

## INTRODUCTION TO ENTREPRENEURSHIP EDUCATION

**Entrepreneur:** an entrepreneur is a person who has the ability to spot and evaluate business opportunities, gathers the necessary resources, starts a business and takes appropriate activities to ensure its success.

Or, an entrepreneur is a person who operates and assumes the risks of business venture.

- i. He can be a person who
  - ✓ Observes the economic, social and natural environment
  - ✓ Identifies opportunities in the business or non-business environment
  - ✓ Gathers necessary resources for the activity
  - ✓ Implements the activity
  - ✓ Receives financial and social rewards
  - ✓ Is concerned about possible damages to the natural and social environment

### ENTREPRENEURSHIP,

This refers to the process of creating an opportunity and pursuing it regardless of the resources currently controlled. It is the ability to make factors of production like land, labour and capital produce new goods and services. It can also be defined as the ability to create and build something for nothing.

In other words entrepreneurship refers to the qualities and skills required to become an entrepreneur.

### Entrepreneurship education

This is the study that is concerned with providing students / people with knowledge and skills for creating an opportunity for their own business to be successful using their available resources.

Entrepreneurship education trains, motivates and allows learners to use their creativity to take their initiatives and risks in order to encourage them succeed in a variety of setting.

It enables individuals to organize commercial opportunities and give the self-esteem, knowledge skills.

## COMPONENTS OF ENTREPRENEURSHIP EDUCATION

- ✓ **Opportunity recognition.** This means discovery of a clear business idea or development of an idea into a more feasible business concept overtime.
- ✓ **Commercial opportunity.** This involves turning an idea into commercial service or a saleable product.
- ✓ **Allocating resources in the face of risk.** This involves identifying an idea or an opportunity and committing resources to turn the opportunity into a business despite the presence of risks.

- ✓ **Initiating a business venture.** This involves starting business through established procedures.
- ✓ **Instructions in traditional business disciplines such as management.** This involves equipping learners with traditional business skills to empower them to manage their own business properly.
- ✓ **Marketing information systems and finance.** This involves providing information on marketing and finance.

## **REASONS / IMPORTANCE OF STUDYING ENTREPRENEURSHIP EDUCATION**

There are a number of reasons why people (students) study Entrepreneurship education, at the same time they are importance of studying entrepreneurship education, these may include.

- ✓ It provides one with knowledge and skills of setting up, i.e. it provides learners with transferable skills needed to succeed in an increasingly divergent business environment.
- ✓ It enables students to integrate programmes that teach practical skills for starting and expanding business enterprises.
- ✓ Through Entrepreneurship education, one is equipped with skills of how to mobilize the various resources needed in production like human resource, financial resources (like capital)
- ✓ It provides one with knowledge on how to properly relate and communicate with clients /customers. This is because in business a customer is the boss.
- ✓ It provides one with skills of how to scan the environment so as to identify existing and new business opportunities in order to come up with an opportunity that can be managed, run well so as to make profits.
- ✓ Through entrepreneurship, one develops the skills of taking self-employment as a career and this helps one to get rid of job seeking which could cause unemployment due to limited jobs.
- ✓ It provides one with the necessary skills to have a successful business, like marketing skills, financial management skills, personal skills etc.
- ✓ Through acquisition of the entrepreneurial skills, many people would come up with numerous businesses and this leads to economic development, social development through increased employment opportunities, infrastructural development etc.
- ✓ Entrepreneurship education is now recognized as an important education innovation that provides the impetus for learning.

## **THE ROLES OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT**

The need for entrepreneurship development for the economy is quite obvious

- ✓ Promotion of small enterprises in a society which form an essential part of economic prosperity on a society.
- ✓ Generation of employment opportunities from the numerous ventures being established in the country through innovation, production of goods and provision of services.
- ✓ Promoting creativity and innovation within small enterprises

- ✓ Encouraging the use of the locally available resources and rely mainly on the skills which may be found within the members of the community, this foster economic development.
- ✓ Correcting regional imbalances in such backwards regions e.g. regions with slums, this will reduce the concentration of economic power in few centres, which in long run breeds tension and hostility between social classes and between one region to another.

### **Role of entrepreneurs to the development of the economy and society**

- ✓ Creation of employment opportunities, entrepreneurs establish business enterprises that need people to work in the different departments e.g. accountants, managers etc.
- ✓ Creation of wealth, this is done through mobilizing capital and turning capital into business provides an accumulative resource base which helps the country to add value to the growth domestic products.
- ✓ They provide linkage between sectors i.e. entrepreneurs establish business e.g. industries that use raw materials from the agricultural sector and at the same time, agricultural sector provide market for industrial output.
- ✓ They are a source of government tax revenue e.g. they pay income tax, corporate tax, among others which help the country to realize the revenue required for development.
- ✓ Provision of infrastructures, before any venture is established, there is need for good roads, telecommunication services and utilities etc. these are established by entrepreneurs which help to serve even surrounding communities.
- ✓ Promotes Balanced Regional Development: Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc.
- ✓ Increasing Gross National Product and Per Capita Income: Entrepreneurs are always on the lookout for opportunities. They explore and exploit opportunities and encourage effective resource mobilization of capital and skill, bring in new products and services and develop markets for growth of the economy which lead to economic growth
- ✓ Promotes Country's Export Trade: Entrepreneurs help in promoting a country's export-trade. They produce goods and services on large scale for the purpose of earning huge amount of foreign exchange from export in order to combat the import dues requirement.
- ✓ Improvement in the Standard of Living: Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. This enables the people to be availed with better quality goods at lower prices which results in the improvement of their standard of living.
- ✓ Community Development: Economic development doesn't always translate into community development. Community development requires infrastructure for education and training, healthcare, and other public services. For example, there is need for highly educated and skilled workers in a community to attract new businesses. If there are educational institutions, technical training schools and internship opportunities, that will help build the pool of educated and skilled workers.
- ✓ Effective Utilization of Resources: Entrepreneurship is all about putting to better use the resources which are considered to be of low value with an aim of earning

income. Entrepreneurs come up with ideas of how to use what others may consider waste. This improves the economy of a country through taxes and creation of jobs which improves the standard of living of the beneficiaries

### **Factors promoting / facilitating entrepreneurship in Uganda.**

- ✓ Presence of market ie availability of customers and consumers to buy the products.
- ✓ Favourable government policies of rewarding entrepreneurial effort e.g tax holidays by the government that promotes the enterprising spirit.
- ✓ Availability of financial institutions that provide the capital required in form of borrowed funds to form and run businesses.
- ✓ favourable political climate and presence of security in the country
- ✓ Existence of good transport networks that ease movement of both resources and goods to the market.
- ✓ Government support e.g through the Entandikwa and Bonnabagaware schemes that provide initial capital to begin businesses.
- ✓ Possession of entrepreneurship skills like creativity, risk taking, endurance, flexibility etc.
- ✓ Mobility and exposure which offers the entrepreneurs the chance to develop new ideas which shape creativity that saves entrepreneurship.
- ✓ Command of business and existence of technical skills in marketing, finance, management etc which helps to effectively exploit the full potential of business.
- ✓ presence of role models in the community
- ✓ presence of resources like raw materials, labour and capital

### **ENTREPRENEURSHIP CULTURE**

Is a culture that encourages the whole population to take advantage of the abundant opportunities in the environment. The promotion of this culture involves the development of attitudes, beliefs and values.

Objectives of entrepreneurship culture

- ✓ To build capacity of living with uncertainty and ambiguity
- ✓ To familiarize with small business tasks during youth
- ✓ To be in contact with numerous familiar successful role models
- ✓ To link with a wide network of independent family /business contacts reinforcing familiarity and providing opportunities
- ✓ To acquire formal / informal managerial knowledge and practice in business
- ✓ To embrace opportunities to practice Entrepreneurial competencies

### **The promotion of this culture involves the following;-**

- ✓ Building capacity for living with uncertainty and ambiguity.
- ✓ Familiarising with small business tasks during the youth.
- ✓ Being in contact with numerous business successful role models.
- ✓ Acquiring formally or informally managerial knowledge in business.
- ✓ Linking with a wide network of independent families / business contact re-enforcing the familiarity and providing opportunities

This implies that support from various financial, professional institutions that can facilitate the growth of entrepreneurship spirits should be made readily available to emerging young entrepreneurs

### **Benefits of the Entrepreneurial culture**

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

### **CAREER DEVELOPMENT**

A career refers to the occupation /activity / work that one does over a period of time for his survival and to achieve his goals. It means a continuous over evolving, over expanding opportunity to personal as well as business growth and development

A business career is a long term involvement in business activities for the purpose of making profits. One may choose a career from two broad categories ie wage employment or entrepreneurship

### **The following definitions are important to an understanding of “career” as a concept**

A job is paid position requiring a group of specific attributes and skills that enable a person to perform task in an organisation either part-time or full time for a short or long duration

An occupation, is defined as a group of similar jobs found in different industries or organisations

Career development is the process of managing life, learning and work over the life span

### **Examples of career options in Uganda**

There are several career options in Uganda that a person can aspire for. Those include the following career option.

- Accountant
- Database administrator
- Human resource – assistant
- Book – keeping clerk
- Economist
- Financial analyst
- Writer
- Loan officer
- Recreation and fitness worker
- Recreation therapist
- Statistician
- System analyst.
- Teacher

## **FACTORS CONSIDERED WHEN CHOOSING A CAREER**

**Job security.** This refers to the certainty a person has about his/her continued employment in the current employer of business. People mostly select careers that guarantee high levels of job security e.g. permanent and pensionable jobs than those which do not promise job security like contract jobs among others.

**Personal interest.** Individuals normally select careers they like and those that lead to their satisfaction and can make them better to those where they have no interest.

**Demand for the career in the job market.** Jobs that have high demand are usually preferred to those whose demand in the labour market is low. For example currently there is high demand for people to specialise in health and information technology compared to other fields like teaching, lumbering among others.

**Job satisfaction.** Jobs that are satisfying in terms of good and regularly pay, good conditions of service. Job security, provision of educational and credit facilities to the employees, etc. are preferred to those where there is absence of job satisfaction.

**Expected Income or reward.** It is assumed that one would choose a career where he expects a higher pay or earning leaving those that are associated with lower incomes

**Family bias / preference.** Some families have a bias or are in favour of some careers or jobs and end up either encouraging or discouraging their family members from taking them up. For example parents discourage their children from becoming teachers while others like it.

**Talents and abilities of person.** One may choose a career where he/she has a talent and abilities e.g footballers, artists etc.

**Influence of role model/career consultant or specialist,** a person selects a career he/she has been attracted to by a role model

**Government policy on development and creation of employment opportunities.** There are certain careers that are promoted by the government e.g the government policies of agriculture and attaining improved health conditions this means more qualified man power in these fields than in field with no government support.

**The indices in decision making.** This is important since when one is making a decision, it must be aimed at achieving positive results for the organisation. This is however normally determined by conditions of services and job advancement i.e promotion.

Academic performance, Student tends to choose careers based on how they perform academically in certain subjects. In fact most people just select careers based on the subjects they have done well.

**Natural resources in the community,** one can choose a career basing on the resources available in a given area eg presence of minerals makes people join mining as their career.

Academic performance, Student tends to choose careers based on how they perform academically in certain subjects. In fact most people just select careers based on the subjects they have done well.

**Factors that influence the income levels of different careers.**

Income level differs from job to job, country to country, one employer to another etc. the following factors account for the difference in income of the different careers.

**The demand for the service rendered.** Where the services of a given career are highly demanded, such people tend to earn high levels of income. On the other hand, where services of a given career are not highly demanded, they always tend to earn low incomes.

**The nature of work done.** The nature of work done in an enterprise accounts for difference in incomes. In most enterprises, people who perform activities which are most important are normally on high income levels than the other hence the differences in income levels e.g accountants, managers, auditors will always earn higher incomes as compared to a secretary, sweepers and driver.

**The length of time that a person will have taken in acquiring the skills required to perform a given kind of work.** Job where a person takes long time acquiring skills like doctors, engineers, lawyers always earn higher income as compared to jobs, which require a short period of training like a policeman (about nine months).

**The employer's policy in regard to income.** Different employers have different policies in regard to wages paid to workers. Some pay more money to women than men, the young than the old employees etc. income levels in an enterprise therefore depend on the employers' payment policies.

**The general income levels in the country.** Where the general income levels are high, people tend to get high incomes in all professionals while in cases where the general incomes are low; incomes among many professionals always tend to be low.

**The level of country's development.** A country with a high level of economic development, income levels generally tend to be high. On the other hand a country with low levels of economic development is always characterized with low levels of income.

**The government policy concerning wages.** For example when government sets a minimum wage, income levels tend to be high than in cases where government does not interfere with wage legislation.

**The availability of people with required skills determine the income levels,** in careers where skilled manpower is scarce like the doctors, engineers etc they tend to enjoy high income levels while in cases where skilled manpower is in abundance like the teachers, secretaries, income levels tend to be low.

**Entrepreneur's capacity to pay.** Where the employer makes a lot of profits he may pay high wages to the employees' hence high income. On the other hand reduction in profits of the company results into reduction in the income levels of the employees.

## **Entrepreneurial resources**

These are assets both tangible and intangible that are mobilized by entrepreneurs in the building process of a business, organizations or other initiative

- ✓ Skills or human skills (labour). This is the aggregate of all human physical and mental efforts used in creation of goods and services. Labour is a primary factors of production, the size of a nations labour force is determined by the size of its adult population.
- ✓ Time of the start of new business.
- ✓ Information regarding the new business. Information is valuable because it can affect behavior or an outcome. For example if a manager is told his/her company's net profit decrease in the past month, he/she may use this information as a reason to cut financial spending for the next month.
- ✓ Capital. Is a wealth in the form of money or assets, taken as a sign of financial strength of an individual, organisation and assumed to be available for development or investment.
- ✓ Materials / inputs. Factors of production are inputs to the production process. Finished goods are the output. The inputs determine the quality of human activity.
- ✓ Equipment and technology. The purposeful application of information in design, production and utilization of goods and services and in the organisation of human activity.
- ✓ Natural resources. These exist naturally and may be very influential in all the determining of business survival at all costs. They are considered as the most critical and vital needs in the business organisation.

## **GENERAL TYPES OF ENTREPRENEURS IN UGANDA**

**Literature** on entrepreneurship is playing greater attention to the diversity of entrepreneurs. The following are types of entrepreneurs

- ✓ **Pull entrepreneurs.** Are those who are lured by their new venture idea and initiate venture activity because of the attractiveness of the business idea and its personal implication.
- ✓ **Push entrepreneurs.** Are those whose dissatisfaction with their current position unrelated to their entrepreneurial characteristics, pushes them to start a venture.



- ✓ **Innovative entrepreneurs.** Assemble a large variety of information and of a range of factors experimentally to produce new possibilities in terms of market, techniques or products. Countries with a very under developed industrial base hardly produce this type of entrepreneur, because of lack of the necessary infrastructure
- ✓ **Imitative entrepreneurs.** They imitate and adopt the technology and techniques innovated by others. They are particularly important in underdeveloped countries although not highly regarded in more developed economies. However imitative entrepreneurs also need to be creative in order to modify innovations to suit their special conditions
- ✓ **Opportunistic entrepreneurs.** They constantly look for and exploit many opportunities because of their wide skills and knowledge accumulated from a wider educational background, experience or exposure. They start by exploiting a series of, often varied, opportunities as they grow. Their ambitions involve building large organizations are not afraid of borrowing to achieve this growth.
- ✓ **Visionary entrepreneurs.** They have almost similar characteristics to the opportunistic entrepreneurs however, while opportunistic entrepreneurs pursue many business opportunities, the visionary entrepreneurs concentrate on the unwavering pursuit of a single powerful opportunity.
- ✓ **Craft man entrepreneur.** They own the business in which they operate, but tend to restrict their business to their individual skills and experiences usually accumulated from limited education and exposure. They have minimal growth ambitions, keeping their enterprises small as a means of maintaining control.
- ✓ **Drone entrepreneurs.** They are entrepreneurs that will not change under any circumstances, slowly but surely, these entrepreneurs will be forced to close.
- ✓ **Fabian.** Are also reluctantly to change, but are sometimes forced by circumstances to change. They respond very slowly to changes in the market, and this affects their growth and competitiveness.
- ✓ **Solo entrepreneurs** vs. those who got their ideas from social networks, and develop them using the networks (**network entrepreneurs**) are found
- ✓ **Co-preneurs.** Couples work together as co-owners of an enterprise. Although some scholars consider business co-ownership a recipe for divorce, some researchers have described it as an exciting proposition that involves nurturing and growing a business with someone you love – much like raising a child. It is important, however, to first build a successful relationship before launching the enterprise
- ✓ **Individual and institutional entrepreneurs.** Most startup firms are dominated by entrepreneurs acting individually or coming together individually, however as the business grows and become more complex, it becomes imperative to develop the entrepreneurial skills through a corporate body
- ✓ **Part time entrepreneurs.** Start business on a part time basis is a popular gateway to entrepreneurship. That allows one to get the best of both worlds by getting the benefits of entrepreneurship and the security of a regular salary.
- ✓ **Corporate cast offs and drop outs.** Are produced by retrenched and retiring employees and have become an important source of entrepreneurial activity.

### **Profits as a reward to an entrepreneur**

An entrepreneur is rewarded by profits or loses to appreciate him or her for having taken the risk.

A profit in business term refers to the difference between the sales and the cost of sales.

### **Types of profits**

- (i) **Net profit.** This refers to the net earnings to an entrepreneur after all operating expenses have been met.
- (ii) **Normal profits,** These are earnings for an entrepreneur which is just enough to cater for the expenses and not capable of attracting other entrepreneur to join the business or the industry.

### THE ROLE OF PROFITS TO AN ENTREPRENEUR

1. It is a source of government tax revenue i.e. entrepreneurs pay taxes such as corporate tax, company tax etc. to government.
2. It is a reward to an entrepreneur for risks and uncertainties i.e. the time taken while waiting for the business activities to yield income.
3. It's used as an indicator for resource allocation i.e. an entrepreneur allocates more resources to activities where he/she drives a lot of profits.
4. They are used by an entrepreneur to expand or improve on the existing enterprise i.e. they are used to purchase items that are needed in the business.
5. It is a source of reward to other factors of production in an enterprise e.g. out of profits an entrepreneur is able to pay wages and salaries pay interest on capital etc.
6. It is used to motivate workers in an enterprise. It is where the entrepreneur drives income to increase workers' salaries, improve their welfare of assistance etc

### Who is a manager?

A manager is a person who directs and controls the affairs of the business so as to ensure that the business' set targets are achieved. Therefore a manager may not be an entrepreneur as much as entrepreneurs are managers. Manager carries out the following functions.

### FUNCTIONS OF A MANAGER

- ✓ **Planning.** This involves setting of goals and objectives and determining the ways in which they are to be achieved.
- ✓ **Organizing.** This involves the identification of what activities are to be done, grouping of these activities into department and delegating them to particular individuals.
- ✓ **Staffing.** This refers to the process recruiting, training and developing employees who actually carry out the tasks of the business.
- ✓ **Coordination.** Managers always coordinate different activities within an enterprise to ensure that every activity gets the necessary support as required and performed as expected.
- ✓ **Leading.** This involves guiding the employees about procedures and work methods in the enterprise.
- ✓ **Controlling and maintaining.** Ensuring that every activity in an enterprise is done as expected so as to produce desired results as per the time set.
- ✓ **Motivation.** This refers to the process of encouraging employees to give in their best towards the achievements of the desired targets.
- ✓ **Communication.** This involves passing over information from one person to another so as to have a moving organization.
- ✓ **Budgeting.** This refers to the process of accounting for resources received and estimating what is needed in the business at a given period of time.
- ✓ **Evaluation.** This involves making analysis of the performance of the business against the set targets.

## **INTRA – PRENEURSHIP**

Is the act of behaving like an entrepreneur while working within a large organisation

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

Or is a person who does not own a business but uses the entrepreneurial skills in an existing business where he/she works to identify opportunities and create profits for the business from the opportunity

### **The features of an Intrapreneur**

- ✓ Works in an existing business
- ✓ Is hired to manage the business
- ✓ Creative and uses ability / insight to market / produce / finance a service / product
- ✓ Identifies new products / services for an existing business
- ✓ Organizes and controls resources to ensure profit for the existing business
- ✓ Prefers benefits of an existing business such as salary and available resources.

**An enterprising person** is someone who takes on imaginative and risky projects. He is a person who is ambitious; they take initiative in order to be successful.

### **Characteristics of an enterprising person**

- ✓ Always hardworking
- ✓ Always see the future in the present.
- ✓ Always find the way to take advantage of situation. They are not burdened by it
- ✓ They don't wait for opportunities to come to them, they go after opportunities
- ✓ Always keep his mind open and active

## **ENTERPRISE**

Enterprise means always finding a way to keep yourself actively working towards your ambition. Enterprise means two things ie creativity and the courage to be creative

**Creativity.** This is the ability to generate new and unique ideas. Creativity is needed to.

- see what is out there and to shape it to your advantage
- look at the world a little differently
- Take a different approach to be different.

**Courage to be creative.** This is needed to

- see things differently
- go against the crowd
- take a different approach
- stand-alone if you have to
- Choose an activity over inactivity.

### **Entrepreneurial competences**

There are three major competences for successful entrepreneurship. These include

- ✓ A body of knowledge
- ✓ A set of skills
- ✓ Cluster of traits

**Knowledge**, this is a set / body of information stored by a person which may be recalled at an appropriate time to enable a person do what is needed to achieve a purpose. Examples of knowledge include:

- ✓ Information about the market for goods and services.
- ✓ Information about customers like who they are, where they are, their age bracket, their tastes and preferences etc
- ✓ Information relating to business opportunity identified after doing market research.
- ✓ Information about production process like knowing which materials to use, knowing how to transform the materials into finished goods.
- ✓ Information on business management like how to manage workers successfully.
- ✓ Information about technical matters like how to operate the machines.
- ✓ Information about competitors like knowing their strength, weaknesses, opportunities and weaknesses.
- ✓ Information about the sources of capital.
- ✓ Information about sources of various inputs like machinery, labour, raw materials etc
- ✓ Information about government policies that affect business activities.

**Skills**, this is the ability to apply knowledge and can be acquired through practice. In business context it is possible to distinguish between skills of technical and managerial in nature, some example are listed below

#### **Technical skills**

- ✓ Engineering
- ✓ Computing
- ✓ Sewing
- ✓ Carpentry
- ✓ Painting
- ✓ Mechanics
- ✓ Catering
- ✓ Video coverage and editing
- ✓ Hair dressing
- ✓ Pottery

#### **Managerial skills**

- ✓ Marketing (including selling). An ability to see past the firm's offerings and their features, to be able to see how they satisfy the customer's needs and why the customers find them attractive.
- ✓ Time management. An ability to use time productive, to be able to prioritize important jobs and to get things done to schedule.
- ✓ Financial management. An ability to manage money, to be able not only to keep expenditure and to monitor cash flow, but also to assess investments in terms of potential and their skills.
- ✓ Organisation skills. An ability to mobilize and direct different resources to a right direct for the success of a venture
- ✓ Planning skill, an ability to consider what the future might offer, how it will impact the business and what needs to be done to prepare for it now.
- ✓ Leadership. An ability to inspire people to work in a specific way and to understand the tasks that are necessary for the success of the venture.

- ✓ Delegation skills. An ability to allocate tasks to different people. It demands a understanding of the skills that people possess, how they use them and how they might develop to fulfill future needs.
- ✓ Communication skills. Ability to use spoken and written language to express ideas and inform others.
- ✓ Negotiation skills. An ability to understand what is wanted from a situation, what is motivating others in that situation and recognize the possibilities of maximizing outcomes for all parties.

**Traits**, these are the aggregate/total of peculiar qualities that constitute personal individuality. Traits take time to develop and are not easily changed or acquired. E.g

- ✓ Passionate, highly successful entrepreneurs choose to do what they love to do or what they are passionate about.
- ✓ They are disciplined, highly successful entrepreneur have the quality of high self-control and have the habits of obedience to effectively manage their time and other resources to achieve success.
- ✓ They are effective planners; highly successful entrepreneurs do proper planning. They know what their businesses will be in the next 5 years because they are always planning and they are ready to give it their best.
- ✓ They are persistent, successful entrepreneurs are highly consistent in their endeavours.
- ✓ They are professional, successful entrepreneurs highly believe in the power of being professional or the importance of proper packaging of the business. They know how to present their business or idea in a way that will attract the right people who need them.
- ✓ They are aggressive; this is the ability to have confidence to move forward without fearing any resistance.
- ✓ They are ambitious; this is the ability to have strong desire towards something.

**NB:** It is mostly likely that a person who does not have all the three competences in his/her business will encounter difficulties in operating the venture successfully.

## **TRAITS OF AN ENTREPRENEUR**

These are the aggregate of peculiar characteristics that constitutes personal individuality. Traits take time to develop and are not easily changed or acquire. These are qualities than an entrepreneur needs to have and develop in order to successful start – up nurture and grow an enterprise.

**Self-confidence:** This is having a strong belief in one self and his/ her ability to achieve the set goals regardless of the challenges.

**Hard working:** This is putting in extra effort, commitment, resources and times in order to achieve the set goals in the set period of time.

**Goal oriented:** This is the ability to set goals that are SMART ie specific measurable, achievable given the available resources, realistic and time bound and also to work with determination towards achieving them.

**Persistent:** This is the strong desire to do something consistently and continuously until the set goals are achieved despite the various problems and disappointments in business.

**Profit oriented;** this means having a strong interest and direction towards operating profits in business. This can be achieved through maximizing sales and minimizing costs of operation.

**Builds for the future:** Most successful entrepreneurs aim at creating long term enterprises that can even outline them and hence provide a secure job and income for themselves and improved welfare and wealth for their families.

**Commitment ;**Success in business demand total commitment by the entrepreneur in terms of time , money and lifestyle and the business has to be the major priority in the entrepreneur's life.

**Reliability and integrity;** Success in business requires honesty, fairness and reliability in terms of doing what the entrepreneur has promised, fulfilling contracts with customers.

**Risk taking;** Successful entrepreneurs are those who assess risks before committing their resources to identified business ventures and then take calculated risks which can be foreseen by shifting them to insurance companies.

**Copes with failure;** Successful entrepreneurs are those who recognize their failures, learn from them and seek new opportunities.

**Willingness to listen;** Success in business requires one to be willing to seek and listen to advice and information from others e.g. customers, bankers, business advisors etc.

**Demonstrate initiative;** Successful entrepreneurs take initiative and put themselves in positions of being responsible for success or failure.

**Setting own standards;** success in business requires setting standards i.e. about sale, quality, income and output and working to achieve them.

**Responding to feed back;** Successful entrepreneurs constantly monitor how well they are doing and keeping track of their performance and then constructively use the feedback obtained to improve performance.

**Coping with uncertainty;** Entrepreneurship and self-employment involve more uncertainty than wage employment e.g. about sales, profit, prices, support services etc.

**Coping with changes;** Success in business requires ability to understand, appreciate and adopt or cope with change because change is inevitable in every organization.

**Innovation.** This is an entrepreneur's ability to tackle the unknown and do things in a new and better way or different way, change old ideas into new ideas etc.

**Opportunity oriented.** This enables an entrepreneur to see and identify new business opportunities, seize them and convert them into realistic achievable goals e.g opportunities for obtaining the necessary resources like equipment , land etc which will enable him/her implement his/her business ideas.

**Creativity.** Entrepreneurs need creativity to deal with their everyday situation that involves creating new products, services and processes. Even when they imitate others, creativity is needed to adapt the imitations to the markets.

**Build on strengths.** Successful business people base their work upon the strength(s) they have, such as manual skills, interpersonal skills, selling skills, Organizational skills, writing skills, knowledge of a particular product or service etc.

**Reliable and has Integrity.** This involves honesty, fair dealing and reliability in terms of doing what one has promised to do.

## **BARRIERS TO ENTREPRENEURSHIP**

Barriers to entrepreneurship are factors that hinder the development of the entrepreneurship; they hinder people from acquiring and practicing entrepreneurial skills, but also prevent practicing entrepreneurs from achieving the full benefits that entrepreneurship has to offer.

**Poor entrepreneurial skills.** Most entrepreneurs and potential entrepreneurs are short on entrepreneurial skills. They are risk averse, lack creativity, innovation, endurance, flexibility and other entrepreneurial characteristics.

**Lack of role models in entrepreneurship.** Uganda is seriously short of role models in the field of entrepreneurship, which limits the number of people who willingly aspire for a career in entrepreneurship

**Lack of business ethics.** Unpaid loans, unpaid or highly exploited employees, unpaid suppliers, substandard goods, tax evasion, corruption, smuggling etc. characterize many business ventures in Uganda today. While such tendencies may sometimes result in a quick profit, many times these will come back to haunt the entrepreneur, many times crippling them completely.

**Low mobility and exposure.** Mobility and exposure normally offers the biggest revelation for new ideas that shape creativity and innovations to entrepreneurship. However, Ugandans, generally do not travel widely, do not read widely and do not explore, ask or investigate.

**Lack of business and technical skills.** Business skills in marketing, accounting, management, planning are required by all practicing entrepreneurs to effectively manage their entrepreneurial ventures.

**Career dependency.** Ugandans especially the educated have long been dependent on their careers to provide for their livelihoods. Entrepreneurship has for long been regarded as a last resort effort mainly reserved for the under educated.

**Lack of continuity.** Very few firms in Uganda are known to survive the death of their founders. Very few entrepreneurs have the opportunity to pass on their enterprises to new generations and watch from a side as the enterprise continues to prosper.

**Lack of motivation.** Because of lack of role models and limited exposure, entrepreneurs in Uganda tend to be satisfied with relatively small and modest achievements.

**Political instability.** This state of affairs has robbed Uganda of many entrepreneurs and many more entrepreneurs have lost life time savings and business assets, while others have been forced by instability to close.

**Business administrative procedures.** In many cases, the business environment is dominated by complex and burdensome regulations, favouritism, corruption and weak enforcement mechanism.

**Insensitive government institutions and departments.** Entrepreneurs blame government institutions for having little qualification and a poor understanding of the importance of business and entrepreneurial processes.

**Excessive, complex and arbitrary taxation.** The tax administration is arbitrary and many times misunderstood, resulting in adhoc tax administrative solution which foster rampant corruption, very many taxes also serve to discourage potential entrepreneurs.

**Lack of access to finance.** Banking system and practices in Uganda impose impossible demands on entrepreneurs' banks have little incentives to extend credits. The term of credit are unreasonable, requiring difficult collateral and guarantees to secure the loan.

**Low purchasing power.** Low incomes and high rate of unemployment limit the purchasing power of relatively small Ugandan population. This makes it hard for businesses in general and entrepreneurs in particular to acquire the necessary economies of scale.

**Under developed infrastructure.** Uganda is still played with very poor physical and social infrastructures in terms of roads, electricity, water, bridges, schools and hospitals. These hinder business development in many parts of the country, and acts as barriers to entrepreneurs.

**Economic instability.** Due to over reliance on donor assistance borrowing, the import bill that far outweighs the export earnings, and over reliance on imports, the Ugandan economy is very fragile and easily destabilized by any small shocks in the international environment.



## **CAUSES OF EARLY FAILURE OF ENTREPRENEURIAL VENTURES**

- ✓ Death of an entrepreneur
- ✓ Poor timing
- ✓ Poor management or poor managerial skills
- ✓ Heavy taxes that are charged by the government.
- ✓ Some people start business without a business plan or total lack of business planning
- ✓ Lack of sufficient capital
- ✓ Competition from existing companies especially with globalization
- ✓ Uncertainties like weather, wars which at times destroys the entrepreneurs' businesses.
- ✓ Inadequate market
- ✓ Poor financial management, planning e.g some business don't keep financial records, over investment in fixed assets, poor inventory control, poor financial control
- ✓ Government policies many have negative impact on economy e.g increased taxes on second hand clothes
- ✓ Poor location of business
- ✓ Arrogance of entrepreneurs with their new products and don't accept new bright ideas

## **Measures have been under taken to boost entrepreneurship in Uganda**

- ✓ Carrying out adequate market research
- ✓ setting up credit societies, reducing interest rate and increasing loan repayment periods
- ✓ training Capable local advisers or making them available to handle issues like project viability
- ✓ providing Technical education and support
- ✓ Referring to successful role models constantly to solved social stigma
- ✓ using Market contacts and updates
- ✓ setting up local companies for research and come up with viable ventures
- ✓ ensuring that the nation is politically stable to encourage investment
- ✓ improving on the infrastructures to ease flexibility of flow of goods and services

## **Functions of an entrepreneur**

An entrepreneur performs a series of functions necessary right from the genesis of an idea, up-to the establishment and effective operation of an enterprise. He carries out the whole set of activities of the business for its success. In summary an entrepreneur is responsible for

- ✓ Identifying his /her needs, analyses them in relation to what he /she would wish to be in future (goals in life)
- ✓ Scanning the environment to identify business opportunities that would help him/her to set goals in life.
- ✓ Conducting market survey to determine the feasibility and viability of the identified business opportunities in order to come up with the best one.
- ✓ Calculating the risks involved in doing the selected business to find out if they can easily managed or else to find an alternative that can be easily managed.

- ✓ Mobilizing the necessary resources needed to start and operate the selected business.
- ✓ Setting up an organisation or arrangement through which the business will be operated.
- ✓ Monitoring the operations and performance regularly to find out whether it is performing towards achieving the set goals and objectives or not.
- ✓ Carrying out innovation ie doing things in business or doing of things that are already being done but in a unique way, like launching a new product, creation of new markets, discovering new raw materials, new technology etc
- ✓ Carrying out decision making regarding the setting the business goals, acquisition of the necessary resources, marketing strategy decisions etc.
- ✓ Management, which involves the business operations, day to-day activities, direction of men, machinery, materials etc.

### **REWARDS / BENEFITS FOR BEING AN ENTREPRENEUR**

- ✓ It leads to feeling of freedom and independence e.g. in terms of decision making.
- ✓ It leads to increased income. People in the business society earn income which in turn improves their standards of living.
- ✓ It encourages the development of self-confidence due to the high levels of independence that exists i.e. the owner is the leader of him/herself.
- ✓ It enables one to invest his/her resources and skills fully and productivity. This leads to self-employment.
- ✓ It allows one to become creative and innovative as he/she can come up with the new ideas and implement them for the success for his/her business.
- ✓ It leads to respect and recognition by the society.
- ✓ It ensures maximum job security.

### **CHALLENGES/COSTS/DISADVANTAGES OF BEING AN ENTREPRENEUR**

- ✓ It makes an entrepreneur work for long and irregular hours with a lot of hard work so as to succeed. This leads to fatigue and exhaustion.
- ✓ It leads to uncertainty of the income i.e. business is associated with both profits and losses.
- ✓ It is associated with low life style as a result of working for long and irregular hours especially at the beginning.
- ✓ It is associated with a lot of risks. The entrepreneurs face all the risks of his business alone.
- ✓ It ensures personal responsibility for the business failures i.e. in case of failure of the business. The entrepreneur stands personally liable for such failure.

### **Entrepreneurship as a career option**

Entrepreneurship can be defined as a career in one's own business rather than wage / paid employment.

### **The entrepreneurial process.**

There are mainly three steps involved in the entrepreneurial process ie

- **Income generation.** Here, one tries to generate surplus or profit e.g through putting surplus money on a fixed deposits account in a bank.
- **Self-employment.** This refers to an individual's fulltime involvement in his own occupation / business.

- **Entrepreneurship.** This is terminal / last stage in the entrepreneurial process where after setting up a venture, one looks for diversification and growth. At this stage, an entrepreneur is always in search for new challenges, converting threats into opportunities, innovative and creative.

## **EMPLOYMENT**

This refers to relationship between two parties, usually based on a contract, one being the employer and the other being employee

Types of employment

**Self-employment** is where an individual starts his /her own income generating activity using his own resources and gets employed in it or it refers to an individual's fulltime involvement in his own occupation or business or an enterprise

## **ADVANTAGES OF SELF EMPLOYMENT**

**Increased income:** Owning and operating a business enterprise gives the entrepreneur additional income in form of profits generated by the business.

**Personal fulfillment and improved standards of living:** Being an entrepreneur helps one to achieve his or her desired life goals hence personal fulfillment. The additional income generated helps an entrepreneur to improve his / her standards of living.

**Employment creation;** when a person becomes an entrepreneur he/she can employ him/ herself and even employ other.

**Independence in decision making;** Entrepreneurs always enjoy the opportunity to make independent decisions and also to change such decisions when even need arises

**Creating economic value;** Entrepreneurs enjoy the opportunity of creating economic value in terms of provision of products or services for consumers.

**Social recognition;** Entrepreneurs are always highly respected and socially recognized in society because of the goods and services they provide and employment opportunities they create for the people in the community.

**Self-confidence;** When one becomes an entrepreneur, he/ she develops confidence in him or herself and abilities since he/ she does things by him / herself independently.

**Job security;** Self-employment improves security of one's job and income and promotes hard working as one strives to work hard to see his / her ideas succeed.

**Economic development;** self-employment promotes economic development and more entrepreneur get knowledge and guidance from other and start their own ventures.

Entrepreneurship allows one to be creative and innovative through making his/her own decisions for the success of the business.

### **DISADVANTAGES OF SELF EMPLOYMENT**

**Risk of losing resources invested in the business.** Entrepreneurs take business risk which may result into losses, collapse of the business and at times complete losing the resources invested e.g. land, capital, time, etc.

**Long hours of work;** Entrepreneurs have no regular working hours and therefore end up committing all their time and energies to their business to see them successful

**Uncertainty of income;** Entrepreneurs are never sure of the amount of income they get from business since it keeps on fluctuating seasons.

**Limited social life;** When one becomes an entrepreneur he / she enjoys less leisure and life style due to the hard work and working beyond normal working time and even on public days

**Involves great sacrifice;** Many entrepreneurs live sacrificial lives of painful saving and investment especially at the initial stages of the business.

**Needs financial investment;** Entrepreneurs face the challenges of rising efficiently and effectively .This may involve acquiring loans and also meeting the costs involved e.g. paying back high interests.

**Needs high energy.** Entrepreneurship requires high energy in order to achieve business success and therefore leads to fatigue.

**Constant concern about the business ;** Being an entrepreneur involves a lot of pressure and concern about the business, all the time thinking about business matters in order to achieve business success.

**Responsibilities;** The entrepreneur is congested with broad responsibilities and hence finds himself doing a lot of things since there is no one to assist.

### **PAID EMPLOYMENT.**

Involves taking up a job in which a person is paid a uniform wage / salary daily, weekly, monthly or annually for a specific assignment given by the employer or government.

#### **Advantages of paid employment**

- ✓ There are specific responsibilities depending on agreed payments in respect to the work done.
- ✓ Steady income. A paid employee is assured of a regular payment at the end of a specific work done.
- ✓ A worker may enjoy fringe benefits like transport, sick leave, housing etc from his employer.
- ✓ There are minimal risks and the employee is assured of his/her pay all the time

- ✓ Reduces fatigue of the employee since there are fixed and favourable hours of work.
- ✓ In some enterprises there are chances of further training for the workers.
- ✓ It is easy for the government to collect legal payments like taxes.
- ✓ There is a set and convenient span of control over activities of business ie work is done according to the level of specialization.

#### **Disadvantages of paid employment**

- ✓ There is a tendency of following strict orders. One has to work under given specific instructions and has to make consultations where decisions are to be made.
- ✓ There is a set span of control. This refers to the hierarchy one has to consult before implementing his own ideas to work.
- ✓ There is a fixed rate of pay which can hardly be increased even if output increases.
- ✓ There is limited and fixed responsibilities ie one does not go beyond the work specifications. This limits a worker from attaining skills.
- ✓ There is limited room for initiating ones ideas. If one develops ideas, they may be difficult to implement due to bureaucracy.
- ✓ Workers may be dismissed due to poor performance or bias by the employer.
- ✓ Absence of some workers may make work to come to a standstill since everyone will have to concentrate on his work.
- ✓ It may promote corruption and embezzlement as employees struggle to be given jobs.

