They are cheap to assess collect and administer because they don’t involve movement due to the few collection points i.e. sellers or producers.

They are flexible e.g. an increase in consumption of a commodity automatically leads to increase in the tax revenue from the commodity in question.

They cause less resentment towards authorities by the citizens unlike direct taxes. This is because there is no direct contact between tax officials and tax payers.

They are difficult to evade and avoid because they are paid on consumption of commodities some of which are essential.

They reduce on consumption of harmful goods because it is a matter of increasing taxes which leads to an increase in their price hence leading to a fall in demand.

They are comprehensive in nature because a tax on a given commodity covers all consumers throughout the region/ country.

They improve the balance of payment position i.e. increasing import duty which reduces import expenditure hence better BOP.

They do not reduce on the work effort of the citizens because they are paid as one buys a commodity i.e. in many cases people work hard for a commodity hence paying a tax.

**Demerits of indirect taxes**

They reduce consumer’s welfare due to reduced consumption.

They promote trade malpractices in foreign trade such as smuggling.

They are inflationary hence leading to a rising cost of living.

Import duties lead to local monopolies with their associated problems.

They discourage investment due to discouraged effective demand.

High indirect taxes lead to resentment to government/trade unrest.

They increase the cost of production.

Some indirect taxes are difficult to understand e.g. VAT.

Question : Assess the role of taxation in your country

**DIFFERENCES BETWEEN DIRECT TAX AND INDIRECT TAX:**

There are different implications of direct and indirect taxes on the country. However, both types of taxes are important for the government as taxes the major source of revenue for the government.

**Main differences between Direct and Indirect Tax are:**

Direct tax is levied and paid for by individuals, firms and companies etc. whereas indirect tax is ultimately paid by the end-consumer of goods and services.

The burden of tax cannot be shifted in case of direct taxes while the burden can be shifted for indirect taxes.

Absence of administration in collection of direct taxes can make tax evasion possible, while indirect taxes cannot be evaded as the taxes are charged on goods and services in form of increased prices.

Direct tax helps in reducing inflation, whereas indirect tax enhances inflation as prices of raw materials increase.

Direct taxes help in reducing inequalities and are considered to be progressive while indirect taxes enhance inequalities and are considered to be regressive.

Indirect taxes involve lesser administrative costs due to convenient and stable collections, while direct taxes have many exemptions and involve higher administrative costs.

Indirect taxes are oriented more towards growth as they discourage consumption and help enhance savings. Direct taxes, on the other hand, reduce savings and discourage investments.

Indirect taxes have a wider coverage as all members of the society are taxed through the sale of goods and services, while direct taxes are collected only from people in respective tax brackets.

Additional indirect taxes levied on harmful commodities such as cigarettes, alcohol etc. dissuades over-consumption, thereby helping the country in a social context.

Indirect taxes are defined according to the ability of the end taxpayer to shift the burden of taxes to someone else. While direct taxes allow the government to collect taxes directly from consumers.

**EMPLOYEE’S RELIEF OR TAX EXEMPT**

This refers to gains or income that is not included in the chargeable income of the employee and therefore not taxable on the employee:

The employee’s income that is below the taxable threshold, currently at Shs 235,000 per month

Pension.

Discharge or reimbursement of medical expenses actually incurred by the employee.

Life insurance premiums paid by a taxable employer (company/individual) for the benefit of the employee.

Any non-cash benefit whose value is less than Shs 10,000 a month.

Relief of 25% on terminal benefits for employees who have served the employer for at least 10years.

Employment income of an expatriate employee in a listed Institution, under a technical assistance agreement subject to the Minister’s approval.

Official employment income of persons employed in the armed forces, Uganda Police Force and Uganda Prisons. It excludes persons serving there in civilian capacity.

Employment income of Ugandans posted to work in Ugandan diplomatic missions abroad.

Allowances for members of Parliament

The Dividend received by resident company from another resident company where it controls more than 25% of the total share.

Furniture manufactured using local materials

Specialized furniture for use in Hospitals

Beer produced from barley grown and malted in Uganda

The supply of unprocessed foodstuffs, including agricultural, livestock,

Deposits in the bank

**Employer’s Obligation**

To withhold taxfrom employment income, to deduct the correct tax from the employee’s total employment income at the time of effecting payment to every liable employee.

To make Payment, to pay to URA the total tax by the 15th day of the month immediately following the month in which employment Income was paid.

To ensure accountability: to account for the tax deducted from every employee on a monthly basis to Uganda Revenue Authority.

To Maintain Employees’ Records, and keep those records for inspection by URA on demand for at least five years.

Obligations of the tax payers in Uganda

Registration, a tax payer is required to voluntarily register with URA

Filling returns and entries, a tax payer is required to file correct tax returns, customs entries at the right time and place as required by law

Tax payment, a tax payer is required to pay the correct tax at the right time and place

Declaration of information, a tax payer is required to be honest with URA by giving full information required

Cooperation with Uganda revenue authority

A tax payer travelling is required to accurately complete all the necessary forms before reaching the arrival or departure processing point

A tax payer importing or exporting goods can use the services of licensed customs brokers to complete customs entries and other formalities

**Rights of tax payers in Uganda**

A tax payer is entitled to claim refund of overpaid tax where applicable.

A tax payer is entitled to accountability for all taxes deducted and paid at source by the employer.

A tax payer is entitled to prier information before any action is taken by URA.

A tax payer is entitled to equal treatment like any other tax payer.

A tax payer is entitled to confidentiality from URA of personal tax information to be shared in public.

A tax payer is entitled to be attended to by URA officials regarding tax matters

A tax payer has a right to appeal over tax payment in case of need.

Role of taxation in an economy

Positive role

Generating revenue to the government to enable it finance it's expenditures

Discouraging dumping of goods into the economy

Protecting domestic infant industries from unfair competition by foreign industries

Controlling inflation by reducing the disposable income of the people

Discouraging production and consumption of harmful products eg cigarettes

Improving the balance of payments position of a country through controlling excess importation of goods

Ensuring steady economic growth and development by regulating government expenditure on productive and essential activities

Achieving equitable distribution of wealth and reduce income inequality

Enabling the country to become financially self reliant and avoid relying on borrowing from external sources to finance development projects

Creating employment in an economy if taxes are used to set up productive activities

Influencing resource allocation in an economy

Negative role

Acting as a disincentive to hard work in an economy due to high tax rates

production of poor quality products due to reduced foreign competition

Resulting into inflation due to high rates of indirect taxes

Causing income inequality since the burden of indirect tax falls heavily on the poor than the rich

Causing political tension /resentment /riots in the country due to high tax rates

Reducing the amount of money available for business to reinvest due to high corporation taxes

Discouraging foreign capital inflow due to high tax rates

**PROBLEMS OF TAXATION IN UGANDA**

**(Factors for the low tax base/ taxable capacity in Uganda)**

Much as there is need for the government to levy taxes, the tax system in Uganda faces a lot of challenges that limit government tax revenue collection in the country. Such problems among others include the following:

Low levels of income individuals. The majority of the people in Uganda are poor due to low levels of economic activities in the country. Therefore, the government cannot raise more revenue due to low investment levels.

Presence of a small industrial sector. Most industries in Uganda are small scale leading to low profit margins. Consequently, tax revenue from corporate taxes is limited.

Presence of weak tax administrative machinery. The tax administrative system in Uganda is weak and this is reflected in dishonesty and incompetence of tax officials, low levels of integrity among tax collectors and assessors all of which account for the low tax yield.

Existence of a large informal sector. With limited book keeping, this results into under assessment which reduces the taxes collected and over assessment which reduces the tax resentment hence tax evasion and this reduces tax revenue.

High costs of collection and administration of taxes. This tends to reduce the tax revenue collected as more expenses are incurred in tax collection.

Existence of high rates of tax evasion and tax avoidance. This results into revenue shortages

Increased trade mal-practices. This takes inform of smuggling, under declaration of the value of imports and exports, over invoicing and under invoicing of goods and services all of which lead to low taxes.

Existence of high dependency ratio Uganda, where the majority of the people are not working and few people are engaged in production. This reduces the taxable income hence low revenue collecting.

The high of levels of unemployment and under employment in Uganda, this reduces the tax base and tax revenue.

Existence of a large subsistence sector. Uganda is characterized by low output coming out of predominant agricultural sector is largely for home consumption and not commercial use hence low tax revenue.

**SOLUTIONS TO PROBLEMS OF TAXATION IN Uganda**

Massive industrialization, to widen tax base, increase employment and income tax

Developing and encouraging use of labour intensive technology to reduce unemployment in most industrial firms, hence creating taxable income.

Carrying out sensitization to Minimize chances of tax evasion and tax avoidance.

Strengthening the functions of URA to reduce e trade mal-practices such as smuggling.

Training of tax collectors to improve on tax administration and penalizing or dismissing incompetent and dishonesty tax personnel.

Sensitization of tax payers about the importance of paying taxes. Through carrying out seminars, radio talks shows and community works.

Reducing human interaction to minimize corruption and increase efficiency in tax assessment .e.g. use of on line reporting.

Providing accountability of tax revenue by government. this increases the willingness of the tax taxpayer to pay the tax

Improving on infrastructure, to facilitate easy assessment and collection expenses.

Encouraging businessmen to keep records to avoid under assessment.

**TAX COMPLIANCE**

This is the degree to which the taxpaying community meets the tax obligation (as set out in the appropriate regulatory provisions).

Tax payers are considered to be compliant when they make timely, proper and accurate declarations to the tax authority and also settle their tax liabilities voluntarily.

Tax payers who are non compliant either evade or avoid taxes .

Tax avoidance is a situation where the tax payer takes advantage of the weaknesses or loopholes with in the tax system /law in order not to pay or to reduce one's tax liability

while

Tax evasion is a situation where a person uses illegal means in order not to pay the tax imposed

Tax evasion is illegal and constitutes a criminal offence

Forms of tax evasion

under declaring income or over stating expenses

Engaging in smuggling goods into or outside the country

bribing tax authorities to under assess the tax to be paid

manipulating books of accounts

declaring false information to the tax officials

**Levels of tax compliance**

These depend on the tax payers’ knowledge and attitude towards the taxation system. There are four (4) levels of tax compliance and these are;

Tax payers who are fully compliant and are willing to settle their tax obligations voluntarily.

Tax payers who reluctantly feel obliged to be complaint i.e. these know that non compliance may turn out to be expensive and therefore comply accordingly.

Tax payers who show slight resistance to compliance due to lack of knowledge these comply when advised or put on pressure.

Tax payers who are non complaint. These openly resist meeting their tax obligations.

**Factors that affect tax compliance**

**Ability of a tax payer to pay the tax imposed on him/her**, if he is able, he will comply and if he is not able, he will become non complaint.

**The extent to which the tax system is equitable**, if a tax system carries an equitable burden to the tax payers, it encourages tax compliance and if it is not equitable, it leads to non compliance.

**The extent to which the tax payer or business observes business ethics**, if a business observes business ethics, it will be complaint and if the business is unethical, it will be non complaint.

**The degree to which the tax assessment and collection are convenient**, if the place, amount and period in which the tax is collected are convenient the tax payer will be complaint and the reverse leads to non compliance.

**Tax optimality by the government**, if government trickles down the tax revenue, it encourages tax compliance and vice versa.

Simplicity of understanding the tax laws and regulatory framework, if the tax laws are **simple and easy to understand**, tax payers will be complaint and if they are not easy to understand, tax payers will be non complaint.

**The extent to which the tax laws are applied**. If they are applied consistently and fairly, it leads to tax compliance and inconsistence leads to non compliance.

**Level of tax rates**, high tax rates make taxation costly and bring about tax non compliance while low tax rates encourage compliance.

**Factors/ reasons for low tax compliance in uganda**

Unpopularity of the government

Poor quality of management of the business

Poor quality of tax administration

High tax rates

Uncertainty of the tax system

Inconvenient tax system

The tax base is narrow

Inequality in the distribution of the tax burden

Non economical tax system

Ignorance of people about the benefits of paying taxes

Low level of income of the tax paying community

Rigidity of the tax system

**Incosistence in application of the tax law**

**Absence of tax optimality**

**In ethical entrepreneur**

**poor tax payer /inability of the tax payer**

**Unfair tax assessed**

**Complicated tax**

**Measures/ways of encouraging tax compliance in Uganda**

By fighting corruption of tax revenue within the tax administration system.

Sensitizing masses/tax payers on the importance of paying taxes.

Through developing a tax payer friendly system of tax assessment and collection.

By ensuring political stability so as to boost economic activities.

By employing trained personnel to assess taxes and collect tax revenue.

Through imposing heavy penalties to tax evaders i.e. strengthening the tax implementation laws.

By shortening the tax payment procedure i.e. minimizing bureaucracy in the taxpaying system.

By charging lower tax rates.

Through praising and rewarding complaint tax payers or publishing the shame list of non tax complaint tax payers.

By incorporating taxation in Uganda’s school curriculum.

By adopting the principle of fair tax assessment.

Ensuring transparency in the tax system/reducing corruption and embezzlement of tax revenue

Simplifying the tax system

Sensitizing the masses on the role of taxation

By making the tax system equitable

Developing a tax payer friendly system of tax collection

Ensuring a high degree of political stability so as to boost economic activities

Making the tax system more productive

Charging lower tax rates

Widening the tax base

Shortening the tax payment procedure

Being consistent in implementing tax laws/imposing tax penalties

Praising and rewarding compliant tax payers

Publishing a shame list of non compliant tax payers

Employing trained personnel to assess and collect the tax

**Reasons for paying taxes /reasons why the government imposes taxes**

To enable government raise revenue to provide social services such as security, rods, education, health etc to the public.

To redistribute income and wealth among people and regions.

To reduce dumping in the country.

To reduce income inequality in society i.e. through taxing the rich taxed and the poor subsidized.

To protect domestic industries from competition with cheap commodities from other countries.

To restrict the consumption of certain commodities e.g. a tax on cigarettes, alcoholic drinks etc.

To check on inflation by reducing the money available to people for consumption.

To recover the community wealth which individuals have obtained not as a result of their effort but a result of efforts of other persons e.g. death duty is charged for this purpose.

To charge those who use its facilities such as roads, police, public parks etc.

**Tax authorities in Uganda**

There are two tax authorities in Uganda and these are;

Uganda revenue authority (URA)

Local government authorities

**Uganda revenue authority (URA)**

This is responsible for the central government revenue. URA was established on 5th September 1991 to;

Modernize the process of tax administration.

Reduce revenue leakage and corruption in the tax administration.

**Role of Uganda revenue authority (URA)**

Assessing and collecting taxes according to the tax law.

Accounting to the ministry of finance for all revenue collected. All revenue collected is deposited to the bank of Uganda

Facilitating trade and investment in the country, this is done through working with other government agencies

Advising government on matters of policy related to tax and revenue administration especially on formation of tax policies.

Arresting and penelising tax defaulter

Registering tax payers and assigningto them tax payer identification numbers(TIN)

**Taxes collected by URA**

There are two types of taxes collected by URA, these are;

**(a)International trade taxes,** these are charged on goods entering (imports) or leaving (exports) the country. The customs and excise department performs this role. The taxes collected under this category include;

Import duty

Export duty

Value added tax (VAT)

Withholding tax – tax collected on behalf of someone e.g. PAYE

Excise duty

Environmental levy

**(b)Domestic taxes**; these are collected by URA under the domestic taxes department. They include;

Income tax

Excise duty

VAT

**Local government authorities**

These are responsible for collection of local government revenue. Local government authorities include; Town councils city councils e.g. KCCA, sub counties, municipalities and districts.

**Taxes collected by local government authorities;**

Trading licenses

Sign post fees

Property tax in cities and towns eg ground rent on land and buildings

Market dues

**Terms used in taxation**

**Tax base**,is any item or economic activity that is subject to tax/ can be taxed.

**Examples of tax bases**

Income earned e.g. salary, wage, fees etc.

Profit made by the businesses

Property/assets like houses, land etc.

consumption of goods that are taxable

**Tax liability,** the amount of money paid to the tax authorities by the tax payer

**Taxable/chargeable income**, the amount of an individual’s income which is subjected to taxation or income that is liable to taxation. Tax exemption, where a tax payer is relieved from paying taxes in order to encourage investments

**Tax holiday,** the tax free period given to an investor/company before he starts paying the taxes

**Tax Payer Identification Number (TIN),** this is a computer number assigned to a specific individual or business which is always quoted whenever a tax is paid.

Tax exemption, this is where a tax payer is relieved from paying taxes in order to encourage investments

Tax avoidance, this is where the tax payer takes advantage of the weaknesses / loopholes in the tax law in order not to pay or to reduce one's tax liability

Tax evasion, the deliberate refusal of a tax on payer or the tax paying unit to pay the tax imposed on him /her

or

Where a person uses illegal means in order not to pay a tax imposed

Smuggling of goods into or outside the country with the intention of evading taxes

manipulating books of accounts

Failure to report income and declaring sources of income.

Providing false information to the tax authority about business income or expenses.

Understating taxes to be paid by tax payers.