#### **The following are the measurers that can be taken to promote self-employment**

- ✓ Liberalizing the economy / strengthen the private sector that allows people to carry out free trade.
- ✓ Encouraging practical and vocational subjects at different levels in order to create job creators.
- ✓ Setting up more infrastructures ie transport and communication is being done by government.
- ✓ Encouraging talent development.
- ✓ Giving soft loans to self-employed people.
- ✓ Giving tax holidays to self-employed people / investors.
- ✓ Promoting security in the country to provide a conducive environment for investment.
- ✓ Sensitizing the masses about the benefits of self-employment.
- ✓ Widening market for locally produced goods.
- ✓ Reducing the bureaucracy when starting business.
- ✓ Providing information about various business ideas.
- ✓ Recognizing and rewarding the self-employed person.
- ✓ Creating business support organizations like banks , insurance companies etc
- ✓ Ensuring economic stability.
- ✓ Providing subsidized land to investors.

#### **Challenges encountered in trying to promote self-employment in Uganda.**

- ✓ Insecurity in some parts of the country which discourage individual freedom and investment.
- ✓ Societal barriers which discourage entrepreneurial spirit.
- ✓ Ignorance of the masses about the importance of self-employment.

- ✓ Existence of a theoretical based education system in the country which trains job seekers.
- ✓ Unfavourable economic conditions of high levels of inflation
- ✓ Unfavourable government policies of levying high taxes.
- ✓ Limited existing market in the country due to high levels of poverty.
- ✓ Undeveloped infrastructure especially roads, water, electricity and machinery.
- ✓ social – cultural rigidities that act as barriers to entrepreneurial development e.g the belief that high profit is unethical
- ✓ Limited entrepreneurial experience in the country.
- ✓ Unfriendly economic environment in terms of high interest rates on loans, non-existence of lending and funding organisation etc.
- ✓ Psychological factors like high need for affiliation, conformity and compliance to rules and regulations, need for security etc.
- ✓ Great risk in less developed countries as there is lack of reliable information, market for goods and services is small etc.
- ✓ Non availability of labour and skills. Though there is abundant labour supply there is generally scarcity of skills at all levels.

## **UNEMPLOYMENT IN UGANDA**

Unemployment is a state of idleness of an able and willing factor of production to work at the ongoing reward or payment. This means that the factor of production is willing and ready to work at the ongoing rate of employment but it is not engaged in production.

Unemployment (of labour) is a situation where people in working age group are not engaged or employed though they are willing to work at the ongoing wage rate.

Full employment is a state in which a number of people looking for jobs are equal to the number of job vacancies available. This therefore means that at a given period of time, there are some people looking for work and on the other hand there are also firms looking for people to employ.

## **TYPES OF UNEMPLOYMENT**

**Disguised unemployment**, this exists when people are physically present and working but the marginal productivity of labour is zero.

**Cyclical/ Keynesian unemployment**, this type of unemployment got its name from Lord Keynes. It's caused by low aggregate demand. It occurs because the level of demand is lesser than the available supply of goods and service.

**Technological unemployment**, it occurs when capital machines replaces labour as a factor of production. For example tractors and computers replacing people in a company or on a firm respectively.

**Residual unemployment,** this is the type of unemployment caused by physical/ mental incapacitation. For example blindness or when a person is so lame such that they become unemployable.

**Seasonal Unemployment,** This is unemployment that comes about when some people become unemployed due to lack of economic activities in a given period of time. It is caused by seasonal variations in production especially in the agricultural sector.

**Frictional unemployment.** This occurs when labour is temporarily out of work while in the process of switching or moving from one job to another. It is usually of a relatively short period of time and sometimes it is caused by imperfect knowledge in the labour market

**Open Urban Unemployment.** This is a type of unemployment which mainly occurs in urban areas due to rural urban migration in search of employment opportunities

### **CAUSES OF UNEMPLOYMENT IN UGANDA**

Rapid population growth rate. The population rate is too high compared to the job creation rate. This creates surplus of labour over demand for labour leading to unemployment.

The high levels of rural-urban migration. Many people in Uganda move from villages to urban areas looking for jobs but these jobs are not there. Such people end up being redundant in cities thus creating open urban migration.

Existence of a defective education system, the education is very defective being theoretical in nature hence preparing job seekers and not job makers.

Rapid technological advancement and increased use of capital intensive techniques of production which causes technological unemployment for example introduction of computers.

Changes in seasons/ climatic conditions. In the agricultural sector, farmers are seasonally employed. During times of bad weather, farming cannot go on and therefore the workers stay unemployed.

The negative attitude towards work among some people. Some people have a poor attitude towards work. They feel lazy to work; they're not willing to take on any job because they regard the jobs to be of low status. They become voluntarily unemployed

Retrenchment policies like restructuring civil service cause many civil servants to be laid off from work.

Political instability, persistent political instability and insecurity in some parts of the country discourage domestic and foreign investments which disrupt production leading to unemployment.

Discrimination in the labour market on the basis of age, sex, race, religion, tribe etc. some people are not recruited by employers in some organizations because they don't meet certain specifications e.g when they are not of a certain age, sex or religion. If an employer is recruiting female sales representatives below the age of 25, then the males and females above 25 years are left out of employment.

Inadequacy of co-operant factors especially capital and land. This limits people who fail to get jobs from creating self-employment in the informal and private sectors causing unemployment.

Ignorance about job opportunities. Some people in Uganda remain unemployed due to the imperfect knowledge of the labour market. The jobs are actually there for them but the workers can't locate them. This is mainly due to the poor advertisement of the jobs

High desire for leisure and laziness, youth are lazy and reluctant to work, many of them spend their time in gambling activities such as betting. This has also led to high levels of unemployment in Uganda called voluntary unemployment

Physical and mental disabilities. There are individuals with visual, physical and mental impairment e.g the lame, blind and deaf. These can't be easily absorbed into gainful employment in some organizations especially in private sector. They therefore stay unemployed leading to residual unemployment.

Poor land tenure system. Many farmers in Uganda are on small pieces of land on which small scale farming is carried out. Small scale farming creates less job opportunities in the economy. It also causes disguised unemployment since the marginal productivity of some farmers is negligible

Limited domestic market/low demand, the industrial sector is still small and most industries produce products at excess capacity due to limited domestic market. This reduces employment opportunities

### **Solutions to unemployment problems in Uganda**

Controlling population growth rate to reduce on the growth of labour force through family planning programmes, use of contraceptives and sensitization of the masses.

Attracting foreign investors by providing economic incentives like tax holidays, subsidies, soft loans, free plots of land to promote the private sector there by widening employment opportunities.

Diversifying the economy by encouraging a wide range of production activities in different sectors like agriculture industry, tourism etc to promote employment opportunities



Carrying out education reforms to emphasize skill based education which creates more job makers so the emphasize should be put on vocationalisation of education in order to make graduates job makers

Liberalizing the economy by removing unnecessary barriers, allowing and supporting free enterprise and limiting government interference in business

Improving the social and economic infrastructure such as road network improving power generation and supply, water supply and telecommunication network in all parts of the country, in order to facilitate the operations of the private sector thus widening employment opportunities

Privatizing public enterprises to increase production capacity thereby demanding more labour hence increasing employment opportunities

Modernizing agriculture through provision of incentives to farmers like at fair rates, widening markets for agriculture products, introducing machinery like use of tractors, all these increase output which call for more workers at different stages as well

Encouraging the provision of credit to empower people carry out self-employment in the formal and private sector

Advertising the existing jobs over the media and creation of job centers which link job seekers to job makers to reduce frictional unemployment

Carrying out land reforms to increase people access to land

Restoration of peace and maintenance of political stability to create a conducive environment for both local and foreign investors

Establishing institutions which facilitate investors in order to create a conducive investment climate hence widening employment

Encouraging the use of appropriate technology which is employment creating to reduce technological unemployment

**END**

### **Sample questions**

- 1 a) Examine the causes of high rates of unemployment in Uganda
- b) Suggest measures that should be taken to reduce unemployment

## THE CONCEPT OF CREATIVITY

Creativity is the ability to bring something new into existence. It is the ability to come up with innovative solutions to needs and to market them.

It is the ability to produce work that is both unique and appropriate. In business an entrepreneur's creativity is often the difference between success and failure hence creativity is allowing yourself to make mistakes.

### One's creative potential

Most people speak of creativity without knowing quite what it means. Creativity a basic characteristic built into all human beings and almost completely absent in animals. It involves seeing novel relationship between things and as such it is closely related to intelligence. It involves converting the random, the mediocre or the dull into something with form, style and originality

### Characteristics of creative individuals

Creative people usually possess the following characteristic as listed below.

- ✓ **They usually have originality.** Creative people are capable of doing something that no one else has done. They think of an idea, redesign it and make something new out of it.
- ✓ **They are independent thinkers.** Creative people always think for themselves. They are observers and analysts who gather all the information they can and then analyse it to come up with their own analysis.
- ✓ **They promote growth and change.** Creative people search for change constantly. They do not restrict themselves to using the same old way of doing things. They learn to change for the better, so that they can grow and prosper.
- ✓ **They are flexible.** Creative people are flexible and always learn the current inventions.
- ✓ People are challenged daily to be flexible in work, relationships, life and learning new things in general.
- ✓ **They are innovative.** They have the courage to try new things and build something out of the ordinary. Innovation and having courage are necessary for creativity.
- ✓ **They normally ask questions.** They always ask questions and ask people to explain what they mean and the things they don't understand. They don't accept things as they are.
- ✓ **They are Sensitive,** people who are creative are sensitive to the world and their environment so as to raise their creativity
- ✓ **Search for better ways to do tasks,** they focus on what they do and find new possibilities and new ways of doing things

### CREATIVITY PROCESS

- ✓ **Preparation/immersion** (knowledge accumulation). This involves gathering data, opinions and speculation to obtain an inner depth grasp of the problem at hand.  
It is kind of brainstorming exercise eg if you are a writer, this means looking at old pieces of work and trying to decide where to go from there.
- ✓ **Investigation,** involves developing a solid understanding of the problem, situation or decision at hand.

- ✓ **Transformation**, involves viewing the similarities and differences in the information collected
- ✓ **Incubation/gestation**. It involves allowing the mind to continue thinking over the problem and possible solutions. It involves making the necessary connections that are made in order to lay the idea.
- ✓ **Illumination / insight**. It involves building inspiration. This may come abruptly by revelation. E.g. this is the moment for a writer when an idea just hits them and they need to grab a piece of paper in order to remember it.
- ✓ **Verification and application**. This involves testing the ideas, alternative solutions, possibility for their applicability before picking the most suitable solution.
- ✓ **Implementation**, this involves transforming the idea into reality

## **OBSTACLES TO CREATIVITY IN BUSINESS**

- ☞ **Negativity/negative thinking**. This involves the tendency to focus on the negative aspects of problems and expand energy on worry.
- ☞ **Thinking that you are not creative** This results from the lack of self confidence
- ☞ **Fear of failure**. Fear of looking foolish or being laughed at hinders creativity. Failure is a necessary condition of and stepping stone to success.
- ☞ **Limited or lack of quality thinking time**. The over-stressed person finds it difficult to think objectively at all. Unwanted stress reduces the quality of all mental processes.
- ☞ **Over-conformance with rules and regulations**. A tendency to confirm to accepted patterns of belief or thought i.e. the rules and regulations hampers creative thinking. Some rules are necessary, but others encourage mental laziness.
- ☞ **Wrong assumptions**. This hinders creativity such as assuming that the failure of a business is due witch craft, inherited bad luck from parents etc
- ☞ **Application of too much logic** to a problem or situation slows down or hinders creativity.
- ☞ **Dehumanising mass media**. This involves spending a lot of time immersed in popular culture i.e. televisions or listening to pop music
- ☞ **Unfavourable or poor working conditions** or limiting the freedom of workers in the business also limits their creativity.
- ☞ **Competition in the present environment** hampers motives for creative output. Concerns with job advancement or opportunities as opposed to job stability or security affect motives to be creative at work.
- ☞ **High conflicting goals and objectives**. These also hinder creativity.
- ☞ **Noisy environment**, which do not provide quite enough time for reflection and introspection.
- ☞ **Competition**. In the present environment hampers motives for creative output, concerns with job advancement or opportunities as opposed to job stability or security affect motives to be creative at work.
- ☞ Demands for quick production of results
- ☞ **Belief**, having a strong belief in something limits response options and the way things are perceived from outside world

## **TECHNIQUES FOR DEVELOPING A CREATIVE ABILITY**

- ☞ Thinking beyond the invisible frame works that surround problems/situations
- ☞ Recognizing when assumptions are being made and challenge them
- ☞ Developing/adapting ideas from more than one source
- ☞ Transferring technology from one field to another
- ☞ Being open and prepared to use chance on unpredictable things/events to advantage
- ☞ Drawing on the experience's of other individuals business to widen the field of vision
- ☞ Practicing for tune i.e. having a wide attention span and range of interests
- ☞ Exploring thoughts processes and the key elements of the mind at work in analysis, valuing and synthesing
- ☞ Note down thoughts/ideas that apparently drop into the mind unsolicited so that they are not forgotten
- ☞ Using analogy i.e. improve imaginative thinking to find models or solutions in nature, in existing products/services or in other organisations
- ☞ Trying as appropriate to sometimes make the strange familiar and the familiar strange to spark new ideas
- ☞ Knowing when to leave a problem i.e. remain aware but detailed
- ☞ Tolerating ambiguity and occasionally live with doubt and uncertainty
- ☞ Stimulating own curiosity in everything and the skills of observation, listening, reading and recording

**You have received shs. 60,000,000 to establish a social enterprise aimed at establishing public health**

### **a) Formulate guidelines for coping with change in business**

#### **Policy guidelines for enhancing creativity in Musaaazi social Enterprises**

MUSAAZI SOCIAL ENTERPRISE  
P.O. BOX 122, KAMPALA (U)  
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Email: Masaazisocial@gmail.com

#### **GUIDELINES FOR ENHANCING CREATIVITY**

- ☞ Workers shall think beyond the invisible frame works that surround problems/situations.
- ☞ Assumptions shall be recognized when are being made and challenge them.
- ☞ Ideas shall be developed from more than one source.
- ☞ Workers shall transfer technology from one field to another
- ☞ Workers shall note down thoughts/ideas that they come across so that they are no forgotten
- ☞ there shall be Use of analogy i.e. improve imaginative thinking to find models or solutions in nature, in existing products/services or in other organizations
- ☞ Workers shall be prepared to use unpredictable events to their advantages
- ☞ Workers shall stop narrow minded thinking and widen the field of vision.
- ☞ There shall be suspending judgments to encourage the creative process and avoid premature.

- ☞ There shall be patience so as to avoid leaving a problem until solution emerge
- ☞ There shall be stimulation of curiosity and the skills of observation, listening, reading and recording.
- ☞ Every worker shall avoid premature criticism
- ☞ Every worker shall make connections with points that are irrelevant or buried

### **Characteristics of non-creative person**

- ✓ Not able to think positively about a problem
- ✓ Too busy or stresses to think objectively
- ✓ Very self-critical
- ✓ Timid in putting forward a new idea
- ✓ Prone to apply logic as a first and last resort
- ✓ Unable to think laterally
- ✓ Always goes with what others say

### **IMPORTANCE OF CREATIVITY**

- ☞ It increases awareness by paying attention to insights and sounds that are ordinary ignored
- ☞ It leads to development of new and original ideas and using the existing ideas as an initial point
- ☞ It is used to update products and services
- ☞ It enables an entrepreneur to make proper use of limited resources
- ☞ It is used to promote products and services of a business
- ☞ It solves everyday problems in business

Sample questions for creativity

1. a) Define the term creativity as used in entrepreneurship education
- b) what are the characteristics of creativity individuals
- c) what the techniques of enhancing creativity in the business

### **INNOVATION IN BUSINESS**

Innovation is the way of transforming resources of an enterprise through the creativity of people into new resources and wealth.

The goal of innovation is positive change to make someone or something better. Innovation and the introduction of it that leads to productivity is a fundamental source of increasing wealth in an economy.

### **TYPES OF INNOVATIONS**

- **Business model innovation.** This involves changing the way the business is being done in terms of capturing value e.g Nile Breweries Vs. Uganda Breweries.
- **Marketing innovation.** This is the development of new marketing methods with improvement in product, design, packaging, product promotion or pricing e.g soft drinks firms to change to plastic packing of their products.

- **Organisational innovation.** This involves creation of new business structures, practices and models and may include process, marketing and business model innovation.
- **Process innovation.** This involves implementation of a new or significantly improved production or delivery method.
- **Product innovation.** This involves a good or service that is new or improved substantially. This might include improvements in functional characteristics, technical abilities, ease of use etc. today firms that manufacture mobile phones are continuously coming up with phones that are not only serving oral communication but also phones with other functional characteristics like those with radios, television, those that can work as computers, those with cameras etc.
- **Financial innovation.** This involves the development of new financial attributed i.e. risk sharing liquidity and credit in innovative ways as well as exploiting the weakness of the tax law.
- **Supply chain innovation.** This is an improvement in a way of getting inputs (raw materials) from suppliers and delivery of output of products to the customers
- **Service innovation.** This is an improvement in a way services are provided e.g use of ATM machines to withdraw and deposit money, yaka system of UMEME, mobile money services, internet banking

## **SOURCES OF INNOVATION**

Internal sources (innovations within the society)

- **Un expected occurrences.** Unexpected success; unexpected failure of unexpected outside event can be as symptom of a unique opportunity. It is often through such unexpected occurrences that new ideas are born from new information brought to light.
- **Incongruities.** A discrepancy/difference between reality and what companies or the industry assumes it to be or between what is and what ought to be can be an innovative opportunities.
- **Process needs.** Here, innovators are inspired by missing links in the production process that need to be created to support some other product or process.
- **Industry and market changes.** These are mainly shifts in the industry and market conditions for example changes in demand, technology etc that result into changes in products or services delivery.

External sources (societal environment sources)

- **Demographic changes.** Changes in population size, age structure, sex composition, employment, level of education and income can generate innovative in the level of education in Uganda has resulted in qualified workers going for somehow good paying jobs.
- **Changes on perception mood and meaning.** Innovative opportunities can develop when a society's general assumptions attitudes and beliefs change. For instance despite the fact that health care in Uganda has continually become better and

more accessible, people have become increasingly concerned about their health and the need for better and more accessible care.

- New knowledge. Advances in scientific and non-scientific knowledge can create new products and new skills and markets.

#### CHARACTERISTICS/FEATURES OF INNOVATION (INNOVATORS)

- ☞ They have a compelling vision. Innovative people believe that they are part of something better to come and that their willingness to contribute to the vision will make it happen.
- ☞ They are opportunity oriented. Innovators are constantly thinking about new ways of doing things and they are not afraid of doing something new.
- ☞ They are self-disciplined. Innovators are able to prioritize their time so that they are doing the important work first. They have the ability to do the hard work to make them happen.
- ☞ They are inner-directed. Innovators are inner directed and goal oriented and do not need any one else to motivate them because of the self-discipline and ability to focus.
- ☞ They are extra ordinary persistent. Innovators are committed to achieving their goals. They keep going and do not let obstacles get in their way.
- ☞ They are passionate about belief. Innovative people are truly passionate about what they believe, they give in everything they have. They are passionate about a thing and they go after that with all their hearts and souls.
- ☞ They are trend spotters. Innovators are trend spotters they are able to identify something new and its social responsibility
- ☞ They associate with positive people. Innovative people usually surround themselves with people with positive attitudes towards creating something new.

#### **Principles of innovation**

Below are five principles that can help you take advantage of new innovation that you may have discovered

- ✓ Begin with an analysis of the opportunity
- ✓ Analyse the opportunity to see people will be interested in using the innovation
- ✓ To be effective, the innovation must be simple and clearly focused on a specific need
- ✓ Effective innovators start small. By appealing to a small, limited market, a product or service requires little money and few people to produce and sell it.
- ✓ Aim at market leadership. Leadership here means dominating a small market niche. If an innovation does not aim at leadership in the beginning, it is unlikely to be innovative enough to successfully establish itself

## **WAYS TO FOSTER / PROMOTE INNOVATION IN A SMALL BUSINESS or WAYS OF ENCOURAGING INNOVATION IN SMALL BUSINESSES**

- ✓ Expecting change at all times: This helps the entrepreneur to always be ready to come up with new things that ensures that businesses cope up with change.
- ✓ Developing innovative strategies: e.g. trying out new technology through research.
- ✓ Implementing new rules: i.e. an entrepreneur needs to learn to go beyond the existing indicators of competition in the business environment by looking for new ways of doing things.
- ✓ Thinking globally: this enables an entrepreneur to look for new market for its products abroad, look for new technology abroad among others.
- ✓ Avoiding barriers that limit innovators: i.e. entrepreneurs need to put in place measures that ensure good internal co-operation among departments to promote good relations with each other and other outside parties so as to create a good environment for innovations.
- ✓ Acting fast to take advantage of any new business opportunity: i.e. by coming up with new things that utilize the identified opportunity.
- ✓ Being always a learner: through listening to other people.
- ✓ Measuring performance indicator: the entrepreneur needs to concentrate on key strategic and profitable indicators by focusing energies on new things that drive the future success of the business.
- ✓ Doing things well for others: for example for customers, suppliers etc. this help small business to stay ahead of competitors.
- ✓ Always thinking like entrepreneur: this helps one to always have ideas and even go ahead to improve on them in case of failure to start

### **Advantages of innovation**

- ☞ It helps in locating new technologies and become a foundation of a new set of customers. This improves product design and quality
- ☞ It assists a company in packaging and repositioning its products for global distribution
- ☞ It helps in developing new distribution channels and added value to make the organization's products /services stand out
- ☞ It helps in reviewing the company's objectives and comparing them with customers needs to find out what to offer to customers. This creates greater responsiveness to customer's demands
- ☞ Innovation alternative approaches create alliances with venture partners. This enables a company to position its opportunity to match the interest of investors which improves the focus and objectives of the organisations
- ☞ It lowers organizational research and development and operating costs
- ☞ It streamlines relationships with suppliers and customers
- ☞ It leads to production of variety of products which expands the product range



## Innovations in small businesses

A good business innovation involves developing new products or improving existing techniques, processes, designs and marketing to solve problems and reach new customers

Small businesses have the following qualities that make them more likely than larger businesses to use innovation successfully

- ☞ Personal connection with customers, small businesses understand customers' needs and identify new opportunities quickly and efficiently
  - ☞ Personally invested and passionate. Most small business owners are willing to try new approaches to make their business more successful
  - ☞ Alertness and adaptation, small businesses can quickly adapt to changing market conditions and implement new business practices
  - ☞ Experimentation/improvisation, many small business owners experiment and improvise by accepting failure in order to succeed
  - ☞ Resource limitations, small businesses prefer to use less resources and do something much. The limited resources enable them to be innovative
  - ☞ Information sharing and collaboration, small businesses traditionally rely on strong local social networks to share information needed for innovation thinking
- QN.

1a) Describe the various sources of innovation

b) Explain the major features of innovators

2a) Explain the various ways of fostering innovation in small business

b) Why are small businesses more successful to use innovation than larger businesses?

**You are operating a bookshop in Mukono town and sales are declining day after day.**

a) Prepare a business card to advertise your business.

b) Prepare policy guidelines to improve the innovative levels of your employees.

<b>MK BOOKSHOP P.O. BOX 204 MUKONO</b>
<p><b>POLICY GUIDELINES FOR IMPROVING INNOVATIVE LEVELS OF EMPLOYEES FOR THE YEAR 2015.</b></p> <ul style="list-style-type: none"><li>✓ Each work of the bookshop shall always be opportunity oriented by believing what she/he can find a new way of solving a problem or situation.</li><li>✓ Each worker shall have a compelling vision or learn to forecast or see ahead.</li><li>✓ A bookshop worker shall be extra ordinarily persistent in all situations at all times.</li><li>✓ Each bookshop worker shall only be associated with positive thinkers.</li><li>✓ Each worker of the bookshop shall be a trend setter.</li><li>✓ Each worker shall be a learner</li><li>✓ Each worker shall be fast in thinking</li></ul>

## Questions

- Describe the various type/ forms of innovations in businesses
- Discuss the characteristics/ attributes of innovative people in your country
- Suggest ways or measures of promoting/ fastening innovation in small business
- Explain qualities that make small scale firms more successful in innovations compared to large scale firms or businesses.

## THE CONCEPT OF ENTREPRENEURIAL MOTIVATION

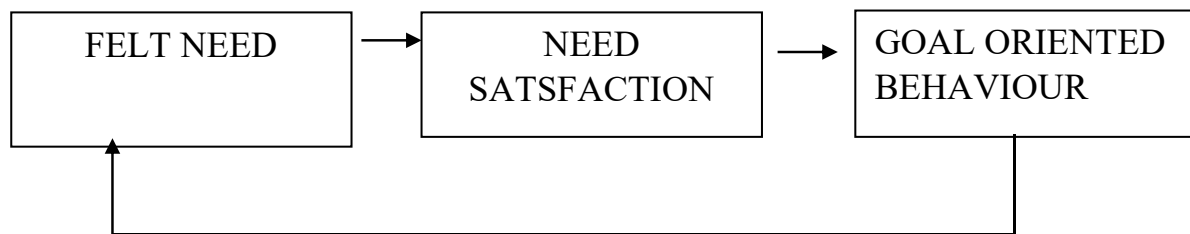
This is a strong desire, impulses, dedication and drive of individuals to accomplish a specific business goal. It results from the desire to accomplish some psychological needs of recognition, responsibility, esteem and participation. It is a dynamic force and as such, it changes with time and space.

## MOTIVATION

This is an inner state that activates or moves the intervening variables which are not directly observable and in turn influence individual's behaviors. The variables include internal variables and psychological processes

Motivation consists of all those inner striving conditions described as wishes, desires, drives, needs and impulses. It is concerned with how behavior get started energized sustained, directed stocked and what type of subjective reaction is present in the organisation while all this is going on

### The motivational process



**Felt need.** This involves determining what you want to be motivated to do or accomplish. This is a specific goal in a very specific area of your life.

**Satisfying the need** by removing one's distractions so that he stays motivated.

**Developing goal – oriented behaviour.** These are the things one needs to do, like read his goals each morning. This part helps to break up the task up into manageable and convenient sized pieces.

### Classical concepts of entrepreneurial motivation

This refers to the altitude which strongly influenced by and they cannot be really accounted.

**Power motives.** Is the ability to acquire others to behave in a way that suits others e.g. an infant a great deal of power.

**Competence motive.** This is the interest in getting to know what the world is like to be able to make things happen to create even rather than merely waiting for the possible e.g. in adults the competence motive is a desire for job mostly and professional endurance for affiliation motives.

**Affiliation motives.** This is a desire to be with other people regardless of whether nothing that the country has against people seeks to gain some kind of interpersonal reward which others met out such as money favour.

Entrepreneur is action oriented highly motivated individuals who take risks to achieve goals that are referred to as being achievements motivate. They assume responsibilities for work; therefore the government motivates them in achievement motivated. They assume responsibility for work therefore government motivate them in achieving their goals through;

- ✓ Providing good infrastructures.
- ✓ A providing conducive environment that facilitate entrepreneurial activities.
- ✓ Reliable utility supply such as water.
- ✓ Recognition of the utility.
- ✓ Providing investable
- ✓ Putting of laws that protect them.

**Achievement Motivation** This is the intensive urge to excel and do something unique. The people with strong need to achieve have an intensive desire for success. They want to be challenged so they set moderately difficult but not impossible goes for themselves take realistic **risks** and prefer to assume personal responsibility to get the job done.

#### **Characteristics of achievement motivation**

- ✓ Formulating of a concert goal to be achieved. Goals that are formulated is in such a way that stretches one's ability and efforts.
- ✓ Goals set are not impossible or too difficult but are not too easy to be achieved.
- ✓ Develop a strong internal commitment or involvement with a goal.
- ✓ Taking personal responsibility for the outcome.
- ✓ Analyzing the environment to create opportunities for achievement rather than passively waiting for chances to come one way. That is one is able to see possibilities and opportunities in addition to the problem.
- ✓ Experimenting with novels activity to reach the goal. This is through anticipating possibilities of success rather than failure and doing something about obstacles which can cause failure.
- ✓ Seeking help from experts rather than from friends i.e. overcome both external blocks and internal or personal limitation.
- ✓ Delivering maximum satisfaction from achievement i.e. self and less from other factors like recognition and money.
- ✓ Experiencing positive feelings of joy and satisfaction in achieving moderately challenging goals and disappointment but not self-condemnation in failure.
- ✓ Learning from feedback through analyzing whether the right methods were employed or changes should be carried out.

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

Successful entrepreneurs have a positive mental attitude which motivates them to focus on desired activities and results they hope to achieve

Motivation and having a positive mental attitude takes time to develop. The factors that help potential entrepreneurs develop a positive mental attitude include

- ☞ Work for long hours
- ☞ They set moderately difficult but impossible goals for themselves
- ☞ They have an intense desire for success
- ☞ They experiment with novel activities to reach set goals
- ☞ They seek help from experts rather than friends to overcome both internal blocks as well as internal or personal intentions
- ☞ They anticipate possibilities of success and failure and do something about the obstacles which can cause failure
- ☞ They analyse the environment to create opportunities for achievement, rather than passively waiting for chances to come their way
- ☞ They derive maximum satisfaction from the achievement itself and less from other factors like money and recognition
- ☞ They experience positive feelings of joy and satisfaction in achieving disappointment but not condemnation in the failure
- ☞ Learning from feedback, analyzing whether the goal set was too high to be realistically attainable or whether right methods were employed or changes are required

## **Benefits of Motivation (advantages of achievement motivation)**

An entrepreneur who has a high level of achievement motivation has a greater chance of success it has the following advantages:

- ✓ Increasing self-confidence of a person, who has achieved success, hence is able to set more challenging goals.
- ✓ Producing high performance or results i.e. person who has obtained success use the same experience to deal with any future challenge.
- ✓ It enables the entrepreneur to use of environment profitably, and plan how to attain more success.
- ✓ Motivates entrepreneurs to take carefully calculate risks; this reduces wastage and produce high chances of success.
- ✓ It creates much interest into the person to develop concrete measures of how he/she is performing.
- ✓ It leads to better utilization of the available resources in order to achieve greater success.

## **Challenges of Motivation**

Achievement motivation is an urge to excel, to compete and does something unique that it must be associated with constant pressure and stress which may lead to high anxiety regarding performance resulting in fear or failure hence the challenges include:

- ✓ Setting goals that are too low to ensure success.
- ✓ It is associated with constant pressure and stress; this is because achievement motivation argues a person to do something unique.

- ✓ It leads to high level of fear for failure which in most cases makes one not even to do anything.
- ✓ Setting goals that are too high which might fail i.e. some entrepreneurs have the urge to excel or to set goals that are not easily achievable.
- ✓ Thinking of weakness and problems in the environment only i.e. one does not think of the available strength and opportunity.
- ✓ The challenges of obtaining the right input to work with to ensure success

## **FACTORS WHICH HINDER ENTREPRENEURIAL MOTIVATION**

Entrepreneurial motivation can be hindered by certain social, political, economical and cultural factors

- ☞ Inadequate education orientation, limited entrepreneurial experience and market opportunities. Individuals do not have enough knowledge and skills to handle or deal with some entrepreneurial activities, this may demotivate them from going ahead with entrepreneurship
- ☞ Unfriendly economic environment in terms of high interest rates of loans, absence of lending/funding organisation, this demotivates individuals to access money from financial institutions to carry out investments.
- ☞ Inadequate provision of physical economic infrastructures like reliable roads, water, electricity and machinery in a given geographical setting.
- ☞ Some social-cultural beliefs in that society acts as a barrier to entrepreneurial development, for instance a belief that certain roles are for particular social, gender or ethical category, like in the past we would lose female entrepreneurs as they were always taken to be weak sex that cannot get involved in business.
- ☞ Political systems which discourage individuals' freedom, free market economy and private enterprises may also hinder entrepreneurial motivation. Policies that contradict with individual motives and the desire to excel hinder motivation
- ☞ A society which doesn't encourage or facilitate entrepreneurial spirit and the urge to excel can hinder motivation.
- ☞ Great risk, developing countries have many risks due to inadequate information and narrow market for goods.
- ☞ Psychological factors like high need for affiliation conformity and compliance to rules and regulation, and need for security, all this hinder entrepreneurial drive e.g a politically unstable environment discourage people from investing since one would wish to lose his /her money by investing in a politically unstable environment.
- ☞ Non availability of labour and skills, though there is abundant labour supply, there is generally scarcity of skills at all levels.

## **WAYS TO FOSTER ENTREPRENEURIAL MOTIVATION**

- ☞ Networking with successful entrepreneurs to acquire their thinking and characteristics.
- ☞ Having faith in oneself, success comes to those who use their talents and abilities
- ☞ Being result oriented, focus on specific problems and once you have reached a decision take action to solve the problem

- ☞ Taking advantage of opportunities to improve your situation whether it is your personal life, work or life in the community
- ☞ Having working objectives that are achievable and have the impact
- ☞ Identifying successful entrepreneur to be your role model and mentors
- ☞ Having a positive mental attitude necessary for achieving success
- ☞ Avoiding negative thoughts on ideas
- ☞ Involving in positive activities

## **WAYS FOR DEVELOPING ENTREPRENEURIAL HABITS**

- ☞ Starting work earlier than usual, this becomes a habit if repeatedly done
- ☞ Planning the next day's activities before sleeping is done. After some time an entrepreneur will be motivated to continue doing it on a regular basis
- ☞ Having positive mental attitude, entrepreneurs have a positive outlook on life and find satisfaction in work and are proud of job accomplishments
- ☞ Setting aside a certain time each day for reflective thinking
- ☞ Being mentally highly organized and being able to focus on a variety of problems. This involves being motivated and dedicated in doing work

QN

- 1a) how can entrepreneurial motivation be fostered
- b) Describe the various ways of developing entrepreneurial habits
- 2a) Explain the advantages and disadvantages of achievement motivation
- b) Describe the factors that hinder entrepreneurial motivation
- 3a) Discuss the classical concepts of entrepreneurial motivation
- b) Explain the behavioral characteristics associated with a strong need for achievement

## **COPING WITH CHANGE**

Change is to give a completely different form or appearance to an object. Change in an organization is inevitable. It involves transforming an object into a completely different one.

### **Types of change**

**DEVELOPMENTAL CHANGE.** This occurs when a company makes an improvement on their current business. If a company decides to improve their processes, methods, performance standards, this is referred to as developmental change. Companies are continually processing developmental change in order to stay competitive

### **Characteristics of developmental change**

- The company improves on its processes, methods or performance standards.
- Development appears gradually with little stress.
- Employees acquire new skills in order to manage the developments.
- It does not mean necessary the company changing its goals but to improve on the processes so as to achieve them.

### **Examples of developmental change**

- Improving existing billing and reporting methods
- Updating payroll procedures

- Refocusing marketing strategies and advertising process

**TRANSITIONAL CHANGE.** This type of change involves replacing existing processes or procedures with something that is completely new to the company. It involves dismantling of the old processes and include, corporate re-organisation, merger, acquisition, creating new products or services and implementing new technology.

NB. Transitional change may not require insignificant shift in culture or behavior but it is more challenging to implement than developmental change.

Transitional period this is a period when the old process is being dismantled and the new process is being implemented.

#### **Characteristics of Transitional change**

- The old processes are completely replaced with new ones.
- There is a significant shift in the behavior of the employees.
- The company develops new products and services.
- The company destiny or future is unknown.
- Employee's level of engagement in the new procedures is increased

**TRANSFORMATIONAL CHANGE.** This type of change occurs after transitional change. It involves making drastic transformation in the business rather than methodologically implementing new process. Transformational change may involve both developmental and transitional change where the businesses recognize that they need to over haul (the act of drawing something) the way they do business.

#### **Example of transformational change**

- Implementing major strategic and cultural changes
- Adopting radically different technologies
- Making significant operating changes to meet new supply and demand

#### **Characteristics of transformational change**

- Top management is prepared to involve employees in transition.
  - There is complete change in the methods of production.
  - There is a complete change in the vision, mission and objectives of the company.
  - Companies are faced with an expectant competition arising from existing companies.
  - Employees look for an ideal situation for placing themselves in a new change i.e. undertaking training.
3. Social change, refers to modification of established relationships in the business by influencing workers to achieve set goals of the business eg empowering workers , introducing team work etc
  4. Planned change, refers to change that occurs when leaders/management of the business deliberately plan to bring changes and take action to bring the desired changes
  5. Radical change, refers to the process by which a business regains its competitive advantage after it has lost it
  6. Strategic change, refers to change that involves long term planning for the business while adopting a strong external orientation

Remedial change, refers to that change made by a business to address or correct a particular undesirable situation which needs immediate attention

### **FACTORS THAT BRING ABOUT CHANGE IN THE BUSINESS**

- 1. Efficiency:** This is the ability of the business to achieve its objectives within the shortest time possible without losing quality and wasting any other raw materials. A successful manager would therefore develop business methods that are efficient in utilizing the available resources.
- 2. Environmental change:** With increasing pollution resulting from industrialization and excessive exploitation of natural resources, managers and academicians are now showing great interest in the area of change.
- 3. Social changes:** These are behavioral changes that can be brought about by growth in population which results into change of needs of the community and various development aspects; hence an entrepreneur must make changes that satisfy the growing needs of the society.
- 4. Competition:** This includes those businesses that sell similar products or give similar services as well and they compete for the same customers, therefore companies must be considered as competitors because the products produced and put on market are similar and target the same customers.
- 5. Change of technology:** Technology is constantly changing the demand of consumers hence businesses need new technological developments to produce new products and services.
- 6. Change of Desires:** Entrepreneurs use their altitudes to control conditions hence opposite mental altitude helps to focus on desired activities and events that result into better use of available resources.
- 7. Government directives:** Sometime governments issue policy statements which cause entrepreneurs to develop enterprises that meet the identified needs of the economy e.g. government of Uganda directing schools and students take all sciences compulsory.

### **FACTORS THAT INFLUENCE DECISION MAKING**

- ✓ **Nature of situation:** The situations that require a decision to be taken affect the kind of decision an entrepreneur can make, e.g. breakdown of machines may require quick a decision in order to meet the customer demand.
- ✓ **Availability of resources:** When resources required to implement decision are already available the process of decision making is easy and faster as opposed to when the resource required are not available.
- ✓ **Environmental factors:** Environment in which the business is located affects any decision to be made e.g. the decision on whether to manufacture plastic will have to be taken after taking into consideration, the impact it will have on the natural environment and the people of the community.
- ✓ **The expected benefits from a decision:** For any decision to be made and implemented benefits are assessed i.e. once more benefits, are expected, quick decision is taken than that lose.
- ✓ **The cost involved:** There are ambitions that require heavy investment before any benefit is realized in such a situation, a decision is delayed.
- ✓ **Time pressure:** When the decision to be taken requires time little time, it is undertaken faster than when the situation is relaxed, a slow and careful pace is undertaken.



## **CRITICAL FACTORS TO BE CONSIDERED IN PLANNING FOR CHANGE IN SMALL BUSINESSES.**

1. **Capital:** Capital becoming very expensive to obtain overtime by many small businesses.
2. **Raw materials:** This is becoming increasingly expensive and difficult to obtain due to difficulties in transport and misuse of the available raw materials among others; therefore, small firms resort to holding large quantities of raw materials.
3. **Labour:** Labour is abundant to small firms but skills in business management is lacking; hence many firms opting to use capital then labour.
4. **Technology:** every firm is having a future in technology, however, it is becoming expensive; this is due to changes in taste of customers.
5. **Markets:** markets are based on products which customers demand. Hence there is need to change enterprise's markets as competition grows stiff.
6. **Government regulations of business activity:** Due to the increasing demand for economic development and self-sustenance, officials are struggling to keep the country in the economic process.
7. **Behavior of entrepreneurs,** with the changing demand for goods and services entrepreneurs are struggling to offer quality goods and services with emphasize of professionalism.
8. **Life styles,** consumers' life style is changing towards quality at less cost as many copy the western way of living, forcing entrepreneurs to go western than local.
9. **Nature of Management.** Entrepreneurs will have to exhibit greater professionalism and foresight if they are to guide the small sector through the period of economic scarcity which is now in the underway.