**Failure to withhold tax and remit it to URA account.**

**Payin employees in cash** and failing to report some or all of these cash payments.

Filing false payroll tax reports.

Double recording of transactions with the intention of evading taxes.

Bribing tax collectors to make under assessment of taxes to be paid.

**Classification of taxes/Tax behavior/tax to income ratio/ tax rates**

This refers to how taxes affect the tax payer. Taxes are categorized into three depending on the relation ship between the changes in the rate of tax and income earned. These are;

**Proportional tax**

This is a tax whose rate remains constant at different levels of income or a tax whose amount of tax to income ratio remains constant at whatever income level.

It is illustrated as below;

| Income | Rate (%) | Tax liability |
| --- | --- | --- |
| 100,000  200,000  500,000 | 10  10  10 | 10,000  20,000  50,000 |

From the above illustration the tax rate remains 30% at whatever income level.

**Progressive tax,** this is a tax whose rate increases as ones income increases or a tax whose amount of tax to income ratio increases with an increase in the payer’s income. It is illustrated as below;

| Income | Rate (%) | Tax liability |
| --- | --- | --- |
| 100,000  200,000  500,000 | 10  20  50 | 10,000  40,000  250,000 |

From the above illustration as one’s income increases from shs 100,000-shhs 500,000, the tax rate increases from 10%-50%

**Regressive tax**

This is a tax whose rate reduces as one’s income increases or a tax whose amount of tax to income ratio reduces as the payer’s income increases. This implies that the tax burden is higher among the low income earners than the high income earners. This is illustrated as below;

| Income | Rate (%) | Tax liability |
| --- | --- | --- |
| 100,000  200,000  500,000 | 20  10  2.5 | 20,000  20,000  20,000 |

From the above illustration as one’s income increases, from shs 100,000 to shs500, 000, the tax rate reduces from 20% to 2.5%.

Given the table below calculate the tax rates

| Tax payer | Income(shs) | Tax liability(shs) | Tax rate(%) |
| --- | --- | --- | --- |
| Kato  Kamya  Kasajja  okello | 1000  800  600  400 | 150  80  48  20 | ……  …..  …..  ….. |

Tax rate=Tax liability X 100

Income

Given the table below showing the different taxes paid by obel in different countries. Calculate the tax rates and interpreta tax behavior

| income | Country A | | Country B | | Country C | |
| --- | --- | --- | --- | --- | --- | --- |
| TL(shs) | TR(%) | TL(shs) | TR(%) | TL(shs) | TR(%) |
| 100,000  200,000  300,000  400,000  500,000  600,000  700,000 | 10,000  40,000  90,000  160,000  250,000  360,000  490,000 | -  -  -  -  -  -  - | 10,000  20,000  30,000  40,000  50,000  60,000  70,000 | -  -  -  -  -  -  - | 20,000  20,000  20,000  20,000  20,000  20,000  20,000 | -  -  -  -  -  -  - |

Given the table below, answer the questions that follow

Tax payer Taxable income (Shs) Tax rate (%)

**Mutebi 18,000,000 15**

**Musoke 21,000,000 14**

**Nakyonyi 12,000,000 13**

**Nakyanzi 32,100,000 16**

**Calculate the tax liability for each tax payer**

**Customs duties**

**These are taxes that are imposed on goods entering or leaving the country.**

**Example 1**

If Mubiru an importer, imports a machine from china at CIF value of 500(USD) and the machine attracts import duty of 25%, excise duty of 50%, VAT of 18% and withholding tax of 6%

Calculate;

VAT payable

With holding tax

Total amount of tax payable by Mubiru

Exchange rate is shs 2500 per US dollar

VAT= 18% of (customs value+ import duty + excise duty)

**But**

Customs value= CIF X exchange rate

500X2500

Shs 1,250,000

**And**

Import duty= 25% of customs value

25 X 1,250,000

100

Shs 312,500

Excise duty=50% of excise value

**But**

Excise value= customs value+ import duty

1,250,000+ 312,500

Shs 1,562,500

There fore, excise duty= 50 X 1,562,500

100

Shs 781,250

VAT =18 (1,250,000+ 312,500+781,250)

18 X 2343750

100

Shs 421,875

Withholding tax=customs value X with holding tax rate

1,250,000X 6

100

Shs 75,000

Total amount of tax payable= import duty+exciseduty+VAT+withholding tax

312,500+781,250+421875+75,000

Shs 1,590,62

(b)Musiitwa deals in products imported from Japan. He imported goods valued at $7,000, with the freight charges of $2,000 and $250 as insurance. The goods attracted an import duty of 25%, excise duty of 50%, VAT of 18% and withholding tax of 6%

If the exchange rate at the time of importation was Us$1+shs 3,480, compute musiitwa’s tax liability (8marks)

**Non tax sources of revenue**

Gifts and grants from with in or out side the country

Gambling e.g. national lottery, premier lottery

Profits from government businesses

Sale of government property

**Revision questions**

1(a) Describe the principles of a good tax system

(b)What are the characteristics of a good tax system?

**PERSONNEL MANAGEMENT/ HUMAN RESOURCE MANAGEMENT(HRM)**

HRM is the process of planning, monitoring, controlling and administering of personnel to include their recruitment, motivation and retention in the production process

Or

Is the part of the management process which deals with determining the human resource needs recruiting of the qualified people, directing their performance and encouraging their development within the business. Or

The process of recruiting, training and developing of the human resource of the organization with the aim of getting maximum productivity from them

**Activities/roles/elements/ tasks of personnel manager**

* Man power planning, determining the man power needs of the organization and determining ways of meeting them.
* Recruitment of labour, process of identifying suitable candidates for a job.
* Selection involves going through the application letters, arranging interviews checking references etc to confirm the applicant’s suitability for the job.
* Placement and orientation, introducing low entrants to the business with a view of making them gain confidence and promoting a high sense of cooperation.
* Human resource development, training workers to equip them with the required skills.
* Motivation of labour encouraging workers to perform their tasks better.
* Performance appraisal, evaluation of workers to establish those who should be promoted, demoted, transferred or dismissed.
* Deals with disciplinary issues in the organization.

**Importance of human resource/personnel management**

Human resource management is vital for the success and long term survival of an enterprise because of the following;

* It enables an organization to get the right people with the right skills and experience to increase productivity.
* Enables an enterprise to be efficient and effective in achieving its set goals and objectives.
* Enables an organization to minimize damage of machines and equipment by using the right people with technical competence/skills.
* It enables an enterprise to minimize costs through wastage of resources.
* Helps in forecasting manpower needs in the business.
* It reduces time wastage and increases productivity in an enterprise.
* Helps in the wellbeing and survival of the firm through sourcing the right personnel who may help the firm to achieve itself targets.
* Informs the new employees about the terms and conditions of employment.
* Ensures industrial relations by encouraging discipline among employees.
* It gives the entrepreneur the best method of recruiting labour and placing it in the right positions.

**Human resource/manpower planning**

This is the process of identifying human resources needs of an organization and how to meet them.

It is an attempt by managers to ensure that human resources of the right quantity or quality/type required is available to meet the goals and objectives of an organization. In this case the manpower planner determines in advance the future human resource needs relative to organization’s strategic mans and devises means necessary to meet those needs.

For human resource planning to be effective, the manner should be clearly knowledgeable about the short term and long term objectives of the enterprise or organization.

**Objectives of human resource planning**

* To plan for future human resource needs i.e. number of people required and their qualifications.
* To plan for recruitment and selection of labour.
* To develop and train the existing man power.
* To ensure optimum utilization of the existing manpower.

**Process of manpower/human resource planning**

* Determining the future personnel/human resource needs i.e. determining the nature and number of new workers required in future in order to sustain the enterprise.
* Examining the present human resource i.e. examining the present employees, their skills and productivity to determine the organization’s human resources currently available.
* Forecasting, estimating how many current employees can contribute to the future plans and the number of new employees and skills that are required.
* This is after determining both the future enterprise objectives and current employees available.
* Developing a personnel development strategy, having established the enterprise future personnel needs, the entrepreneur develops programmes for recruiting or training new and current employees to meet the set manpower targets.

**Benefits of manpower/human resource planning**

* It helps in identifying the manpower gaps that need to be filled in an enterprise.
* It provides a sound basis for development of workers in order to ensure optimum utilization of the available manpower.
* Enables management to reduce labour costs through assessing the enterprise manpower requirements and correcting the labour surpluses and shortages before they become unmanageable and expensive.
* It helps in expanding business at the lowest cost possible because it helps to identify the required manpower for the proposed new projects or areas of expansion.
* It helps in formulating management succession plans as it provides enough time and preparation for the employer to identify and develop managers to be promoted and fill in the positions left by those who leave for other alternative employment elsewhere.