### **Importance of change**

- ✓ It helps the enterprise to adopt new technology; this increases the ability of the enterprise to increase productivity and growth.
- ✓ It helps the organization to respond to customer's needs, as satisfied customers are able to bring in more income and at the same time it contributes to the growth of an enterprise.
- ✓ It helps employees to get new skills and knowledge i.e. for change to occur employees must adopt it by learning new skills and exploiting new opportunities to exercise creativity in the new way.
- ✓ It determines the direction of the organization. That is to say with increasing demand for products and services; it mean that a company must consider expansion that might involve addition of new staff and new facilities.
- ✓ It is used to change the status quo i.e. change is used to develop new ideas and innovations that directly impact and benefit the enterprise.
- ✓ Change helps the organization to achieve production of new goods and services e.g. the transformational change which leads to complete dismantle of the old processes which are inefficient and replaced with efficient modern method of production.
- ✓ Change is used as a tool to out compete other business e.g. change in the product line, change in the marketing strategies, change in customer care etc.

## **Disadvantages of change in a business**

- ✓ It may sometimes result into unemployment of some workers when they are replaced by few machines adopted by the business.
- ✓ It may result into over reliance on computers, information technology and information support systems which sometimes break down. This may cause disruption of business activities.
- ✓ It may cause inconveniences to both workers and the business due to relocation of industries and workers. This may cause resentments from both workers and the community around.
- ✓ It leads to increased complexity of the methods of production. This may become expensive to the business due to increased costs of buying the technology, maintaining it and training the workers to use it.
- ✓ It may reduce the market share of the business when the change is caused by entry of a new competitor into the market area of the business or movement of the target population to other areas, which in turn reduces the profits of the business.
- ✓ It may result into pollution of the environment due to industrialization and the exploitation of resources like trees minerals etc
- ✓ It may result into wastage of resources. For example, change in technology may force business to purchase new technology that they may not really be needed.

## **REASONS WHY PEOPLE RESIST CHANGE**

It is not common to find that change is totally accepted by everyone. This is partly due to the following

- ✓ Change benefits some people while it hurts others. That is why people resist it especially when change is seen as damaging in some way.
- ✓ Change sometimes is very expensive i.e. many changes require financial investment in the short run or it may be in the best interest of the few.
- ✓ Not being consulted. If people are not allowed to be part of the change there is less resistance.
- ✓ Some people resist change because they feel they are not capable of handling it, this may be the result of the general lack of self-confidence.
- ✓ Some people resist change because they feel they are not secure, e.g. when a small business seems to be running smoothly, any change may represent a threat of insecurity.
- ✓ Some people take pride of being stubborn and independent; hence they resist change no matter how convincing evidence is in favor of it.
- ✓ Some individuals resist change because they were not consulted before; hence they look at it as being undermining their efforts.
- ✓ It is because some people may lose their status in an organization, e.g. a change that involves merging department may be resisted because some people lose their status as being heads of departments.
- ✓ Some people resist change because they fear taking on new responsibilities, therefore they resist it to satisfy their personal interest

Indicators of resistance to change in an organisation

- ✓ Low workforce efficiency
- ✓ Grievances about pay
- ✓ Aggression against management
- ✓ Restriction of output
- ✓ Increased absenteeism
- ✓ Expression of feelings of failure
- ✓ Low level of aspiration
- ✓ Expression of feeling of frustration

### **SOME STRATEGIES FOR REDUCING RESISTANCE TO CHANGES IN BUSINESS**

- ✓ Adopting effective communication system so that any change to be made by the business is properly communicated to the workers. It should be made clear that changes are not going to affect their interests.
- ✓ Involving the majority of workers in deciding to make the changes. The business should invite the opinions of and suggestions of the workers before the changes are finally made so as to make them feel that they part of the changes.
- ✓ Carrying out changes that are necessary for the business. The business owner needs to carry out changes that are inevitable. This will reduce the possibility of resistance from workers.
- ✓ Planning how to make the changes. The entrepreneur should make pre-determined plan with clear objectives for making changes. This move will reduce resistance from workers.
- ✓ Conducting research on the most appropriate way of introducing new changes. This helps the owner to discover early ways of minimising resistance from workers.
- ✓ Building support networks.
- ✓ Using managerial authority and status
- ✓ Offering assistance to those involved
- ✓ Offering extra incentives
- ✓ Encouraging and supporting those involved.

### **NOTE**

Expecting resistance to change and planning it from the start of your management programme will allow you to effectively manage objections. Not dealing proactively is one pit-fall but there are many other common mistakes

### **TECHNIQUES FOR COPING WITH CHANGE**

By knowing the reasons for resisting change, we can better understand what attitudes can counteract this resistance and help entrepreneurs cope with change more effectively and in a positive manner or way.

**The following for basic decision making process can be applied to coping with change**

**Understanding the situation.** This involves understanding what the driving and restraining forces are whether they will be increasing or decreasing and how that is going to affect the business in the short and long term.

**Defining the problem.** The problem might be defined as a need to take some kind of action now that will have one of the effects below

- Prevent the new market area from eventually destroying the business
- reduce the negative impact of the market area as much as possible

**Finding alternatives.** Here you need to make research to see that you identify other alternatives that may be substituted with the identified ones.

**Final selection/ selecting plan.** Once all the alternatives have been spelled out and the impact, and the potential of each has been analyzed, it is time to select the best action that best fits your goals and objectives, limitation and continue.

### ***Techniques / ways to foster change in business***

Below are some of the tips for managing the complex and difficult change process in business.

- ✓ Rewarding success. Simple acknowledgement or thanks for what someone has done well may make a lot of difference in the attitude of employees regarding change.
- ✓ Giving explanation. There should be formal or informal meetings in which leaders can explain why the change is taking place, the potential impacts of the change and the goals related to the change. Such explanations, when done in an open forum, give the impression that all members of the group are valued equally, which creates a sense of unity. This sense of unity may help the group turn toward the change of a common purpose.
- ✓ Training. Providing adequate training lets individuals meet the challenges the change requires and eliminates the excuse that the change cannot be implemented for lack of knowledge or preparedness.
- ✓ Encouraging feedback on progress. People may be more likely to accept change if they have a chance to tell leaders their thoughts and concerns. Feedback also gives administrators a chance to monitor progress and determine whether action plans related to the change are working properly.
- ✓ Managing resistance. This involves preparing yourself for anything anyone might do in order to stop the change. For example, you might set up a policies and procedures manual that clearly states what the consequences of not following the changes are. Another resistance management option is to place strong leaders who are accepting of changes as project managers.
- ✓ Assessing readiness. These measure how prepared employees and administrators are to handle modifications. These assessments may include evaluations of inventory or other resources, but they may also include interviews with employees and administrators in analyze what is needed to accommodate the change.

## **FUTURE / EXPECTED CHANGES IN SMALL BUSINESS**

- Capital may be more difficult and expensive to obtain and might become unavailable to many businesses.
- Raw materials will become increasingly costly and difficult to obtain and smaller firms will have to switch to other substitutes.
- Abundant labour will be substituted for source capital in business operations.
- Technology will become more important to small business in the future but capital and energy constraints may hinder the flow of new technology.
- Markets based on products that consume large amounts of costly resources will decline while those which conserve resources will develop.
- Government regulations are likely to increase as elected officials struggle to keep the country prosperous.
- Entrepreneurs will have to exhibit greater professionalism and foresight if they are to guide the small business sector through a period of economic and scarcity.

### **Sample questions**

- 1 a) explain the benefits of change to an enterprise  
b) Explain reasons why people in an enterprise may resist change  
c) Suggest ways of promoting change in a business
- 2 a) Why is there need for change in a business  
b) What are effects of change in a business?
- 3 a) Explain the critical factors considered for planning for change in small enterprise  
b) What importance of change in business
- 4 a) Explain the causes of fear of change  
b) Suggest ways of encouraging change in a business

## **PERSONAL BRANDING**

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

Personal branding is the process by which individuals and entrepreneurs differentiate themselves and stand out from the crowd by identifying and articulating their unique value proposition.

Or

Personal branding is the process of clarifying and communicating one's unique and differentiating qualities, skills and experience in a compelling way in order to achieve his/her professional or business goal.

It can be also defined as the process of developing a "mark" that is created around one's personal name.

## TYPES OF BRANDS

**Manufacturer brands:** These brands associate the producer with a specific product and the producer will heavily be involved in the promotion of the products e.g. Nets cape coffee, blue band etc

**Own- label brands:** These are brands owned and controlled by retailers and therefore products are not associated with the products or involved in their promotion.

**Commodity / product brands:** Products become branded products when you win awareness in the market place that your product has compelling characteristics that make it different and better than others in product category.

**Service:** These are intangible items sold by a business to satisfy human needs .These branded are sold entirely based on the trust that the seller will deliver the brand as promised eg Airtime, electricity , start times, and Gotv subscriptions .

**Business brands:** This is a brand name or image given to a business itself.

**Personal brands:** These are brands that endorse one's own personality .Every individual has brand recognition, your name and face recognition becomes your brand image in the minds of people.

Personality brands endorse individuals' people who are very influential .g. Oprah Winfrey

## PROCEDURES / STEPS FOLLOWED /GUIDELINES IN CREATING A PERSONAL BRAND.

**Determine who you are:** one's personal brand emerges from the search for identify and meaning, out of which comes an awareness of personal strengths and talents. Since personal brands have direct reflection on the person, to identify our personal brands you must ask, what you do that makes you different, what your greatest strengths and best personal traits are.

**Determine what you do:** this involves writing down one's greatest area of professional interest or passion i.e. the kind of work one wants to do in life, it involves asking, what do I do that adds remarkable, measurable, distinguished and distinctive value? Personal branding means understanding what one's values are and learning to make these values relevant to other people

**Position yourself:** by identifying the qualities that make a person distinctive from his competition and can create a position for himself. What have I done to make myself stand out? What are my greatest and clearest strength? Everything that a person does or chooses not to do communicate the value and character of the brand, The aim of every personal brand is to be clear, distinctive, easily understood and to express a unique, compelling benefit that people believe in.

**Manage your brand:** the key to any personal branding campaign is “word-of-mouth marketing” the network of friends, colleagues, clients and customers is the most important marketing vehicle for a personal brand what they say about the brand is what the market will ultimately gauge as the value of the brand

Note.

Personal branding will develop as people feel the need to be heard and to be able to position themselves in a world of increasing competition. Where one is just like another in terms of skill and experience, it will be the personal brand that will act as the differentiation.

### **Guidelines for creating an effective personal brand**

Big companies understand the importance of brands. Today, in the age of the individual, you may have to be your own brand, regardless of age, position or the business we happen to be in, all of us need to understand the importance of branding. Below are eight laws that should help you create an effective and lucrative personal brand.

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

### **IMPORTANCE OF DEVELOPING A PERSONAL BRANDING**

#### **To the producer**

- It helps to speak volumes about your company and it builds a reputation for your business amongst your customers.
- It helps in implementing new business plans with clients and customers as you already have a reference point for your brand.

- It is easy to advertise the product. The brand of the seller makes it easy for its products to compete with already established brands in the market thus enabling the business to build brand loyalty among the customers.
- It helps to add perceived value to the product the seller is selling and this can allow the business to sell at higher prices to the loyal customers.
- It helps to attract the right customers and opportunities because it makes it easy to identify the products.
- It associates one with a product or service one is dealing in and this makes the seller to continuously plan how to better than the rivals.
- It positions the entrepreneurs focussed message in the minds of the target customers resulting in continued purchases.
- It increases authority and credibility of the decisions made by both by the producer and the customers to maintain the brand.
- It helps in maintaining high quality. An effective and appropriate branding strategy signals the promise of the brand and this motivates the seller to maintain high quality in order to attract brand loyalty.
- It helps one to raise his/her brand visibility since the customers are willing to pay a higher price after getting used to the brand.

#### **Advantages of personal branding to the customers.**

- It makes it easy for the customer to recognise the products of the producer and this helps to save time for looking for the products to buy.
- It enables the customers to enjoy high quality goods and services because the producer always keeps improving the quality of such products so to retain or attract new customers.
- It provides mental satisfaction in the minds of the customers that they are using high quality products and paying reasonable prices for them.
- It allows for improved packing of the products in an attractive, convenient and durable way which makes it easy to carry and store such products.
- It enables a customer to enjoy stable prices since branded products have standard prices.

## **NEGOTIATION SKILLS IN BUSINESS**

This is the process of bargaining that precedes an agreement. It is a meeting between two or more parties with an intension of creating an agreement or compromise on issues that is of mutual interest.

The aim of negotiation is to reach an agreement rather than to achieve victory

Negotiation originated from a Latin expression negotiates which means to carry on with business. Therefore negotiation can also be defined as a process of discussion between two or more parties who seek to find a solution to a common problem i.e. one that meets their needs and interests.

### **The needs for negotiation**

There are reasons to why individuals negotiate these include;

- ✓ To reach an agreement i.e. normally people negotiate in order to reach conclusions and this helps to avoid bias.
- ✓ To beat the opposition, when two parties negotiate there is always a winner who emerges the best.



- ✓ To compromise, that is negotiation helps people to appreciate what the others party is up to.
- ✓ To settle an agreement, i.e. one of the ways to help some understand is when the two parties negotiate and then they settle after agreeing by writing an agreement

### **NATURE OF NEGOTIATION**

1. Negotiation is a balanced process i.e. both parties are on equal level in terms of information, facts and approach either party can go soft or tough.
2. Negotiation is not finite; moves can go in all direction. This means that there is no determined winning strategy especially when various elements of the situation are not known.
3. Both learners parties anticipates and react, during the process of negotiation resulting in double motivation, different behaviour could be presented in different situation hence an effective negotiation must be accommodative.

### **PRINCIPLES OF NEGOTIATIONS**

- ✓ You don't have to be right to settle in the process of negotiation, that is to say emotions arising from the feeling that one is right to have no space hence when either party wants to hear its right, obsessed with the principle then negotiation is likely to fail.
- ✓ Look to the future, there is no need to base mainly on what took place in the past but looking for how the current issue can be settled.
- ✓ Focus on the goal i.e. one should be very specific on what he/she wants by one asking him/herself what is the purpose of this negotiations.
- ✓ Set the tone and look the part, i.e. therefore there is need for one to create interest in what the other party is presenting by being knowledgeable about the issue being discussed, maintaining eye contact and a good listener.
- ✓ Be prepared and do your research, negotiation required a lot of knowledge and skills about what is being negotiated hence if one is not prepared for It, will cause the negotiation to delay which is not good.
- ✓ Know what you want and what the other side wants before you go into negotiation, it is important to plan on what to give up and what not to give up.
- ✓ Always have plan B, it is always important to have the second alternative so that negotiation becomes flexible and the goal counted is always achieved easily

### **PERSONAL ATTRIBUTES OF GOOD NEGOTIATORS**

**Integrity.** A negotiator must be honest, as honesty builds mutual trust and co-operation that is crucial in bringing about free and open exchange of idea

**Empathy.** This is the ability to understand the other party's point of view. This can be used and manipulated to one's advantage in negotiation

**Patience.** This is the calm endurance of the prevailing state of affairs. It makes a person able to accommodate another person's views in negotiation

**Self-assurance.** This is the freedom from doubt or belief in oneself and abilities

**Self-confidence.** Good negotiators have confidence in themselves, abilities and judgment to complete a difficult task or situation

**Tenacity.** Negotiators are persistent to something ie they have the determination to continue with some thing

**Stamina.** A good negotiator should have the ability to sustain a negotiation for a long period of time.

**Ingenuity.** Honest negotiators have the ability to invent things or solve problems in clever ways

### **Skills necessary for effective negotiation**

- Listening
- Writing
- Knowledge base
- Being a good communicator
- Controlling emotions
- Occasionally showing angel.

### **Factors that is necessary for the negotiation to succeed**

1. Negotiation should come out with a win -win situation i.e. no party should win of at the expense of the each other.
2. Both parties should feel satisfied with the results, the goal focused on by each party needs to be achieved after negotiation.
3. Upholding emotional/feeling i.e. when anger over rides a person in negotiation the goal may not be easily reached.
4. Negotiation should focus on solving the problem at hand i.e. whatever happened in the past should not surface while negotiating.
5. Using the negotiation styles of the other party to achieve positive outcome, negotiation styles need to be like that of the other party in the negotiation otherwise it may be difficult to achieve the desired goal.
6. Being flexible in demand i.e. some demands need to be given up for the sake of positive results otherwise negotiation may fail to achieve its intended goal.
7. Always being prepared to be compromised i.e. let not all the demands presented be achieved i.e. each party should be flexible in a manner that each party wins.
8. Always asking relevant question and quoting from relevant source of information.

### **Features of negotiation**

- There must be a minimum of two parties.
- There must be pre-determined goals in the negotiation.
- There must be an outcome i.e. the results.
- Resolutions and consensus is reached is written down.
- The two parties must be willing to modify their positions.

### **Elements of negotiation**

Negotiation has three basic elements:

**The Process:** This is the way in which individuals negotiate with each other. The process includes various techniques and strategies employed to negotiate in Oder to reach a solution.

**Behaviour:** This refers to how the two parties respond to each other during the process of negotiation i.e. the way e.g. interact with each other, the way they communicate with each other to make their points dear.

**Subsistence:** This refers to the gender on which individuals negotiate i.e. a topic for negotiation.

## NEGOTIATION PROCESS

Determining the subjects and objectives on negotiation. This involves being clear about what you want to achieve. This is set out by the subject matter and the interests you have in that subject matter. A subject matter sets the scope of the negotiations. The interests determine the outcomes

Preparing/ planning for negotiation. This stage involves preparing the road map to achieve the desired outcome. It develops thinking through the subject matter and arriving at the outcomes

Evolving negotiation strategies. This involves considering different options of handling negotiation to achieve desired goods and objectives and selecting what you think to achieve what you want

Actual negotiation. This involves getting all the necessary documents about the subject matter as you may have gathered during preparations and any other information you want. It also involves going through the documents for final time in preparation for the actual negotiation, if it is a team, you need a final meeting before negotiations start so as to recap what is supposed to happen

## GUIDELINES FOR EFFECTIVE ACTUAL NEGOTIATION

- ✓ Determining your negotiation tactics
- ✓ Creating the right climate
- ✓ Stating the subject matter and objectives of the meeting
- ✓ Depending on the strategy you have selected either state your position or let the other party respond to the opening statement
- ✓ Depending on what strategy you have set out to use to state your interest but put emphasis on commonality
- ✓ Seeking agreement
- ✓ Ending negotiation

## NEGOTIATION TACTICS WITH CUSTOMERS

Communicating frequently with customers, this is in relation to the company products, changes in the company activities etc

**Offering customer rewards.** This involves offering in kind rewards that remind customers of your goods and company. Rewards include price reductions, prizes, and gifts like calendar, T- shirts, shopping bags, umbrellas, and drinks with the company's name or logo is imprinted.

**Holding special events.** This involves holding special company's sponsored events which allow the entrepreneur and his staff to interact with the best customers

**Ensuring that negotiations promote two-way communication.** When it comes to customer relation "listening" can be as important as "telling" use opportunity to

create interaction with customers as well as asking for feedback through appropriate means

**Enhancing your customer service.** It is very important to have a dedicated staff or channel for resolving customers' problems quickly and effectively. Usually customers make choices between goods and services based on perceived (customer experience superior customer service) therefore helps the entrepreneur to build repeated business sales, create positive word of mouth and increase sales from new customers

**Launching multi-cultural program.** They motivate different customers because they use many languages. For example translation of your adverts or use local/ ethnic print and broad cast media to reach markets. Today most businesses have resorted to carrying out adverts in different languages depending on region, like MTN, Airtel, Nile breweries advertise using different languages

**Visiting customers.** This involves occasionally getting out to customer's location so as to understand the challenges they face as well as helping them to meet these challenges.

## **SALARY NEGOTIATION TACTICS WITH EMPLOYEES**

**Setting the ceiling.** This involves the establishing of how much you can spend on salary. Setting a ceiling before starting salary negotiation with employees prevents wasting time on candidates who are too expensive

**Setting the floor.** This involves establishing the last amount you will pay out. This is often the ruling market rate

**Deciding how to make payments.** Here the entrepreneur decides how he will make payments to workers. Payments on hourly basis is best suited for temporary workers while fixed monthly salary is what white collar employees expect. However, both options have different implication

**Making the salary attractive.** The entrepreneur should make the salary attractive in order to get good workers. An entrepreneur should also give a benefit package. This includes giving bonuses and allowances or offering employee stock options especially if a company is growing rapidly

**Avoiding legal tussles.** Before the entrepreneur decides the salary he should know the minimum wage given to employees in order to avoid the labour laws

**Being sensitive.** This involves keeping employees personal needs in mind. Before offering a compensation package for instance when you hire part time employees and there happen to be mothers working in their free time. You need to pay them well enough to afford a day care service

## **CHALLENGES OF NEGOTIATION**

- ✓ Time pressure: Time may be limited to gather all details required for in order to have a balanced negotiation.
- ✓ Influence of another decision maker: An entrepreneur may delegate another employee to negotiate on his or her behalf, this makes it difficult to achieve an agreement easily.
- ✓ The delay tact: Boss always give excuses or keep one waiting for a long time such that a shorter discussion is realized and agreement is reached.
- ✓ Last minute wavering: Towards completion of negotiation one party may bring a new point, forcing negotiator to change on allowed agreed position.
- ✓ An earlier concession: Some negotiators show an earlier agreement and expect the other party to behave in the same way.
- ✓ Aggressive behaviour: Such behaviour include bullying, an attempt to make sarcastic comments during negotiation which makes difficult to reach an agreement.
- ✓ Negotiating the other party problem: Some negotiators have concern for only their problems therefore it requires understanding and addressing problems of the other party.
- ✓ Letting positions over ride interests. Despite the clear advantage of reconciling deeper interest people have a built in bias towards focusing on their own positions instead this leads to a situation or pre-determined results.
- ✓ The linking logic: This is based on the assumption that if a person is correct in one thing he/she must be correct in another. This therefore compromises the outcome of the negotiation.
- ✓ Neglecting the other side's problem, negotiation can be effective when the two parties involved in the process don't take into account of each other problem
- ✓ Price only negotiation. Negotiations who prefer only price of the deal tarnish negotiation. Successful negotiators believe that economics is not everything and thus focus on no price factors such as relationships and interest
- ✓ Language difference, this a situation where the negotiators do not have a common language to use during negotiation process, this hinders effective communication and negotiation

## **WAYS OF OVERCOMING CHALLENGES IN NEGITATION**

- a) Making reference to the previously agreed upon points in order to overcome last minute wavering
- b) Avoiding an early concession to allow enough time to go through the matters under negotiation
- c) Rescheduling the negotiation meeting more so when one realises there is delaying tactic
- d) Focusing on important non price issues that are more important in negotiation such as interest, value relationship etc
- e) Reconciling interests to consider values of all parties involved in negotiation by being accommodative and patient
- f) Communicating with the other party politely, openly and respectfully to avoid showing aggressive behaviour during negotiation
- g) Requesting to discuss matters of negotiating with the final decision maker in case of another decision maker in place
- h) By addressing the other party's problem while negotiating to overcome challenge of neglecting the other party's problem.

## **WAYS OF OVER COMING CHALLENGES IN NEGOTIATION**

1. If the work load is increasing, this can be overcome through / by
  - ✓ Looking for tasks to eliminate.
  - ✓ Reviewing work you could handle yourself.
  - ✓ Reviewing ways of combine similar jobs.
  - ✓ Considering the use of temporary or part time help.
2. If there are problems of turnover (rate at which the workers leave the organisation)
  - ✓ Helping new employees identify with their groups.
  - ✓ Trying to develop stable work force / groups with which members can identify.
  - ✓ Reviewing the status implications in jobs. This means employees seeing equal jobs as higher or lower rated.
3. If the work load is declining  
This can be overcome through / by:-
  - ✓ Working on improving efficiency
  - ✓ Doing housekeeping that has been postponed.
  - ✓ Starting projects that could generate new work.
4. If there is a group of employees who are controlling production
  - ✓ Removing misunderstandings if they are there.
  - ✓ Finding out if it is to a group advantage to slow down.
  - ✓ Finding out dealing with the real problem.
5. If employees are dissatisfied with their pay
  - ✓ Reviewing benchmark Jobs Company with the similar jobs in other enterprises.
  - ✓ Comparing pay with comparable jobs in the area.
  - ✓ Adjusting inequalities if they are any.
  - ✓ Adjusting the assignment.
  - ✓ Communicating on the broad pay issue.
6. If workers are spending too much time on any one job, this can be overcome through.
  - ✓ Reviewing management's objectives and the standards for the job.
  - ✓ Clarifying the degree of perfection needed and why.
  - ✓ Setting specific targets and making follow ups on the.
  - ✓ Asking the group for ideas on cost reduction and work specification.
  - ✓ Re-assessing the group members on the quality of their work.
7. If you go over the budget; deficit. This can be solved through:-
  - ✓ Identifying the sources of increased cost of expenses.
  - ✓ Asking for suggestions on cost reduction and waste control.

## DELEGATION AND RESPONSIBILITY

Entrepreneurs are leaders in the sense that they direct the activities of others to achieve organizational goals. As the leader of the organisation composed of people, they must be willing to delegate authority and responsibility activities to their staff.

Delegation is the assignment of authority and responsibility to a subordinate by a superior to carry out specific tasks. Delegation enables subordinates to make decisions

Delegation is the process of granting authority to subordinates and extracting responsibility from them. It takes place when a superior gives subordinates a right to perform work on his behalf and in his name and the subordinate does it.

It should be noted that however, much authority and responsibility is delegated to the subordinate, the superior still remains accountable for the actions of the subordinate and has ultimate responsibility.

A poor superior will think that delegation is an "abdication" abdication is the dumping of work to subordinates without:

- Classifying the exact work to be done
- Classifying the expected level of performance
- Clarifying the range of the subordinates discretion
- Seeing the time to be taken to complete the work

### **Objectives of Delegation of Authority**

- ✓ To reduce the excessive burden on the superiors i.e., executives and managers functioning at different levels.
- ✓ To provide opportunities of growth and self-development to junior executives.
- ✓ To create a team of experienced and matured managers for the Organization. It acts as a technique of management and human resource development.
- ✓ To improve individual as well as overall efficiency of the Organization

### **Factors necessitating delegation**

**The size of the organisation.** In large organizations, managers/superiors practice more delegation than in relatively smaller organisations this is because:

- The larger the organization, the greater the number of decisions to be made
- Time and information are very scarce

**Importance of decisions.** Importance of the decision refers to

- Cost
- Impact on the future success of the organisation, if the decision is highly important, superiors are less likely to delegate it

**Task complexity.** If a task is technically complicated, superiors will delegate authority for the decision, to subordinates who possess relevant expertise

**Organisational culture.** If a culture of trust exists in the organisation, top superiors will have confidence in subordinates and can easily delegate authority to them

## **Conditions for effective delegation**

A number of conditions differentiate effective delegation. These include

- ✓ Clarity of assignment. once the manager/ superior has selected the individual or group to delegate a task to, then he / she must
  - Provide clear information on what is being delegated
  - Explain the expected results
  - Set the time frame for task completion

In order to foster a spirit of trust between superior and subordinate(s) the subordinate should be capable in deciding how the expected results will be achieved

- ✓ Range of delegation. The superior cannot delegate all authority. The superior must therefore make it possible for the subordinates to understand their range of discretion
- ✓ Informing others. All individuals and selections both within and outside the organisation are affected by the delegated task must be informed about
  - What has been delegated?
  - How much authority has been granted?
  - To whom the authority has been delegated?
- ✓ Establishing feedback channels. The superior must put controls in place so as to stem the possible misuse of discretion and any other problem. From the start controls must best as to
  - When the subordinate will report back for assessment
  - Time of task completion

## **Advantages of delegation**

- ✓ Relieves manager for more challenging jobs: Delegation makes it possible for the managers to distribute their workload to others. Thus, managers are relieved of routine work and they can concentrate on higher functions of management like planning, organizing, controlling, etc.
- ✓ Leads to motivation of subordinates: Subordinates are encouraged to give their best at work when they have authority with responsibility. They take more initiative and interest in the work and are also careful and cautious in their work.
- ✓ Facilitates efficiency and quick actions: Delegation saves time enabling the subordinates to deal with the problems promptly. They can take the decisions quickly within their authority. It is not necessary to go to the superiors for routine matters.
- ✓ Improves employee morale: Delegation raises the morale of subordinates as they are given duties and supporting authority. They feel that they are responsible employees. The attitude and outlook of subordinates towards work assigned becomes more constructive.
- ✓ Develops team spirit: Due to delegation, effective communication develops between the superiors and subordinates. The subordinates are answerable to superiors and the superiors are responsible for the performance of subordinates.
- ✓ Maintains cordial relationships: The superiors trust subordinates and give them necessary authority. The subordinates accept their accountability and this develops cordial superior-subordinate relationships.



- ✓ It acts as a training ground for management development. It gives opportunity to subordinates to learn, to grow and to develop new qualities and skills. It builds up a reservoir of executives, which can be used as and when required.

### **Disadvantages of delegation**

- ✓ It is time consuming as it requires considerable amount of time to train staff to handle delegation tasks
- ✓ There is the effect of low commitment on the side of staff
- ✓ Delegating work reduces the manager's need for their position
- ✓ Risk of inferior results especially where delegation is to staff members who are unfamiliar with the work or who have little experience performing the task
- ✓ Miscommunication of the requirement and other key information to the appropriate staff members poor quality and missed objectives.

### **Why do managers fear to delegate?**

- ✓ Fear of job replacement as the subordinate learn about what they do
- ✓ Fear that their hidden weaknesses may be revealed by subordinates
- ✓ Fear that some subordinates could be spies of other authority or groups
- ✓ Dishonesty of subordinates which may result into terrible losses to the organisation due to embezzlement
- ✓ Selfishness of some bosses who do not want subordinates to know more than expected
- ✓ Incompetence of subordinates
- ✓ Ignorance of managers about why and when to delegate
- ✓ The desire to get self-praise and retain it for good and the urge to cling in power
- ✓ Inadequate materials for effective delegation

### **Why do subordinates fear to be delegated?**

- ✓ Lack of self-confidence, capacity and initiative to handle the tasks given
- ✓ Inadequate information and resources
- ✓ Lack of positive incentives, where there is no personal gain, a subordinate will refuse to be delegated
- ✓ Fear of criticism. A subordinate who fears to commit a mistake and who doesn't accept criticisms will not tolerate delegation
- ✓ Dependence on the superior. Subordinates who duped on their superiors to take decision will not accept to be delegated

**END**

# COMMUNICATION SKILLS

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Communication refers to the process of exchanging information between the sender and receiver. It is how we transmit thoughts, feelings, knowledge and ideas from one person to another.

Communication requires a sender, a message and a recipient, although the receiver doesn't have to be present or aware of the sender's intent to communicate at the time of communication, thus communication can occur across vast distance in time and space.

## **Communication process / cycle**

Refers to the whole process of communication from the origin up to conceptualizing and the response of the intended message by the right person. The communication cycle is not complete before feedback even if the message reached the intended recipient

Communication flows in different directions depending on who is sending it

- Downward communication that flows from top to bottom, for instance from managers down to subordinates

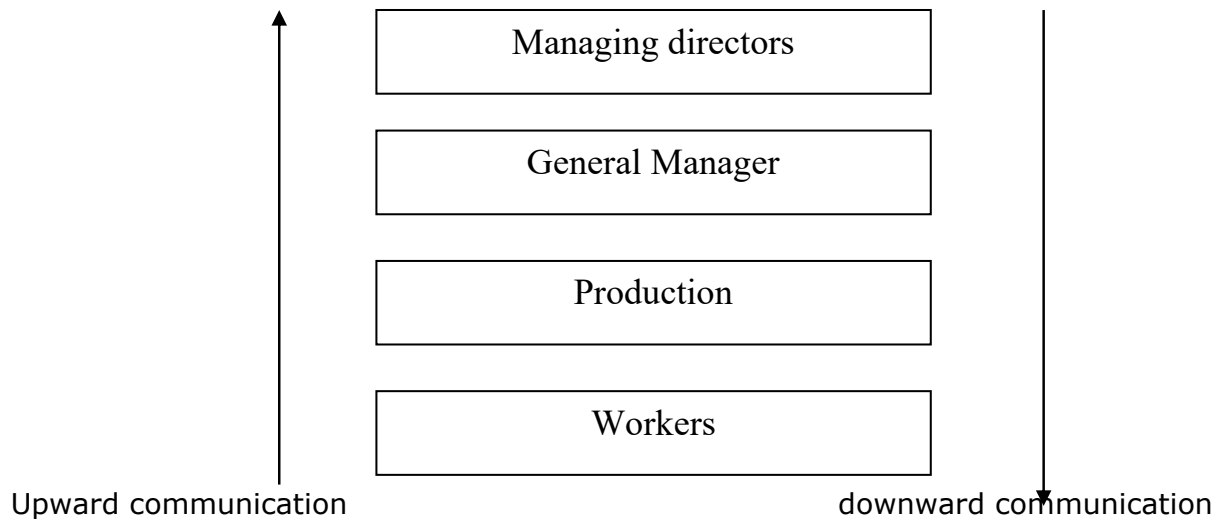
## **Media involved in downward communication.**

- ✓ Meetings are used to transmit orders, instructions, information, policies etc to employees.
- ✓ Notices used to pass short message which concern a number of people. It is normally put on the notice board for whoever is concerned to read.
- ✓ Letter used to pass special information to employees e.g appointment letters, promotions, dismissals etc.
- ✓ Company news letter's (periodical) for passing information on the puts, activities, performance, policies, employees of an organisation.
- ✓ Hand book or pamphlets used to pass information such as procedures, standing orders, policies and others to both outsiders and insiders.
- ✓ Annual reports used to convey the summary of organisation performance and position to shareholders and other interested policies.
- Upward communication that flows from bottom to top, for instance from subordinates to supervisors

## **Media for upward communication.**

- ✓ Suggestion box where employees are encouraged to write their complaints, suggestions and drop in box
- ✓ Social gathering where employees interact in free informal atmosphere and share their problems.
- ✓ Open policy where the management encourages subordinates to issue to his / her without fear.
- ✓ Direct correspondence where employees write to the management addressing issues at hand.
- Horizontal and diagonal communication takes place between different functional departments of the organisation.

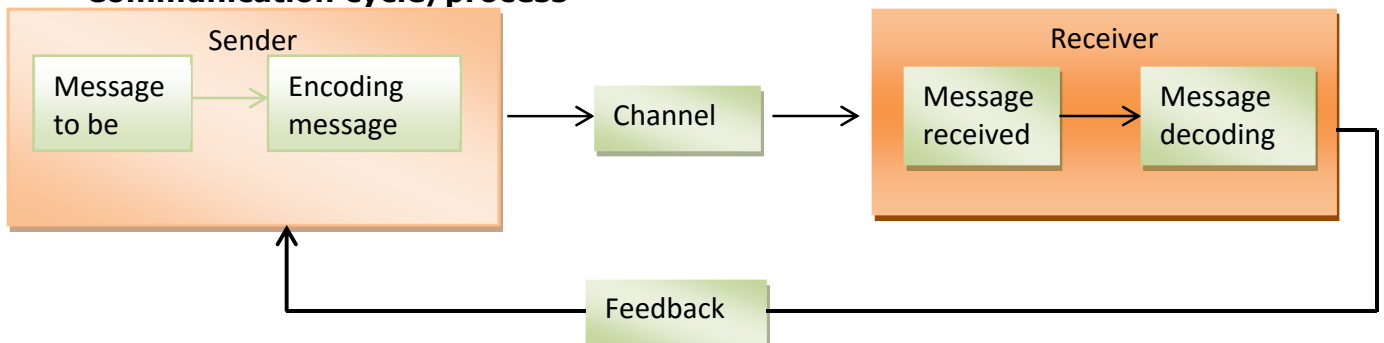
## Flow of communication



## Components of communication

- Sender
- Environment
- Medium
- Receiver
- Message
- Timing

## Communication cycle/process



**Sender** is the source of the message. The sender is the one who initiates the thought and communicates it.

**Message.** The message is the form in which the sender encodes the information he wants to send. It may be in any form that can be experienced and understood by the receiver using any of the five senses. The message may be oral where by it is heard, it may be written and read by the receiver, it may be felt by touch, it may be seen or it may be tasted.

**Encoding.** This is when the sender translates the idea into symbols to represents something. The sender encodes the message inform of words or gestures that he believes have the same meaning and convey the same meaning that will convey the same meaning to the receiver.

**Medium or channel.** This is the method of transmission of the message from the sender to receiver. It is usually inseparable from the message. The medium include paper for written, phone, cameras and video equipment for visual message.

**Receiver.** This is the person who receives the message. This is the person for whom the message is intended. The receiver may be one or more than one person.

**Decoding.** This is the process by which the receiver interprets the message and translates it into meaningful information. It is a two-step process involving, perceiving and then interpreting it. E.g if it is an oral, the receiver should be able to hear, if it is written, the receiver should be able to read and interpret as well as understanding the information.

**Feedback** is the reversal of the communication process, in which a reaction of the sender's message is expressed. It may be in any form e.g words, written etc. the feedback is very crucial in the communication process since it is ever being waited by the sender otherwise the cycle would be incomplete without the feed back.

### **Communication in organisation**

Communication plays very important and central role in the management of an organisation. It coordinates the activities of an organisation. Through this instructions are passed on / disseminated and feedback / results are received. Information about policies and guidelines are passed on.

Information flows throughout the organization via the route / channel, these may either be formal or informal

**Formal channels.** These are official channels laid out the organizational policy. They specify how information should flow from which direction to what direction

- a) **Down ward**, here information flows from the top ranks to the lower ranks. It comes in form of instructions, policy statements, guidelines, information and channeled by tools like company policy documents, bulletins, newsletters etc
- b) **Upwards channel**, here information flows from the lower ranks to the top management. It goes in form of reports from tasks assigned, progress, grievances and complaints etc.
- c) **Horizontal channel**, this is communication between and among people of the same rank e.g managers, supervisors, team leaders respectively

The management is that people at the same rank need to meet regularly and share notes and experiences usually they have shared solutions. It will go a long in not only creating mutual relationships among members of organisation but will also assist management in arriving at solutions that have been well tested.

### **Informal channel**

- a) **Informal but official**, here the information is passed over in an informal way. For example someone can warn someone about the job and this is done

without putting it in writing, even someone can be given job without writing application letter. So all the above are done informally but official

**b) Grape vine channel**, this develops out of a situation where the official channels are either non-existence or blocked. This creates a communication gap which must be filled. Members of the organisation if not given information in time, explain unclear circumstances would naturally be tempted to fill the gap using rumours, which may be true or false. The argument is always communicated when there is a need to, otherwise damaging rumours may begin to circulate on the other hand management may use grape vine channel in order to offset impending crisis or to read the minds of the members.

**c) By pass**, this is a situation where management decides to bypass certain levels in the hierarchy, usually middlemen tend to restrict or even block the flow of information may be quite essential to the achievement from the objectives of the organisation.