**Human resource requirement of a business**

This means the determination of the staff, their skills and other specific requirements that a business needs for its operations. The human resource requirements are based on;

**Organization design/chart**

This involves setting up specific units of responsibility or jobs, the performance of which leads to the achievement of the overall organizational objectives. An organization design/chart is normally the starting point of recruiting manpower in an enterprise.

The organization chart in useful because it shows the different departments (functional units), specific units of responsibility (jobs), job functions and this helps a human resource planner to determine the number and quality of manpower needed in the organization.

**Sample of the organization chart**

Shareholders

Board of directors

Managing director

General manager

Human resource manager

Financial

manager

Marketing manager

Purchasing

manager

Production manager

Assistants Assistants

Casual workers Casual workers

NB: In each department in an organization there is a departmental manager, an assistant, skilled workers and unskilled/casual worker.

**Assignment**

Prepare an organizationalchart for your school.

**Recruitment of manpower in an organization**

It refers to the process of sourcing manpower to join the organization in order to fill vacant positions. Or

The process of locating and identifying the suitable candidate for the job either from within the organization or outside the organization

Recruitment is done by the human resource manager and below are the steps involved in the process of recruiting manpower.

**Job analysis**

* A job is a specific position requiring the performance of specific tasks.
* A task is a work activity that is observable, that is performed within a specific period of time and it leads to a product, service, decision or any other outcome.
* Duty is a collection of related tasks into broad areas of responsibility performed regularly by a person as his/her assignment in order to earn a living.

**Job analysis** therefore is the process of collecting and recording of information about a job, its major duties, conditions under which it is to be performed, relationship with others, knowledge, skills and abilities needed to perform the j ob effectively and efficiently.

In other words a **job analysis** is an orderly study of job requirements involving systematic investigations relating to the operations, responsibilities and personal characteristics such as skills, knowledge abilities etc required for the successful performance of the job.

When carrying out job analysis the following aspects have to be considered;

Collecting and recording information concerning;

* What is to be done i.e. duties and responsibilities?
* The type of equipment to be used.
* The performance standards required.
* The personal attributes of the worker e.g. knowledge, skills, abilities etc.
* Nature of the physical environment in which the job is to be performed.
* Organization culture/policies.
* Personnel requirements of a business e.g. the job of a secretary requires a person who;
* Has knowledge of secretarial studies
* Has knowledge of type writing
* Has knowledge of shorthand
* Has knowledge of computer
* Has knowledge of the official language e.g. English
* Can keep secrets
* Is social
* Knowledge of office management

**Importance of job analysis**

* Provides information that helps the employer in planning, training and development programmes for employees.
* It helps the personnel manager in establishing job performance standards which may be compared to the actual performance of the worker which is helpful on performance appraisal.
* Provides a basis for hiring, recruiting, selecting, transferring and promoting personnel within the organization.
* Helps in determination and administration of wages and salary policies since it indicates the qualifications required for performing a specific job.

**Components of job analysis**

* Job description
* Job specification
* Job grading/evaluation
* Job performance standards/personnel assessment

**Job description**

This is a statement that defines the purpose, tasks/duties and responsibilities of a particular job. **Or**

A statement that reveals the contents of a particular job

**Components of the job description**

* A brief summary of the type of a job-job title.
* Duties and responsibilities to be performed by the worker.
* Purpose of the job i.e. why the job exists or the overall objective of the job.
* Location of the job (duty station) i.e. division or dept where the job falls.
* Organizational relationship – to whom does the worker report.
* Special requirements e.g. working over time, traveling up country, traveling outside the country etc.
* Type of equipment to be used.
* Working conditions.

**Job specification**

This is a detailed statement which specifies a person’s physical and mental characteristics required for the job i.e. skills, experience and qualifications. Examples of physical characteristics include;

* General health
* Height
* Visual
* Ability to drive
* Hearing ability

**Examples of mental/psychological characteristics include**;

* Mental steadiness
* Emotional stability
* Maturity
* Cooperative spirit
* Patience
* Creativity (imitativeness)

**Other characteristics include;**

* Qualifications
* Responsibilities
* Competence
* Experience
* Age
* Sex
* Tribe
* Language

**Job grading**

This refers to ranking of jobs in an organization. It shows where a job falls in the organizational ranking. Job grading is done basing on the kind of work involved, the skills required for the job and its overall contributions to the organization.

**Job performance standards**

These are the required competence aspects for a particular job i.e. what is expected of a worker. These are given in relation to;

* The skills to be used.
* The company policy
* Government policy
* Level of competition in the market

NB: **Job grading** and **job performance standards** are used as the basis of determining the pay for the workers.

**Reasons for recruiting labour in an organization**

* To get the right people with the right skills for better performance in the organization.
* To replace the retired and dismissed workers.
* To have the people trained and prepared for a particular job.
* To match with the required technology in the country.
* To reduce the damage of equipment, machines and tools in an organization.
* To have a given target achieved in a given time.
* In case of government organizations labour may be recruits as a government policy.
* To ensure increased production to satisfy market demand.
* In case the organization expects to expand in future.

**Factors considered when recruiting labour in an organization**

* Health of the worker, entrepreneurs.
* Cost of the worker in terms of payment.
* Language spoken in the region/country.
* Working experience of potential worker.
* Nature of the job i.e. some jobs require skills, appearance, muscle etc.
* Age of the worker in relation to the job.
* Marital status of the worker i.e. some employers prefer singles to married people more especially women.
* Qualifications required for the job.
* Sex/gender of the worker in relation to the job.
* Market demand for the company’s products.
* Size of the business and its profit level i.e. small scale firms tend to recruit semi-skilled and inexperienced workers whose costs are lower.
* Social and ethical background of the organization such as culture, religion etc.

**Methods/courses of recruiting workers in an organization**

The methods are divided into **internal** and **external** sources as seen below;

**Internal recruitment** refers to filling of vacancies from within the organization. In this case the job opportunity is taken up by the present employee(s).

**External recruitment** refers to filling of vacancies from outside the organization or business. It is done through the sources below;

* Unsolicited applicants, these are applicants who were formally not offered jobs.
* Schools such as high schools, nursing schools, vocational schools, universities. These are sources of certain types of employees especially where post experience is not a major factor in the job specification.
* Private employment agencies, these match people to jobs in exchange for a free. The fee is normally paid by the applicant.
* Employee referrals this when the current employee recommend an employee to the business. In most cases current employees cannot recommend an applicant who is below the required abilities.
* Help wanted advertising; in this case an organization informs the public that it is in need of a worker(s). This can be done through advertising on TV, radio, newspaper, poster etc.
* Specialty media publications such as trade association magazines and newsletters. These may also produce quality job applicants.
* Competing organizations can be a source of labour.
* Talent spotting, here an entrepreneur moves around looking for a particular person(s) who meets the specifications of the job.
* Trade unions where details concerning various workers can be found.
* Website entrepreneurs/organizations put their application forms on their websites and the interested workers fill them.

**Recruitment procedure**

Whatever business an entrepreneur plans to undertake, it will need some workers to perform various duties such as technical managerial etc.

For this matter therefore, there is need for an entrepreneur to recruit the right personnel because employing a wrong person for a particular job creates a risk of inefficient production with poor quality products. This leads to low sales which affect the survival and growth of the business.

**The recruitment procedure involves the following;**

* Analysis the exact nature of the job.
* Designing a job description – the duties and responsibilities to be performed.
* Designing a job specification – qualifications, skills and experience needed for the job.
* Advertising the vacancy on television, radio, newspapers etc.
* Receiving application letters from the interested people.
* Selecting workers/applicants basing on their track record, ability, experience etc.
* The selected applicants are shortlisted and called for interview.
* Interviewing the short listed applicants to identify candidates who possess the qualities needed by the business e.g. ability to mix easily with others i.e. other workers, customers, suppliers etc. possession of a certain technical skill and ability to interpret complicated business issues.
* Analyzing the interview results, contacting referees and selecting the most suitable candidates for the job(s).
* Communicating interview results to successful candidates and issuing appointment letters to them.
* Receiving acceptance letters from the appointed candidates.
* Placing successful candidates.
* Organizing induction training for successful candidates.

**Methods of paying/remunerating labour**

* **Salary**-afixed periodical payment to a non manual employee.
* **Piece rate** – here one is remunerated for performing a particular task (completing a piece of work.
* **Time rate** – a worker is remunerated basing on the time he/she takes while doing a piece of work.
* **Wage payment**, this is majorly paid to temporary manual employees in an organization.
* **Cost of living allowance**, it’s given to employees in response to an increase in the general price level of goods and services.
* **Overtime payment** paid to an employee when he/she works over and above his/her normal working time.
* **Payment in kind**, when an employee is paid in terms of goods or services not cash.
* **Bonus pay**, paid to who has performed excellent work.