### **Choice of a medium of communication / factors considered when choosing a communication channel/ medium of communication**

It is important to note that before transmission can be made. There is need to choose appropriate medium. This choice can be governed by several factors

- ❖ The language to be used in the message. The message should be in the language which is used by the receiver and can easily understand it.
- ❖ The nature of the message to be communicated. Letters are more effective for detailed messages while brief messages can be sent through faxes, e-mails and telegrams.
- ❖ Speed and urgency of the message. Urgent message information is sent using a faster medium like telephone, telegram, fax and e-mail while letters and press take long to reach.
- ❖ The coverage of the medium. For message to be conveyed for a wide area, newspapers, radio and TV are more appropriate, the message that is intended for individuals in some areas like trading centers, notices or posters are more appropriate.
- ❖ The cost of the communication channel is considered (how costly it is) e.g use of telephone, mega phone. The entrepreneur will choose the cost effective channels.
- ❖ The social and education status of the people one wants to communicate to. For the message intended for the ordinary people who are poor and not educated their message is conveyed through radio or poster, for the wealth and elite class, internet, faxes are more appropriate.
- ❖ Availability of the communication medium. The medium that is available should be used compared to those which are non-existent.
- ❖ Secrecy and confidential of the message. Confidential information can be sent through letters since they are personal compared to other means like newspapers, radios and television.
- ❖ The age group of the recipient. Information to teenagers and youth can best be communicated through magazines, television videos and internet as these mostly

appeal to this age group. On the other hand, messages for the adults (mature) and aging people should be conveyed through the radio and newspapers.

- ❖ Feedback. Messages requiring immediate feedback should be sent using telephone or face to face communication.
- ❖ Message performance. Messages requiring record of reference should be sent using letters instead of telephone, radio, or face to face communication.

### **Effective communication in business**

In the information age, we have to send, receive and process huge numbers of messages everyday but, effective communication is about more than exchanging information. It's also about understanding the emotion behind the information.

Effective communication refers to the process of transferring information from the sender to the receiver with information being understood by the receiver as communicated by the sender.

### **Essentials / principles of effective communication**

For communication to be effective, it should possess the following, i.e. 7c's of effective communication

- ✓ Clarity, the message conveyed must be organized, loud and clear leaving no room for any doubt. It should have a well thought through introduction, detailed body and a smart conclusion.
- ✓ Consistency, the sender should be consistent in the use of channel and the code through which he is communicating the message
- ✓ Concreteness, it is advisable to organize the communication in logical manner and coherent
- ✓ Courtesy, the communicator should not be rude, should communicate politely. The message should have a good tone able to maintain and build relationship
- ✓ Consideration, plan carefully and try to understand the information needs of the recipient. Be empathetic of the recipient, this enables you understand the message.
- ✓ Conciseness, effective communication should be brief and straight forward to the point. The sender must be clear and properly focused to the purpose of communication
- ✓ Completeness, the message should have all the necessary information e.g. a notice for a meeting should have the date, day, time, venue and purpose of communication.
- ✓ Interest and acceptance, the sender must ensure that adequate interest is generated among the recipient of the message and that they are ready to make reply.
- ✓ Environment, the sender should ensure that the recipient receive the message as required.
- ✓ Distribution, the communication should be addressed to those who are supposed to have it. There should be a system to ensure that wrong people don't access to the information

- ✓ Simplicity of the language, the sender must keep his language as simple as possible keeping in mind the recipient standard of knowledge so that the message is clearly understood.
- ✓ Timing, the message should be conveyed at a time when the receiver is able to listen and receive it.
- ✓ Media, the sender must use a media that the target recipient uses. eg newspapers when communicating to the elite of urban areas.
- ✓ Controlling Emotions ,emotions play an important role in interpersonal relationships between the sender and the receiver

### **Barriers to effective communication**

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

- ✓ **Difference in individual interpretation of words.** People perceive information differently. Some words have two or more meanings and this makes effective communication difficult.
- ✓ **Unfavorable communication environment.** If the environment is not appropriate and causes distraction e.g where there is a lot of noise, which obscures one from listening to verbal message properly.
- ✓ **Language differences.** Some people have different languages and this makes it difficult to understand the message communicated.
- ✓ **Use of inappropriate channel of communication.** Where the channel of communication is not appropriate e.g communicating through television when your target group is blind people.
- ✓ Non-verbal communication like body movements, gestures, eye movements and facial expressions may distort the meaning of a message
- ✓ **Incompleteness of the message.** When the message sent by the sender does not include all the facts that the receiver needs to know about the subject matter on which the communication is based, it hinders effective communication
- ✓ **Lack of interest.** If the receiver is not interested e.g if the message is communicated at an inconvenient time or a wrong target group and will make the message boring.
- ✓ **Long distances between the sender and the receiver.** Long distances create many obstacles which hinder effective communication
- ✓ **Poor packaging of the message to be sent.** If the message is not attractive to the receiver or the message is not well packaged to attract the listener hinders effective communication.
- ✓ **Emotional block.** Anger, fear by the recipient during communication is a barrier to effective communication.
- ✓ **Poor listening skills and premature evaluation.** Lack of good listening culture especially among the youth tends to make communication ineffective.

- ✓ Failure of the sender to be considerate when communicating e.g if the sender is not considerate in his communication.
- ✓ Information overload. Giving too much information make it difficult for people to understand it. it causes mental constipation.
- ✓ Poor planning by the sender of the message leads to poor receiving of the message (garbage in, garbage out)
- ✓ Network problems or poor network. In case of telecommunicating, communication is not effective when the network is poor, even with internet use.
- ✓ Use of wrong address. In enterprises, use of wrong address cause communication not to be effective as message is received by a wrong recipient.
- ✓ The difference in class between sender and receiver directly affects the communication process. If they share a class, they are likely to be more effective than when they don't.

### **Ways of overcoming barriers to effective communication**

- Explaining to the receiver so that he gets to share the meaning of the message of the sender to overcome differing perspective.
- By using simple direct language while communicating to overcome language differences.
- Understanding and changing people's behavior to ensure maturity of Organisational members in order to overcome emotional blocks
- By understanding or being aware of the meaning of different gestures, body movements, clothing and postures
- Creating trust, this involves building confidence through understanding, discussing issues and creating an atmosphere of trust so as to restore credibility
- Eliminating physical noise e.g if it is a machine, it can be switched off or those communicating may move away in order to overcome destruction
- Planning well before communication, the sender should plan well in advance what he wants to say, why is saying it and how he will say it. He should also anticipate the receiver's reaction towards the communication

### **Purpose of communication in business**

For internal functioning of an organisations the objectives of communication include

- ❖ Search for establish and disseminate Organizational goals. Once the overall goal has been identified, departments also state their departmental goals. The different departments then bring ideas together through some communication process and finally a document is drawn up for instance the strategic plan which communicates the plan of the organisation.
- ❖ To facilitate development of plans and strategies to achieve goals. Once goals have been articulated, strategies are involved, discussed and communicated. All this is facilitated by communication.
- ❖ To facilitate allocation of Organizational resources in a most effective way. Once resources have been identified they are a located in different departments and this must be communicated to the different departments in either meetings or memos.



- ❖ To enable managers to influence direct motivate and create a conducive working environment of organizational members.
- ❖ To facilitate and make feedback about performance and enable collective actions to be made. As Organizational members perform tasks given to them, they have to make periodic reports to supervisors or superiors on what they have done.
- ❖ For enabling an organisation to relate to the outstand environment, the objective of communication.
- ❖ To link the entrepreneur to the suppliers. Communication enables organisation to identify suppliers who are competent and can avail them with various inputs like raw-materials used in the production process.
- ❖ To link the entrepreneur to important services and needs like banking services, insurance, transport etc which helps in the day to day running of the business.
- ❖ To keep the entrepreneur in touch with his customers. This helps the entrepreneur to carry out surveys into customer's needs and observations of consumption pattern and trends.
- ❖ Inform shareholders about organisation performance. Communication enables the organisation to make shareholders aware of its performance and position in their claims.
- ❖ To get information about macro-policy intentions of government, tax policies, regulations and other information that the government makes available in the form of regulations from time to time.
- ❖ To relate and establish the needs of the society. Communication enables the organisation to relate to society and know the needs of the society for example organisations need to address social problems like HIV/Aids and global warming etc.

### **Importance of communication in business**

- ✓ It helps an entrepreneur to pass on relevant information to his staff, customers, government and public which may be beneficial to the business e.g informing the staff about the new changes in management and production
- ✓ It helps the entrepreneur to search for, establish and disseminate organizational goals to the different departments
- ✓ It helps in recruiting and selecting workers for business e.g publishing advertisements, to those who can send application letters for selection of required staff.
- ✓ It facilitates the allocation of organisational resources in the most effective way. This is done on discussions and directives on how resources will be distributed
- ✓ It helps entrepreneur to implement his / her policies by giving instructions to employees or their supervisors.
- ✓ It helps entrepreneurs in negotiating with customers so as to get the best bargain in his / her dealings
- ✓ It enables managers to influence, direct, motivate and create a conducive working environment for organisational members
- ✓ It helps in keeping good relationship with his customers and new customers
- ✓ It helps the entrepreneur in making decisions basing on the informed that is available.

- ✓ It helps in creating good understanding between the entrepreneur and his / her employees through conducting meetings and discussions
- ✓ It helps the entrepreneurs to co-ordinate operations of his / her business that are executed in different departments
- ✓ It acts as a measure of managing credit sales and credit purchases in business, hence smooth running of the business
- ✓ Enables the entrepreneurs to get feedback from the organisational members of the tasks given to them as they have to make periodic report for supervisors
- ✓ It enables the entrepreneur to get information about macro- policy intentions of the government , tax policies regulations and other information that the government makes available in form of regulation from time to time
- ✓ Communication acts as a form of increasing the sales volume and widening the market share e.g through advertising, printing brochures concerning business etc
- ✓ Aids market research through the use of interviewing, questionnaires and customers and entrepreneur can be able to gather necessary information concerning people's opinions about the products in the market
- ✓ It also helps the government and other regulatory bodies to monitor and direct the business operations
- ✓ It helps the public to get knowledge about the existence of the business and its operations, which improves on the public image of organisation.

### **Forms of communication**

This refers to the methods or manner through which the entrepreneur can communicate his or her message.

Communication is an essential part of conducting business and there are various ways that people communicate in a work place. To be successful business person, it is important to familiarize yourself with the different communication methods so you know which ones may be most effective for what you need to accomplish

### **Verbal / oral communication**

Refers to the form of communication in which message is transmitted by word of mouth, face-to-face or by telephone. When we talk to others we assume that others understand what we are saying because we know what we are saying

But this is not the case; usually people bring their own attitude, perception, emotions and thoughts about the topic and hence create barriers in delivering the right meaning

It is always used when bargaining and interviews, training and meeting. It is the commonest form of communication in business and it will involve normally, entrepreneurs, customers, suppliers and bankers

So in order to deliver the right message to the above, you must put yourself on the other side of the table and think from receiver's point of view. Would he understand the message? How it would sound on the other side of the table

### **Advantages of oral communication**

- It brings quick feedback in face-to-face conversation, by reading facial expression and body language one can guess whether he / she should trust what being said or not.
- There is room for flexibility where questions or instructions can be rewarded to suit the situation.
- It also allows contribution and participation of all parties involved.

### **Disadvantages of oral communication**

- In face-to-face discussion, user is unable to deeply think about what he is delivering, so this can be counted as a written communication.
- Little time is allowed for important matters to be discussed which will leave both parties unsatisfied.

### **Written and printed communication**

In written communication, written signs or symbols are used to communicate. A written message may be printed or hand written. In written communication message can be transmitted via email, letter, report, memo, circulars, notice, minutes, circulation slips, Bulletins, agenda etc. message in written communication is influenced by the vocabulary and grammar used, writing, style, precision and the clarity of the language.

Written communication is the most common form of communication being used in business. So it is considered core among business skills.

Memos, reports, job descriptions, bulletins, employee manual and electronic mails are the types of written communication used for internal communication.

For communicating with external environment in writing, electronic mail, internet, web site, letters, proposal, telegrams, faxes, post cards, contracts, advertisement brochures and news releases are used.

### **Forms of written communication**

#### **a) A MEMO**

This is on internal communication, it is a written message used with the same organization.

In full it is called Memorandum

#### **Elements of a memo**

**From:** This shows where the memo is coming from.

**To:** This shows where the memo is addressed.

**Date:** This shows the date in which the memo is written.

**Reference:** This shows the number which distinguishes the communication within the other.

**Subject heading:** This shows the main idea expressed in the memo.

**Body:** This shows the details of the content of the memo in a paragraph form

**Practical situation**

You are employed as a general manager of Elgon Fliers Bus Company to which many customers are complaining about the quality of the services.

Write a memo inviting the customer relation officer for a meeting.

**ELGON FLIER BUS COMPANY**  
**P.O. Box 256 MBALE (U)**  
**Tel. 0774 918779 / 0777 756684**

**Ref:**

**Memo**

**Date: 13<sup>th</sup> July 2016**

**From: General Manager**

**To: Customer Relation Officer**

**Subject: MEETING**

I hereby invite you to attend an urgent meeting which is to take place on Sunday 14<sup>th</sup> July 2016 at the company reception hall starting at 2.00 p.m. the main aim for the meeting is to discuss the customers complains of the service. Here is a copy of the customers complain.

Please endeavor to attend.

Yours faithfully

.....

Name

**Illustration of a memo**

**Quality chemicals Uganda limited**

**P.O Box 6666, Kampala Uganda**

**Tel: 0428666777**

**MEMO**

**TO:** health and safety committee

**From:** chair person

**Date:** 5, august, 2013

**Subject: room change for next meeting**

The meeting on Saturday, 7 September has changed to room 101, we apologizes for inconveniences made

Thank you

**Nalwoga Rachel**

## **Advantages of memos**

- ❖ Inexpensive, a major advantage of a business memo is that they are inexpensive to create. Even when business people physically print the memo, doing so usually costs the company far less
- ❖ Memo information is harder to dispute than oral communication because the memo is evidence of what the writer said
- ❖ Business people are able to produce and deliver memos unobtrusively. Even when the memo is physically printed, employees can read the memo at their leisure
- ❖ Delivery of memo is easy. With hard copy memos, it takes just one person to hand the memo out to employees or put it in the employee mail box or notice board.

b) A business letter, is usually used when writing from one company to another or for correspondence between such organisations and their customers and other external parties.

There are very many reasons for writing a business letter. It could be to request direct information or action from another party, to order supplies from supplier, to identify a mistake that was committed, to reply directly to a request, to apologize for wrong or simply to convey good will

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

## **How to write a business letter**

### **A business letter**

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

### **Contents of a business letter**

A business letter must be clear, complete, timely and be able to promote the image of the business organization. Though varied, a business letter usually contains the following:

**The letter head:** A business organization usually has pre-designed and printed papers called letter heads, which show its name, address, telephone No. and the email address. The letter head may also have the organization vision, mission, bankers and any other information deemed necessary.

Business letters will be written on these letter heads instead of writing on a plain paper.

**Reference:** This is used to identify the subject matter and the recipient of the letter. Each business organization adopts unique and convenient reference system for its letters and documents. The reference can include the address. The subject matter and the dates for example L2/m/12/7/2016.

**Date:** All letters should have a date. For example, the date should be that which one is setting for the paper

**Inside Address:** This shows the name and address of the person/organization the letter is addressed to each item should have a separate line.

**Salutation:** This is a general greeting used to commence the letter for example "Dear madam" is normally used if the letter is addressed to an organization and the

addressee is known to be a lady a man. A personal name can also be used for example "Dear Perry" if the writer knows the addressee.

**Subject heading:** A subject heading gives a brief indication of the content of the letter using capital letter or bold print.

**Body of the letter:** The body of the letter communicates the intended communication to the addressee. Paragraphs are used to show different ideas in the letter.

**Complimentary close:** This is a general closing to the letter, it is common to end with "Yours Faithfully" If "Dear Sir/Madam" has been used "Yours Sincerely", "If dear and name of recipient have been used"

**Signatory:** All business letters should be signed.

**Enclosures:** If the letter has any other document enclosed, it should be stated by using the abbreviation "ENC"

**Copy:** A copy should be kept for the file, and others distributed to different officers who may need to know about the information communicated.

### **A FORMAT OF THE BUSINESS LETTER**

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

**JANITA AND DAUGHTERS LIMITED**  
**P.O. Box 624, KAMPALA (U)**  
**Tel. 0704 411492**

**Re: L1/P/12<sup>th</sup>/07/2016**  
**12<sup>th</sup> July 2016**  
**The marketing Officer**  
**Musoke Farmers Ltd**  
**P.O. Box 194**  
**KAMPALA**

**Dear Sir,**

**SUBJECT: GOODS SUPPLIED**

I wish to inform you that the bananas which you supplied to us on 8<sup>th</sup> July 2016 were poorly packed and as a result, most of the consignment got spoilt.

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

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

Otherwise, we will be forced to review our business relationship with you.

Yours Faithfully,

.....  
PEPPA PERRY  
PURCHASING OFFICER  
Enc.

### **Format of a business letter**

There are two format used that is

- Fully blocked style
- Indented block style

**Fully blocked style**, all parts of the letter begin from the left margin

**Company name or letter head**  
**Telephone, address and location**

March, 15, 2001  
Mr. John Smith  
Director of operations  
Some group  
Some Street Drive  
Some town, VA 12345

Dear Mr. Smith,

Thank you for your inquiry about full-blocked format for letters. What follow is a quick summary and the conventions it uses.

Full block format is considered the most formal of three styles. In full block format or style every line is left justified. The date line is placed two to six line spaces below the heading or letter head. The inside address placement varies depending upon the length of the letter

A common spacing is two line spaces below the date line. Salutation is placed two lines below the attention line (if the attention line is provided). The first line of the body is placed two lines below an attention line or two to four lines below the last inside address. When using full block, paragraphs are single spaced between paragraphs. While there are no set rules governing format use, full block is generally for (1) requests or inquires (2) claims (3) announcements (4) records of agreement (5) transmittal of other technical documents and (6) job applications. Most other types of letters use semi-block or simplified format

Sincerely yours,

Dr. Nakimuli Patricia  
English instructor

Indented blocked style.

GREENLAND GENERAL HARD WARE  
P.o Box 2461  
NAIROBI, KENYA  
TEL: +2446226266

23<sup>rd</sup>/03/2013

PURCHASING MANAGER  
VIVA GENERAL MACHANDISE  
HARD WARE UG, LTD  
P.O BOX 21  
KAMPALA, UGANDA

RE: **APOLOGY AND REQUEST FOR EXTENSION OF TIME TO DELIVER GOODS**

Dear Sir / Madam,

This is to acknowledge that we are in receipt of your notice whereby you informed us that the goods shipped to you on 18<sup>th</sup>/ 03/2013 did not conform to our agreement dated (13<sup>th</sup>/03/2013)

We regret this unintentional mistake on our part, the reason for which were (explained) while we recognize that the time for performing under this agreement has expired, we are requesting that you extend the time to 30<sup>th</sup>/03/2013 in order that we may cure the defect by replacing the shipment with goods that conform to our agreement

Please accept our apology for this inconvenience. We shall be looking forward to your response

Yours faithfully

Murungi Annie  
Sales manager

NB. Many people may choose to use an indented block style business letter because like the way that it looks. The definition of an intended block style business letter is a letter that is justified at the left margin except for few elements, these elements include the return address, the reference line, closing, signature and printed name

c) **Agenda** refers to the list of items to be handled at the meeting. It acts as a guide to the meeting indicating which activities or business to be handled and sequence to be followed.

#### **Sources of items from agenda**

- ✓ They can be drawn from previous meeting
- ✓ Uncompleted business



- ✓ From new suggestions from members
- ✓ New development in the company

NB. Modern agenda should be timed (each item should be given specific time)

### **Content of the document**

Should have the following

- ✓ Heading indicating word
  - Agenda
  - Type of meeting
  - Organisation
  - Venue
  - Time

Items should be numbered

Please make research for the real format of the agenda

d) Meeting minutes, these are records of what took place at the meeting. They are taken down by a minute secretary he or she would record them in a minute book and later transcribe them into final minutes

Minutes are important documents for presenting deliberations and resolutions made at a meeting; once they have been signed they become legal documents, which can be referred to by courts of law, auditors and other inspectors.

### **Elements of minutes**

- The name of the business
- The venue where the meeting was held, time
- List of members that were absent with apology.
- List of members that were absent without apology.
- Contents of the minute which is written basing on the flow of agenda

### **Importance of minutes**

- ☞ Confirm any decisions made
- ☞ Record any agreed actions to be taken
- ☞ Record who has been allocated any tasks or responsibilities
- ☞ Prompt action from any relevant attendees
- ☞ Provide details of the meeting to any one unable to attend
- ☞ Serve as a record of the meeting's procedure and outcome
- ☞ Provide the validity of the meeting

e) Notices, these may be used by an entrepreneur when giving out short message to concerned person, e.g a notice may be a reminder to the customers for payment, intensions to sue

Etc.

In case the business is to shift contents must include, time frame or shifting, old location and new location contact.

**NAMONE RESTURANT  
P.O BOX 778, KAMPALA  
TEL: 0705-00-00-00**

Date: 24/12/2019

**NOTICE  
WE INTEND TO MOVE!**

Restaurant intends to shift from its current location Kimululi near Katwe Health centre to Nakowala town opposite centenary Bank Bugolobi branch within two week's time. This has been done to get more space and serve you better.  
Sorry for any inconveniences caused to our esteemed customers.  
For more information contact us on telephone number 0705-00-00-00

***Management***

cc. Notice board

f) Circulars, these are written documents given to different people but have the same information. It is either prepared and then duplicated or photocopied and copies are circulated to individuals.

g) Report, these are used by entrepreneur to give conclusion and recommendations based on investigated facts and situations, e.g weekly report etc

**Elements of report writing:**

- The name of the business.
- The topic of investigation.
- Objectives of carrying out the activity.
- The background on which you carried out the investigations.
- Your findings of the situations.
- Your recommendation about the situation.
- Your recommendation for further research.
- Conclusion.

**Characteristics of a good report**

- ✓ It should be precise ie short and clear about the purpose for which it is written
- ✓ It should be accurate since it will be used to make decision.
- ✓ The facts presented should be relevant to the situation under investigation.
- ✓ It should have consideration ie written with the reader in mind
- ✓ Recommendations should be objective and clear language
- ✓ It should be brief and complete ie all relevant facts should be included
- ✓ It should contain correct grammar and sentences
- ✓ It should be written systematically in logical sequence
- ✓ It should be written in simple and clear language.

h) bulletins, a brief report, especially an official of public interest issued by an organisation for immediate publication or broadcast e.g journal, business manual, and they are given to customers and potential buyer

i) Circulation slip. This may be used by an entrepreneur to inform the named personnel, i.e. If one person receives the document, reads it and pass it on to another person named on the slip

### **Advantage of written communication**

- a. It provides information that act as a source of reference in future
- b. It is capable of relaying complex ideas like legal matters, sale of goods agreement
- c. It gives chance to the presenter to analyze , evaluate and summarize material in such a way that could be appropriate to the receiver
- d. It can be used to confirm, interpret and clarify earlier oral communication
- e. It forms a basis for forming contracts or binding agreements.

### **Disadvantages of written communication**

- a. Documents can be time consuming in production and sometimes very expensive and costly like written reports
- b. Communication in written form tends to be more formal and distant compared to oral, it lack mutual advantage that proximity provides for its usually easier to influence the person you are talking to than the one you are writing to.
- c. There can be a problem of interpretation, if the receiver is not well acquainted with language and style of the sender
- d. It doesn't allow exchange of opinions until after a long period of time yet by then the issue might have been overtaken by events.
- e. Lack of instant feedback. Unlike oral communication, written communication doesn't allow for instant feedback, such as questions or facial express
- f. Possibility of miscommunication. Written communication doesn't include nuances of tone of voice or facial expression, making miscommunication more likely
- g. Impersonality. Written communication is less personal than oral communication, making it less ideal for emotional messages e.g most people feel that important news such as being fired, getting a promotion, ending relationship should be communicated in person

### **Visual or non-verbal communication**

Is the process of communication through sending and receiving wordless (mostly visual) cues between people. Communication by means of elements and behavior that are not coded into words in this case, body movements such as gestures, facial expression, and eye movement, nodding and pointing can be used to convey messages. It also includes the use of sign language to communicate to people with hearing disabilities

### **Forms of visual communication**

- **Organisational charts:** these can be used to show the organisation structure of the business showing different sections or departments in the business and how they relate or report to each other.
- **Photographs:** these can be used as illustration of some other information given so as to improve on appreciation and understanding, such photographs are used to advertise the goods and their needs to customers
- **Films or documentaries:** these can also be used by entrepreneurs to provide information about the business' operations e.g films may show customer care activities, business latest products and their applications, they can also be used for training purposes
- **Posters and wall charts:** these can be used to represent or illustrate certain information in the business and serve as an important method of advertising and giving awareness to the target groups
- **Graphs:** can also be used by an entrepreneur to present information about the performance of the business, like one can use bar charts, graphs, pie charts etc

to compare the sale or profits of different periods and also to show the trend of business performance

### **Effects of non-verbal communication**

Nonverbal communication, especially body language, can send a strong message in spite of what your words say. Even the tone of your voice, its pitch, volume, quality and speed effects what you say, your body language can

- ☞ Repeat the message your words are saying
- ☞ Contradict what your words are saying
- ☞ Be substitution for your verbal message
- ☞ Add to the meaning of your message
- ☞ Accent or make stronger, like pounding your fist on a table

Channels / media of effective communication in business

- ✓ Press. This communication media basically includes newspapers, magazines, journals, printed catalogues etc. under this medium, message is conveyed among traders. Between manufacturers and consumers, wholesalers and retailers or even wholesalers and manufacturers.
- ✓ Radio and television, under this media, traders are able to communicate to the public about the goods and services they offer through television and radios. this communication is in form of advertisements which can be persuasive or informative,
- ✓ Telephone. This is a medium of oral communication where people speak to one another through telephone receivers. It may either be through the exchange control (switch board) or it may be direct without going through the exchange control. Today, the commonly used are mobile phones.
- ✓ Internet. This is the worldwide area network of computers communicating across continents. It is a worldwide website for communicating across continents.
- ✓ Letters. This is a method of written communication which involves writing letters and sending them through the post office to be delivered to the addressee or they may be directly delivered.

### **Ways of communicating to customers and suppliers.**

#### **How to present a product?**

When presenting a product to a customer, an entrepreneur should consider the following strategies:

- ✓ Ensuring that the sales person is smartly dressed, so as to deliver the present the products more easily.
- ✓ The target customers' needs must be analyzed in order to select the most appropriate way of representing the product.
- ✓ Starting the presentation of the products by first giving the outstanding features of the product, the benefit to the customers etc
- ✓ By keeping the customer privacy, convenience ability to use the products and others so as to plan how best to present the product.
- ✓ Giving samples of the products to customers so as to identify and get their input into productive development.
- ✓ Using relevant presentation aid, photographs, charts to back up the information about the product.
- ✓ Telling the truth about the products and during presented to potential customers.
- ✓ Giving a chance to potential customers to give their opinion about the product.

- ✓ Handling any doubts in the minds of the customers tactfully by trying to convince him or her.

### **How to bargain with customers?**

#### **This is used to ensure win – win situation in bargaining**

In bargaining with customers, an entrepreneur may undertake the following strategies:

- ✓ Being a good communicator during the process of bargaining with customers like talking dearly, showing respect etc.
- ✓ Avoid dominating the bargaining process, by allowing customers to also give their own views during the bargaining process.
- ✓ Giving counter offers to customers e.g. reducing the price of the product so as to induce them to purchase.
- ✓ Improving on the customer service, by having an effective customer service department to facilitate the bargaining with customers

### **How to give personal attention to customers?**

- ✓ understand customer's wants and needs and bring products to satisfy them
- ✓ Sell products at the right prices, in the right quantity and quality.
- ✓ Use the right promotion and in the right place at the right time in order to meet customers' needs and wants as identified by the entrepreneur.

### **How to follow up orders from suppliers?**

The entrepreneur should

- ✓ Make sure that he has the physical address, telephone numbers and all other contacts.
- ✓ You can make other methods of contacts as you follow up your order like writing a reminder letter, visiting suppliers' premises, sending e-mails, making telephone calls.

### **How to collect overdue accounts?**

- Begin by identifying all the debtors for a given period from the accounts books of the business and listing them according to their debt amounts.
- Grouping of all the debtors according to their credit periods and then assigning specific workers to each of them to help in collection of the debts.
- Sending polite reminders to customers with overdue accounts or calling them on phone to remind them of their debts.
- Receiving /collecting of debts from different debtors through the workers assigned to do the collection.
- Updating of the debtors records and then issuing statements of accounts to each of them.
- By sending a more strongly worded last debt reminders to debt defaulters to pay their debts not later than the new deadline date stated.
- Taking legal action against debtors who still have failed to settle their debts after the new deadline date by employing courts of law to recover the debts.

### **A practical situation**

You are dealing in salad making business in which most of the products are sold on credit.

Prepare a debt recovery program

**Peppa's salad and vegetable processing**  
**P.O. Box 624 Kampala**  
**Tel. 0704 411492**

**ONE MONTH DEBT RECOVERY PROGRAM (1 MONTH)**

<b>Date</b>	<b>Activity</b>	<b>Person in charge</b>	<b>Remarks</b>
Fill	Identifying the debtors from the books of accounts of the business	Accountant	
Fill	Arranging all debtors according to their credit periods and assigning specific workers to each of them	Accountant	
	Sending of a polite date reminder to all the debtors	Accountant	
	Receiving debts from the different debtors	Accountant	
	Updating of debtors records and issuing statements of accounts to each of them.	Entrepreneur	
	Sending strong rewarded last date reminders to the debt defaulters		
	Taking legal action against defaulters		

Prepared by:

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PEPPA PERRY  
Sales manager

approved by

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### **How to handle difficult customers?**

In order to handle difficult customers, an entrepreneur should

- Receiving or acknowledging and evaluating the difficult customers objections or complaints to determine whether they are genuine or not and taking appropriate action to address the problem so as not to lose the customer.
- Listening carefully to what the difficult customer is saying so as to make him have hope that the complaint shall be addressed and then planning how best to solve the problem raised.
- Learning to apologize to the difficult. After understanding the problem, the sales person has to apologize to the customer orally in case of a minor problem or write an apology in case of a big problem.
- Getting the difficult customer open up and give all the details about the complaint so as get the cause of the problem and be addressed.
- Trying to convince the difficult customer especially in the case of a minor problem that the problem experienced shall not be made to occur again.

- Refunding the money of the difficult customer if that customer rejects replacement of the product.
- Replacing of the product sold to the difficult customer in case the upset is due to receiving a damaged/faulty product and an apology made to the customer.
- Buying more time for problems that cannot be immediately solved by asking the customer to come back later.
- Reducing the price of the product in case the previous purchases made by the difficult customer had a problem as a way of trying to make the customer feel happy.
- Establishing the customer care desk or office and employing a well-trained worker to handle problems of difficult customers.
- Calling security personnel to handle difficult customer who becomes violent at the business premises.

**You have established a crafts business that that makes a variety of attractive products.**

**a) Draft guidelines for enhancing effective communication in the business.**

### **NAME AND ADDRESS OF THE BUSINESS**

#### **GUIDELINES FOR ENHANCING EFFECTIVE COMMUNICATION IN THE BUSINESS.**

- ✓ The business shall ensure completeness of all communication to the relevant receivers.
- ✓ The business shall ensure correctness of all messages sent or issued
- ✓ The business shall ensure clarity of all messages communicated.
- ✓ The business shall ensure conciseness of all messages communicated.
- ✓ The business official making communication shall make the messages sincere as possible ie courteous or courtesy.
- ✓ The business official communicating messages shall consider the receivers feelings, cultural beliefs, age and others ie consideration.
- ✓ All business communication shall be made at the appropriate time , when the receiver is ready to receive it.( ie timing)
- ✓ All business communication shall be made using the appropriate media.
- ✓ All business communications shall be made from the right environment that allows the receiver to get the full message.
- ✓ All business communication shall be well organised and communicated in a positive way( concreteness)

### **LISTENING SKILLS**

Listening is defined as the ability of an individual to interpreter and understands what is being communicated. It is more related to visual and oral communication. However the term is strictly tight to oral communication.

#### **The process of listening:**

This process has five stages – sensing, interpreting, evaluating, remembering and responding.

1. Sensing: this means to get in tune with the speaker, as we tune a radio the listener is prepared and knows that he has to listen.

2. Interpreting and evaluating: Listening is meaningful when a person converts the words coming to him into ideas. The ideas make sense or no sense. The listener keeps what is useful, separates what is useless, and keeps a note of what is unclear or incomplete.
3. Remembering, Listening serves a great purpose when creating mental pictures, for example when an address is being explained.
4. Responding: this means to act on the message received and to let the speaker know this. The listener may respond on the spot by making appropriate remarks: "I see," or "Is it so?" or "Okay." This reassures the speaker. The listener may ask questions to bring out the required information and complete the picture from his point of view.
5. Evaluation

### **Approaches to Listening:**

Listening can be classified from a mere show-off to the wholehearted act:

1. Pretending to listen: here the listener faces the speaker, across the table or on the phone line, as long as he speaks and then switches off without registering the message. This is mere hearing and not listening.
2. Selective listening: This is when one edits the message as talkable and not takable. In the case of an important message, selective listening leads to partial fulfillment of the instructions.
3. Superficial listening: This is where the listener takes in only the words but not the spirit of the message.
4. Emphatic listening: This term conveys full emphasis on the act of listening and taking in the entire message in word and spirit. The listener takes in the tone, the pauses, and the body language related to the words. Emphatic listening is necessary to move from one's preconceived stand. The listener's openness makes him ready to be influenced.
5. Dynamic (mutually creative) listening: Here, listening is a creative process in which the listener contributes to the meaning that is being conveyed. He adds his energy to that of the speaker to generate.
6. Intuitive listening: this means a direct insight into the truth. For an intuitive listener, a mere hint, an undertone or a silence is enough to read the other person's mind. It is nurtured when one listens to high quality music or finds natural or meditative solitude.

### **Barriers to Effective Listening:**

1. Poor hearing: If one's sense of hearing is defective, listening is impaired.
2. Listener's chain of thoughts: i.e. when the mind of listener is having own thoughts. These may become rapid and loud from time to time, marring one's receptivity.
3. A too heavy message: Use of jargon or over compression of ideas may make an oral message too heavy for the listener.
4. Listener's self-importance or prejudice: i.e. when the listener has put himself above the speaker, there is no receptive attitude.
5. Misunderstanding about the role of a listener: Some listeners may not be aware of what their role in a particular situation is. They may think that it is the speaker's responsibility to explain everything properly.
6. Cultural gap: If the speaker and the listener have different cultural habits, the listening may be incomplete. The listener may assign different importance to a word or phrase than is meant. While Orientals are used to an elaborate style of addressing a gathering, westerners are often quite brief about it. But this can be distracting to an easterner.



7. Preoccupations: Some people listen while eating, drinking or doing handiwork. In such cases the attention is divided. A busy manager, for instance, may try to listen while filing papers or opening the mail. This affects listening.
8. Ego influence; if the receiver considers him superior and is not willing to listen, this ego problem acts as a stumbling block in the listening process.

### **How to develop entrepreneurial listening skills**

Entrepreneurs are usually good communicators but they need to have the ability to listen. Most of us listen to only 25% of our ability while others may be even less than 25%. We normally listen to our close friends, teachers, family members and bosses. The following strategies can be used to develop effective listening:

1. Send signals to people through the eyes and body gestures so that they know one is listening.
2. Relax when communicating such that others will feel comfortable when adding their comments.
3. Slow down the minds when listening so that you are predicted by what people say.
4. Improve on the concentration.
5. Avoiding forming a reply before hearing what other persons say.
6. Do not be defensive about the individual point of view during communication.
7. Keep the voice soft rather than aggressive.

### **How to attend to the messages**

The following is involved when an individual attends to the message:

- Making eye contact: Eye contact increases your chance of getting the message.
- When on phone, try not to look at things that will distract you from listening to and attending to the speaker.
- Your body posture, including slight leaning posture suggests that you are paying attention and helps you to stay tuned in.
- When on phone, try to position yourself so that you are comfortable but not relaxed that you lose the ability to attract the callers. Use vocal attending behaviors' "eh-huh", mm-hmmm"
- When interacting with the speaker in person face the speaker squarely and lean forward slightly towards the speaker to show that you are attentive.
- Verbal or non-verbal acknowledgement of the speaker helps to involve you in the communication process and lets the speaker know you are paying attention.
- When interacting with the speaker in person, use non verbal attending behavior such as nodding and facial expressions.
- Clear your mind, on thoughts to avoid mentally wandering and other destructing behaviors.

## **GENDER AND ENTREPRENEURSHIP**

### **BASIC TERMINOLOGIES USED IN GENDER**

- ✓ **Gender:** refers to the way in which males and females are differentiated and ordered in a given social- cultural system.
- ✓ **Sex:** This shows the biological differences between women and men, it is a self-evident biological reality of differences between a male and a female.
- ✓ **Culture:** This refers to more permanent rules or ways of behaving and thinking of people in a given community.

- ✓ **Society:** This is an organized body of people connected by a set of common goals, who tend to share common beliefs, attitudes and modes of action within a given social / political boundary.
- ✓ **Division of labour.** Refers to where each person does a small task in the process of producing a good or service. There is a lot of discrimination in the labour market against women and in most cases are put in subordinate positions.
- ✓ **Access:** This refers to means or right to obtain services, products or commodities.
- ✓ **Conscientisation:** This is the process of becoming aware of the extent to which problems arise not so much from an individual's inadequacies, but rather from the system discrimination against a social group which put all group members at a disadvantage.
- ✓ **Empowerment:** This is the process by which people take control and action in order to overcome obstacles.
- ✓ **Gender stereotyping:** This is the constant portrayal, in the media or in books or journals, of women and men occupying social roles according to the traditional system of gender discrimination.
- ✓ **Patriarchy:** This is the male domination of ownership and control, at all levels in society, which maintains and operates the system of gender discrimination.
- ✓ **Patriarchal resistance:** This refers to the various ways the Patriarchal authority / government will try to stop or resist women's collective action for an equal share in decision making and equal control of the distribution of resources.
- ✓ **Gender Identity:** This is 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 feminist behaviour.

### **GENDER PARTNERSHIP IN ENTREPRENEURSHIP DEVELOPMENT**

A partnership is the agreement between two or more equally recognized individuals or organizations engage in a task.

Gender partnership refers to the idea of men (with all their attributes) working harmoniously with women as joint partners.

#### **Reasons why there is need to promote gender partnership.**

- ✓ To increase the abilities of women to participate in the labour force.
- ✓ To promote the development of women entrepreneurs.
- ✓ To promote employment for women as a strategy for poverty reduction.
- ✓ To increase the numbers, sustainability and success of women entrepreneurs in the informal and formal economy.
- ✓ To eliminate threats of exploitations or victimization.
- ✓ To ensure that each member is justly rewarded for his or her service.

### **FACTORS THAT ENHANCE / PROMOTE GENDER PARTNERSHIP IN SOCIETY**

Gender equality is a prerequisite to meaningful gender partnership. But the gender equality advocated for in this discussion is not the type of equality that wants to see everybody is the same, rather it is the equality that wants to see everybody given the same opportunities and ensures that basic rights and obligations are similar for

all groups so that nobody feels, or is treated as, more or less worthy than others. This is the basis for true and effective gender partnership. In such a partnership:

- Each member is justly rewarded for his or her services
- There are no threats of exploitation or victimization
- Participants are aware of their own membership and that of the others.
- Each member gets satisfaction from participating in any activities taking place.
- There is a two-way communication between members involved.
- Each member strives to communicate his/her feelings and ideas as clearly and accurately as possible.
- The development of each member is enhanced by other group members.
- Each member has a sense of identity and belonging to partners.