**Motivation of labour**

It refersto encouraging workers to provide the highest productivity in the process of production or encouraging workers to perform better. There is need to motivate workers in the organization in order to realize maximum output from them.

Abraham Maslow, argue that people engage in work in order to satisfy their needs in the hierarchy from lower level needs to higher level needs. Therefore, they get motivated as they keep satisfying one need by one.

Motivating workers is a responsibility of the personnel/human resource department and it is important to the organization because of the following reasons;

**Reasons for motivating workers**

* To encourage employees to identify themselves with the organization.
* To ensure better performance of workers i.e. increased productivity of workers.
* To enable workers to contribute positively towards achieving a desired goal.
* To ensure effective participation of the employees and employers.
* To reduce strikes and other threats from workers which can lead to losses.
* Labour motivation through training in turn increases efficiency and productivity.
* To reduce on labour turnover on an enterprise.
* To increase the sales of the business through motivating sellers i.e. they put more effort in selling the commodities of the business when motivated.
* To reduce on the burden of supervising workers in an enterprise which reduces the production cost

**Ways through which an entrepreneur can make his/her work force more productive (methods of motivating workers in an enterprise)**

* By ensuring timely, adequate and regular remuneration to workers.
* By ensuring good/pleasant working conditions to workers.
* Through ensuring open communication to all workers and involving them in decision making process.
* By providing favorable job content e.g. job security, enough pay, fringe benefits.
* By praising workers for the task well done. This should be done in the presence of other workers.
* By encouraging team work among employees and good relations.
* By organizing get together parties or outings. The employer/entrepreneur should get involved.
* Through socializing with workers and getting together with employees in times of problems, showing empathy.
* By providing promotion prospects i.e. promoting workers who perform their tasks better.
* By involving workers in decision making.
* Giving rewards for work well done e.g. giving certificates of merit.
* Through evaluating workers’ performance.
* By ensuring discipline management e.g. discouraging late coming, absenteeism, indiscipline among workers.
* By raising of workers’ salaries and wages.
* By ensuring effective supervision of employees.
* Through ensuring specialization of labour in the business.
* By providing support facilities to the workers e.g. tools and equipment.

**Indiscipline of workers in business or organization**

Indiscipline means the poor conduct of workers in an organization or business enterprise. It manifests itself inform of;

* Disputes/quarrels among workers
* Strikes
* Demonstrations etc.

**Indicators of effective discipline in an enterprise**

* Corporation and team work among workers.
* Timely and effective communication of all the necessary information.
* Absence of strikes in an enterprise.
* Giving workers an opportunity to present their complaints to the higher authorities.
* Fairness i.e. treating employees equally without any favoritism.
* High level of productivity of workers who produce high quality products.
* Well land down rules and regulations which are well known by all workers together with the penalties.

**Causes of indiscipline among employees in an enterprise**

* Indecisive and weak management.
* Favoritism among workers by the employers.
* Inconsistence in enforcing discipline.
* Indiscipline among managers and supervisors.
* Inadequate work giving workers time to gossip and rumormonger.
* Excessive dictatorship/harshness among the managers and supervisors.
* Low and delayed payment of salaries and wages to workers.
* Lack of proper procedure in handling grievances.
* Poor/absence of effective communication in an organization.
* Absence working rules and regulations.
* Lack of incentives at work e.g. lunch, breakfast, resting time etc.
* Over working employees coupled with little pay i.e. many duties with less pay.
* Lack of respect especially when coming from the employer to the employees. It stimulates indiscipline cases in an organization.
* Failure to involve workers in decision making.

**Solutions to the indiscipline cases in an enterprise**

* By giving fringe benefits/incentives to workers e.g. transport allowances, accommodation etc.
* By ensuring proper payment to the workers i.e. paying on time.
* By involving workers in decision making process of the business.
* By giving workers holidays/leaves a resting time especially to those who are sick.
* By improving the working conditions e.g. those working in risky places should be given gumboots, overalls, helmets, face shields, gloves, goggles etc.
* By ensuring job security to workers i.e. making proper contracts between the employees and employers.
* Through proper planning and showing good administration to the workers.
* Respecting workers.
* Putting in place proper procedure of handling misunderstanding.
* Ensuring effective communicating to the workers.
* Being consistent when handling indiscipline cases among workers.
* Engaging workers/making workers busy such that they do not have time to gossip and rumormonger.

**Training employees (employee training and development)**

This refers to the process programmes and activities through which organization develops, and improves the skills, competencies and overall performance of its employees.

The quality of employees and their development through training and education are major factors in determining long term profitability of a small business. Its good for an employee to invest in developing the skills of his/her employees so as to increase their productivity.

**Reasons/purpose of training employees**

* To create a pool of reading available and adequate replacements for personnel who may leave or move up in the organization.
* To enhance the company’s ability to adopt and use advances in technology because of a sufficiency knowledgeable staff.
* To build a more efficient, effective and highly motivated team, which enhances the company’s competitive position and improves employee morale.
* To ensure adequate human resource for expansion into new programmes.
* To enable employees develop a greater sense of self-worth, dignity and well-being as they become more valuable to the firm and to society.
* To increase the job knowledge and skills of employees at each level.
* To increase the productivity of the employees that helps the organization to achieve its long term goal.
* To maximize the utilization of human resource that further helps the employee to achieve the organizational goals as well as their individual goals.
* To provide an opportunity and broad structure for the development of human resources’ technical and behavioral skills in an organization. This helps the employees in attaining personal growth.
* To build the positive perception and feeling about the organization.

**The training process**

The training process involves the following steps;

* Identifying the organizational objectives, this includes having a clearly defined strategy and set of objectives that direct all decision in the organization.
* Identifying the needs of the trainingprogramme this is done by analyzing human resource areas; the organization as a whole, the sub characteristics and the needs of the individuals.
* Selecting of trainees, selecting the employees that need to be trained.
* Identifying the training goals/objectives, these should be in line with the training needs, mission and strategic plan of the company.
* Determining the training method, this involves deciding whether to use on the sub or off the job training technique. On the job training is provided to employees as they perform their regular duties. In this case they do not lose time while they are learning. This includes, orientations, coaching internships etc.
* Off the job training involves lectures, programmed instruction, case studies etc.
* Selecting competent trainers, the people to conduct the training. This depends on the training needed.
* Administering the training, actual training of the selected employees.
* Evaluating of the training, in this case the training should be evaluated several times during the process, in order to establish whether the goals and objectives are achieved.

**Employee/labour turnover**

**Labour turnover** – refers to the movement of employees in an out of a business. However, the term is commonly used to refer to the number of employees leaving the business. It is calculated as number of leavers in a given period as a percentage of the number employed during the same period i.e.



**Causes of labour turnover**

High level of labour turnover is caused by;

* Inadequate wage levels. This makes employees more to where they can be paid well.
* Poor morale or low levels of motivation within the work force.
* Recruiting the wrong employees i.e. they leave to seek more suitable employment.
* A buoyant/an open local labour market offering more attractive opportunities to employees.

**Costs of labour turnover**

A high rate of labour turnover has the costs below;

* Leads to additional recruitment costs.
* Leads to increased costs of training replacement employees.
* Leads to loss of know-how and customer good will (employees that customers are used to).
* Leads to low morale and productivity among the remaining workers.
* Causes loss of sales if there is a high turnover among the sales force.

**Benefits of labor turnover**

* New employees bring new skills, idea and contacts.
* New employees are willing to accept low pay rates.
* A “natural” level of labour turnover is a way of reducing work force without having to resort to redundancies.
* Gives management an opportunity to restructure department sin the business.
* New employees tend to work harder because they are excited about their new jobs. This is because they want to please clients and management.

**Ways of minimizing employee/labour turnover**

* By empowering the employees, delegating responsibilities to subordinates makes them satisfied with the employers. This enhances continuity of employees in an organization.
* By engaging employees, engaging workers in the organization motivates employees to stay in the organization for a long time.
* Job involvement this refers to an individual’s participation with work and show the extent to which an individual identifies psychologically with his/her job. This determines labour turnover.
* Knowledge accessibility, in an organization where knowledge and ideas are made widely available to employees makes them stay in an organization.
* Sharing information, providing information to employees makes them feel that they are appreciated for their efforts and therefore reduces their chances of leaving the organization.
* Workforce optimization; the organization’s success in optimizing the performance of the employees by establishing essential process for getting work done, providing good working conditions, establishing accountability and making good living choices would retain employees in their organization.