### **GENDER MYTHS / GENDER STEREO TYPES**

Gender myths are fictitious beliefs that are related to gender and gender stereo types are fixed mental impressions that are related to gender. These are misleading or fallacious beliefs concerning the gender concept. These myths include the following:

- Girls are less capable and less able in the fields of science and technology.
- Girls are to supposed to eat chicken
- Girls are weaker and irresponsible than boys in science studies
- Educated girls fail to get future partners for marriage
- Women cannot lead men
- Women are not to be involved in decision making
- Child care in for women
- Women don't ride bicycles
- Women are lenient to negotiate for profitable deals.
- Women can't be stable in business

**Gender relations.** Refer to social relations found in all different spheres of society and produced by actions, ideas and disclosure of individuals and groups.

### **Factors affecting women participation in entrepreneurship in Uganda**

- Level of income. Low income levels among women discourage their involvement in business while high income levels promote entrepreneurship by women limited women participation.
- Political climate. Political insecurity in some parts of the country (north) has limited women participation in business while political stability promotes investment / business.
- Level of education. Low levels of education among women lead to low entrepreneurship participation as compared to high education levels
- Availability of women role models. Existence of role models like Sylvia Awori , Maggie Kigozi has encouraged women participation in the country as compared to the absence;
- Marriage age. Early marriage in Uganda has led to low levels of women participation in number of business and vice versa
- Nature of labour market. Discriminatory labour market practices have limited the number of women in business.

- Level of sensitization. Women sensitization about importance of business promote their participation while absence of such leads to low levels of women participation in business.
- Martial responsibilities. Married women tend to have a lot of responsibilities limiting their participation in business unlike the singles
- Government policy regarding women participation in entrepreneurship. Favourable government policy regarding women participation in business promotes their participation and vice versa
- Level of demands of the girl child. Double demand on girls I.e the traditional and school learning limit their participation in business.
- Nature business occupation. Very risky occupations like mining discourage women from participating in entrepreneurship as compared to less risky occupation.
- Availability of childcare facilities women attitude towards business. Women with access to child care facilities participate more in entrepreneurship than those with limited or no access such facilities.
- Women attitude towards entrepreneurship and business. Women with a positive attitude towards business participate more than those with negative attitude.

### **BARRIERS TO WOMEN PARTICIPATION IN ENTREPRENEURSHIP**

- Parent perception of cost/benefits of educating girls, especially low income families.
- Female seclusion practices and early marriages. Most girls marry at an early age which occupies them in household work limiting their participation in entrepreneurship.
- The relegation of women to the home following colonization associated with the training of men for assistant administration roles and the clergy.
- The double demand on girls - traditional and school learning activities.
- Discriminatory labour market practices leading to low-paid, low status work for women.
- Poor facilities including teacher supply, teacher quality and equipment.
- The nature of science occupations which are not easily combined with child rearing and child care.
- Limited women role models and career guidance. In society there are few successful women act as role models for other women.
- Inappropriate education system. There are poor facilities like limited teachers supply, instructional materials which disfavor women in training for entrepreneurship.
- The masculine image of science projected in textbooks and the media and popular assumptions
- Political insecurity / instability
- High levels of domestic violence.
- High risky occupation disfavor females. Some occupations cannot easily be done given child bearing and care by women.
- Negative women attitude towards entrepreneurship and business
- Unfavorable government policy in regard to women participation in entrepreneurship e.g high taxes.

### **Solutions to women participation in entrepreneurship**

- Raising general awareness of issues and modification of socialization patterns.
- Providing equal educational facilities for girls and boys.
- Give special incentives to girls to encourage them to study science subjects.
- Availing job opportunities for women combining flexible work patterns and child care Facilities
- Developing career counselling sensitive to girls' needs and make visible the existing, successful women in science to serve as role models.
- Upgrading science school facilities and adequately train sufficient and efficient teachers.
- Combining all science needs with the special needs of rural women and girls.
- Employers have to recognize the abilities / talents of girls to avoid skill shortages from exclusively one half of the population - the male half.
- Stop encouraging only girls to do home economics and only boys to do workshop technology.
- In secondary education, discourage the habits of girls choosing subjects related to home and person care and boys taking technical subjects like physics and chemistry.

### **Ways to reduce gender imbalance in accessing education and entrepreneurship**

- Raising general awareness of issues and modification of socialization patterns. It involves community sensitization about equal opportunities for men and women in entrepreneurship.
- Stopping subject bias on sex. There is need to encourage girls not only to take home economics but also technical courses.
- Encouraging girls to take science subjects. Girls need to take subjects like physics, chemistry and business related subjects
- Avoiding discrimination in the labour market. Women and men need to have equal treatment in the labour market when awarding opportunities.
- Providing equal educational facilities for girls and boys. This helps to solve labour shortage and equips girls with required skills.
- Giving special incentives to women education. Special consideration for girls like free 1.5 points to university added helps to encourage them stay in school and take science and entrepreneurship courses.
- Giving flexible work terms and conditions to women. These include sick leave, maternity leave etc.

### **Guidelines for enhancing gender equality**

- ✓ There shall be employing both male and female employees
- ✓ There shall be carrying out rotation of duties among men and women
- ✓ There shall be giving equal payment to both male and female employees
- ✓ There shall be giving chance to all employees to express their views.
- ✓ All workers both male and female shall be given equal opportunities
- ✓ All male and female workers shall be involved in decision making

- ✓ There shall be assigning similar duties to both sexes
- ✓ There shall be giving equal rights to both male and female employees
- ✓ Both female and male shall be involved in decision making
- ✓ Both female and male shall have equal promotion at place of work
- ✓ Good working conditions that favour both male and female workers shall be provided for instance transport facilities for employees to and from work

**END**

## **FAMILY AND BUSINESS**

It is important to realize that the presence of father, mother and children, brothers and sisters, uncles and nieces and other distant relatives in a business and managing their emotions in the course of making business decisions, requires well thought out managerial techniques or styles and strategies.

Just as they are a bottleneck in the progress of the business at times, they are also an important ingredient upon which a small enterprise has influence.

## **FACTORS THAT NECESSITATE GOOD RELATIONSHIP BETWEEN FAMILY AND BUSINESS**

There must be a close tie between the family and business due to the following factors:

**Joint family funding** : some family members tend to pool resources together to start an enterprise and thus they do have a say on the operations of the business and influence decisions, e.g. on the way the business runs, the type of people to be involved in business, the type of goods to be produced or services to be provided, etc.

**Inheritance**: some enterprises are inherited and passed from one generation to another, so in such ventures the business entity is seen as the family's property as a whole and this becomes a family business.

**Fear of hired management**: In most cases, due to ignorance of business management, some family owners tend to fear "hired" management, having a view that an outsider will steal and embezzle hence resort to family management in a way to reduce and protect family property and thus ending up delegating and disturbing responsibilities of the business between different family members, irrespective of whether they have the ability, know how or required experience.

**Source of employment for family labour**: Family business is regarded as the main employer of the family labour due to the internalized perception that they are more secure and materially more rewarding.

However, this has turned out to be the opposite as some members may resist progress due to vested interests in the business, others deliberately violate business rules and become undisciplined.

**Managerial decision making**: Major managerial decisions are the most complicated in an organisation; small scale enterprises need effective planning, implementation and evaluation. All managerial tasks (planning, supervising, directing, controlling,

etc) which are performed consistently in big organisations, need also to be performed in the small enterprise, this necessitates full and total commitment of all family members in order to have smooth flow of the enterprise activities.

## **CHALLENGES ASSOCIATED WITH FAMILY BUSINESS.**

Decision making is not easy, as members may fail to agree over a particular decision due to differences in their individual perceptions, for instance if the owner-manager wants to take an important financial decision like buying a new technology to increase efficiency and the proposal is turned down by others on the basis that the spending is regarded as extravagance rather than investment.

The succession of the enterprise; this is very complicated especially where it is not clearly spelt out, if the original owner dies, it may not be easy to determine the person to take over the business.

Difficulty in allocating responsibilities and delegating as members would always feel as if they are undermined which may retard the growth of the enterprise, as productive plans will always be turned down by members themselves.

High rates of indiscipline cases among family members when conducting business operations, most members may decide to act stubbornly when doing business work, also acting contrary to set guidelines, due to lack of fear of any legal consequence, since it is a family "thing" / business.

Difficulty in allocating appropriate remuneration among themselves, some members may wish to be given attractive packages which may not be corresponding with the productivity / value in the enterprise like an elder would wish to attain a higher pay even if he does not contribute anything to the productivity of the enterprise.

Emotions. Usually family problems like divorce, separations, health or financial problems create difficulties for family members which end up affecting the business

Informality. Absence of clear policies and business norms for family members

Tunnel vision. The challenge of limited outside opinions and diversity on how to operate the business

The challenge of compensating family members' dividends, salaries, benefits and compensation for non-participating family members are not clearly defined and justified

Role confusion. The roles and responsibilities of each member are not clearly defined. This is often results into over lapping of functions

Poor managerial skills due to hiring of family members who are not qualified or lack skills and abilities for the business. In addition, there is also inability fire them even when it is clear they are not working out

High turnover of non- family members. This normally happens when employees feel that the family “Mafia” will always advance over outsiders and when employees realize that management is incompetent

Absence of retirement and estate planning to cover the necessities and realities of older members and when they leave the company

Limited training, no clear information relating to goals expectations and obligations of position

Communication challenge. This results from role confusion, emotions, fear, envy, anger etc. all of which result into political divisions and other relationship problems

Variations in visions. Each member has a different vision for the business and different goals

Centralized control system. Control is centralized and influenced by tradition instead of good management practices

### **SUGGESTIONS TO OVERCOME CHALLENGES ASSOCIATED WITH FAMILY BUSINESS.**

Persuading members of the family and showing the rationale in hiring a professional manager from outside the family circle`

Spelling out concisely and clearly the specific roles and functions that are to be performed by every member of the family in terms of specific lines of authority and responsibilities

Advising and convincing the family members to register the enterprise and have it operate as a company with a legal identity rather than physical human identity

Ensuring informal counselling and guidance services to the members of the family enterprise who seem to behave “stubbornly” contrary to the agreement guidelines which have been set by the family members

Inviting experts in the field of management, law, finance or technical in case there are controversial issues so as to help clarify issues and assure the members of the family enterprise at the controversial issue was healthy or unhealthy for the enterprise

Ensuring that remunerative packages are tied to the types of work individuals perform while at the same time keeping pace with those of similar enterprises within the locality

Keeping track of exchanging information with other firms on various issues like marketing, sources of raw materials, expansion plans etc



## **IMPORTANCE OF FAMILY SAVINGS IN ESTABLISHING S.M.E**

**Family saving is one of the major sources of capital for starting a small and medium enterprise. Particularly, family savings are useful in the following ways**

- They are used for paying for business license
- They are used in renting for the building
- They are used to buy tools, machinery, equipment and furniture
- They are used in purchasing of raw materials or finished goods from other shops to be sold at higher a price for profit

## **BUSINESS IDEAS**

A business idea is a response of a person or an organisation to solve identified problem or meeting perceived needs in the environment (market, community etc)

### **IMPORTANCE /REASONS FOR GENERATING BUSINESS IDEAS**

- ✓ To enable the business to succeed at the start and to stay competitive afterwards
- ✓ To respond to market needs. A business can become successful if it provides new products or services or reaches a new group of clients or finds a new channel to reach customer better
- ✓ To change fashions and requirements. These requirements provide opportunities for entrepreneurs to respond to demand with new ideas, products and services
- ✓ To respond to natural threats and scarcities. New innovative business ideas help a business to adapt to changes in the natural environment by providing solutions to problems
- ✓ To stay ahead of competition. If an entrepreneur comes up with new business ideas, it helps him to develop new products which are better in quality and fashion and can out compete other similar products
- ✓ To exploit technology to do things better. Technology has become a major tool for competition in today's markets. The rate of change forces many firms to innovate
- ✓ To promote finite product life cycle. All products have a finite life; there is a need to plan for new products and their growth. Firm's prosperity and growth depends on its ability to introduce new products and manage their growth
- ✓ To spread risk and allow for failure. New products fail 80%. It is therefore necessary for firms to try to spread their risk and allow for failures that may occur from time to time by constantly generating new ideas
- ✓ To help specific groups of people. Creation of new business ideas help specific groups of people like the elderly and those with disabilities e.g the introduction of earphones was aiming at helping those who would wish to communicate as they do other work

### **SOURCES OF BUSINESS IDEAS**

There are many ways to search for new business ideas. The common one include

- ✓ **New papers.** By reading newspapers, one may come up with new ideas from the advertised enterprises. Such advertisement may include commercial

opportunities, like in case there is a business on sale, one may become an entrepreneur by buying an existing business or personal services, where persons with specialized business or technical skills to sell reach potential customers through personal service advertisement

- ✓ **Magazine articles.** One must be alert to the world around him and can stay informed by reading magazines regularly, like articles involving new types of businesses e.g new items that show changes in consumer needs, like increase in demand for physical fitness may influence you to look for ideas that are related to physical fitness like selling sports food or health foods
- ✓ **Hobbies.** These are activities pursued for pleasure and relaxation. These are sources of ideas for new enterprises, like if you enjoy photography, you may be able to expand your hobby into a profitable, full time enterprise
- ✓ **Trade shows and exhibitions.** These may be sponsored by government departments, manufacturers and distributors e.g international trade fair that takes place annually at Lugogo (UMA) show ground in Kampala. The different products that are distributed might give you the information that you need- more information is also provided on leaflets, brochures , samples are also given etc. one may discover an idea that matches one's interest and abilities
- ✓ **Surveys.** New ideas can be identified by finding out what consumers need, could be either formally or informally. Informal surveys include personal contacts (talking to family and friends about a business), observing different business activities in the community etc , formal surveys include use of questionnaires, interviewing different people and discuss with them on the different views that relate to areas of interest etc
- ✓ **Brain storming.** This is a technique used to solve a problem by generating many ideas as possible. This can be perfected by getting with two or three people. One person should be the leader and the other one being the recorder whose job is to list the ideas as they are stated  
Brain storming begins with a question from the leader, another person in the group gives an answer, then one else changes it or adds to it.
- ✓ **Customer complaints.** Complaints and frustrations on the part of customers have led to many new products or services. Whenever customers complain bitterly about a product or service, you have the potential for a business idea. The idea could be to set up a rival offering a better product or service or it could be a product or service which could be sold to the firm in question or to others.
- ✓ **Franchises.** A franchise is an arrangement whereby the manufacturer or sole distributor of a trade mark, product or service gives exclusive rights for local distribution to independent retailers in return for their payment of royalties and conformity to standardized operating procedures.

#### **RULES FOLLOWED WHEN USING A BRAIN STORMING METHOD**

- Do not criticize person's ideas as it will lead to members talk less thus few ideas will be generated
- Encouraging freewheeling, the wider the range of ideas the better, an ideas need to be tamed that thinking up another one

- Try for quantity, the larger the numbers of ideas, the better the chances of getting good ones (quantity helps breed quality)
- Combine and improve. Members should state their own ideas and also suggest how the ideas of other could be turned into better ones, it's possible to combine two or three ideas to form another idea
- ✓ **Vocational training and experience.** A business idea can be developed from one area of training for instance someone with experience gained as an employee can start his / her own afterwards, most people who have started schools have once ever been employed and experiences teachers

#### **Steps followed to materialize a business idea**

- ✓ Look long term. Do some range planning for your business to get a better concept well flop to fly
- ✓ Jump in. if the idea you have got is great, then go for it, get a prototype, find customers or someone interested
- ✓ Be patient. Starting a business from scratch always takes longer and is more complicated than anyone thinks, do not be afraid of failure

#### **Procedure for researching a business idea**

- ✓ The idea stage. The first stage in getting the idea and imagining all the possibilities under this stage. This is done through market research
- ✓ Analysis. This stage looks at a business idea from the perspective of the company customer, competitors and collaborators. Those are the fair major issues considered when analyzing a business idea
- ✓ Checking out the competition. This involves finding out the stand of competitors, talking to them, what customers like or dislike about competitors' products or services
- ✓ Turning the idea to make it work in case it looks like a flop. This enable it to bring great success after a little research
- ✓ Prepare a marketing plan and a budget showing the distribution strategy in case the idea is ready to go and you are ready to get started, ensure that you sell where your target market is likely to buy

#### **How ideas can be identified from environment**

- ✓ Developing an idea in an area where you have interest. this can help one to develop a good idea because what he/she has much drive to do it best
- ✓ Putting yourself in unusual situations. This may involve meeting small groups of people to brainstorm; travelling to new areas can also help one to gather information about the thoughts ideas. Setting a dead line can also stimulate imagination
- ✓ Taking note of the obvious problems that you encounter in your day to day life. Have very problem in mind and note down at one time
- ✓ Listening to and observing what is going on around you. In most case entrepreneurs fear to tell their friends the ideas they are having and thus keep

isolated. However there is need to risk and tell people the idea so as to open up for criticism

- ✓ Modifying your idea. If you had a set a certain business plan, do not be afraid to change the course
- ✓ Determining/measuring genuine interest in the idea. This enables you to determine whether the business will fail or succeed. If it succeeds, customers will be served well and become excited
- ✓ Avoiding dismissal of the idea quickly and easily. Some people think that an idea which people have never jumped onto is not good, however try it yourself and persist

How can a business idea be turned into a business opportunity

- ✓ Documenting the invention. This involves writing everything you can think of that relates to your invention, from what it is , how it works and how you will make it and market it
- ✓ Researching about the idea. This involves researching the idea from a legal and business point of view
- ✓ Researching about the market. There is need to invest about the market before time and money are invested into patenting the invention
- ✓ Making a prototype. A prototype is a model of your invention that puts into practice. All things written in the inventors journal, it demonstrates the design of the invention when presented to potential lenders and licensors

### **Rules for making a prototype**

- Beginning with a drawing
- Create a concept mocker of any material that will allow you to create a model of their design
- Once you are satisfied with the mocker, create a full working modal of your idea.
- ✓ Filling a patent. The patent includes a utility patent (for new processes or machines) and a design patent (for manufacturing new or obvious ornamental designs). An application is filled to look for a skilled patent/ professional to work upon it

Types of patent rights

- i. Utility patent i.e. for new processes or machines
- ii. Design patent i.e. for manufacturing new or obvious ornament at design.

Steps followed when choosing the best patent professional

- Doing your homework. Have your investors journal and prototype and notes with you
- Making sure e.g registered with the Uganda patent and trade mark office
- Asking them what their technical background is
- Discussing the fess

- ✓ Marketing the invention. This involves figuring out how you are going to bring the product to the market. It involves deciding whether the entrepreneur will sell the product him/herself or license it for sell through another company

#### Aspects considered when evaluating different business ideas

- ✓ Present market. The size of the presently available market, provides prospects of immediate sales to support the operations. The factors include market size, products' relation to need, strengths of competition, sales effort required, quality and price relationship in respect to competitors, service requirements, distribution system and export possibilities
- ✓ Market growth. There should be prospectus for rapid growth and high return on capital invested. Indicators include projected increase in need, increase in customer acceptance , product newness, economic trends and competitive advantage
- ✓ Costs. Costs of production include startup costs , cost of raw materials inputs, labour costs, selling costs, efficiency of production processes, patent and licenses, service, warranty and customer complaints
- ✓ Business risks. A business risk can be assessed basing on the following factors. Market stability in economic cycles, technological risks, import competition, quality and reliability of risks, predictability of demand, initial investment costs, vulnerability of supply and price of inputs, legislation and controls, time required to generate profits, inventory requirements etc

#### Factors that determine or affect sales in business

- ✓ Market size. Large market size increases sales as compared to small market size.
- ✓ Product's relation to need. A product which is in line with the customer's needs attract more sales than that which is not in line with customer's need
- ✓ Strength and dominancy of competition. High level of competition reduces sales compared to a low level of completion.
- ✓ Quality – price relation compared to competitive products. High quality products compared to those of competitors attract more sales than low quality products.
- ✓ Sales effort required. Less sales effort required attracts more sales more than high sales effort required.
- ✓ Service requirement. More service required on the product reduce sales than less service required.
- ✓ Availability of sales and distribution system. Ease to sell and distribute the products increases sales than limited access to market area.
- ✓ Export possibilities, where it's possible to export sales are higher compared to where exports are restricted.
- ✓ Price charged. Lower prices increases sales as they attract more customers compared to high prices.
- ✓ Population size. A large population provides a large market hence more customers compared to high prices.
- ✓ Level of customer's income. High income earners provide a bigger market hence more sales than low income earners.

## **Ways of protecting business idea.**

- Patents. Grant from government investor of the product, giving the exclusive right to make, use or sell the invention for a number of years from the date of filing the patent application.
- Trade marks. Any distribution word, phrase, symbols, design, name, logo, slogan, or trade dress that a company uses to identify the origin of a product or to distinguish it from other goods on the market.
- Copyrights. An exclusive right that protects the creators of original works of authorship such as literacy, dramatic, musical and artist work
- Trade secret. Consists of knowledge that is kept secret in order to gain an advantage in business. E.g customer lists, source of supply of scarce materials, source of supply with faster delivery, lower prices.

## **BUSINESS OPPORTUNITIES**

A business opportunity is an attractive investment idea or proposition that provides the possibility of a monetary return to the person taking the risk.

It's an attractive project idea which an entrepreneur accepts for investment on the basis of what is known about the possible success of the business.

## **IDENTIFYING GOOD BUSINESS OPPORTUNITIES**

Identifying and acting on opportunities is one of the characteristics of a successful entrepreneurship, it is the basis of starting and maintaining successful ventures.

Business opportunities are determined by customer requirements and lead to the provision of a product resource which creates or adds value for its buyers and end users.

A good idea is not necessarily a good business opportunity e.g an idea is looked at from the technical point of view, the market aspect. Its level of competition, the required resources, the return on investment etc, all these aspects are looked at when / as the best indicators of a feasible and viable idea.

## **INDICATORS OF A GOOD BUSINESS OPPORTUNITY.**

- ✓ **Availability of Real demand/ market.** In this case, market means people or institutions willing and able to buy goods and services of a business.
- ✓ **Reasonable level of Return on investment.** The rewards / profits realized from the business should be acceptable depending on the level of investment by the entrepreneur in terms of risk and effort.
- ✓ **Availability of required resources.** These refer to the means required for production of goods and services for instance capital, raw materials, labour, land etc.
- ✓ **Availability of required technical skills.** This refers to the machines and skilled manpower needed for production of goods and services. These should be available and affordable for a business idea to be feasible and viable.
- ✓ **Acceptability in community.** For a business to be viable and feasible, it should conform to the social norms and be liked by society for instance a bar business would not be viable in a Moslem dominated community.

- ✓ **Favourable government policy.** There should be a conducive government policy. Favorable for investment for instance low tax rates, tax holidays etc for a business to be viable.
- ✓ **Availability of good infrastructure (support services).** This takes the form of good transport, communication, power, banks, insurance companies, warehouses etc.

### **QUALITIES OF ATTRACTIVE BUSINESS OPPORTUNITIES**

- ✓ Be competitive ; ie be equal to or better from the customers point of view, than the other products /services
- ✓ Good income potential. A good business opportunity is one which is capable of giving a sufficient income to support oneself in a reasonable life style, i.e. it should have the ability to place a good, steady, fulltime income.
- ✓ Reasonable case of entry, into the market. It is advisable that one should enter into a business in which he / she has got the general background of it. This enables the entrepreneur to get started easily. For example, he can be able to use contracts already has and his reputation in the field could be valuable in running the business successfully.
- ✓ Low or, modest startup costs. A good business opportunity is one which requires low capital investment.
- ✓ Good growth potential. An attractive business opportunity is the one which has the chance to survive for a long time while generating sufficient income for the owner.
- ✓ The business opportunity should be related to your skill and experience. Some business require certain skills and experience. This means that for one to succeed in such businesses, he /she should possess the required skills and experience needed to run the business successfully.
- ✓ It should be properly timed. A good business opportunity is one that is timely and responds to the unsatisfied needs or requirements of customers who have the ability to purchase and who are willing to buy.
- ✓ There should be a sizeable market gap. In terms of people or institutions willing and able to buy goods and services of a business.
- ✓ Meeting objectives. A good business opportunity should have the ability to meet the goals and aspirations of those taking with risk.

### **Types of business opportunities**

- i. **Retail and wholesale types of Business.** Retail businesses sell goods directly to consumers, usually in small quantities. Wholesalers on the other hand buy goods often in large quantities from manufacturers or importers and then sell them to retailers or other distributors.
- ii. **Franchise and independent types of business. Franchise** it is a special right given by a manufacturer or sole distributor to an entrepreneur or a business to sell the manufacturer's goods or services in a given area or place. An entrepreneur or business that buys a franchise by paying a franchise fee buys the right to sell the manufacturers or parent company's goods or services.

An independent business is one that you create and nurture on your own. This allow as you control and freedom which you will not get from a franchisee operation.

- iii. **Product and service (or mix both) type of business.** If you are a trained professional, such as dentist, accountant, teacher, etc your business is going

to resolve around the professional services you can provide. **But** there are many professionals that also have the opportunity to offer related products, if they choose to do so. If you a photographer for example, you may decide to sell cameras, picture frames and photo paper or if you are a teacher, you can decide to write text books for sale, operate a stationery etc

- iv. **Store front or non-store front type of business operations.** If you have decided to start a business selling products you need a store front of some kind e.g a retail store or virtual store front like e-commerce site. If you have decided to start a service selling business, you may or you may not want a store front. Since most of the resources are performed at a customer's home e.g cleaning. Some resources can be offered over the phone or the internet these businesses often depend on virtual store fronts(Business web sites) to attract clients. Alternatively one may use a home as a store front e.g a hair dressing business, travel agents business etc.).
- v. **Industry type of business.** An industry is a collection of firms producing related goods or services. It is important for an entrepreneur to choose an industry that he is only interested in but have some expertise or experience in order to avoid making costly mistakes where he does not have the necessary knowledge.
- vi. **Identification process for a good business opportunity.** Going into business is very simple but staging in business and making a success of it is not. Being in the right place at the right time is partly luck but more to do with good planning, setting up a business for the first time or expanding an existing one can be the road to riches and personal fulfillment however, it can also be the road to financial ruin and personal misery.  
If an entrepreneurship identifies a business opportunity, it is ideal to carry out a pre- feasibility study strictly in order to determine whether the opportunity is viable. It also acts as a basis upon which financial assistance can be sought from the financial system.

**FEASIBILITY OF BUSINESS IDEA** refers to the extent to which a business idea can be done or implemented using the available resources on the other hand a viable of a business idea refers to the degree to which a given business idea is profitable.

The feasibility study is broken down into three;

- a. Market feasibility study, this study considers the market study which focuses on the overall demand, product description which involves understanding the details of the product to be produced the users and standards it will fulfill
- b. Technical feasibility study; which determines the adequacy of the manufacturing process plants and machinery to be used in production of a given product with a predetermined framework in terms of quality, raw materials, without expensive break down problems.



c. Financial viability study; This part reveals how attractive or hopeless the business idea is from the financial point of view. This is divided into six components i.e

- Project cost
- Means of finance
- Capacity utilization ( income estimation)
- Expenditure estimate
- Profitability estimates
- Risk analysis.

## **EVALUATING BUSINESS OPPORTUNITIES**

This involves discussing the steps to determine if the will be profitable to start up your business i.e investigating thoroughly a market opportunity before going into business or else you may discover that there is no market which may result into business failure.

The purpose of market investigation is to obtain information that will help increase your chances of success in a particular business.

Therefore, your aim should be to start the right kind of business in the right location.

- **Deciding on the type of business.** There are three major types of business you can choose from ie
  - ✓ **Merchandising business.** This type of business buys finished products from wholesalers or manufacturers and retailers or wholesalers then to others for consumption or resale.
  - ✓ **Service business.** This type of business offers services to consumers, merchandisers, or even to manufacturers. It offers this service in exchange for a fee.
  - ✓ **Manufacturing or processing business.** Manufacturing businesses are those which transform or process raw materials and make products that are significantly different from the inputs.
- **Choosing a location.** Choice of a location for your business is an important factor in its success for failure. A poorly run business can often survive in good location, but even the finest business will fail in a poor location.
- **Forecasting sales.** Sales forecasting means estimating the size of your market, that is, how much of your product or service you can expect to sell in the future. Before starting a business, you must estimate what share of the market you can expect to get in order to determine whether or not the business will be profitable. Also, you must be sure that a market exists before applying for a loan or grant. Many loan applications ask for a sales forecast and a profit forecast.
- **Estimating your cost.** Once you have determine a sales forecast for a certain period of time in the future, you will have to estimate the costs of running the business. You will have to consider the cost of the goods in terms of purchase and freight, wages, advertising, taxes, power, rent, loan payments etc.

- **Estimating profits.** Once you have estimated your sales and costs, you will have to calculate what your profits are likely to be.

Local organisations that provide business opportunity guidance and counseling

These include

- ✓ The Uganda industrial research institute.
- ✓ Non-government organisations.
- ✓ Government organisation like NAADS (National Agricultural Advisory Service)
- ✓ Uganda National Chamber of Commerce and Industry
- ✓ Uganda Manufacturers Association.
- ✓ Uganda Investment Authority.
- ✓ Uganda Coffee Development Authority.
- ✓ Uganda National Farmers Association.
- ✓ Capital Market Authority.
- ✓ Uganda Revenue Authority.
- ✓ International Labour Organisation.
- ✓ Uganda Women Entrepreneurs Association Limited.
- ✓ Kampala City Traders Association- KACITA
- ✓ National Environment Management Authority- NEMA
- ✓ Enterprise Uganda
- ✓ Uganda Tourism Board.
- ✓ National Social Security Fund- NSSF
- ✓ Insurance Companies.

## **BUSINESS ETHICS**

Ethics are a set of moral principles which are recognized in respect of a particular class of human actions or group

Business ethics are acceptable measures or ways in which the business should conduct themselves towards their customers, employees, society, government and fellow business.

Or

They are those virtues that business peoples apply when making business decisions.

## **PRINCIPLES OF GOOD BUSINESS ETHICS**

Ethical principles are the values that set the ground rules of all that we do. The ethical principles are

- ☞ Honesty. An entrepreneur should be open and freely share information. He shouldn't say thing that are false or deliberately mislead others
- ☞ Promise keeping. One will not make promises that cannot be kept and will not make promises on behalf of the company unless he has the authority to do so.
- ☞ Fairness. An entrepreneur should create and follow a process and achieve outcomes that a reasonable person would just call. E.g equal treatment of workers, like giving them a fair pay depending on stipulated conditions

- ☞ Respect for others. It's important for one to honour and value the abilities and contributions of others, embracing the responsibility and accountability for our action in the regard
- ☞ Compassion, one should maintain an awareness of the needs of others and act to meet those needs whenever possible. They should minimize harm in society
- ☞ Integrity, one will always live up to ethical principles, even when confronted by personal, professional and social risks as well as economic pressure, e.g the hiking rate of inflation doesn't mean reducing worker's salaries or producing poor quality products
- ☞ Cooperation or team work, an entrepreneur should be able to support acts of other business partners and work together to achieve the common goals of the industry e.g. during strike due to high taxes.
- ☞ **Law abiding.** Ethical entrepreneurs abide by laws, rules and regulations relating to their business activities.
- ☞ **Commitment to excellence.** Ethical entrepreneurs pursue excellence in performing their activities, are well informed and prepared, and constantly endeavor to increase their knowledge in all areas of responsibility.
- ☞ **Reputation and morale.** Ethical entrepreneurs seek to protect and build their businesses' good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions necessary to correct or prevent inappropriate conduct of others.
- ☞ **Accountability.** Ethical entrepreneurs acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.

### **STEPS IN DECISION MAKING THAT AID ETHICAL DECISIONS**

1. Defining the problem that requires a decision. It is good to take time to clarify the problem before taking a decision.
2. Considering alternative solutions to the problem. There is always more than one solution to any problem. Practice thinking about possibilities before taking action.
3. Identifying the consequences of alternative solution.
4. Collecting information if you do not have enough to make a right solution.

### **PARTIES TO BUSINESS ETHICS**

- The clients or customers who deal in the business
- Employees who are employed by the business
- Government of the country or authority in which the business activities take place
- Businesses which competes with the entrepreneur's business
- The society within which the business operate
- The suppliers of inputs

### **BUSINESS ETHICS TOWARDS CUSTOMERS**

- Honesty. An entrepreneur is supposed to be honest to his/her customers, this will involve charging fair prices for the goods, good quality and affordable quantities etc

- Endeavour to seek and analyze the needs of customers and making sure that goods/services provided conform to those identified needs of customers
- Courtesy. This involves politeness, patience and sincerity when dealing with customers. An entrepreneur should always put his/her self in customer's shoes, for instance one is not supposed to sell underweight and expired goods to his customers
- An entrepreneur should ensure that the goods or services provided do not have any negative impact on the customers, for instance a professional doctor or nurse should not sell expired drugs to patients or his client since they will affect their lives instead of treating them
- Genuine to customers. An entrepreneur should be kind, cheerful and should always try to control his/her tempers when dealing with clients/ customers, should not use abusive language or shout at customers, he/she should instead try to make them understand what he/she needs in case of any discrepancy
- Provision of the required information to the clients or customers on the use of the products/services. Installation, maintenance and other likely impacts of using the product
- Responsibility. An entrepreneur should try to meet his obligations as agreed on , for instance he/she should fulfill his contractual obligations on agreed time, delivery on time and fulfill his/her part of the deal/bargain

## **BUSINESS ETHICS TOWARDS EMPLOYEES**

In order for an entrepreneur to treat the employees in an ethical manner, the following should be highly observed

- Through giving them a fair pay. Payment to employees should be fair i.e. in relation to his value in business and amount of work done. One should also consider the seniority. Experience, responsibility etc of the employee when determining the payment
- Should provide clear and fair terms of employment e.g employees should be given appointment letters stating whether they are employed on permanent, temporary or on a contract business. The salary or wage should be specified as well as duties and responsibilities
- Ensuring job security of an employee. As it is the right of an employee to know the terms of employment, for instance, it can be on a permanent basis, temporary or contractual form of employment which helps on employee to plan accordingly e.g if it is a contract based, one should prepare to look for another job when the term of contract is ending
- Provision of good working conditions. Since employees spend most of their useful time at their work places, the work place should assure a healthy life during and after staying at the business, such conditions may include protective working clothes, helmets, gloves etc good transport, feeding, accommodation. Medical care and other allowances

- There should be constant arrangement for proper training and education of workers, this will improve on their skills in operating their business activities which improve performance
- Listening to employee's personal problems and complaints, through this, an entrepreneur can help in solving or assisting them where necessary through giving them affordable and relevant support to them
- Politeness i.e. workers should be treated in a polite way in all situations, this also involves those situations where employees go wrong, for instance let a single mistake made by an employee not make an entrepreneur forget the good things made / he has made
- Creating a room for creativity. Employees should be treated as human beings who have the right to think and act i.e. they should be given a chance to exercise activities, this may lead to improved services and productivity to the business
- Respect, the entrepreneur should respect the employees for the contribution they make to the business, for instance the entrepreneur should not publically abuse employees and the norms of the society of the area should be respected when handling employees
- Provision of proper recognition, appreciation and encouragement of special skills to capabilities of workers, this increases their morale and devotions to their work in business

#### **BUSINESS ETHICS TOWARDS THE SOCIETY**

- Conserving the environment. The business should endeavor to take all the necessary steps needed to conserve the environment e.g trying all the necessary ways of controlling pollution i.e. in air, water and swamps.
- The business should endeavor to protect people's health and lives during its operations like avoiding emitting poisonous and toxic substances, controlling machinery noise, explosion etc.
- A business should have strict considerations for the norms, for instance during business activities in what is acceptable to the culture or religious beliefs of the society like putting up a disco near a secondary school, selling pork in a Muslim community.
- A business is also expected to get involved and contribute to the needs of the society, like contributing to community health centres, community development like cleaning or road construction.
- A business is also expected to provide employment opportunities to the community members instead of giving them out to foreigners i.e. in case they fit in the existing opportunities in terms of qualification, experience and skills.

#### **BUSINESS ETHICS TOWARDS GOVERNMENT**

- Complying with the laws that govern the business like registration laws, licensing laws, labour laws, occupational hygiene
- Observing and setting the tax obligation as required by law, it is a must for entrepreneur to pay taxes and they should be paid on time and in full

- Businesses should follow the government policies in their operations like selling products that are acceptable by the government, should avoid engaging in illegal commodities like fire arms, expired commodities etc
- The business should meet the production standards in terms of quality, weights etc, dishonesty acts like charging the weighing scales in order to exploit consumers should be avoided
- The business should also comply with occupational hygiene, environmental regulations etc as prescribed by the central and local government

#### Business ethics towards suppliers

- ✓ Paying them promptly
- ✓ Offering them a fair price
- ✓ Attending to their complaints
- ✓ Respecting the terms and conditions of the transactions

#### Business ethics towards competitors

- ✓ Ensuring fair trading
- ✓ Anti-competitive policies
- ✓ Merging where possible
- ✓ Giving referrals in favour of competitors

### **BUSINESS ETHICS TOWARDS SHARE HOLDERS**

- ✓ The business should protect the interests of the shareholders / the entrepreneur for business survival.
- ✓ The management of the business should make sure that the capital of the business is safe from misappropriation, should avoid mishandling business property etc
- ✓ The management should ensure that the business makes profits and deliver the right dividends to the share holders
- ✓ Management should ensure that the business image is amplified so that the entrepreneurs enjoy self-esteem and recognition.

### **IMPORTANCE OF BUSINESS ETHICS TO BUSINESS**

- Helps the entrepreneur to be trustful by re-organizing that the customer is the king. This helps to maintain and attract new customers
- Enables business people to meet obligations of their customers and business partners regardless of anything else
- Increases business turn over engaging in fair trading activities like guaranteeing a safer place for your employees, fair pricing for your product guarantee a high business turn over
- Increases business profits when a business that practices business ethics towards its customers, its total sales increases as well as its profits. This facilitates business growth and expansion
- It leads to recognition from the society. Being ethical as a business person builds the image of reliability and establishes reputation with your customers.
- It leads to easy access to human resources through gaining good reputation which enables, it to get human resources to work for it

- It leads to easy access to inputs like raw-materials. By practicing business ethics to society, the business earns a good reputation which enables it to get human resources to work for it.
- It enables the business to win government support. Honest business attract the government supports and sympathy in terms of needs

### **Developing a business code of conduct**

- ✓ All employees shall dress decently in uniform to look smart
- ✓ Arrival and departure time shall be recorded in the arrival and departure book to monitor their attendance.
- ✓ Workers shall keep company information secret.
- ✓ All workers shall conduct themselves in a morally acceptable ways as described by the company code of conduct.
- ✓ Workers shall not be allowed to engage in sexual harassment.
- ✓ All workers shall handle business assets with care any loss arising from mishandling of the propriety, the person in charge is to pay for the damage.
- ✓ Worker in a competing business shall not be recruit into the business work force not until they provide termination letter or any other inform that indicate that they are no longer employees of that business.
- ✓ No worker shall be allowed to use any drug or intoxicating drink that may impair his or her sense of judgment while at work.
- ✓ Workers shall not be allowed to use business name for personal activities that are not related to their work title.
- ✓ Working days shall be strictly Monday to Friday

### **Unethical behaviors practiced by entrepreneurs in Uganda**

- ✓ Selling to customers goods that have expired
- ✓ Using wrong measurements
- ✓ Abuse of customers in terms price negotiation
- ✓ False declaration of business asset value
- ✓ Using unqualified personnel
- ✓ Paying workers low wages below government wage
- ✓ Exploiting consumers by charging high prices
- ✓ Evading taxes

## **BUSINESS CONTRACTS**

**A business contract** is a legally binding agreement between two or more parties that is enforceable by the law

OR

A contract is an agreement or promise between two or more persons by which rights acquired by one party to act on the party of the other parties that is legally binding or enforceable by law.