**Performance appraisal/evaluation of employees**

This is a continuous process of evaluating/assessing the performance of the workers and providing information/feedback about how poorly or well they are performing their tasks. It involves establishing clear objectives for each worker and evaluating actual performance in line with of the set targets.

**Types of performance appraisal**

There are two types of appraisal namely

* Informal appraisal
* Formal

**Informal appraisal** is conducted on a daily basis. In this care a manager mentions whether a particular piece of worker is well or passly performed.

**Formal appraisal** – this is conducted on semi annually or annually basis and on a formal basis. It involves a superior or a group of supervisors rating subordinates rating their bosses.

**Reasons for appraising the performance of the workers by employers**

* To find out whether the employee has performed the task according to the set standards of the job.
* To identify the training needs of the workers.
* To decide by law much of increase the payment (wage/salary) of the workers.
* To motivate the worker to perform his/her task better.
* To determine the future use of the worker i.e. to find out whether the worker is to be promoted transferred, dismissed or demoted.
* To enable management to measure the actual performance of the workers.
* To keep workers alert and efficient because they are to be appraised.

**Methods used to appraise workers**

* **Ranking** – this requires the appraiser to arrange workers in order of merit from the best to the poorestbasing on their total ability on the job, quality of output and quantity and at times according to a few unique characteristics. In this case each worker’s name is put on an index card and arranged and re-arranged untilwhen the ranking is done/achieved.
* **Grading**, this involves grouping workers in predetermined series of merit categories usually on the basis of their total performance at the job in terms of activity, quality and output. Assigning grades for particular achievements of the worker.
* **Open ended method;** in this case the appraiser prepares a written report about the worker’s performance. It gives the appraiser a chance to give full information about the employee’s job related issues such as worker strengths and weaknesses.
* **Rating scale**, consists of a list of personal traits/characteristic against each of which is a scale usually of up to five (5) points and the manager was to base his or her assessment on this e.g. 5-ecellent, 4-v.good, 3-good, 2-fair, 1-poor.
* **Peer rating,** here co-workers are given chance to evaluate the performance of their colleges. This method is good because peers sometimes see a different behavior and performance which the supervisors may not see. It helps in identifying workers whose characteristics are suitable for assuming leadership positions within an organization.
* **Behavior expectation scale**, in this case the appraiser evaluates the worker’s characteristics or behavior in relation to the job he/she is doing.
* **Group rating,** here a group of individuals who are familiar with the person being rates appraise him collectively. These individuals may include supervisors and other individuals familiar with the person being appraised.

**Problems usually faced when carrying out performance appraisal of workers**

* Lack of set standards in some organizations.
* Fear of co-workers at place of work.
* Inferiority complex – workers appraising their bosses.
* High costs involved, printing appraisal forms, giving allowance to appraisers.
* Limited skills to carry out the exercise by managers, entrepreneurs.
* Failure of workers to respond to the appraisers queries due to limited information about their performance.
* Lack of adequate information to base on the exercise e.g. in some organizations there are not arrival books.
* Biasness especially among bosses towards their subordinates.

**Elements of an effective performance appraisal system in an organization**

* Reflection/clarification of the objectives of the appraisal system.
* Training of employees and evaluators.
* Setting standards of performance in terms of quality, quantity, behavior etc.
* Face to face interaction of employees and evaluators.
* Regarding employees
* Commit and giving feedback about the appraisal exercise.
* Reviewable and revised periodically after a full discussion with employees.
* Objectivity/fairness of the appraiser.
* Facilitation/motivation of employees to work to their best.
* Maintenance of performance records of all appraisal events.
* Involvement of all relevant stakeholders.
* Cordial relationship between the employer/appraiser and employee/appraisee.
* Monitoring of the appraisal system.

**Merits/advantages of performance appraisal**

* It enables the employer to set realistic targets.
* It promotes good working relationship between employer and employee.
* It helps to improve on performance record of employees.
* Helps to monitor the progress of employees on job.
* Helps to determine pay of workers.
* It helps to identify the training needs or it facilitates training and development of employees.
* Helps to develop health competition between workers.
* Motivates workers to perform better/to work harder.
* Measures employees’ performance both in terms of quality and quantity to provide a basis for wage differential and incentives.
* It puts psychological/emotional pressure on people to improve job performance.
* It provides reliable feedback.

**Demerits of performance appraisal in an organization**

* All the qualities reflecting the performance and potential of an employee are not qualified accurately i.e. it covers a narrow scope.
* It is faced with bias from the appraiser.
* Most managers and supervisors are not trained enough in this area.
* Discrepancies between theory and application.
* It is a time consuming or wasting exercise.
* It is an expensive/costly exercise.
* It involves negative rewards towards the non performers.
* It demoralizes/demotivates those who are negatively rewards.
* Discourages the spirit of creativity and imitativeness.
* It is a better process and therefore it creates emotional pressure and stress.
* It increases the dependence of employee on their superiors.
* It makes the supervisors or supervisors to exploit their junior workers, through bribery, corruption.
* It causes organizational conflicts/misunderstanding/bad relationship.

GRADUATE UN EMPLOYMENT

This is a type of unemployment that occurs when a student graduates, looks or searches for a job, willing and able to work at the on going wage rate but fails to secure one.

Causes of graduate unemployment in Uganda

Inappropriate education systeme, some students tale courses that are irrelevant to the society needs /job market.

High level of discrimination in the labour market basing on sex, religion, ethinicity etc

Ignorance about available jobs, most People lack knowledge about the source of jobs

Limited capital to start own business due to low savings resulting from low incomes

Graduating at a young age like 22-24 years ,some employers want people with experience yet fresh graduates lack experience

poor manpower planning by training institutions, lack of proper manpower planning by the government to start ventures for absorbing graduates

Most graduates prefer white collar jobs to blue collar jobs and end up failing to their desired jobs

Most employers prefer to employ semi qualified People because they are cheaper than qualified persons

Over reliance on foreign man power (expatriates), Some businesses prefer to employ expatrietes than local citizens

Abstract things among fresh graduates who still think of ideal situations and not real situation on the ground, at times fresh graduates prefer paid employment to self emploment which makes them lack jobs

political instability in some parts of the country causing fear to work there

Dispising some jobs by fresh graduates

Limited special skills eg Computer skills required by the employers

High retirement age

Measures being adopted to curb the problem of graduates unemployment in Uganda

Restructuring of the education system by emphasising vocational subjects

Emphasizing Entrepreneurship development to produce graduates who are job creaters

Ensuring political stability and security

Developing rural areas eg through rural electeification

Encouraging graduates to attain information technology skills which is incorporated in most courses

Establishing a graduate loan scheme

Advertising to graduates the available jobs eg in press

Provision of industrial training for acquiring experience

Fighting corruption in the labour market especially government institutions /public sector

Further privatization and libéralisation of the economy to create more jobs

Carrying out decentralised planning to create more jobs eg creation of more districts

**CAPITAL MARKETS**

There are markets that trade in long term financial products known as securities such as shares and bonds.

**Or**

These are markets that deal in the trade of money/capital/financial products such as company shares and bonds that are issued by government, debentures, commercial papers etc.

Capital markets provide an avenue for raising long term finance and investment opportunities i.e. they help people who need additional capital for their business and those who wish to invest their money.

Financial products / security are traded on a securities or stock exchange.

**Key players in capital markets**

These are the people groups of people and companies that play different vital roles on the stock exchange. They include.

**Brokers / dealers,** these are licensed financial professionals authorized to buy and sell securities on behalf of their clients.

Brokers carry out trade deals on behalf of their clients and receive a commission for matching buyers and sellers.

Dealers on the other hand buy shares and later sell them for a profit. They buy and sell shares on their own behalf.

Brokers / dealers provide professional advice to their clients on selection and management of investment.

**Investment advisors,** these are persons who are licensed to provide advisory services on issues of whether it’s viable to invest /purchase or sell securities.

They carry out analysis or reports concerning securities.

They also manage a range of investments under a contract or an agreement with investors.

**Fund managers.** These are companies which under a contact of management with a client undertake the management of a portfolio of investments.

**Custodians,** these are persons who perform the actual role of holding or safe keeping of the assets or securities on behalf of the owners or investors.

**The registrar,** this is in charge of keeping records of stock and shares of floated companies. A floated company is the one which goes public by issuing its shares to the general public.

**Share holders,** these are individuals or companies that purchase shares in a company or business and therefore own a part of that company or business.

**Capital markets authority (CMA).** This is a body which is charged with the responsibility of regulating capital markets in Uganda. CMA is an autonomous body responsible for promoting, developing and regulating the capital markets industry in Uganda with the major objectives of investor protection and market efficiency.

**Functions of capital market authority (CMA)**

**(Use present continuous tense, To, action verb for functions)**

Regulating and promoting the development of capital markets in Uganda.