## **PARTIES TO A CONTRACT**

For a contract to exist there must be legal persons or entities with common interest (who have interest in it) such persons are referred to as parties to a contract

These parties have the legal capacity to enter into a contract, for instance adult persons, registered business like co-operatives, limited liability companies

However, some group of persons or business cannot legally binding contracts for instance.

- ✓ A minor or person who is under the age of 18 years cannot enter into a valid contract
- ✓ A person of unsound mind cannot enter into a valid contract while he or she is in that state of unsound mind
- ✓ A drunkard cannot enter into a legal contract while he or she is in that state of Drunkardness
- ✓ Un – incorporated / unregistered businesses like partnership, sole proprietorship, cannot enter into a valid contract (in their capacities as business entities) may be their owners can do it on their behalf.

### **TYPES OF CONTRACTS**

1. Oral contracts, these are also referred to as a gentleman's agreement where parties agree to deal with each other without writing down anything. The law does not easily enforce such a type of a contract as there is nowhere to refer to on what was agreed upon
2. Written contracts. These are written down and signed by both parties and witnessed by a third party. Examples of such contracts may include, sales agreement, appointment letters etc. such a law is easily enforceable by law.

### **ESSENTIALS OF VALID CONTRACT**

- i. **The Offer.** These are terms and conditions set by one party to the contract to the other as being his or her dealing position. It refers to the proposal made by the offeror on certain terms together with a promise to be bound by the proposal if the offeree accepts the stated terms.
- ii. **Acceptance.** This refers to the positive response to an offer. This is the agreeing to the terms and conditions set by the other party to whom the offer was made.
- iii. **The Lawful Consideration.** This refers to the price paid by one party for the promise of the other but in monetary terms i.e a contract is not legally binding unless it is supported by considerations (money). For example, if Opio enters into a contract to supply beer to Okello at Uganda shs 15,000 per crate, the shs 15,000 is the monetary consideration.

**Note.** An agreement is legally enforceable only when each of the parties to it gives something and gets something. That something given or obtained is the price for the promise, and it is called consideration.

- iv. **The capacity of parties.** The capacity of parties to an agreement must be competent enough to contract, otherwise it cannot be enforced by court of law, in order to be competent to contract, and the parties must be of the age of majority and of sound mind.

**Note.** If any of the parties to the agreement suffers from minority, lunacy, Drunkardness etc. the agreement is not enforceable by law, except in some special cases.



- v. **Free Consent.** This means that, both the concerned parties must agree on the same thing in the sense freely without any undue influence, fraud, misrepresentation or mistake.
- vi. **Lawful object.** A valid contract relates to legal transaction. The product or object to be offered should not be illegal, fraudulent, or opposed to public like prostitution, gambling, corruption. Etc.
- vii. **Intention to create a legal relationship.** There must be an intention among the parties that the agreement be attached by legal obligation. Agreements of social or domestic nature do not contemplate legal relations.  
And as such, they do not give rise to a contract. For instance agreements between husbands and wife also lack the intentions to create legal relations and hence do not result into legal contracts.
- viii. **Possibility of performance.** To be a valid contract, the activity must be possible to be performed legally and physically. If an act is impossible in itself physically or legally, the agreement cannot be enforceable by law.
- ix. **Certainty.** The terms and conditions of a contract must be clear, defined and where possible measurable.
- x. **Independent Witness.** Valid contract should be witnessed by an independent party with no interest in the transaction.
- xi. **Form.** A valid contract must be put in writing for easy reference in case of any misunderstanding. It should appear in black and white.

### **TERMS AND CONDITIONS OF A CONTRACT**

**Terms and conditions** of a contract refer to the ways the parties to the contract have agreed to deal with each other in their contract.

Before a contract is concluded each of the parties make statements that are meant to induce the other party to enter into a contract. These statements turn out to be known as representations

When such statements turn out to be false, they are known as misrepresentations and such statements can lead to a contract become invalid, void or voidable

When the parties to the contract are bargaining and agreeing to deal with each other, they set themselves measures at which they have to deal with each other. These terms normally relate to transaction itself and they may include the following.

- ✓ Description of the nature of goods and services (offer) that will be involved in the contract
- ✓ The price / consideration at which the goods and services are to be exchanged.
- ✓ The quality of goods and services involved in the agreement
- ✓ The lead time of the supplier
- ✓ The frequency at which the goods are to be supplied
- ✓ The time of delivery of goods and provision of services
- ✓ The place where the goods should be delivered
- ✓ The mode of delivery of goods
- ✓ The terms and conditions of payment for the offer (goods and services) i.e on cash basis, credit basis, installment payment or payment in kind.
- ✓ The credit period that shall be allowed
- ✓ The place where payment shall be made

- ✓ Benefits to the buyer if any such as discounts
- ✓ Other costs if any like insurance, transport etc
- ✓ The procedure and method of settling disagreements / conflicts in case they arise
- ✓ The conditions under which the contract may be terminated

### **IMPLICATIONS OF A CONTRACT**

When a contract is being made, the intention to create a legal relationship is an essential element in such a contract; this is an implication that any contract made between the parties must have an intention to create legal relationship. So any contract that is devoided of this is illegal

A contract is an agreement enforceable ie when parties enter into it as they create obligations which each of them is expected to observe by due performance. This implies that if any parties fail to carry out his / her obligation, he is said to be in breach of the contract and there are set remedies which the law makes available to the innocent party.

The terms of contract are in most cases agreed upon by the parties themselves. However, for certain contracts, especially those involving sale of goods, the following terms are implied by law

- ✓ There is legal relationship between the parties to contract ie the seller and the buyer.
- ✓ Business operations are legally binding and must be observed according to the requirements of law.
- ✓ The contract has to be accomplished in the stated period of time.
- ✓ Breach of any clause will lead to undesirable consequences to the party violating the contract
- ✓ Both parties to the contract have the obligation to work hard to fulfill what is spelt in the contract
- ✓ If one of the parties to contract fails to perform in accordance to what was agreed upon, the aggrieved party may seek through courts of law solutions for the loss suffered. Therefore, parties to the contracts always consult and be advised on the contracts before they sign them.

### **DISCHARGE OR TERMINATION OF A CONTRACT**

This refers to the disagreement of the parties from their contractual obligation created by the contract. Its effects are to relieve the parties of any further responsibility imposed on them by the contract. A contract may be discharged through any of the following ways.

**By performance.** If the contract is fulfilled as per the agreed terms and conditions. A contract is discharged when each party to it performed to the full satisfaction of the other in accordance with the agreed terms and conditions.

**By frustration.** This refers to the conditions that render the performance of a contract impossible. For instance war outbreak, which creates hostile environment government intervention, may also lead to a contract to an end, nonoccurrence of an event ie some contracts may be on certain events.

E.g if it rains, so failure of such an event to occur automatically terminates the contract, so failure of such an event to occur automatically terminates the contract

**By breach of the contract**, it occurs when one of the parties fails to perform his/her obligation in accordance with the contract. It can be partial or total breach.

Partial breach is where only one part of the agreement had been fulfilled while total breach means that no part of the agreement has been fulfilled. The contract can hence be terminated by the parties involved or the aggrieved party can go to court to seek termination and remedy as may be determined by court.

**By operation of the law** ie if there is lapse of time, bankruptcy of one or both of the concerned parties, then a contract may come to an end or may be discharged.

**Destruction of the subject matter.** When the subject matter of the contract is destroyed and ceases to exist, the contract is terminated since it has no basis. For example if A agrees to sell his car to B in a week time and after a day, it catches fire, then the contract is terminated as the subject matter is destroyed by fire.

**By rescission.** A rescission of a contract is when a contract is terminated because and individual misrepresented themselves, acted illegally or made a mistake. For example if you bought a house but after further inspection you discover that the seller intentionally hid the poor physical condition of the home you possible terminated the contract.

### **CONDITIONS UNDER WHICH A CONTRACT MAY BE TERMINATED**

- ✓ When parties involved agree to terminate the contract.
- ✓ When there is a breach of a contract. An agreement may come to an end if either of the parties fails or refuses to perform according to agreed terms and conditions of the contract.
- ✓ When the transactions involved declared illegal.
- ✓ When one of the parties of the contract ceases to be a legal entity. E.g. when the person becomes insane.
- ✓ When the time of duration of a contract expires.
- ✓ When one of the parties declared bankrupt.
- ✓ When there is misrepresentation. i.e when there are false statements within the terms and conditions of the contract
- ✓ When there is death of one of the parties.
- ✓ In case of frustration. I.e performance of the contract impossible. E.g. government intervention, non-occurrence of the events etc.
- ✓ When one of the parties found to be minor.
- ✓ In case there is operation bylaw. ie conditions of law may terminate it.
- ✓ In case of performance. After the obligations of the contract are fulfilled by both parties.

### **Importance of business contracts**

- i. It promotes a legal relationship among the concerned parties. It protects an entrepreneur from untrustworthy customers or business partners
- ii. It promotes production of quality products. This is because quality requirements are always specified in a contract.
- iii. It promotes confidence that may arise due to lack of integrity and trust worthy
- iv. It enables business to run with a high degree of certainty incase terms and condition are well defined.
- v. It promotes hard working. This is because concerned parties always work hard in order to fulfill the legal obligations and promise.
- vi. It controls possible future misunderstandings among the concerned parties.

## **RISK TAKING IN BUSINESS**

A risk is a situation where one is required to make a choice between two different alternatives which may result into differing rewards for success or penalties for failure.

A risk refers to the possibility of suffering harm/loss/danger.

Every business organisation contains various risk elements when doing the business.

Business risks implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail

### **TYPES OF RISKS**

The different types of risks are classified on the basis of levels and these levels are: low, moderate and high level (risks), they are discussed below

**LOW RISKS.** These have high potential of success but are associated with low profits. In such a situation, an entrepreneur starts a business that is common to him and hence bearing few or low risks of failure.

**MODERATE RISKS.** These are ones that can be forecasted, calculated and managed by an entrepreneur, in such a situation there are higher chances of managing and controlling ie ensuring that in case it happens, it does not affect the business. Examples of such risks are: fire, burglary, theft etc.

**HIGH RISKS.** These are risks that have a high chance of occurrence or happening, and in case they occur, one has less or no control over them. Examples of such risks are, smuggling, dodging government taxes, etc. however, such businesses with high risks tend to fetch higher profits in case they succeed.

Various examples of risks that entrepreneurs encounter in business and they include:

- ✓ Risk of losing market due to changes in customers' tastes, demand and fashions leading to limited customers and closure of the business.
- ✓ Break down of machinery and consequential loss which comes when one does not service machines or if he over used the machines.
- ✓ High staff turnover or loss of key staff members especially if they have unique skills.
- ✓ Fire outbreak due to poor electrical wiring or reluctance leaving candles anywhere which can bring about fire outbreak.
- ✓ Increased competition due to increased number of similar businesses.
- ✓ Loss of money in transit for example when money is being taken to the bank it may be misplaced.
- ✓ Many people steal money from where they work like employees and other community members (theft and burglary)
- ✓ Failure to comply with legislation, regulation and / or standards

- ✓ Bad debts created by customers who may borrow money / goods from business and fail to pay back.
- ✓ Danger or loss of goods in transit. Goods may be damaged in the process of loading and off-loading them.
- ✓ Corruption and embezzlement of funds by the employees for private use.
- ✓ Business failure due to changes in industrial relations, which may lead to strikes
- ✓ Outbreak of diseases affecting farm animals and crops.
- ✓ Risks of being bitten by snakes, dogs, cats and harmful insects like bees, wasps etc
- ✓ Risks due to unfavourable government policies like ban on use of polythene papers.
- ✓ Poor management decisions hence financial mismanagement, human resource mismanagement and misuse of other resources

## RISK ASSESSMENT

Is the process of determining whether a particular uncertain circumstance has the potential to threaten your business operation?

Or, this involves determining the potential success (that will arise out of the risk not happening) or potential loss (arising out of the risk happening). Risks can be assessed based on the following factors

- ✓ **Experience and abilities of management:** If the persons involved in managing the business possess the required knowledge, experience and technical abilities, then chances of success are greater and the risk is lower.
- ✓ **Availability of market:** When there is assurance of high and growing market in an area, chances of success are likely to be greater.
- ✓ **Viability of the idea:** Chances of success in the business are greater and the risk is lower if the selected business idea would profitably be done in the selected business area given the available resources.
- ✓ **Flexibility of the business:** If the business can easily be changed in response to changes in consumer's tastes and preferences without causing negative effects, then the chances of success will be greater and risk is lower.
- ✓ **Level of consistency of cash flow:** This considers the ability of the business to generate enough cash to finance the planned business expenditures. If the business has enough cash (inflow) to finance the planned business expenditures (cash out flow) for success of any business, the cash inflow should always be greater than the cash out flows
- ✓ **Honesty and reliability of people involved:** If the person the business deals with such as suppliers, reliable, then chances are honest and reliable, then chances of success will be higher and the risk is lower.
- ✓ **Marketing and pricing policies:** Given the prevailing competition, chances of success will be greater and the risk lower if the prices charged and marketing strategies used by the entrepreneur are effective and competitive.

## RISK MANGEMENT

Managing of risks refer to the activity that involves controlling risks to ensure that they do not happen and if they happen , they do not lead to severe losses to the entrepreneur's business. There are mainly two methods that an entrepreneur can employ to manage business risks

### MINIMIZING RISKS

In order for an entrepreneur to reduce the chances of business risks happening, he can take preventive measures that will minimize them. Such measures include the following

- Maintaining and up grading production technology and products to minimize the challenge of changes in consumers taste, fashion and demand. This will help to ensure that the products are in line with the customer's needs
- Locating reliable sources of raw materials and keeping close contact with suppliers to reduce the challenge of shortage of raw materials
- Maintaining adequate security, guarding and strengthening burglar proofs, security lights etc, which will help to control the risks of theft.
- Maintaining good employee relations at work place for example by improving the welfare facilities of workers to minimize poor industrial relations which can result into strikes at work place
- Improving the quality of products and customer care to reduce the risk of business being out competed. i.e the changes in the degree of competition in the market.
- Extensive training of the entrepreneur and staff on new equipment or procedures to reduce the risk of staff and the entrepreneur him / her self being left behind by technological changes
- Employing experienced personnel to reduce the challenge of faulty managerial decisions regarding the use of capital, machines, raw materials, defective inputs.

### WAYS OF MAINTAINING SECURITY IN THE BUSINESS

- ✓ Checking thoroughly all vehicles, motor cycles and persons entering or leaving the business at the entrance.
- ✓ Installing security lights and switching on them at night.
- ✓ Ensuring that all vehicles, motor cycles, persons and their properties are registered on arrival at the main gate.
- ✓ Having in place a well maintained fence and monitoring it at all times.
- ✓ Installing security monitoring equipment like CCTV cameras, alarm systems, bomb detectors etc
- ✓ Employing well-armed and well trained security workers and giving them clear instructions relating to security.
- ✓ Sensitising workers frequently on appropriate measures aimed at ensuring security.
- ✓ Electrifying the wall fence of the business.
- ✓ Placing warning notices relating to security at different points within business and outside the premises.
- ✓ Restricting permission to enter the business to business customers, workers and other permitted business parties.
- ✓ Installing fire extinguishers at the business work place.

- ✓ Ensuring that all workers wear business uniforms that have name and number tags on them at all times during working time.
- ✓ Having watch dogs to maintain security at the business premises.
- ✓ Ensuring close supervision of all workers while carrying out their duties to minimise theft.
- ✓ Prosecuting trespassers in the business premises.
- ✓ Safely locking all business movable assets like cash, work equipment, computers etc
- ✓ Specifying the time beyond which no visitor, unauthorized staff, vehicles and motor cycles should be allowed in business premises.

### **WAYS OF ENSURING SAFETY /MINIMISING LOSS OF BUSINESS FUNDS/CASH**

- ✓ Ensuring proper documentation of all cash received and paid out.
- ✓ Banking daily cash received from sales and from other sources daily or regularly.
- ✓ Keeping the remaining cash at the business premises safely locked up in the money safes and also locking the doors to the cash safe rooms.
- ✓ Ensuring that only authorised business workers like the accountants receive cash receipts and recording of all cash received in the cash receipts and other relevant books.
- ✓ Ensuring that all cash expenditures are requested for through the heads of department and then approved by an authorized business official.
- ✓ Prohibiting any cash drawings from the business but if allowed then restricting the amount and charging interest on the amount withdrawn.
- ✓ Ensuring timely collection of debts within one month or as soon as they are incurred so as to avoid losing money due to bad debts.
- ✓ Buying business items from a nearby reliable and cheap supplier in order to minimize high expenditure due to high transport costs.
- ✓ Obtaining the bank statement of the business on a daily basis on working days and ensuring that the accountants reconcile these statements with the cash book of the business.
- ✓ Employing certified auditors to check the accounts records for error and fraud

### **Question:**

You are involved in a business that is dealing in producing and exporting of meat products and it has come to your notice that there is increasing losses in the business:

(a) Develop security guidelines to be observed by all workers in your enterprise.

(b) Develop safety guidelines to be followed drivers of the enterprise vehicles.

NB: When providing guidelines, one should maintain, or use simple tense or use the word shall.

### **SUPER QUALITY SNACKS**

**P.O. Box 78 KAMPALA**

### **SECURITY GUIDELINES**

1. All workers shall be trained on how to use fire extinguishers.
2. Every visitor shall be thoroughly checked at the entry by the company security personnel.
3. All workers shall arrive at 8.00 a.m. and departure is at 5:p.m. every day.
4. No worker shall be allowed to carry his or her bag beyond rest room etc.
5. All workers` activities shall be assigned by the supervisor and every worker is to report to his/her supervisor.

6. Workers shall be trained and retrained on security guidelines such as use of protective gears.
7. All workers shall wear business uniform that have their names and work title.

### **SUPER QUALITY SNACKS**

**P.O. Box 78 KAMPALA**

#### **SAFETY GUIDELINES FOR DRIVERS**

1. No company driver shall be allowed to drive company car under the influence of alcohol.
2. No driver shall be allowed to use a company car unless authorized by the person in charge of transport.
3. No driver shall be allowed to drive over the recommended speed limits.
4. Every driver shall be encouraged to use the seat belts whenever he/she is driving.
5. Before the company van is on the road, it shall first be serviced.
6. All company vehicles shall always be inspected from time to time to ensure that they are in good condition.
7. Every driver shall observe the road signs and instruction, whenever he/she is driving.

### **SUPER QUALITY SNACKS**

**P.O. Box 622 KAMPALA**

#### **SAFETY GUIDELINES FOR BUSINESS FUNDS**

- ✓ One shall ensure proper documentation of all cash received and paid out.
- ✓ Banking daily cash received from sales and from other sources shall be made daily or regularly.
- ✓ One shall keep the remaining cash at the business premises safely locked up in the money safes and also locking the doors to the cash safe rooms.
- ✓ Authorised business workers like the accountants shall receive cash receipts and record all cash received in the cash receipts and other relevant books.
- ✓ One shall ensure that all cash expenditures are requested for through the heads of department and then approved by an authorized business official.
- ✓ There shall be prohibiting of any cash drawings from the business but if allowed then restricting the amount and charging interest on the amount withdrawn.
- ✓ Timely collection of debts shall be ensured within one month or as soon as they are incurred so as to avoid losing money due to bad debts.
- ✓ One shall buy business items from a nearby reliable and cheap supplier in order to minimize high expenditure due to high transport costs.
- ✓ Obtaining the bank statement of the business on a daily basis on working days shall be done to ensure that the accountants reconcile these statements with the cash book of the business.
- ✓ There shall be employing of certified auditors to check the accounts records for error and fraud.

#### **SHIFTING OF RISKS**

The entrepreneur can also manage business risks by shifting the burden of bearing the risks to other parties such as insurance companies by obtaining suitable insurance cover/ protection against fire, theft, accidents and other insurable risks

#### **RISK SITUATION**

A risk situation occurs when the choice is required between two or more alternative whose potential out comes are not known and must be subjectively evaluated. It



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

Risk takers make decisions in conditions of uncertainty and they balance potential success against potential loss

### **Choosing a risk alternative depends on:**

- How attractive the alternative is
- The extent to which the risk taker is prepared to accept the potential loss
- The relative probabilities of success and failure

### **Procedure for analyzing a risk situation**

1. **Assessing the risk:** This is a situation where an entrepreneur is able to establish whether there is a potential risk or not in choosing a particular alternative or cause of action.
2. **Determining the goals and objectives:** The entrepreneur goals and objectives for risk taking must be consistent with the business interest in terms of risk management.
3. **Surveying on various alternatives available.** A survey is carried out to each alternative thought of and details should provide for each alternatives so that costs involved can be assessed in terms of the financial implication of the alternative to taken
4. **Gathering information and weighing the alternatives:** the information gathered is used to assess the various alternatives in terms of future demand, Competitive reactions and the effects of those reactions calculated.
5. **Minimizing the risk.** This is the step that involves realistic assessment of how best to minimize the risks while maximizing the benefits using one or more of the strategies such as using creativity ,entrepreneur`s ability among others.
6. **Planning and implementing the best alternatives,** once an alternative is selected, a plan is made for the implementation of the alternative this include preparing a timetable, defining clear goals and objectives and feedback plans etc so that changes can be made where possible.

NB. Be a calculated risk taker. Remember that in business, as in life, there is no clear way of avoiding risk taking

### **TYPES OF RISK TAKERS**

- 1) **LOW RISK TAKERS.** These are needed at a worker level (lower level) so that they can do the routine things and being organizational stability.
- 2) **MODERATE RISK TAKERS.** These are managers at the middle management level. They are considered as risk takers because they need some freedom to be innovative and make minor modification in procedures and functions.
- 3) **HIGH RISK TAKERS.** These are creative and innovative entrepreneurs, willingness to accept change, try various alternatives and develop innovations for products and services in new areas of business.

Term to be used

- ✓ Risk avoidance. These are measures that can help to prevent the risk from occurring e.g a driver should not drink and drive

- ✓ Risk reduction. This is taking measures to minimize the likely loss or chances of the risk happening e.g putting in place fire extinguishers, having a stand by generator.
- ✓ Risk anticipation. This is forecasting the likely risk that could happen in the business e.g putting in place burglar proofs, employing a security guard, regular servicing of machines etc
- ✓ Risk transfer. This is when the burden of taking responsibility of a risk is shifted to another party e.g taking an insurance policy against , fire, accidents, theft etc

## **SMALL AND MEDIUM ENTERPRISES**

Micro enterprises are the ones employing a maximum of four people with an annual sales turnover of maximum Ugandan shillings of 12 million and total assets of maximum Ugandans shillings 12 million.

### **CHARACTERISTICS OF MICRO ENTERPRISES**

- ✓ They require very little money to be started
- ✓ They require very simple technology to operate
- ✓ Their sales are usually low
- ✓ They usually employ the services of their owners who may be assisted by one or two persons, usually family members
- ✓ They may not need fixed premises to operate from but where they do, they may be housed in temporary structures
- ✓ They don't need to be registered before they commence operations but may have to obtain operating licenses from the local authorities

**SMALL ENTERPRISES** are the ones employing a maximum of 50 people with annual sales turnover a maximum of Ugandan shillings 360 million and total assets of maximum Ugandan shillings 360 million

### **CHARACTERISTICS OF SMALL ENTERPRISES**

- ✓ Their periodical sales are relatively higher than those of micro enterprises
- ✓ They may use some basic and simple technology in the production system
- ✓ They are generally easy to start and operate and may not require formal registration
- ✓ They are relatively well established small businesses which may produce for export either directly or through large businesses

E.g small enterprise include Bakeries, shops, millers etc

**MEDIUM ENTERPRISES** are ones which employ more than 50 people with an annual sales turnover of more than Ugandan shillings 360 million and total assets of more than Ugandans shillings 360 million

### **CHARACTERISTICS OF MEDIUM ENTERPRISES**

- ✓ They operate from well-established and permanent business premises
- ✓ They use advanced technology and produce on the relatively big scale

- ✓ They require a lot of capital to be started and such businesses are formally registered as limited liability companies
- ✓ The business may be producing for the local as well as export market

Examples of medium enterprise include Big Bakeries, Milk processing and packing businesses, and coffee hurling factories

## **FORMAL AND INFORMAL BUSINESSES**

**FORMAL BUSINESSES** are businesses which are registered with the registrar of companies

### **ADVANTAGES OF FORMAL BUSINESSES**

- ✓ Formal businesses are properly organized
- ✓ They are legally recognized
- ✓ Formal businesses have a sound base for further research for growth and development unlike
- ✓ It is easy to access a loan from financial institutions under formal businesses
- ✓ Formal businesses are reliable and permanent hence have easy access to quality resources like raw materials
- ✓ Formal businesses comply with social regulations like registration

### **DISADVANTAGES OF FORMAL BUSINESS**

- ✓ They have always governed by laws and rules and regulations
- ✓ They are not adoptable to changes
- ✓ They are not easy to start because of the involved procedural formalities

**INFORMAL BUSINESSES** are businesses that are generally not registered though they may have licenses, people with such businesses don't pay taxes nor do they adhere to government regulations, but it's wise to be acquainted with laws and regulations

### **ADVANTAGES OF INFORMAL BUSINESSES**

- ✓ They are adaptable to changes and they are more flexible.
- ✓ They are easy to start so many people can run them on a full time or part time basis
- ✓ They require little capital.
- ✓ They lead to fast employment generation.
- ✓ They are basis for initiating new industries.
- ✓ They require simple skills.
- ✓ They are charged with less tax.

### **DISADVANTAGES**

- ✓ They lack a proper working system and not properly organized.
- ✓ They are not legally recognized.
- ✓ They do not have clear access to loans by financial institutions.
- ✓ They do not comply with social security regulations.

- ✓ They produce poor quality goods and services.
- ✓ They dodge government taxes some times.
- ✓ At times they lack continuity since survival depends on the owner.

## **ROLES OF SMALL AND MEDIUM ENTERPRISES IN DEVELOPMENT**

- ✓ Provision of goods and services like health units, schools etc
- ✓ Contributing to the government revenue through paying taxes
- ✓ Providing a center for training and development and local manpower.
- ✓ Providing market for the society's products.
- ✓ Participating in the community development programmes e.g providing assistance to charities, welfare facilities etc
- ✓ Providing good security.
- ✓ Providing information for research and study purposes to students and researchers
- ✓ Utilizing the idle resources such as land and labour
- ✓ Providing employment opportunities to the local manpower.
- ✓ Promoting infrastructural development for example transport network like roads

## **ADVANTAGES OF SMALL AND MEDIUM ENTERPRISES**

- ✓ Help to tap available resources, locally available resources are put to use by these enterprises which reduce resource under – utilization.
- ✓ These is easy decision making. In small and medium enterprises, decision making is easy since there are few people involved in the business.
- ✓ They require relatively less capital to start. Most people in rural areas have small amount of money that cannot start large enterprises
- ✓ They have low operational costs. They don't spend much money on rent, transport and factor in put thus low costs involved.
- ✓ They facilitate flexibility in operation. They are easily transferred from one location to another and output is also easy to vary to demand.
- ✓ Provide employment chances to family members. Most labour employed is family members with few hired experts.
- ✓ Require small market size. Small and medium enterprises produce on small scale and sell affordable quantities customers.
- ✓ There is potential contact with customers. Enterprise owners are directly involved in marketing and selling their products which creates personal contact with customers.

## **DISADVANTAGES OF SMALL AND MEDIUM ENTERPRISES**

- ✓ It's not easy for them to obtain a loan from the Banks like large enterprises since they don't have enough collateral security to use when applying for a loan.
- ✓ They easily collapse as soon as the owners die since the life depends on the owner of the business.

- ✓ Face shortage of skilled manpower to manage the business. In most cases family labour is used which lack required skills and there is no money to employ expertise.
- ✓ They frequently suffer from customers changing tastes and preferences and this impacts negatively on small and medium enterprises.
- ✓ They have shortage of facilities especially for perishable goods due to poor technology.
- ✓ They produce low quality products leading to limited market
- ✓ They don't compete Favourable with big enterprises. Due to the fact that small and medium enterprises do not enjoy economies of scale, they are easily out competed

#### **Reasons for the popularity of small and medium enterprises in Uganda.**

- ✓ They are flexible ie can even be located in rural areas
- ✓ They have low operational costs due to fewer workers
- ✓ Require relatively less capital to start
- ✓ Decision making is easy
- ✓ Require shorter / less requirements to start
- ✓ Use idle local resources e.g labour, land etc
- ✓ Ready market for the products in the surroundings
- ✓ Favourable government policy like regards SMEs
- ✓ Require simple technology which is readily available
- ✓ Improved infrastructure e.g feeder roads, mobile phone network.
- ✓ Simple and easy to manage
- ✓ Require simple and basic technology
- ✓ Located near customers / accessibility
- ✓ Require cheaper labour
- ✓ Less legal requirements / formalities to establish
- ✓ Increased awareness about the role / importance of entrepreneurship
- ✓ The increased need to provide employment for the family members
- ✓ Low risks

#### **CHALLENGES FACED BY SMALL AND MEDIUM ENTERPRISES/ REASONS FOR POOR PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES**

- ✓ Unsuitable business location like far away from the market. Even if a business is properly managed, a bad location leads to its failure. For instance locating a business far away from the market or the source of raw materials
- ✓ Limited market for the business products due to competition and changes in customer's tastes
- ✓ Poor business management. Businesses which are poorly managed for example when they are inefficient in the use of resources, do not keep proper records, use wrong costing and pricing methods, inevitably make big losses and in the end fail and close up
- ✓ Limited market research. This leads to failure to clearly define and understand your market, 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. It also leads to cause of business failure
- ✓ Inadequate financing. There is also a challenge of insufficient funds to buy the required technologies to improve their operation
- ✓ Limited skilled personnel to operate some production technologies which forces businesses to hire expensive foreign experts. Those learning on the job produce poor quality goods and at times damage the machines
- ✓ Use of inappropriate technology which does not optimize productivity and profitability
- ✓ High competition from imported manufactured goods, which are produced by well established businesses often producing on large scale and lower prices
- ✓ Unreliable sources of raw materials, which forces some businesses to operate seasonally especially agro – processing businesses
- ✓ Unfavorable government policies like charging high taxes
- ✓ Inadequate support services like banking, insurance etc. which makes it difficult and expensive to operate their businesses
- ✓ Improper product pricing. Small and medium enterprises at times fail to clearly define their pricing strategy. This results into over pricing of their products, which eventually makes them to fail
- ✓ Poor handling of business customers. No business can afford to survive with dissatisfied 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, cannot take long before it collapse
- ✓ Insecurity and hostilities which make it difficult for businesses to operate in some areas for instance Northern and North Eastern Uganda
- ✓ Industrial unrest. These are in form of strikes at the workplace which makes operations of business difficult
- ✓ Shortage of storage facilities especially for perishable goods
- ✓ Mistakes made by the entrepreneurs / founders in ability reduction in commitment in terms of supervision, funding, initiatives and creativity
- ✓ Unfavourable economic and monetary policies which make credit scarce, keep interest rates very high and make it very expensive for businesses to operate with borrowed capital
- ✓ Choosing a business that is not very profitable. In this case, even if you generate lots of activity, the profits never materialize to the extent necessary to sustain an on – going business

**THE FOLLOWING ARE THE MEASURES TO OVERCOME CHALLENGES FACING SMALL AND MEDIUM ENTERPRISES.**

- ✓ By ensuring proper location of the small scale business enterprises in areas where support services, markets and raw materials can easily be access.
- ✓ By undertaking research and development to come up with new products that meet customer needs and beats off competition

- ✓ By ensuring good business management e.g through employing creating a work environment that encourages productivity, hiring competitive people and training them etc
- ✓ By establishing good relationship with customers and ensure that they are always satisfied with their products and cannot be taken away by competitors
- ✓ By undertaking manageable expansion in order to avoid over expansion challenges.
- ✓ By conducting market survey before setting up small scale enterprises in order to ensure proper business location
- ✓ By lobbying market from outside countries to ensure market expansion.
- ✓ By ensuring effective and appropriate advertising media.
- ✓ By ensuring continuous training of worker to ensure provision of quality goods and services.
- ✓ By saving and re-investing their business profits back to the business to ensure that they maintain adequate working capital to run their business operations
- ✓ By soliciting for government assistance and support in terms of tax reduction, holiday and subsidies.
- ✓ By joining business associations to become active member such that they access assistance from them e.g. Uganda Manufactures Association, Uganda small scale industry association.
- ✓ Advertising and promoting their products so that they can attract new customers and keep the old ones
- ✓ Regularly training their staff to ensure that they are skilled enough to manage the business operations

## **INSURANCE FOR SMALL AND MEDIUM BUSINESS**

Insurance is a firm in which individuals/ business that are subjected to certain risks contribute and pay carefully calculated sum of money and from which the unfortunate few who actually suffer loss from stated risks are compensated

### **TERMS USED IN INSURANCE**

**Insured.** This is a person or company taking out insurance policy in case of loss from stated risk(s)

**Insurer.** This is the insurance company giving protection to the insured's property. It is the company that receives the premium and guarantees protection to the insured. In Uganda examples include national Insurance Company (NIC), Excel Insurance, Jubilee Insurance, Green Land Insurance, State Wide Insurance Company (SWICO)

**Premium.** This is the annual contribution made by the insured to the insurer. It forms a pool from which compensation is made to those who suffer losses.

### **Factors considered by the insurer when determining premium**

- ✓ The nature of the property being insured. Delicate and fragile property/ goods to handle e.g. petrol stations attract higher premium than obvious goods.

- ✓ The number of people exposed to the same risk. The bigger the number the lower the premium because the cost is spread than when the number is small.
- ✓ The frequency of the occurrence of the risk being insured. The higher the possibility of occurrence of the risk the higher the premium paid than where the possibility of occurrence is low.
- ✓ Operating expenses of the insurer. Higher administrative costs and rates of claim of compensation attract higher premium than lower administrative operating expenses.
- ✓ The desired profit margin of the insurer. If the insurer aims at making high profit then a higher premium is charged than when the insurer aims at sale maximization.
- ✓ Precautions taken by insured to reduce the risk. Availability of precautions like fire extinguishers in building, safety belts in vehicles tend to reduce premium rates than where there are no premiums completely.
- ✓ Type of policy to be bought. Short term policies mostly attract less premium than long term policies
- ✓ Value of the property to be insured. Expensive good attract higher premium than cheap goods.
- ✓ Age of property. Old articles and items face higher chances of damage hence attract higher premium than new articles
- ✓ Level of incomes in case of life insurance. High income earners are charged higher premium as their beneficiaries have to be given higher compensation than low income earners.

**Sum insured.** This is the total value of the property which the insured stands to lose in the case of risk happening. It is therefore the value the insurer would compensate the insured in case of loss

**Risk.** This is the event against which the insured takes up an insurance contract. It is something that can cause financial suffering once it occurs. To protect against risks, an entrepreneur takes out appropriate insurance protection

**Insurable risks.** These are risks that can be legally insured in case of their occurrence. Such risks include death, fire, machinery breakdown, theft etc. as can be seen, and an entrepreneur can take a reasonable degree control these risks (except death) by taking appropriate measures in and out of his / her business

**Non insurable risks.** These are risks that cannot be legally insured and in the event of their occurring, the insurance company cannot be legally compelled to compensate examples are wars, political turmoil, floods, lightening etc

**Loss.** This is the happening of events against which insurance is taken. For instance if one insures his business against fire and it is burnt down, the loss of the business happened

- ✓ Total loss, this is when the whole property is completely destroyed
- ✓ Partial loss, this is only when a part or portion of the property is destroyed

**Pure risks.** These are risks that involve only a chance of loss.

**Speculative risks.** These are risks which can give either a gain or loss

**Re insurance.** This is when an insurance company which has under taken to compensate another firm or person against a big loss such as destruction of a factory also insures itself against such a big claim with another insurance firm. So that it can ask for contribution when the claim is made



**Over insurance.** This is where the insured over states the value of the property when applying for insurance. However he will be required to pay a higher premium but in the event of loss, he will be compensated only the true value

**Under insurance.** This is when the insured under declares the value of the property and he is charged less premium. However in the event of total loss, he is compensated only the real value insured.

N.B over insurance and under insurance may lead to cancellation of insurance contract

**Surrender value.** This is the money given back to the insured when he decides to cancel the insurance contract before the period ends. It is the amount of premium refunded to the insured who cancels the insurance contract

**Actuary.** This is a professional person or an expert employed by the insurance company who has skills in assessing and calculating premium

**Renewals.** This consists of effecting the contribution of a contract for a further period. When the insurance contract ends, the insured may apply for another contract. This is referred as renewal of the insurance contract

**Pooling of risk.** This is where everybody exposed to a risk contributes some money to a common insurance pool from which the few who actually suffer losses will be compensated

**An under writer.** This works on behalf of the insurer and his/her work is to assess and analyze the loss of the insured

## **PRINCIPLES / DOCTRINE OF INSURANCE**

**Insurable interest.** This refers to the interest one has in a property or business he is insuring. That is whether he stands to lose in the event of such a property / business suffers the risk that is being insured. Thus one cannot insure a friend's property since in an event of risk occurring, he will not suffer the financial loss

**Utmost good faith (contract of uberrimae fidei).** This principle requires that a person who is applying for insurance to disclose all true relevant information and material facts about the property/ Business being insured. The insured is expected to say only the truth when applying for the insurance policy or when claiming the loss.

**Subrogation.** This states that in an event of a loss occurring and the insurer has fully settled an insured's claim, the insurer requires the rights that insured hands in the property destroyed. This implies that any gain made out of the loss belongs to the insurer.

**Indemnity.** This principle states that the insured must only be compensated for the amount of the loss, so that he is restored to his/ her original financial position before the loss occurred. This enables the insurance company not to make profits for the insured

**Contribution.** This principle states that if a person insures his property with more than one insurance company (Co insurance), In case of a loss each company should pay a certain stated amount of money towards that loss. However the total payments

(contribution) from each insurable company should not be more than the value of the property destroyed

**Proximate cause.** This principle states that there must be fairly a close connection between the cause of loss and the actual risks insured against to enable an insured to seek compensation. For instance if Mr. Matisko has his property insured against theft, but was destroyed by fire, he cannot be compensated because the cause of the accident (fire) is not the insured risk (theft)

## **INSURANCE AND GAMBLING**

Most people have a misconception that insurance is similar to gambling, however, there are quite a number of features that differentiate gambling from insurance and these include

Insurance aims at helping unfortunate / unlucky ones but gambling makes the lucky ones improve their status

Insurance is legally practiced and accepted but gambling practices are illegally accepted

Insurance, the event insured against may or may not happen, however in gambling the stipulated event must happen so as to decide the winner / lucky one

There are some formalities needed when under taking an insurance policy, like documents that have to be filled and signed, this does not happen in gambling

Insurance, one must have an insurable interest in the property he is insuring, however, in gambling, such condition does not exist

In insurance, money (premium) is normally paid in installments until the whole premium is accomplished, however, in gambling it is paid once and taken once

In gambling, all contribute money to the game, but insurance, one party (insured) contributes the money

Insurance is of great help to entrepreneurs since it provides confidence of the property/ business survival, whereas, as gambling is only a loss to the society

## **Similarities between insurance and gambling**

- ✓ In both cases, many people contribute towards a common pool
- ✓ At least two or more members are involved ie in insurance there is insured and the insurer while in gambling there are gamblers
- ✓ In both cases , either chance or misfortune determines he who takes money from the pool
- ✓ Many people contribute but one or few take the money
- ✓ They both involve some element of gaining by either party ie if the risk does happen, the insurer takes all the money while gambling, the winner benefits.