Approving stock exchange and the securities central depository system

Licensing brokers/ dealers, investment advisor , funds managers, collective investments scheme managers

Approving all offers of securities to the public

Approving collection investment schemes.

Advising the government on rules and regulations governing operations of capital markets

Providing protection to investors both foreign and local

Creating market in which securities are issued and traded

Providing facilities for raising long term capital(funds) by public limited companies

Acting as a yard stick/guideline for company’s performance

Providing an avenue for those who require additional capital and those who wish to invest their money

**Role of capital markets in an economy**

**Raising funds,** businesses are able to raise funds through the sale of shares on the capital markets.

**Provision of market where to sell and buy shares,** capital markets provide the public and interested companies a chance to buy shares as an alternative method of investing their savings.It also provides an avenue where they can sell their shares in case they tied of being share holders in a particular company.

**Promoting in flow of international capital (foreign exchange),** 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 which is very vital in the growth of a country’s economy

**Better standards of living,** capital markets enable people with saved incomes to buy shares that can earn them dividends. These can be used to increase consumption thereby improving the standards of living

**Creation of employment,** capital markets create employment opportunities to the brokers, agents and other people engaged in it

**Controlling money in circulation,** capital markets help the government to control and regulate the amount of money in circulation through the selling and buying of securities by the central bank

**Determining of company performance,** they help shareholders to determine the performance of their companies by looking at the price of their shares in the market.

**PROBLEMS FACING CAPITAL MARKETS IN UGANDA.**

The general low level of income. This has resulted into low savings and hence a limited investment fund is securities.

High degree of illiteracy / lack of country wide education on stock exchange.

Majority of people have not been sensitized about the importance of stock exchange and the need to invest in securities.

Limited government support by way of developing financial infrastructure or initiating establishment of stock management.

Low interest rates offered on securities yet the economies are faced with high inflationally rates. High inflation scares way investors and as a result investment is financial assets is discouraged.

Political instability in some parts of the country. This has affected the expansion of industries and has made public rules confident in investment.

Lack of / limited industrial development that develops faster when there is massive investment in the industrial sector.

Limited stock exchange specialists like jobbers and stock brokers.

**Benefits of a capital market to an entrepreneur as a shareholder**

Getting dividends, when the business in which one holds shares makes profits and dividends are declared, the share holder gets dividends.

Capital gain, this refers to an increase in the value of shares as a result of an increase in the price of the shares i.e. when shares are sold at a price higher than the price at which they were bought.

Collateral security, share certificates are acceptable by financial institutions as security against which an investor/ entrepreneur can get a loan.

Participating in decision- making process of the company, a share holder has a right to participate in making decisions during the company’s annual general meeting i.e. on how a company should be managed.

Transfer of shares, shares can be passed on from one person to another.

In case of death of a shareholder, benefits are passed on to the beneficiaries.

Management of the business/ company in done by agents on behalf of the share holders.

Capital growth, this happens when the value of the shares increases overtime.

**Challenges of being a share holder**

**Depreciation of investment,** share prices sometimes fall. This could be brought about by the general decline in the economic conditions in a country or when the company’s performance declines and profits reduce

**Rule of the majority,** shareholders are expected to contribute in decision making during the annual general meeting. Usually, the decisions made by the majority shareholders stand even if an individual share holder is against them

**Transfer of shares,** shares are not readily transferable if they were bought in a private limited company. But shares bought from a public limited company are easily transferable from one person to another through the stock market

**Fluctuations in share capital value,** the value of the share capital fluctuates since the share price keeps on changing according to stock market conditions

**Not being in control of the business,** if one is not a majority share holder, then he/she can not control the events of the business

**Products/Instruments in Uganda’s capital markets**

There are three products/ instruments in Uganda’s market markets. These are;

Debts instruments

Equity instruments

Collective investment schemes

**Debt instruments**

These are financial product/securities that allow for a borrowing and lending arrangement showing evidence of debt and the promise of timely payment over a specified agreed period of time

**Types of debt instruments**

**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.

**Promissory notes,** this is a document in which one person (a debtor) promises to pay another person (creditor) or his order a specified sum of money at a certain date.

**Commercial paper,** this is a short term unsecured promissory note issued by a company or a bank.

**Mortgage,** Companies can get loans for long periods by mortgaging their assets (properties) with any mortgage broker or financial institution

**Leasing,** a company can lease out its assets so as to get money out of it for several years

**Debentures,** this is a loan to a company Or a document that evidences that a company has borrowed a certain amount of money from a person named on it. The company pays a fixed rate of interest for this loan

**Treasury bills,** these are short term government instruments issued regularly with a maturity period of less than one year

**Equity instruments**

An equity instrument is a financial product (security) that allows investors to acquire ownership in a company.

Equity is sometimes referred to as shares

**A share** is a unit of ownership in a company

**Types of shares**

**Ordinary shares/ common stocks,** these represent equity ownership in a company and entitle the owner to a vote in matters put before share holders at the annual general meeting. They are called ordinary shares because they do not have special rights and restrictions.

**NB.** These are the shares that are currently traded in Uganda’s capital markets.

**Redeemable shares.** These are issued with an agreement that the company will buy them back at the option of the company or the shareholder after a certain period or on a fixed date. These are currently not traded on the USE.

**Preferrence shares.** These are shares that have entitlements over and above the ordinary shares.

Preferrence share holders are paid a fixed dividend whether a company has made profits or not.

Preferrence share holders do not have voting rights like the ordinary shareholders.

**Collective investment schemes (Mutual fund)**

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.

**Types of CISs**

**Unit trust schemes,** these are schemes where investors buy units which represent the various holdings of the scheme. One’s investment in this case is represented by the units he/she hold in the scheme.

**Investment companies with variable capital (ICVC),** this is a scheme where one’s investment is represented by the shares they hold.

This scheme takes the form of an ordinary company but unlike an ordinary company, the company is allowed to buy back shares when an investor wishes to pull out.

**Investment opportunities through capital markets**

For individuals and businesses to have a better future or they have to save and invest their funds.

Capital markets provide several avenues for saving and investments. These include ;

Investing in shares.

Investing in bonds

Investing in collective investment schemes.

**Investing shares and stocks**

**A share** is a unit of ownership in a company. When one buys share, he/she becomes a part owner or shareholder in a company.

Shares can be bought from two avenues

**During the initial offer period / initial public offering (IPO),** this iswhen (new) shares are sold to the public in a primary market. Initial public offering (IPO) refers to the first time a company offers its shares to the public.

**From existing share holders.** This takes place in a secondary market (the stock exchange).

**Steps followed when buying shares in a capital market**

Finding a stock broker/ dealer- the client should talk to several stock brokers to find out the services they offer and how much they charge.

Deciding on which shares to buy/making an investment decision- this decision is made by a client after being advised by his/ her stock broker.

Deciding on the price and number of shares to buy- the client then decides on the price he/she is ready to pay for each share.

Paying for the shares- the buyer is obliged to pay the purchase price for the shares he/she has decided to buy.

Share allotment- this refers to formal acceptance of payments and allocation of specific shares to the subscribing investors.

Receiving a purchase contract note- a broker then sends a purchase contract note to the buying client showing the number of shares purchased, the price per share and the commission chargeable.

Registering and receiving a share certificate- the broker forwards a signed transfer form to the registrar and a registrar issues a share certificate in the name of the buyer through the same broker.

**Advantages of investing in shares**

Earns dividends to Share holders, when the company makes a profit and the board of directors may decide to give a percentage of the profit to the share holders.

A share certificate acts as collateral security by financial institutions for getting loans

Share are transferable i.e. They can be passed on from one person to another and they can also be inherited

Gives voting rights to share holders, shareholders vote on important company decisions at the company’s annual general meetings.

Shareholders enjoy capital gains; this is when shares are sold at a price that is higher than the price at which they were purchased.

Leads to social recognition/reputation/good image

Gives ownership in a company

Promotes saving

**Disadvantages of investing in shares**

Share prices tend to fluctuate due to a number of factors such as demand and supply, the economy, performance of the company etc.

If a company is liquidated, share holders are the last to be paid after all other creditors.

When a company collapses or becomes insolvent shares become worthless.

When the share prices fall, their value reduces.

If the company’s profits fall, the dividend falls and if the company makes a loss it will not be able to pay any dividend at all

**Investing in 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.

It represents a loan an investor makes to the issuer of a bond.

The bond holder / investor generally receives regular interest payments on the loan until the bond manures or is called at which point the issuer repays the principal.

**Issuers of bonds**

Who issues bonds?