## **TYPES OF INSURANCE POLICY**

**Personal insurance / life assurance.** This may involve whole life policy where one pays premium and in an event of death, the insurer pays the beneficiaries of the dead, also an entrepreneur may insure the life of his debtors, such that in the event of death, the insurer will pay him / her amount owed by the customer

**Fire insurance.** This policy protects an entrepreneur's business against loss arising from fire outbreak, like compensation for the loss of business property and stock. Fire and special peril policy safe guard an entrepreneur against fire damages and the consequential losses arising from it

**Theft and burglary.** This policy may be taken by an entrepreneur to protect from loss arising out of theft or burglary of the business merchandise, property etc. this means that in the event of loss resulting from theft and burglary, the insurance company compensates the insured

**Loss of profits.** This policy will insure an entrepreneur against losses arising from operational losses in business operations. In this, an entrepreneur will be compensated to an agreed percentage of the loss suffered

**Motor insurance.** This will involve taking out a comprehensive motor insurance which would cover the insured's car against fire, accidents, theft etc. this is more preferable, as it offers more protection and more chances of compensation but it is again expensive due to higher premiums paid

**Money at premises or in transit.** This is taken out to insure an entrepreneur from the risk of loss, when money is being moved from one place to another, like if one is moving huge sums of money abroad to buy some merchandise, this policy may be taken to protect it as it is in transit

**Employers' liability or workmen's compensation.** This policy insures against workers who may be injured at the work place, like if a machine breaks an employee's leg accidentally, here the insurer takes the responsibility of compensating the worker but not an entrepreneur / business

**Machinery break down and consequential loss.** This policy may be taken by an entrepreneur to protect him against loss arising from machine break down and consequential loss, such loss will involve reduction in production and loss in time and such a loss will be covered by the entrepreneur

**Marine insurance.** This involve marine cargo insurance that protects goods being transported on water by water vessels, it also includes marine hull insurance that covers the ship owner against loss or damage to the vessel and other legal liabilities incurred towards third party and passengers

**Aviation insurance.** This policy is taken out to protect an entrepreneur against loss arising from personal accidents and cargo damages due to air craft (by air transport)

**Sickness policy.** This covers against specified diseases or all forms of curable diseases. The insurer pays further medical bills of the insured and other expenses involved depending on the contract

**Endowment policy.** This is where payment of premium is made every year but for specified number of years. This policy is meant to benefit the insured after he has retired from his job or during his old days.

## **DOCUMENTS USED IN INSURANCE**

**Proposal form.** This is an application for provided by the insurer requiring his/her details of the property and risk to be insured.

### **Contents of a proposal form**

- ✓ The applicant's name and address
- ✓ The occupation and location of the applicant
- ✓ The age of the applicant
- ✓ Name and the insurer
- ✓ The risk to be insured
- ✓ The policy to be bought
- ✓ The sum insured
- ✓ First insurance or last insurance
- ✓ Any precautions taken against the risk
- ✓ The signature of the applicant
- ✓ The declaration of the applicant that the information disclosed is true
- ✓ Any other relevant facts about the property insured.

**Claim form.** This is a form that an insured fills and presents to the insurer in an event of a loss happening, it shows full details of the loss

**Cover note.** Is a proof that premium has been paid to and accepted by the insured who undertakes to indemnify or compensate the insured.

## **THE INSURANCE POLICY/ CONTRACT**

Insurance contract is a document that states the relationship between the insurer and the insured.

Purpose of insurance policy to the insured

- ✓ To aid compensation of the insured in case of occurrence of the risk insured against
- ✓ To act as evidence of insurance contract between the insured and the insurer
- ✓ To provide collateral security to the entrepreneur i.e the premiums
- ✓ To promote individual responsibility of the insured by fulfilling contractual obligations
- ✓ To encourage a saving culture among entrepreneurs
- ✓ To enable undertaking of risks in business by entrepreneurs

### **BASIC STEPS IN TAKING UP AN INSURANCE POLICY**

**Inquiring about the best insurance company.** This is the act of finding out the best company for insuring the property of a person / business. It takes place after developing an idea of insuring something. An inquiry can be done by the would be insured either through approaching different insurers or through approaching middlemen i.e brokers and agents.

Deciding on which insurance company and type to get along with

Checking the budget and deciding on the money to pay for insurance

Filling and signing an insurance application form called a proposal form. It includes the names of the applicant, location and address, insurance policy and any other relevant information.

**Calculating of premiums.** Basing on the information given in the proposal form, nature of the risk to be insured, value of the property and duration to be paid by the entrepreneur.

**Issuing an insurance policy.** Depending on the policies of the insurance company, a month after payment of the first premiums an insurance policy will be issued. This is a document that represents a contract between the insured and the insurer in respect to their insurance arrangement

**Filling a claim form.** This principle of proximate cause will be used here. This gives full details of loss which must be correct. The basic claim form has be filled and submitted by the insured, the insurer then assesses the extent of the loss. On receipt of the survey report, insurer pays due to compensation.

**Surveying of damaged property.** The insurance company after receiving the claim form may arrange for the survey of the property in order to assess the extent of the loss. The company sends loss assessors who prepare a survey report and submit it to the insurer.

Payment / compensation imply the end or termination of the insurance contract. If the person desires fresh protection to be arranged, a similar procedure will be followed to get fresh insurance cover.

#### **Procedure for claiming compensation from an insurance company**

- ✓ Notifying the insurer of the loss by presenting a police report
- ✓ Filling a claim form, showing full details of the loss
- ✓ Surveying of the damaged property by the assessor who is sent by the insured to determine the loss of the insured
- ✓ Terminating of the insurance policy upon compensation of the insured by the insurer on receipt of the survey report from the assessor.

#### **Circumstances under which an insurance policy may be terminated**

- ✓ In case of expiry of the insurance period ie lapse of time
- ✓ When compensation has been made ie by performance
- ✓ In case of an agreement between the insurer and the insured
- ✓ In case one fails to display utmost good faith at the time of taking out insurance.
- ✓ If there is breach of contract e,g failing to pay the premium on agreed time
- ✓ In case of operation of law ie court action
- ✓ In case of destruction of the subject matter
- ✓ In case of frustration ie death, insanity etc

#### **BENEFITS AND IMPORTANCE OF INSURANCE TO A BUSINESS**

It allows individuals and business to save money that can be used to unexpected emergencies

An entrepreneur is assured of business continuity as a result of the compensation after the loss has occurred. This assurance of business continuity gives the entrepreneur confidence, stable earning, growth and expansion

Customers increases their trust in the business as a result of the assurance in his business continuity

The property of the business people are guarded against all risks like factory against fire. This gives confidence to entrepreneurs to undertake business operations

They act as trustees and references to their clients who would like to get loans from commercial banks. This is because after a long period of working age of the company and investments can be lent out to earn interests of the insurance policy

Insurance policy (contract) document is used as security when applying for a bank loan usually prefer security that is insured because they guarantee loan repayment

It promotes international trade, because entrepreneurs are able to import and export their goods. The entrepreneurs also are able to insure their goods against numerous risks in foreign trade

Insurance companies pay taxes and therefore raise government revenue used for national development

### **Responsibilities of insurance companies to the business community**

- Reduction of costs like workman's compensation, public liability policy.
- Promoting trade (international trade) by issuing policy covering goods in transit
- Ensuring continuity of business by giving compensation
- Safeguarding property of business men against all risks
- Acting as trustees for the businessmen by looking after the property of deceased
- Enabling business people to save money that can be used to cover emergencies
- Compensation in case of loss
- Providing insurance policies which are used as collateral security to acquire loans
- Encouraging investment confidence in the business community
- Educating the business community like campaigns on safety and health care.

### **CHALLENGES FACING THE INSURANCE INDUSTRY IN UGANDA**

The majority of the people in Uganda are peasants and therefore poor. They do not have property worth insurable

Many people are not well sensitized or enlightened about insurance. They are ignorant and are not willing to undertake insurance. They think insurance is wastage of money

Loss of trust among people in insurance business. Some insurance companies are reluctant to compensate the insured and others take long to settle the insured claim

Inflation has affected the insurance business because of increasing prices of goods and services. Inflation therefore increases the operational expenses of the insurance company and hence lowers the profits

Insurance companies are not widely spread throughout the country. They are only found in urban centers

Many businesses in Uganda operate on small scale and hence there is no need for insurance for example a hawker of ground nuts

Many insurance companies are still small and have limited capital expansion

There is excessive competition among the insurance companies such that some companies do not have clients and cannot make profits

Insurance companies are charged with high taxes by the government

Political instability may affect the insurance industry

## **ENTREPRENEURSHIP ENVIRONMENT**

**Entrepreneurship environment** refers to a combination of external factors and their organic integration which make an impact on business startup process by the entrepreneurs.

### **CHARACTERISTICS OF ENTREPRENEURIAL ENVIRONMENT**

- ✓ **Resource scarcity/limited resources.** These resources are inputs of production including land, labour, and capital are in inadequate supply which affects the ability of new firms to enter the environment. Entrepreneurs take this as an opportunity to exploit other resources include technology and know-how, financing, social capital and human skills
- ✓ **Opportunity orientation.** This is the ability to recognize and analyze market opportunities. Entrepreneurial environment is full of opportunities that entrepreneurs take advantage of, if well searched. They are always looking ahead and less concerned about what they achieved yesterday, they search for and create many opportunities all the time
- ✓ **Uncertainty,** entrepreneurship environment is full of unexpected and unknown risks. The environment is dynamic and changes rapidly thus individuals need to demonstrate an ability to accommodate uncertain situations. This allows them to act without having full information and clarity about the situation
- ✓ **Flexibility,** it is fluid in nature and presents various opportunities which may not remain open for long. This calls for constant improvisation to cope up with challenges in an ever changing entrepreneurial environment

### **COMPONENTS OF ENTREPRENEURIAL ENVIRONMENT**

**Economic environment.** This refers to the nature of economic systems of a particular society that directly affect the level of entrepreneurial development.

**Social- cultural environment.** This looks at the entrepreneurial environment in terms of social and cultural values, attitudes and practices of a given society. For example values attached to innovation, risk taking, hardworking, independence etc which encourage entrepreneurship

**Political environment.** This includes laws, government agencies and lobbying groups that influence or restrict individuals in society

**Global environment.** This involves the greater movement of people, goods, capital and ideas due to increased economic integration which in turn increases trade and investment.

Globalization is the reduction of transaction cost of trans-border movement of capital and goods or factors of production

**Demographic environment.** This deals with variables such as family, population size and growth rate, gender, marital status, age, education level, social economic status, previous work experience and work habits

## **Types of entrepreneurial environment**

### **Economic environment**

This refers to the nature of economic systems a particular society that directly affects the level of entrepreneurial development. These include factors like

**Economic policy.** This defines the market system established by the government, market structure and the extent to which all firms compete under fair games and rules. An open free market where the economic activities are influenced by forces of demand and supply allows entrepreneurship to flourish, since it has more rewards for innovators while a restrictive market economy which only give chance to the government to control resource allocation, limit entrepreneurship.

**Administrative issues.** Relaxed procedures for registering, licensing, and settling tax obligation for the businesses encourage entrepreneurial growth and development while tight and excessive number of rules and procedures hinder entrepreneurial activities.

**Level of infrastructures.** Availability of infrastructures like roads, good communication networks, power encourages entrepreneurship development while under developed infrastructural facilities discourage entrepreneurship.

**Legal requirements.** Clear and effective legal requirements which protects the interests of the business encourages entrepreneurial growth while laws which does not protect entrepreneurs discourage the development of entrepreneurship.

**Resource availability.** availability of resources like raw materials, land, labour, and capital encourages entrepreneurial growth and societies without such resources discourage entrepreneurial intensions.

**Cost of the business.** low costs for business operation like low transport costs, low inflation, low interest rates and low insurance costs promotes entrepreneurial development on the other side high costs discourage entrepreneurial development.

**Economic incentives.** presence of economic incentives like tax exemptions, tax holidays, subsidization, promotes entrepreneurial intentions and development while unfavorable economic incentives discourage entrepreneurship development.

**The level of development of financial systems.** A well-developed financial system like banks and non-bank intermediaries, security markets, financial instruments like treasury bills, credit cards, bill of exchange, cheques etc facilitates entrepreneurial intensions while under developed financial systems discourages entrepreneurial development.

### **Economic factors promoting / facilitating entrepreneurial attitudes and opportunities**

- ✓ Favourable economic policy ie an open market system that leaves the forces of demand and supply to control the distribution of resources
- ✓ Favourable administrative issues ie minimum procedural requirements
- ✓ Existence of good infrastructure and utilities such as good roads, power and communication facilities that encourage entrepreneurship



- ✓ Well-developed financial systems ie existence banks and non – financial intermediaries, securities markets that aid business transactions and entrepreneurial development
- ✓ Conducive legal requirements that institute ownership rights and guarantee protectionism to local entrepreneurs
- ✓ Existence of economic incentives in terms of tax holidays, industrial parks, incubation centres etc
- ✓ Existence of required resources ie land , labour and capital
- ✓ Low cost of business in terms of space , air transportation, ground transportation, overhead costs, inflation, interest rates, tax structure, insurance costs

### **Economic factors limiting / hindering entrepreneurial attitudes and opportunities**

- ✓ Unfavourable economic policy ie a regulated / closed market system
- ✓ Unfavourable administrative issues ie excessive number of rules and procedures for registration and licensing etc
- ✓ Undeveloped financial systems ie absence of banks to extend credit hence limiting entrepreneurial development
- ✓ Undeveloped infrastructures ie roads , power and communication facilities that discourage entrepreneurship
- ✓ Scarcity of resources ie land , labour and capital
- ✓ High costs of business in terms of space, air transportation ground transportation, overhead costs, inflation rates, tax structure, insurance costs
- ✓ Absence of economic incentives in terms of tax holidays, industrial parks, incubation centres etc
- ✓ Unconducive legal requirements that cannot institute ownership rights and guarantee protectionism to local entrepreneurs

### **SOCIAL – CULTURAL ENVIRONMENT**

This looks at the entrepreneurial environment in terms of social and cultural values, attitudes and practices of a given society. For example values attached to innovation, risk taking, hardworking, independence etc which encourage entrepreneurship.

The social cultural and global factors that influence entrepreneurial intentions and opportunity identification.

**Culture.** This refers to customary practices and beliefs that people uphold. A culture with a social system that values entrepreneurial intentions leads to high entrepreneurial activities while a cultural system where people fear taking risks, do not work hard and less persistent are not conducive to entrepreneurship.

**Social financial support** availability of capital creates favorable conditions to entrepreneurs and leads to development of entrepreneurship for example capital from personal savings and relatives. On the other hand, absence of social financial support hinders entrepreneurial intentions.

**Social identification.** In an environment where people are proud about entrepreneurship as a career and are appreciative with the business activities lead to entrepreneurship while people who are negatively biased about business block entrepreneurship success.

**Availability of Role models**, successful role models inspires same individuals to join entrepreneurial activities while absence of role models who can be emulated limit entrepreneurial intentions.

**Religion** some religion encourages or discourages consumption of some goods. This influences entrepreneurial growth and development like Islam and Christianity are conducive for entrepreneurship compared to other religions like Hinduism which do not encourage entrepreneurship.

**Social – cultural factors promoting / facilitating entrepreneurial attitudes and opportunities**

- ✓ Supportive business culture
- ✓ Presence of social financial support
- ✓ High degree of social identification
- ✓ Existence of role models
- ✓ Business oriented national religion

**Social – cultural factors limiting / hindering entrepreneurial attitudes and opportunities**

- ✓ Unsupportive business culture
- ✓ Absence of social financial support
- ✓ Low degree of social identification
- ✓ Absence of role models
- ✓ Unsupportive national religion towards business

**SOCIAL RESPONSIBILITY OF A BUSINESS**

Society expects assistance from business since business provides what customers need. Therefore business needs to exercise some responsibility towards society either to promote positive effects or to check negative effects.

Some of the specific responsibilities of a business towards the society include the following;

**Production of goods and services:** businesses can exercise social responsibility towards the society by producing goods and providing services so as to meet the needs of the people.

**Disposal of waste products:** some businesses use waste products and rubbish as their raw materials e.g. business which recycle rubbish to produce charcoal, those who use scraps to produce iron bars and other metal products like steel rolling mills in Jinja, clean the society's environment.

**Assisting in the overall development of the locality:** e.g providing employment opportunities and promotion of education

**Payment of taxes:** businesses pay different types of tax to the central and local government which the government uses to develop and provide society with social services like education, transport, security etc

**Providing assistance to public and private education:** e.g kakira sugar works and educational centers both primary and secondary

**Providing assistance to charities, welfare facilities:** e.g. shell Uganda Ltd constructed flyovers (Passovers) to reduce car accidents to pedestrians at Katwe, Nakawa, Kajansi etc

**Taking appropriate steps to prevent environmental pollution and preserve ecological balance:** this could be why century bottling company (coca-cola) moved to Namanve

**Providing sufficient information to customers about the products offered:** including their adverse effects, risks and cares to be taken while using the products.

**Compensating people who have been displaced from their respective locations:** e.g. bujagali where they want to construct a hydroelectric power plant

**Provision of market for the society's products:** e.g. information relating to profitability, investment etc which information can be used for study purposes

**Utilizing idle resources:** businesses help to put to use resources that would otherwise be idle such as land, mineral deposits etc e.g. BIDCO Uganda Ltd growing palm oil trees in Sseese Island

**Helping in fulfilling objectives of economic policies:** e.g. reducing unemployment problems hence increasing standards of living of the community

**Provision of good working conditions to employees:** this is through paying a fair wage to workers and ensuring favourable terms and conditions of work.

## **POLITICAL ENVIRONMENT**

This includes laws, government agencies and lobbying groups that influence or restrict individuals in society or organisation

### **The political factors influencing entrepreneurship development**

**Political climate,** a stable political climate encourages entrepreneurial activities to flourish. On the other hand Unfavourable potential environment limits the continuity and resource accumulation which are essential ingredients in today's competitive environment.

**Government policy,** favorable government policies through charging friendly taxes, giving subsidies etc stimulates entrepreneurial intentions. On the other hand Unfavourable policies like corruption, favoritism and weak enforcement mechanism discourages entrepreneurial developments.<sup>6</sup>

**Legal environment,** complex laws discourages entrepreneurial growth and development but less complex ones promotes entrepreneurial intentions.

**Size of the government expenditure,** a big percentage of governments' expenditure in health, education or defense encourages many entrepreneurs to emerge to respond to the opportunity unlike in sectors where there is low funding like agriculture.

**Government institutions and departments.** Weak and insensitive government departments which do not appreciate the work done by entrepreneurs, discourages entrepreneurial development. On the other hand, strong government departments encourages entrepreneurial development.

## **Political factors promoting / facilitating entrepreneurial attitudes and opportunities**

- ✓ Political stability
- ✓ Government policy on subsidization
- ✓ High government expenditure
- ✓ Supportive government institutions and departments
- ✓ High number of political and religious refugees
- ✓ Favourable legal environment

## **Political factors limiting / hindering entrepreneurial attitudes and opportunities**

- ✓ Political insecurity
- ✓ Government policy of taxation
- ✓ Unsupportive government institutions and departments
- ✓ Low government expenditure
- ✓ Low number of political and religious refugees
- ✓ Unfavourable legal environment

## **DEMOGRAPHIC ENVIRONMENT**

Is the dimension of the entrepreneurial environment that deals with variables such as family, population size, growth rate, gender etc.

**The following are the demographic factors influencing entrepreneurial intentions.**

### **The family**

- **Family background**, family members who are already in entrepreneurial activities inspires others to join.
- **Family size**, large extended families constrains much to meet the family demands which force them to undertake entrepreneurial activities as a remedy.
- **Family succession /inheritance**, some individuals inherit family wealth which can be used to accumulate resources which can be used finance entrepreneurial activities.
- **Changing roles and responsibilities of the family.** As the family responsibilities increase, people tend to seek for additional incomes and they end up into the entrepreneurial career. For instance, when single headed families change to marriage, the needs and wants change.

**Population size and growth rate**, increase in population size encourages entrepreneurial activities to flourish as demand for goods and services drastically increase while low population growth rate discourages entrepreneurial development.

**Level of education and experience**, a higher level of education increases entrepreneurial alertness regarding opportunities as well as opportunities to exploit these opportunities. On the other hand low levels of education lowers chances of entrepreneurial development.

**Income levels**, lower income earners always seek for opportunities as a remedy to meet their increasing needs thus more entrepreneurial compared to those with higher incomes who see no interest in toiling with business.

**Age structure**, young people always exploit entrepreneurial opportunities at high rate compared to the old ones. This is because they have less responsibilities and more ambitious to exploit available new opportunities.

**Gender differences.** Men tend to have a higher level of entrepreneurial interest than female thus higher male population leads to development of entrepreneurship while higher female population lead to low development of entrepreneurship due to the less risk behaviour.

### **Demographic factors promoting / facilitating entrepreneurial attitude and opportunities**

- ✓ High population size and growth
- ✓ High level of education and experience
- ✓ High income levels
- ✓ Youth age structure
- ✓ Big family size
- ✓ Business orientated family background
- ✓ Existence of family succession / inheritance
- ✓ Increasing role and responsibilities of family
- ✓ Increasing number of men in business

### **Demographic factors limiting / hindering entrepreneurial attitude and opportunities**

- ✓ Low population size and growth
- ✓ Low level of education and experience
- ✓ Low income levels
- ✓ Old age structure
- ✓ Small family size
- ✓ Unsupportive family background
- ✓ Absence of family succession / inheritance
- ✓ Declining role and responsibilities of family
- ✓ Declining number of men in business as compared to that of women

### **GLOBAL ENVIRONMENT**

This involves the greater movement of people, goods, capital and ideas due to increased economic integration which in turn increases trade and investment

Globalization is the reduction of transaction cost of trans- border movement of capital and goods or factors of production

**Global finance.** This presents opportunities in the areas of international payment systems, currency exchange rates, and international finance bodies like IMF, World Bank etc. Conducive global finance favours global entrepreneurial development.

**Global trade.** This increases trade across national boundaries and provides opportunities to different individuals and industries such opportunities include access to international markets without threats of protection/ barriers.

**Government global policy.** Favourable global government policy like liberalization of the economy encourages entrepreneurial development.

**Democracy.** Freedom of individual initiative, freedom of thought, speech and action support innovation and creative recognition of opportunities.

**Market openness.** A wide and above average international market opening encourage entrepreneurial development like the accessibility of Uganda's products on the world market.

**Export policy.** Favorable export policies expand market for entrepreneurship especially liberal policies. This encourages the development of entrepreneurs.

**Import policy.** A conducive import policy help entrepreneurs to get resources that are not locally available at a reduced cost. This encourages entrepreneurship development in a country.

### **Global factors promoting / facilitating entrepreneurial attitude and opportunities**

- ✓ Existence of global finance
- ✓ Presence of global trade
- ✓ Favourable global policy
- ✓ Good democracy
- ✓ Open international markets
- ✓ Favourable export policy
- ✓ Favourable import policy

### **Global factors limiting entrepreneurial attitude and opportunities**

- ✓ Absence of global finance
- ✓ Absence of global trade
- ✓ Unfavourable government global policy
- ✓ Absence of democracy
- ✓ Restrictive international markets
- ✓ Restrictive export policy
- ✓ Restrictive import policy

## **ORGANISATIONS THAT SUPPORT ENTREPRENEURS IN UGANDA**

There are specific programs and initiatives that are designed to provide a range of support to entrepreneurs of all types when and how they need it, including service providers like chamber and small business development centres

### **Business supporting organizations include**

- Uganda manufacturers association (UMA)
- International labour organization (ILO)
- National Agricultural advisory services (NAADS)
- Support of private enterprise expansion development (SPEED)
- Uganda Investment Authority (UIA)
- Business Uganda Development Scheme and Enterprise Development Support
- Commercial banks
- Uganda National Chamber of Commerce for trade and industrialists
- Kampala City Traders Association (KACITA) this serves traders operating within Kampala city like importers, manufacturers and service providers.
- Uganda small scale industries Association (USSIA). This serves small and micro industries.
- Non-Government Organisations (NGOs) for different types of business support services and information for micro and small enterprise.

- District private sector development and promotional centres for all types of business information and support services.
- Uganda Women Entrepreneurs Association Limited (UWEAL). This mainly serves women entrepreneurs managing or owning commercial enterprises.
- Uganda revenue authority (URA)
- Insurance companies

### **Objectives of business associations.**

- ✓ To secure or access local and foreign markets for their members' produce.
- ✓ To source or access raw materials for their members' businesses.
- ✓ To access better production technology for their businesses.
- ✓ To access and provide training facilities and programmes for their members.
- ✓ To support individual members in time of need.
- ✓ To access financial and technical support from banks and other business support institutions and government.
- ✓ To develop and disseminate improved and better production and management systems among members.
- ✓ To advocate on behalf of their members to the government for a better environment that is conducive for business operation like investment incentives, favourable tax policies, monetary and general economic policies, political stability and social order.

### **ROLES OF SUPPORTING ORGANIZATIONS TO ENTREPRENEURSHIP**

#### **Business support organisations perform a number of functions to their members and these among others include**

- ✓ Providing information on market opportunities and trends
- ✓ Offering advisory services for example NADDS
- ✓ Provision of insurance cover by insurance companies
- ✓ Identification and provision of investment opportunities ie Uganda Investment Authority
- ✓ Provision of entrepreneurship education and training youth entrepreneurs ie Youth Enterprise Schemes, Enterprise Uganda
- ✓ Identifying markets both local and foreign ie Uganda National Chambers of Commerce for trade and Industry.
- ✓ Provision of transport services e.g
- ✓ Provision of saving and credit services e.g BRAC.
- ✓ Monitoring and evaluation of business activities ie UMA and Enterprise Uganda.
- ✓ Providing sales promotion services through trade fairs e.g UMA.
- ✓ Providing advice on tax matters e.g URA.
- ✓ Providing advice on quality standards ie UNBS.
- ✓ Negotiating and securing local or foreign markets for members' produce.
- ✓ Sourcing or accessing raw materials for their businesses.
- ✓ Identifying appropriate and better production technology for their businesses.
- ✓ Developing and providing training programmes for members' staff.
- ✓ Providing material and moral support to members.
- ✓ Promoting the export of produce and locally produced goods.
- ✓ Negotiating and securing financial and technical support services from financial institutions, business support institutions and government.
- ✓ Developing better production technologies and management systems for members.
- ✓ Carrying out advocacy campaigns on behalf of members with the government for better investment incentives, tax policies, monetary and general economic policies that are conducive for their operations.

## **BUSINESS PLANNING**

Planning is the decision making ie deciding what to do, how to do it and when to do it. Ie determining the future course of action.

Business planning is an activity that involves the organisation mention and follows up the different business activities right from the beginning of the business.

A business plan is written document that summaries the operational and financial objectives of a business and contains the detailed plans and budget showing how the objectives are to be realized.

### **TYPES OF BUSINESS PLAN**

1. **Formal business plan.** A formal business plan is a detailed document that usually follows a standard format. They are necessary for securing outside funding for a business.

2. **Informal business plan.** This is a planning tool for the business which is not presented to other people/ organisations. They are merely a planning tool for the business owner.

### **RATIONALE FOR WRITING A BUSINESS PLAN (OBJECTIVES, AIMS AND PURPOSE)**

To test the feasibility of the business idea. Writing a business plan enables the entrepreneur to establish whether or not an idea for starting a business is feasible other than going out and doing it

To give the business the best possible chance of success. Business planning encourages the entrepreneur to pay attention to both the broad operational and financial objectives of his new business and the detailed such as budgeting and marketing planning

To secure funding such as bank loans. Having a business plan gives an entrepreneur a much better chance of getting the money he needs to keep operating or to expand

To attract investors. A solid business plan enables an entrepreneur to attract investors. Investors normally need a well written document they can take away and study before they make any investment commitment

To make business planning manageable and effective. A business plan is not only good to starting business but also important for established ones

To monitor the performance of the business overtime

In order to calculate and pay the exact amount of tax to the government

To develop a timetable for implementation of various business activities in a sequenced way



## **IMPORTANCE OF PREPARING A BUSINESS PLAN**

It helps in adequate preparation for the business; it encourages an entrepreneur to think through his business thoroughly in order to prepare for identified sensitive areas which will need more attention

It helps an entrepreneur in defining specific goals and objectives which serves as a bench mark to measure the progress of the business in implementing the plan

It facilitates business monitoring based on the set goals and objectives as a standard of measurement such that any deviation from the set plans can be detected from and corrected in time

It encourages an entrepreneur to be and remain focused by thinking about the business he/she is in now and business he wants to have in future

It acts a time table for implementing business activities in a logical manner

A business plan helps an entrepreneur in accessing financial assistance from the lenders, it is through the business plan that lenders will determine whether to fund the project or not and how much it will inject in

It eases the work of an entrepreneur as his employees will use it to know the business objectives or targets in terms of production, profitability, it will also clearly state their duties and responsibilities plus their related remuneration

It facilitates easy decision making as it clearly spells out the expected cash inflows and outflows of the designed business

It shows the feasibility and viability of the business thereby enabling an entrepreneur to determine whether to carry on with the opportunity or try other business alternatives

Enables the government and local tax authority to determine the tax revenue to be paid by the business and likely effects of the business to the environment

### **Steps involved in preparing a business plan**

- ✓ Selecting a business opportunity or type of business to engage in. this involves scanning the environment to generate many business ideas to choose from.
- ✓ Conducting market survey for the selected type of business. This involves checking whether the entrepreneur's chosen business idea can be developed into a profitable business in terms of fulfilling the market needs.
- ✓ Collecting all the relevant data concerning the different aspects of business and establish the costs of different items like machinery and equipment, raw materials, transport etc.
- ✓ Drafting the business plan to be discussed with experienced people. This business plan enables the entrepreneur to know how the business will be

organized, establish the amount of money needed to start and run the business before starting it.

- ✓ Discussing the drafted business plan with technical / knowledgeable or experienced people in similar business.
- ✓ Making a final business planning after having discussion with knowledgeable people.
- ✓ Finalizing the business planning process by preparing an action plan for implementation of the planned activities.

## **STRUCTURE OF A BUSINESS PLAN**

**EXECUTIVE SUMMARY.** This is a section that sets out the broad parameters of the future business. It covers only the cover activities, it contains business overview which shows what the business is about, and it contains the following

**The back ground of the business.** This indicates the location, address and ownership of the business

**The objectives of the business.** This explains the short term goals of the business

**The products/ services the business offers.** This explains the key products or services that the business is producing

**An over view of the market for the products or services.** This explains the marketing strategies the business is intending to use to sale its products or services

**The competitive advantage of the business.** This explains the position of the business competitive environment as compared to other businesses dealing in similar goods or services

**The projected growth.** This is the anticipated expression and growth of the business

**The key members of the business.** These are stake holders and all members included in the ownership of the business

**Funding requirements of the business.** This refers to the anticipated flow of funds in the business

**DETAILED PLAN.** This section goes into the details that will make a business plan a working and ultimately a control document. It contains market analysis competition, products marketing strategy, SWOT analysis, Business structure product key objectives and financial information

## **ELEMENTS / COMPONENTS OF A BUSINESS PLAN**

1. General description of the business
2. Statement of mission, goals and objectives
3. The marketing plan

4. The production plan
5. The Organisational plan/ administrative/ management plan
6. The financial plan
7. The action plan

### **General description of the business plan**

This involves giving summarized information about the business. Therefore general description of the business, the type of business being planned to be carried on , the needs of the market that it seeks to fulfill giving a summary of how the intended business will be different from others as well as making an analysis of the strength , weakness, opportunities and threats that the business is likely to face.

**Statement of mission, goals and objectives** that the business seeks to achieve

Mission statement, this is a brief statement that indicates the purpose of the business. A mission is a very real reason why an organisation exists e.g To provide quality products while ensuring that our customers are satisfied, our employees are in a conducive working environment and that our shareholders are expecting good returns from their investment.

### **Uses of mission statement**

- ✓ It indicates / defines the purpose of the business
- ✓ It helps to distinguish an organisation from others
- ✓ It helps to keep an organisation focused
- ✓ It helps in communicating the direction of the organisation
- ✓ It helps to make day – to – day operating decisions
- ✓ It helps to motivate employees by indicating their objectives as a team
- ✓ It attracts people who support it
- ✓ It creates action rather than reaction
- ✓ It attracts opportunities and helps an enterprise to maximize them
- ✓ It enables an organisation to gain strength and stand chances in the market

Goals. A goal is something (target) that one intends to achieve in a given period of time using a given amount of resources ie. "To provide high quality products to our customers". Goals are always based on the mission statement for example "To provide high quality products to our customers"

Objectives statement. Objectives are specific targets that must be achieved in a specific period of time. They are specific (short term) targets that an individual or entrepreneur sets to achieve the established goals. E.g "To increase productivity by 10% in one year"

## Qualities of a business goal

- ✓ **Should be specific**, a good goal should be clear on what should be achieved, when and how to achieve it for example increasing profits by 15% in the next 5 months
- ✓ **It should be measurable**. A good goal should have indicators to prove whether it is being achieved or not and if achieved how much would it take to be achieved
- ✓ **Should be attainable**. A good goal should be feasible in the area where it is being pursued for example setting a bar in a locality where people do not take alcohol
- ✓ **Should be realistic**. A good goal should be achievable given the available resources, entrepreneur's capacity and legal regulations. It should move in direction of the mission
- ✓ **It should be time bound**. It should have a target time within which it should be achieved for example increasing sales by 20% in 1 year

Objectives statement. Objectives are specific targets that must be achieved in a specific period e.g to increase sales by 10% in one year

NB. Goals and objectives must be SMART ie Specific, Measurable, Achievable, Realistic and Timely

## Marketing plan

This is an analysis of the possible position and opportunities of a business being planned in the present market situation. It is analysis of the marketing objectives, strategies and activities to be followed so as to have improved marketing of the proposed products in order to fight competition.

### Factors considered when preparing the marketing plan

- ✓ **The target market**. The entrepreneur establishes who his customers are, where they are located, their needs, their buying patterns ie how they often buy goods and services of the entrepreneur
- ✓ **Nature of the products or services to be offered**. The entrepreneur describes his main products or services and their value to the customers establishes how the products are packed and the features which make his products or services from those of competitors
- ✓ **Position of the competitors**. Here , the entrepreneur establishes the position of firms dealing in similar products like his and those firms dealing in products that may be substituted for his (indirect competitors) in the market he is trying to enter. He also analysed their weakness and strength.
- ✓ **Pricing strategies and policies**. Under this aspect, the entrepreneur will be required to establish the position of firms dealing in similar products like (direct competitors) and those firms dealing products that may be substituted for his (indirect competitors) in the market he is trying to enter. This is however possible through conducting market research to find out their weakness and strength

- ✓ **Sales targets.** The entrepreneur establishes his total projects sales per given period of time for instance per week, per month etc
- ✓ **Distribution strategy which is cost effective.** This involves selection of the best distribution channels for goods and services in respect of reaching many customers and are cost effective.
- ✓ **Sales promotion and advertising strategy.** This involves selecting the various ways through which entrepreneur will communicate and influence the customers.
- ✓ **Terms and conditions for selling.** Here entrepreneur establishes the terms of sale he is going to adapt for instance selling on credit, cash basis or installment selling.
- ✓ Projected marketing expenses e.g advertising and sales promotion expenses

## **BENEFIT / MERITS OF A MARKETING PLAN TO AN ENTREPRENEUR / BUSINESS**

- ✓ It helps an entrepreneur to establish his / her target market customers in terms of age, income, occupation, requirement / location
- ✓ It enables an entrepreneur to find out the possible of the competitor in order to develop competitive advancement or strategies
- ✓ It guides as entrepreneur in deciding on what promotion / strategy to use so as to minimize profits due to increased sales
- ✓ It assist an entrepreneur to estimate the projected marketing costs or expenses in business under taking in order to give the appropriate price and eventually determine the likely profits
- ✓ Marketing plan enables the entrepreneur to produce relation to the demand / requirements of the customers hence minimizing resource wastage of the business in order to establish the progress of the business or opposition of the business in the market

## **The production plan**

It is an analysis of the projected need for producing (manufacturing) the proposed goods or services (product). It involves how the entrepreneur is going to carry on production of the proposed goods and services

## **Factors considered when preparing the production plan**

- ✓ **Business location and its site.** Under this aspect, an entrepreneur will have to establish where to locate his business as well as the cost of land (site) and its size. He will have to give reasons as to why he chose this location and estimate the cost of putting up the business buildings
- ✓ **Production/ manufacturing process.** Under this aspect the entrepreneur is expected to show the flow of work and layout, how the machines will be laid down and how they will be used.
- ✓ **Plant capacities required.** This involves establishing the abilities of production machines in relation to meet the demands of the market

- ✓ **Quantities to be produced or services to be provided and their delivery at different schedules.** Quantity to be produced is determined by the target market one is serving ie the number of customers for business
- ✓ Production standards and quality objectives to be maintained during production
- ✓ **Machinery and equipment to be used in production** in terms of costs, technical specifications, production capacities, source terms and conditions for payments of machinery and equipment
- ✓ **Raw material to be used.** Here , the entrepreneur establishes the type of raw materials he / she will use to make his / her product(s) while considering various factors like the cost of raw materials, their quality etc.
- ✓ **Packaging.** Under this aspect, the entrepreneur establishes how the products are to be packed, where to buy the packaging materials and their costs, how much will be required per production cycle, how much to stock and how much the packaging materials will be stored properly.
- ✓ **Labour requirement.** Here the entrepreneur establishes the type of workers he / she will use in production, the skills, how much will be paying them, other incentives and safety of workers during production.
- ✓ **Utilities that will be needed by the business** e.g water, power, telephone etc
- ✓ **Means of transporting raw materials and finished products.** Here, the entrepreneur establishes how raw materials will be moved to the production center and how finished products will be delivered to the target market.
- ✓ Inventory control plans for stock, work in progress and finished goods(products) e.g inventory control for lead time, re-order level etc
- ✓ **Disposal of the waste products.** Here , entrepreneur establishes the amount of wastes he has, how waste products will be disposed off and at what cost, can the waste converted into other products ie can they be recycled?
- ✓ **Production control requirement.** Production control refers to the activities under taken to ensure that the product is produced in the shortest time possible and at the right time using the best and cheapest method but of the correct quality.
- ✓ The level of finance required for investment in production of the intended products.
- ✓ Research and development plan about department s in production and new methods of production
- ✓ Steps of monitoring changes in technology that can affect the product in process

### **The financial plan**

It is analysis of the financial requirements of the proposed business. Financial planning for a business deals with estimating the business operations in monetary terms. The financial plan covers the following areas

- ✓ Source of funds ie own funds, grants , trade credits, short term loans etc
- ✓ Fixed and working capital requirements
- ✓ Profitability statement ie gross profit , net profit and breakeven point
- ✓ Balance sheet showing the financial position of the business
- ✓ Cash flow statement ie projected cash inflow and cash out flow of the business.

Note.

All the business activities / operations discussed above ie production, marketing plus management and administrative expenses involve use of money in one way or the other. The financial plan therefore focuses on the estimation of the total capital requirements of a business. Businesses require different forms of capital ie fixed capital and working capital.

**Fixed capital.** This refers to the money held up in permanent fixed assets of a business. Fixed capital consists of property held permanently for continuous use in the production process usually for more than one year e.g land, buildings, machinery, tools and equipment, furniture, motor vehicle

**Working capital or direct costs.** It refers to the amount of money used to buy stock for a given business or to meet daily financial operating needs of the business e.g raw materials, stock, fuel/transport, direct labour cost, costs of supplier of stationary, spare parts, cash for uncertainties.