Government entities

Corporations

**Types of bonds**

**Government / treasury bonds**

These are issued by government to borrow a stated amount of money from the public for a fixed period of time at a stated rate of interest

**Municipal bonds**

These are issued by Local Councils such as city council, municipalities, Town Councils to raise money to pay for public projects / activities e.g. road construction etc.

They are exempt from state and local taxes.

**Corporate bonds**

These are issued by corporations /companies that wish to borrow a stated amount of money from the public for a fixed period of time to expand, modernize, cover expenses etc.

**Mortgage backed bonds**

In this case banks and their lending institutions pool mortgages and offer them as a security to investors. These holds have a yield that typically exceeds high grade corporate bonds with comparable maturing and have a low credit risk.

These bonds are fully taxable.

**Advantages of investing in bonds**

The interest rates paid on bonds normally exceeds what is paid by banks on savings accounts, especially for short terms bond.

Bonds are steadier than shares / stocks. The face value of shares fluctuates depending on a number of factors which is not the case for bonds.

Bonds are predictable, you know how much interest to receive, how often you will receive it and when your principal / face value will be repaid.

Bonds assure people with a predictable amount of regular incomes especially those on fixed incomes or in retirement. This is because most bonds except zero coupons pay interest to bond on a regular basis.

**Disadvantages of investing in bonds**

A company may default on bonds issued thereby resulting into a total loss of the principal by the bond holder.

Long term bonds tie up the investor’s money in low yielding bonds.

Bonds don’t offer a possibility of high long term returns to the holder like the case is for stocks.

When a company or municipality becomes bankrupt, bondsloss value or even become worthless.

**Investing in collective investment scheme**

**CISs** are private financial arrangements that provide a means for mobilization of savings to enable small investors to participate in capital markets. They pool resources of many small savers and then invest in various assets such as shares, bonds, property and treasury bills with the major aim of generating high returns while minimizing risks through diversifying investments.

**Parties involved in the formation of CISs**

**CIS manager-** This is a person or company who is licensed by CMA to undertake the management of the CIS on behalf of the clients, investing all the money received from the different small savers in different assets.

In other words a CIS manager makes investment decisions in the CIS.

**Custodian** is a person or company that safeguards the funds of the investors.

**Types of collective investment schemes**

**Unit Trust scheme** – This is a scheme where one’s investment is represented by the units they hold in the scheme.

The Unit Trust scheme is established by a trust deed between a fund manager which must be a corporate body and a trustee which may be a bank or an insurance company.

The trust deed outlines the duties and responsibilities of the fund manager and trustee.

**Importance of the trustee**

over sees the fund

Safeguards the assets of the scheme

Ensures that the fund manager invests the fund according to the trust deed.

**Investment company with variable capital (ICVC),** this is the scheme where one’s investment is represented by the shares he/she holds in the scheme . It takes the form of an ordinary company but the major difference is that it accepts to buy back the shares when an investor wishes to pull out.

**Note**

1. Both forms of CISs involve the pooling of investors contributions which are invested on their behalf.

Investors are not involved in the day to day decisions concerning how their money is invested.

The investors pay a given percentage of their returns to the fund manager as a fee for managing their investments.

**Purchase process of collective investment schemes.**

Visiting the Unit Trust manager (African Alliance -workers House (1st floor).

Filling in an account opening form.

Selecting the type of unit trust account i.e. short term or long term.

Depositing money on account given.

Sending a copy of deposit slip to trust manager (African alliance)

One becomes a unit trust account holder

**Redeeming / selling process of CISs.**

Sending a form to African Alliance indicating redemption of units.

Money will be put on one’s account with in four days after receipt of redemption form.

**Advantages of investing in collective investment schemes**

Makes liquidation easy; the investor sells back his/ her units to the manager.

It leads to diversification of risk through investing funds in different assets e.g. share, bonds etc.

They provide the desired legal and regulatory framework that protects the investors.

CIS provide full time professional management which individuals do not.

Investing in a CIS leads to lower transaction costs than when one buys and sells shares or bonds directly.

Enables access to securities’ investment, by investing a small sum an investor through the CIS can achieve a personal portfolio spread over several securities.

They are flexible

There is easy monitoring of performance

They create investor protection

**Disadvantages of investing in CISs**

Leads to loss of control, when one invests in CISs, he/she not directly involved in deciding how his /her money should invested.

It involves charges and fees given to the fund managers for the services rendered.

It leads to opportunity cost if investing else where would generate higher returns.

**Rising long term finance through capital markets**

Many entrepreneurs find it hard to raise long term financing to expand their business.

Questions that normally arise in relation to financing are; Should I apply for a bank loan? – Here the repayment period is short.

Should I go to microfinance? – Here the interest rates are normally too high.

Then how about capital markets?

**Advantages of raising long term finance through capital markets**

Raising funds through the sale of shares on the capital markets makes business to raise funds in a cheaper, easier and faster way compared to borrowing from commercial banks.

Capital markets provide people and companies chance to sell and buy shares.

Capital markets lead to in flow of international capital /foreign exchange through foreign investors buying shares in capital markets.

Existence of a well organized capital market leads to increased investment by companies which lead to provision of employment opportunities to people. This improves their incomes hence better standards of living.

**Avenues of raising long term financing through capital market.**

There are two ways through which a business can raise funds in capital markets. These are;

Equality financiering

Debt financing

**Equity financing**

This where finance or capital is raised through issuing shares to the general public. For a company to float its shares to the public, it has to first seek approval from CMA. The people who buy the shares of the company become part owners of the company and there become part owners of the company and therefore referred to as share holders.

**Broad guidelines on offering shares/securities to the public**

Resolutions by the shareholders converting the company from private to public are duty made and filled with the registrar of companies.

Board resolutions authoring the sale ofshares/ securities of the public and the increase in authorized capital are duty made and filed.

A prospectus has to be complied in accordance with the provisions of the company act and the capital market Authority Statute 1996.

The prospectus and the timing of the issue have to be approved by capital market Authority.

The prospectus has to be filed and registered with the registrar of companies before the commencement of any publicity campaigns.

**Contents of a prospectus**

A prospectus is a legal documents containing information about the company that wishes to offer shares to the pubic. It consists of the following elements,

A caution note on the first page indicating that permission has been granted by CMA to the issue to offer shares to the public.

The purpose of offering shares and the use of the funds received from the sale of sales.

Statement on the legal affairs of the issues

Rights of share holders as regards dividends, interest, rights to subscribe to new shares, voting rights etc.

Company structure – The issuer gives details of details of directors and senior management in terms of their qualifications, business experience, principal occupation, number and class of shares held by directors.

Financial statement, the issuers shall include audited financial statements showing the past financial performance of the company (in 3-5 years).

Accountant report covering all thee financial statements.

Loan / debt profile Information on bankers

Risk factors, the issuer should state the risks related to him business venture.

Professional advisor details.

Company policy as dividends and future developments, the issuer shall clearly state the divided policy and the business strategy to be followed and any future developments such as man power training polices, product development etc.

**Advantages of equity financing for a business**

The business assets do not have to be pledged as collateral security in order to obtain equity investment (sell of shares to the public)

The company is better governed given the international standards accounting and governance standards followed by listed companies.

The company does not have to make debt and interest payments to the share holders.

When the company closes all creditors have to be paid first before shareholders equity contributions are paid.

**Disadvantages of equity financing for a business**

The company owners have to share profits with share holders / equity investors

The company owners are accountable to all the shareholders and therefore, they have to publish their annual financial statements during the annual general meetings.

**DEBT FINANCING**

This is where funds are raised by borrowing from the public and institutions through capital markets. This is done by using the debt instruments below;

Corporate bonds

Government bonds

Municipal bounds

Commercial paper – This is an arrangement that enables a company to borrow money a short period of time.

**Guidelines for issuing corporate bonds**

If the issuer wishes to have its bond listed on the Uganda securities exchange, he/ she has to meet the requirements below,

**Advantages of debt financing**

The company does not have to give up any ownership of the company.

The company does not pay dividends to the lenders as the case is for shareholders.

The lender does not have control over the operation of the company whose bond he/she as purchase as the case is for share holders.

**Disadvantages of debt financing**

The company is required to pay back the principal and interest whether the business has made profits or not.

The company must be having sufficient cash flow to repay the loan and interest.

**Other sources of long term finance for businesses in Uganda**

Other sources of finance other than capital markets include,

Operation of joint venture, getting an individual or organization to both invest in and work with a company / business.

Borrowing from commercial banks both sort term and long term.

Acquiring personal loans in case one is unable to get a loan in the business name.

Borrowing from friends and family members.

Leasing, this provides finance for acquisition of specific assets e.g. cars, equipment and machinery. In this case a financier purchases the equipments you need and then lease it to you in return for regular payments for the duration of the lease period.