**Overhead cost.** These are costs of production which don't vary regardless of the level of output. Examples include selling and distribution overheads like advertising, sales promotion, delivery expenses, wages to sales men, insurance of delivery vans, free gifts and samples

- ✓ Indirect expenses like rent, insurance, electricity, telephone office expense, operating license
- ✓ Administrative over heads. These are indirect cost incurred by the management and supervision example include, general expenses, administrative salaries and allowances
- ✓ Selling and distribution overheads. These are indirect expenses incurred during the selling and distribution of goods and services. Examples of selling and distribution expenses include, advertising , sales promotion, delivery expenses, wages to salesmen , insurance for delivery vans, free gifts and samples given to potential buyers etc

**Below is a simple format / structure of a financial plan for a manufacturing business.**

Particulars / items	Unit cost	Total cost
<b><u>Fixed capital requirements</u></b>		
Buying land	XXX	
Construction of buildings	XXX	
Buying of machines, equipments and tools	XXX	
Furniture	XXX	
Buying of delivery van for transport	XXX	
<b>Total fixed capital requirements</b>		XXX
<b><u>Working capital requirements</u></b>		
Raw materials and other input/ suppliers	XXX	
Labour cost (wages)	XXX	
Marketing expenses	XXX	
<b>Total working capital requirements.</b>		XXX

<b><u>Overhead capital requirements</u></b>		
Rent (if any)	XXX	
License fee	XXX	
Utilities (power, telephone, water, insurance)	XXX	
Selling and distribution overheads	XXX	
<b>Total overhead costs</b>		XXX
<b>Estimated total costs for the project</b>		XXX

## Organizational plan

This is analysis of the frame work around which the people, machinery/ requirement and other physical products of the plan are put together to have a moving or success for organisation

The organizational plan covers the following

- ✓ The frame work/ structure around which people are to be put together to have a moving enterprise (organizational structure). This looks at the reporting relationships, tasks and responsibilities of the workers.
- ✓ Recruitment and indirect training. This looks at number of workers to be employed their qualifications, experience, skills and age.
- ✓ Rewards to employees ie salaries, wages and other fringe benefits to be given to staff for instance allowance like medical, transport, lunch , housing etc

## Business implementation plan (Action plan)

An action plan is a management tool that involve laying out a series of sequenced steps that enable an entrepreneur to implement the planned activities of the business in a sequenced way so as to meet itself; target

## Importance or uses of an action plan to an entrepreneur

- ✓ It helps and guides the entrepreneur to remain focused during implementation of his business activities
- ✓ It helps an entrepreneur to identify business obstacles in advance and take appropriate measures to overcome them
- ✓ It helps the entrepreneur to allocate the serious sources of information and the resources needed for a business
- ✓ It helps an entrepreneur to identify strength, weaknesses, opportunities and threats of his business and those of competitors
- ✓ It helps the entrepreneur to obtain information (feedback) on the progress of the business
- ✓ It serves as a time to implementing business plan (activities)

## FORMAT OF ACTION PLAN.

The format of an action plan varies from one type of business to another. Some action plans indicate which activity will be done and the period in which it will be done. Other action plans in addition to the activity and time frame provide for the person who is



to carry out the activity and the resources needed. Therefore, an action plan can be prepared in two formats as shown below.

### Format 1

Activity	Time frame

### Format 2

Activity	Time frame	Person in charge	Resources needed.

### Consistency of a business plan

A business plan is made of seven components as seen above which when put together make up a coherent business. It therefore, means that all these components should be consistent with each other in the following ways;

- ✚ The proposed business activities should be consistent with its stated objectives and goals ie the business activities should be seen as leading to the attainment of the objectives and goals.
- ✚ The marketing plan should be feasible in the given environment and at the same time be consistent with the production plan ie the business should have the capacity to produce and meet its marketing plans.
- ✚ The business should have sufficient resources, labour and funds to support its production plans and undertaking its marketing activities.
- ✚ The projected cash flow should allow the production schedules and marketing activities to be carried out without interruptions.
- ✚ The organisation structure being proposed for the business must be capable of enabling it to implement production, marketing and financing plans efficiently and effectively.

## **MONITORING OF BUSINESS OPERATIONS**

Monitoring of business operations involves the activities of managing and controlling the business property so as to obtain the desired objectives of the business e.g profit target

### **Reasons for monitoring business operations.**

- ✓ To monitor the financial position of a 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 gets its cash
- ✓ To compare profits realized with the planned profits
- ✓ To determine the profits made or losses suffered by a business in a given period of time
- ✓ To evaluate worker's performance against set standards
- ✓ To maximize cost of production
- ✓ To ensure proper financial management in business
- ✓ To minimize time wastage by workers while at work
- ✓ To ensure production quality products
- ✓ To meet customer order in time
- ✓ To assess the extent to which business targets are being met e.g sales targets

### **Monitoring tools used in a business**

These are the established techniques that an entrepreneur can use to monitor and control the performance of his business. Monitoring tools vary from one type of business. These include the following

**Sales targets.** The entrepreneur uses sales targets by periodically comparing the planned sales of the actual sales and find ways of how to overcome the weakness, in case of failure to achieve the set targets, however to generate so much profits, the entrepreneur determines the amount of goods and services he has to sell/ generate surplus for making profits

**Production targets.** They help the entrepreneur to monitor the business by periodically comparing the planned output and each actual output and devise ways how to overcome the weakness in case failure to achieve the set targets.

**Stock record.** Stock records involve keeping up-to-date records regarding stock. It involves the use of tools for effective store management like stock taking, use of stock cards. Through stock records an entrepreneur will be able to know the amount of stock sold and the stock that has remained in the business. Therefore stock records help an entrepreneur to monitor the inflow and outflow of the stock in the business

**Cash flow statement.** It is a monitoring tool which shows an entrepreneur how much and from where the business will get cash and how it will be used over a given period of time. For instance in a week, a month etc. it shows whether a business will have enough cash to cover its projected expenditure or not.

**Books of accounts.** Examples include cash books, purchases day book, sales day book, receipt books among others

**Departmental reports.** These involve making of written information by departmental heads about the performance of each department in relation to set goals. This helps the entrepreneur to compare the actual performance with the set targets and make strategies to overcome the weakness in case of failure to achieve them

**Sources of business funds like loans.** The lenders always have a keen interest in the borrowing business to ensure that the borrowed funds are managed effectively and repaid promptly. Failure to pay the borrowed funds according to the loan installment agreed upon indicates poor performance in the business

**Balance sheet.** This is a financial statement drawn to show the financial position of the business as at a particular period of time usually at the end of trading year. It shows the financial position of the business as at a given period of time ie it shows the relationship between the business assets and liabilities for instance the working capital of the business at a particular time.

**Work order forms.** These are monitoring tools purposely prepared to keep an accurate record of customer's orders and allocate the work to the workers. They help the entrepreneur to maintain control on the work to be done.

#### **Format of a work order form**

Date	Name	Description of work	Employee no.	Start time	End time	Work order no.

**Work schedules.** These are particularly made for proper management of time by the workers. Worker schedules must be carried out on a daily basis and they should be flexible to adjust to different forms of changes/ descriptions. They indicate the date, activity to be done when to start and finish it, the person in charge as well as the person who will supervise the assigned work. After preparing the work schedules all workers should get a copy. Work schedules help entrepreneurs to keep the workers busy on the job as well as satisfying his customers since their work will be completed well and on time

### Format of work schedule

Date	Activity / description of work	Worker	Supervisor	Start time	End time

### Importance of scheduling work in an enterprise

- ✓ It helps workers to complete assigned task/ work on time
- ✓ Scheduling of work facilitated sequencing of time as certain jobs needs to be completed before others within the trade on entrepreneur
- ✓ It helps the entrepreneur to co-ordinate / compare the work in his business with those of the competitors
- ✓ It helps to avoid overlapping of function on organization
- ✓ Promotes efficiency among the workers
- ✓ It enables an entrepreneur to meet the demands/ orders of his customers on time

**Operating budget.** This is statement which shows a summary of the projected incomes in monitoring his business. An operational budget assists an entrepreneur in monitoring his business performance and operations by looking at the planned income and expenditure. An operational budget may be prepared for different period for instance weekly, monthly etc

### Steps involved in preparing an operational budget

- ✓ Settling the business goals and objectives for the period to be budgeted for
- ✓ Setting the activities to be carried out, their time table
- ✓ Estimating the sales to be made
- ✓ Estimating the cost of goods or services to be used
- ✓ Calculating the gross profits
- ✓ Estimating the operating expenses
- ✓ Determining the net profit
- ✓ Determining tax payable (if any)
- ✓ Determining the retained earnings/profits

### Importance/ uses of an operational budget to an entrepreneur

- ✓ It helps an entrepreneur to estimate/ calculate his cost of production in advance by considering the anticipated items of expenditure in a given period
- ✓ It helps an entrepreneur in prioritize expenditure basing on his income since the budget shows all the items of expenditure in a given period
- ✓ It helps an entrepreneur in pricing his products appropriately basing on the estimated production cost so as to get his desired profits

- ✓ It helps an entrepreneur to calculate his estimated expenses , profits or net sales by considering his total estimated expenses and comparing it to the planned gross profits
- ✓ It helps an entrepreneur in monitoring his business operations since it provides the business with direction and purpose e.g estimated sales
- ✓ It helps an entrepreneur to know the source of his income or capital for his business where an entrepreneur may plan in advance where he is going to get funds e.g banks , loans, personal saving

### **Challenges faced when carrying out budgeting**

- ✓ Inadequate release of funds by the financiers
- ✓ The too long time lag which makes the objectives to even change
- ✓ Setting of unrealistic targets/ objectives which makes some employees give up
- ✓ Absence of flexibility which exhibits rigidity in the budgets
- ✓ Limited participation of all the stakeholders which results into resentment by these to whom it is imposed

### **Pre-operating expenses**

**These are costs incurred by the business before it starts its operations. They include the following.**

- **Business license and registration:** This is an operating license obtained from the local authorities enable a business to commence operations. However where a business wishes to operate as a company or with names other than the owners, then it will have to register itself with the Registrar of companies before operations commence.
- **Installation of machinery and equipment,** in case the business is to deal with production of goods it has to acquire the necessary machinery and equipment, this means it has to buy and install them before the business starts operations.
- **Construction or hiring of a building,** a building has to be first constructed or hired in order for machines to be installed or stocking the merchandise to be ready before the business starts. This means incurring either construction or hiring costs before commencing operations.
- **Technical training expenses,** here an entrepreneur will have to train the personnel needed in the management of his / her business in order for them to acquire the relevant skills prior to its operations . Thus training costs have to be incurred prior operations.
- **Utilities,** these include facilities like water, electricity, telephone etc. All these requirements have to be paid for (at least some money) before the business commence its operations.
- **Market Research expenses,** this will involve finding the best ways of marketing his / her products in order to attract customers to the new product those from other competitors.
- **Advertising expenses;** these have to be incurred prior so as to create awareness among the prospective or customers.

***Factors that limit successful implementation of business plans in Uganda.  
(Account for the frequent failure of business plans in Uganda)***

- ✓ Limited funds for starting and operating the planned business.
- ✓ Limited market for the products / high level of competition for market.
- ✓ Failure to involve stakeholders in decision making.
- ✓ Economic instability e.g inflation, unstable exchange rates.
- ✓ Threats like competition.
- ✓ Natural calamities like floods, storms and drought.
- ✓ Changes in customer tastes and preferences.
- ✓ Under developed infrastructures like roads.
- ✓ Personal weaknesses of the entrepreneur like laziness.
- ✓ industrial unrest / strikes
- ✓ Unfriendly government policies of high taxation.
- ✓ Insufficient market assessment about the business.
- ✓ political instability
- ✓ inadequate planning by the entrepreneur
- ✓ Unreliable sources of raw materials.
- ✓ Limited skilled labour.
- ✓ Unrealistic targets set by the entrepreneur.

Factors determine / affect / influence the success of business plan in Uganda.

- ✓ availability of funds
- ✓ level of competition for market
- ✓ degree to which stakeholders in decision making
- ✓ government policy of high taxation and subsidization
- ✓ level of market assessment about the business
- ✓ political climate
- ✓ level of planning by the entrepreneur
- ✓ sources of raw materials
- ✓ level of inflation
- ✓ level of experience and skills of the entrepreneur
- ✓ Nature of targets set by the entrepreneur.

Measures that can be taken to ensure successful implementation of a business plan.

- ✓ Involving stakeholders in decision making.
- ✓ Conducting thorough market survey so as to select profitable business opportunity.
- ✓ Ensuring political stability to protect economic activities.
- ✓ Identifying reliable suppliers of raw materials.
- ✓ Ensuring economic stability for instance stable prices for goods and services.
- ✓ Employing effective planning by the entrepreneur.
- ✓ Setting realistic targets that are attainable within the given time period.
- ✓ Employing skilled and experienced workers capable of implementing the business activities.
- ✓ Lobbying government support through Associations for tax holidays/ subsidization.
- ✓ Ensuring availability of funds needed to start and operate business.

## **SOCIAL ENTREPRENEURSHIP**

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

A social entrepreneur is someone who recognizes a social problem / need and uses entrepreneur principles to organize, create and manage a venture to make social change. Social entrepreneurs are motivated by the prospects of making a difference and creating positive impact on the society and environment at large

### **Objectives of social entrepreneurship**

- ✓ To create a sustainable impact on the society
- ✓ To improve standards of living by creating new jobs and addresses other social problems
- ✓ To generate new goods and services.
- ✓ To improve on the image of local areas
- ✓ To empower people to change their lives and get motivated.
- ✓ To cater for vulnerable groups like the poor people with disabilities who may be neglected by the society.
- ✓ To solve community needs e.g. food shortage, poverty, unemployment etc.
- ✓ To increase access to goods and services most especially the basic ones like food, health, housing, safety, education etc

### **Concepts in Social Entrepreneurship**

- 1. Positive:** This is the mission to which the enterprise is created for i.e. to have meaningful change in the society.
- 2. Innovative:** It is an innovative enterprise that accomplishes its mission in a new and better way.
- 3. Impacts:** These are the results that are created by the social enterprise.
- 4. Sustainable:** This is the creation of enterprise that can last for long due to its activities in the society.
- 5. Empowerment:** This is the ability to increase ones strength and capacity to do something.

## **SOCIAL ENTERPRISES**

Are businesses with primarily social objectives whose surplus are used for that purpose in business rather than being driven by the desire of maximizing profits for shareholders and owners.

### **Examples of social enterprises**

- ✓ Community hospitals and schools.
- ✓ Send a cow community projects
- ✓ Tree planting projects
- ✓ Recycling project
- ✓ Slum clearing projects
- ✓ Garbage value- addition projects
- ✓ Nursery beds
- ✓ Babies homes

- ✓ Heifer project Uganda

## **TYPES OF SOCIAL ENTERPRISES**

- ✓ Non - profit enterprises .These are enterprises that does not make financial profit from delivering its goods and services but relies on donation for funding E.g world vision
- ✓ For profit –These are enterprises that sell products for a profit but focuses on creating a sustainable positive impact. E.g FINCA Uganda Ltd
- ✓ Hybrid social enterprises. These are enterprises which mixes non-profit strategies and profit strategies

## **CHARACTERISTICS / FEATURES OF SOCIAL ENTERPRISES**

- ✓ They mainly have clearly stated objectives that benefit the community.
- ✓ They have developed creative ways to work together with a strong volunteer base.
- ✓ They use entrepreneurial skills of private sector to fulfill a strong social mission
- ✓ They strive towards honesty, Integrity, humanity and enthusiasm for making a positive difference in the community.
- ✓ Everyone is valued in the organization depending on the shareholder's behaviors
- ✓ There is a clear set of ground rules or consultation for how the organization Operates.
- ✓ They use trading activities to achieve goals and financial self-sufficiency.
- ✓ Effective communication systems are important for keeping everyone informed and consulted.
- ✓ The government and structure of organisation depends on equal participation by the work force and stake holders rather than fulfilling the demands of shareholders.

## **OPPORTUNITIES FOR SOCIAL ENTREPRENEURSHIP**

1. **Social investment funds:** these pool together various sources of funding from donations of wealthy corporations and banks to invest in social entrepreneurships
2. **Foundations:** these provide grants (which does not have to be given back) to start up social enterprises e.g youth venture which is a fund and support network for young social entrepreneurs from every region of the world
3. **CBO (Community Based Organisations) and NGO (Non – government Organisation).** These do not earn profits but have a social mission. They aim at improving the social and economic conditions, they provide opportunities for funding, resources, employment etc
4. **Government embassies:** these provide policies, grants, technological support and other incentives to people who are working to positively impact society and the environment
5. **Social entrepreneurship as a career option.** Social entrepreneurs face unlimited opportunities for creating a better world, in countries with high unemployment levels



## **DIFFERENCES BETWEEN SOCIAL ENTERPRISES AND COMMERCIAL ENTERPRISES**

- ✓ **Social enterprises** aim at achieving long term goals or results while **commercial business enterprises** the ultimate goal is profit maximization.
- ✓ **Social enterprises** are comprised of non-profit, for profit and hybrid forms of business while commercial businesses comprised of purely profit forms of businesses.
- ✓ **Social enterprises** aim at social and environmental benefits for communities while **business commercial enterprises** aim at profit making or monetary returns for private investors.
- ✓ **Social enterprises** aim to serve vulnerable, disadvantaged and underserved group while commercial business enterprises aim at satisfying only the target group that is potential customers.
- ✓ The main impact of **social enterprises** is social, environmental and economic development While Commercial **business** enterprise the main impact is production of goods and services.
- ✓ **Commercial enterprises** mainly targets immediate results while **social enterprises** mainly targets long term results.
- ✓ **Social enterprises** involves beneficiaries i.e community members are empowered as partners in development while **commercial enterprises** do not involve beneficiaries i.e customers are only supplied products that meet their needs.

## **IMPORTANCE / ROLES OF SOCIAL ENTERPRISES**

- ✓ Creating sustainable impact on the society and environment by addressing root cause instead of creating short term solutions.
- ✓ Promoting sustainable infrastructural development.
- ✓ Integrates and caters for marginal groups and vulnerable groups of the population.eg disabled people, poor ones etc.
- ✓ Helping in using community's resources in creative and effective manner
- ✓ increasing access to basic goods and services to the community members
- ✓ Promoting knowledge through community education awareness through community sensitization about the changes and opportunities of their environment.
- ✓ Conserving the environment through social activities like tree planting
- ✓ Promoting innovation through applying existing ideas in a way that look to be new.
- ✓ Ensuring good health of the community members through promoting social activities which aim at safe guarding people's health. E.g energy saving stores does not give out smoke.
- ✓ Promoting creation of social capital.
- ✓ Creating employment opportunities by empowering people in social activities.
- ✓ Improving on quality of life of people by providing employment.
- ✓ Contributing towards government revenue in form of taxes.
- ✓ Providing markets for local products.

## CHARACTERISTICS OF SOCIAL ENTREPRENEURS

- ✓ **Personal leadership.** Social entrepreneurs lead by examples and they have the ability to influence other people.
- ✓ **Ethical and principle centered** .social entrepreneurs are principle centered because they make decisions basing on values and rules
- ✓ **Goal oriented and visionary.** Social entrepreneurs start with a positive vision and then set attainable goals to reach that vision
- ✓ **Good listeners.** Social entrepreneurs listen to peoples' ideas and then guide them to improve on their performance.
- ✓ **Risk takers.** Social entrepreneurs take moderate risks with reasonable chance of success. They try to lessen risk by involving many other people
- ✓ **Advocators.** Always speak up and take action of what they believe is right even if there is opposition.
- ✓ **Empowering** .They believe in and use the potential of people they help.
- ✓ **Optimistic and flexible.** Social entrepreneurs must tolerate uncertainty and they are positive and determined to succeed.

### VISION AND VISIONARY LEADERSHIP

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

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

### STEPS FOLLOWED WHEN DEVELOPING A VISIONARY APPROACH.

- ✓ Defining your vision
- ✓ Examining your current reality
- ✓ Identifying and acknowledging the gap
- ✓ Setting action steps to close the gap
- ✓ Identifying the required resources
- ✓ Setting priorities
- ✓ Choosing who is accountable for what for each task
- ✓ Getting commitment from those people
- ✓ Agreeing a start and end time
- ✓ Getting started

### PERCEPTIONS OF CONFLICTS

1. **Win – Lose**, this is a selfish attitude that assumes there are only two results ie win and lose. One side does everything it can to win and make sure that the other side loses.
2. **Lose – Win**, ie “I lose, you win” letting others always get what they want. This is a bad feeling and it is unsustainable since the loser becomes bitter
3. **Lose – Lose** , the result is that neither side wins ie there is no agreeable solution
4. **Win – Win** , this means that both sides win because the solution benefits everyone involved

## **POSITIVE AND NEGATIVE OPPORTUNITIES**

Social entrepreneurship plan to use innovative ways to meet needs, if social entrepreneurs focus on negative opportunities (threats, needs and problems) alone, they can become stuck in the same negative thinking that created the problems

Identifying positive opportunities (strength and assets presents the problems or community in a new light and may inspire creative new ideas that would not be visible if social entrepreneurs looked at needs alone

**Think of CHEWS as the solution to the PEDVU problems below**

### **Positive opportunities (CHEWS)**

**C** – Clean, sustainable and hygienic environment

**H** – Healthy community members

**E** – Educated and empowered community members

**W**- Wealthy community members

**S** – Safe and secure environment

### **Negative opportunities (ask yourself how to solve PEDVU problems)**

**P**- Poverty amount community members

**E**- Environment degradation by various businesses

**D** – Diseases within people of the community

**V** – Violence among community members

**U** – Un educated and disempowered community members

## **ADVOCACY SKILLS**

**Advocacy** is the verbal, written or symbolic actions to promote a mission or cause. Social entrepreneurs are skilled advocates of their vision and social innovations. They aim to maximize the positive impact of their work

Advocacy is about speaking and writing to others to spread ideas, innovative strategies and recruit support

### **The GEPIC structure for advocacy**

**Greet:** who are you? Recognize of give thanks and state your purpose of speaking or writing

**Engage:** get the audience's attention with a "quote" statistics, say a story with shocking facts. This should make the topic interesting to the audience

**Problem / opportunity:** express the problem / opportunity in clear facts without your opinion. Explain how seriously or wide spread the problem is, the nature of the opportunity, or details about the current reality

**Inform:** explain your perspective on the opportunity and propose your innovation / vision. Tell what you think should be done

**Call to action:** call the audience to take action to support you. Make the action something specific so that you will be able to follow up with them and find out whether or not they have done it

### **Example one of GEPIC structure**

**Greet:** thank you every one for coming to listen to me today. As a student in our community, I care deeply about our collective future and the problem of severe unemployment which affects not only you and me, but also affects your children, my friends, brothers and sister and every one's opportunities.

**Engage:** last year, my dad showed me a story in the newspaper of man who died by falling out of a cargo air plane. When I asked Dad why this man sneaked onto the plane, he said "he was a man looking for work in another country"

**Problem:** today, Uganda graduates about 36,000 men and women a year from different universities. Of these 36,000, only 20% find employment. Near 40% are the first in their families or entire village to go to university. Yet all those jobless graduates return home like a man who died in the aero plane, with no hope

**Inform:** many people talk about the need for more job creators rather than job seekers. But they stop at talking what we need is more action and for youth like me and your children to start creating projects and jobs now

**Call to action / challenge:** I am here today to challenge you to become part of the solution to this major problem. I want you to stop talking and join us by investing in our poultry project, by supporting us, you helping to change Uganda

### **Example 2**

### **GEPIC STRUCTURE FOR ADVOCACY FOR INSPIRED ENVIRONMENT FORUM**

**Greet:** thank you everyone for coming to listen to me today. A person interested in environment preservation. I care deeply about the way our environment has been abused which affects all of us as a community and the generation to come

**Engage:** last week, my dad showed me a picture of a man who was cutting a tree near a lake which had a crocodile, a lion was at the lake shores, a snake on the tree. When I asked what it meant, he replied that all others trees were cleared now all animals have hope in this remaining one which the man is cutting too. So they are waiting to eat him up

**Problem:** today, the changes in seasons are a result of deforestation, the wild animals that have encroached people's homestead are as a result of deforestation, famine, poverty and the drop in our country's tourism industry all also attributed to deforestation and environmental abuse

**Inform:** many people talk about the need for protecting environment but they only stop on mentioning the statement, we need more actions than words to solve the problem of environmental degradation

**Challenge / call to action:** so, I am here today to challenge you to become part of the solution to this major problem. Let us go-greet by planting down trees and stop cutting the existing ones. By so doing we would have support agriculture, tourism and the bio diversity and thus have made this world a better place to live in

Example 3

### **GEPIC STRUCTURE FOR ADVOCACY FOR PROMOTING HEALTH**

**Greeting:** our chief guest, invited guests and community members I greet you all

**Engage:** last week I went to Mulago Hospital and I was informed that roughly five people per week have been dying of poor hygiene and sanitation related diseases such as dysentery, diarrhea, among others. This shows that our hygiene and sanitation are still lacking but remember health is wealth

**Problem:** from the analysis, we have come to realize that poor health is as a result of poor garbage disposal

**Inform:** as concerned community members, we have come up with a project to fight the poor health in our community. We have put up public rubbish pits in the community to eradicate the disposal of rubbish everywhere.

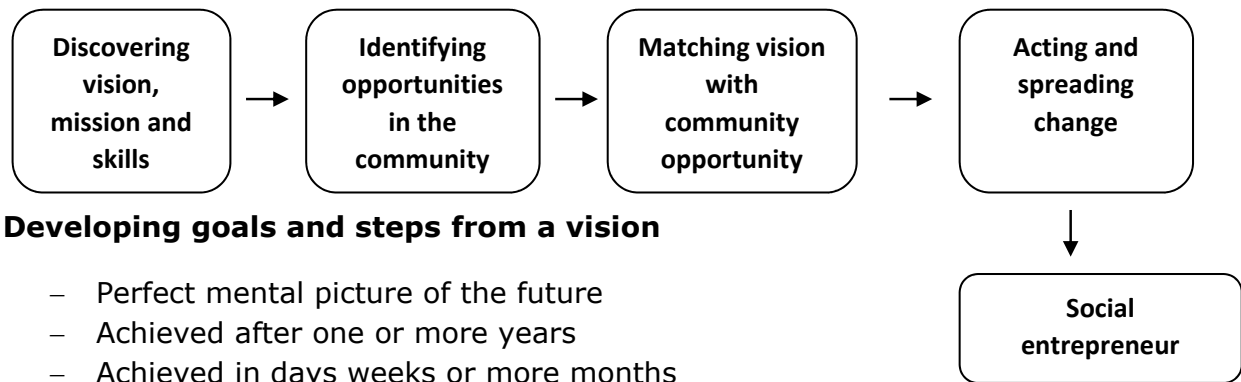
**Call for action:** we kindly request for your co-operation as we work towards saving the lives of people thank you

### **STEPS TO BECOME A SOCIAL ENTREPRENEUR**

The following are steps involved in becoming a social entrepreneur.

- ✓ Discovering vision, passion and skills. This involves discovering where you want to be in future, what you love to do and what you are good at doing.
- ✓ Identifying opportunities in the community. This spotting opportunities for social entrepreneurship from the community e.g social investment funds, foundations.
- ✓ matching the vision with community opportunity
- ✓ Acting and spreading change.

Steps involved in becoming a social entrepreneur.



### Developing goals and steps from a vision

- Perfect mental picture of the future
- Achieved after one or more years
- Achieved in days weeks or more months
- Achieved in several hours

### STEPS TO BECOME A SOCIAL ENTREPRENEUR

Being a social entrepreneur is rewarding like any other business, there are steps that are followed:

1. Developing the vision or identifying the skill one is good at.
2. Identifying business opportunities that are available in the community, this would be a solution to solving problems in the community or improving people's welfare e.g. waste management, environmental conservation, hair dressing etc.
3. Matching the vision and the opportunity available in the community, this is done through carrying out market research in order to get more information about the opportunity.
4. Acting and spreading change, this is done through preparing the social enterprise plan, which is a description of the introduction, theory of a change, the vision statement etc.
5. Mobilizing the necessary resources which are needed for the establishment of the social enterprise, these resources may include capital in form of money, skills, technology, land and also time.
6. Completing all the necessary recommencement legal formalities, these include registering the social enterprise, purchasing land, accessing the environmental assessment report etc.
7. Constructing all the needed buildings and other structures,
8. Purchasing and installing the necessary machinery, equipment, furniture and other materials.
9. Recruiting of all the needed labour and training it.
10. Launching the social entrepreneur plan

### DEVELOPING GOALS AND ACTION STATE

Business goals refers to the medium and long term targets a business wants to achieve within a stated period of time based on the mission statement.

Goals should have the following characteristic:

- Specific in nature
- Measureable
- Time bound
- Challenging
- Inspiring
- Achievable

Business goal start with the "To" and they are written. In adore quotation marks. To provide customers with a high quality fruit through using the best production.

## **Business Vision Statement**

This is a statement giving a long term target where the business wants to be in future. A business normally has only one vision statement which provides the direction to the activities in a business.

### **Uses of Business Vision Statement**

- ☞ It is used to determine the mission statement of the business.
- ☞ It is used in determining the nature to be employed.
- ☞ It helps in drawing the strategic plan of the business.

## **MISSION STATEMENT**

Is a brief statement that gives the overall purpose of the business, its products, its values, its sales to the public.

A good mission statement should have the following:

Specifying the products to be sold or the customer's needs to be made.

Sustaining how the business would satisfy the customer's needs.

NB: A mission statement is always written in closed quotation marks starting with the word "To" e.g. to provide and sell high quality poultry products through practicing modern farming methods so as to satisfy the needs of the customers effectively.

Good action steps in any project or business should provide the following:

- ☞ Produce a clear impact.
- ☞ Have a clear start and end time.
- ☞ Measure the results.
- ☞ Set your goals in a logical order.
- ☞ Provide ways of achieving your goals.

## **OBJECTIVES**

These are specific short termed target that a business strives to achieve within a short time.

Examples of business objectives include:

- ☞ To increase profits by 5% in a period of 6 months.
- ☞ To increase the sales volume by 5% in a period of one year.
- ☞ To increase production by 2% in a period of 6 month.

Characteristics of good action steps

- Produce a clear impact
- Have clear and end time
- Measure results or actions
- Be simple
- Be in a logical order
- Further the progress towards achieving a goal

## **SOCIAL ENTERPRISE PLANNING**

When planning for a social enterprise, personal experience, passion and enthusiasm are valuable but should not be the only factors to consider. It must also include clearly, identifying threats and opportunities in the community

Structure of a social enterprise plan

- ✓ Introduction. This includes the title, vision statement and summary of enterprise

- ✓ Theory of change. This includes vision which refers to the long term ultimate goal, impact which refers to the long term results of some one's activities and how the results lead to accomplishment of the vision, outcomes which refers to the direct results of the activities which come out of the efforts and inputs which refers to the what you put in to achieve the vision
- ✓ The opportunity. This includes impact area, current reality research, impact potential and resources and financial of the opportunity which includes resource requirement, available resources, profit potentials and use of renewable resources
- ✓ The innovation which includes root cause analysis, product description and innovation matrix
- ✓ Management and operations which includes management roles and opportunities , delivery of products and operation of activities, timeline, strategic partners , impact on society and impact on environment
- ✓ Sustainability. This includes budget, startup funding strategy, renewal of resources / profit making and profit management

### **Making a social impact in the community**

Making something that you love to do and turning it into a project that benefits the community is a great way to get started as a social entrepreneur and to create meaning in your own life. Each of us has the ability to make a difference in the lives of others. How we decide to make meaning is up to each individual. When you look out into your community, what do you see? Social entrepreneurs are people who want to make a difference and are willing to work hard to accomplish their goals. How can you make an impact in your community?

### **Ways to make a social impact in the community**

- Making the world a better place
- Increasing the quality of life of others
- Turning a wrong into right
- Preventing the end of something good

### **THEORY OF CHANGE**

The theory of change concept is unique from other processes where you start the plan and work your way through the plan. Start with the end goal (e.g to end poverty or educate children) and then work way backwards to accomplish your theory of change

- ✓ vision which refers to the long term ultimate goal,
- ✓ impact which refers to the long term results of some one's activities and how the results lead to accomplishment of the vision,
- ✓ outcomes which refers to the direct results of the activities
- ✓ activities which come out of the efforts
- ✓ inputs which refers to the what you put in to achieve the vision



### **Example of theory of change: kick start**

Two social entrepreneurs, Nick Moon and Martin fisher founded Kick start in 1991 to help end poverty in Africa. Their focus is on creating agriculture technologies to create jobs and increase productivity. Because the costs of these technologies are too high for most rural farmers. Kick start developed a new business model to bring low cost, efficient tools. They invented irrigation pumps that can double the yield of a small farm. Using the pump farmer can water 10,000 / seeding in one hour. The innovation has helped over 349,000 resources out of poverty.

Write the theory of change for kick start

#### **Kick start story**

Write the theory of change of kick start

- **Vision;**

To end poverty in Uganda

- **Impact**

Creating agriculture technologies to create jobs and increase productivity

- **Out comes**

Farmers being able to water 10,000 seedlings in one hour

The innovation has helped over 439,000 people to get out of poverty

#### **Activities**

- Developing a new business model to bring new low costs and efficient tools.
- Using irrigating pumps that double the yield

#### **Inputs**

Water, seedlings irrigation pumps, land people (labour)

You have established a social enterprise dealing in manufacturing of furniture using less timber so as to fight deforestation. Present a theory of change for your business.

**ENTEBBE SUPER SOCIAL ENTERPRISE  
PO BOX 100 MUKONO  
TEL: 0782212121**

**Vision:** to be the top manufacturer of high quality furniture in Uganda.

**Impact:** Manufacturing of high quality furniture reduces the need for replacement of damaged furniture as well as using less timber since some parts are done using metals to avoid deforestation.

**Outcomes.** The number of desks, tablets and other furniture items in the surrounding schools and homesteads.

**Activities:** sourcing for high quality timber and metals, planning and smoothening timber, ensuring quality finishing and varnishing, carrying out proper display and storage.

**Input:** these include timber, machinery, Human resource (people), financial resources (money) and information resources (knowledge).

You are a general manager of a poultry farm operating as a social enterprise. You plan to expand your market share as well as improve on general management.

**Write a theory of change of the enterprise.**

**THEORY OF CHANGE FOR KAMMA POULTRY FARM  
P.O BOX 16, KAMPALA**

**Vision:** To be number one poultry farmers in Uganda

**Impact:** Producing high quality eggs and chicken

**Outcome:** Improved health of the people

**Activity:** Buying chicks, feeding, vaccination cleaning Utensils and troughs, deworming, de-beaking and medication

**Inputs:** chicks, Buildings, drugs, feeds, water, money, information resources (knowledge)

**COMMUNITY RESOURCES**

These are resources that are collectively controlled by the community e.g. community land, structures like schools, physical space e.g. town buildings, playing grounds etc. Community institutions like library, local police, universities etc.

Nongovernmental organizations, these include cultural groups, elderly groups, faith based groups, churches, mosques, social groups.

These social community resources provide opportunities for members in the community to use them for the benefit of the community at large

**THREATS TO COMMUNITY DEVELOPMENT**

1. Poverty: This is brought about by individuals living in the community failing to access the basics of life. These breeds social behaviors like theft, murder, child abuse, home domestic violence.
2. Discrimination is the major cause to community development, because it prevents the entire community from developing by excluding certain groups or individuals i.e. the excluded groups do not have the same wealth, privileges, rights compared to others. They become the worst vulnerable.
3. Ignorance: This is the lack of information or knowledge, this creates different groups in the society i.e. those who have and information therefore, individuals in the community become powerless.
4. Dependency: This is a state of needing to rely on somebody or something for help or support especially financial support. This is caused by inequality in the society i.e. those who have and those who don't they don't depend on those who have.
5. Dishonesty: This is a serious threat to community development because it is the basis of exploitation where some individuals take unfair advantage to misuse those who don't have. This brings corruption.
6. Lack of basic natural resources; these include lack of minerals, poor soils which cannot withstand bad conditions such areas do not have access to basic needs like good shelters, good roads, safe waters etc.
7. Lack of role models and mentors: This is a threat to community development because individuals may not have people that they admire and also get inspired to develop as an individual and a community as a whole.

## STRATEGIES FOR SOCIAL ENTERPRISES

There are a number of ways in which the community can be positively impacted. The following are the most common strategies for community development that are used by social entrepreneurs around the world.

1. **Increasing access to goods and services**, these include food, health, housing, safety, waste management and education. This strategy of increasing goods and services involves allowing more people access to what is available to others.
2. **Increasing knowledge through education and awareness**, knowledge is power. Without education and awareness, people are left behind, taken advantage of or ill prepared to live in and understand the dangers and opportunities of their environment.
3. **Increasing opportunities for the disadvantaged**: As communities develop, more opportunities are created and if this opportunities are not available to certain groups, the results inequality, social tension and poverty.
4. **Increasing advocacy for the disadvantaged group**: This involves the social entrepreneurs urging government to provide support in form of donations, grants such that services are extended to communities that are disadvantaged.
5. **Training community members to be part of a social enterprise**, this is where community members are encouraged to make contributions as membership and at the same time purchase goods or services at relatively low costs as enterprise provide opportunities for markets for community products and services.

## Profits making strategies and their effects

1. Income generating activities: For non-profit enterprise, income generating activities include selling a product or producing their own resources.
2. Starting agricultural enterprises that produce output, and sold at a profit to the community.
3. Charging a fee for use of the enterprise`s assets to community members.
4. Training communities at a cost to the community members.
5. Charging membership fee.
6. Producing and selling publications to the public.
7. Charging a fee for any service consulted to.
8. Organizing fundraising functions to raise funds so as to be invested in income producing activities.

NB: The income generating activities can be related or unrelated.

Note. **Sustainable development** is the development that meets the needs of the present without harming the ability of future generations to their own needs

**Social innovation** this is the establishing from better ways to accomplish a social mission. Social entrepreneurs don't need to invent into a new product but simply need to be creative in applying an existing idea in a new way or in new solution.

## SUSTAINABILITY

Sustainability is a wide concept that can be applied in many different ways:

1. Financial sustainability: This refers to the ability of enterprise to finance itself now and for the future.
2. Resource sustainability: This refers to the ability of resources to renew themselves.
3. Impact sustainability: This refers to the ability of the impact to continue and be long lasting without putting in more efforts or resources.

Therefore financial sustainability of an enterprise means that the social entrepreneur is able to meet the current needs of the enterprise and that of the future hence the roles include:

- ☞ It enhances further investment of the social enterprise.
- ☞ It provides the means of income to sustain the stakeholders of the enterprise.
- ☞ It leads to sustain employment creation. This increases income for those that are employed.
- ☞ It leads to sustainable profits for the social enterprise. This helps such an enterprise to continue impacting the disadvantaged groups.
- ☞ It helps in training of members of the community. This leads to sustainable positive impact in the community.
- ☞ It helps the social enterprises to achieve the overall aims of creating a sustainable positive impact in the society. This reduces threats like poverty discrimination.
- ☞ It facilitates sustainable helping of the disadvantaged groups, this may be in form of providing increased access to goods and services, increased access to education etc.

### **Social development**

This refers to the increase sustain growth in the quality of population and social services that meets the society needs.

### **Environmental development**

This refers to the sustainable persistent increase in the available resources while minding about the future. It takes the form of environmental awareness, increased replanting of trees and sustaining the program.

### **Cultural development**

This refers to the sustainable development of cultural values in terms of norms/behavior/value that form part of the future generation.

Therefore such developments have an impact on the future generation. Term impact means what is done or the action which is taken and sustainable development has the following impact:

- Increasable development on education.
- Sustainable income.
- Improved environmental resource use.
- Increasing training and access to better reading materials.
- Reduced dangers of diseases.
- Improved living standards.
- Increased life expectations.

## **NATURAL RESOURCES**

**Natural resource is** something important to our survival or needs as a person that is available from the earth in a limited quantity eg. Petrol, water. Etc

### **WAYS OF SAVING NATURAL RESOURCES**

- ✓ **Reduce:** This involves working alternative ways of reducing resource wastage. E.g use of energy saving charcoal stove to reduce fire wood consumption.
- ✓ **Reuse;** this involves finding alternative ways of use of natural resources in new ways.

- ✓ **Repair:** This involves finding a way to repair and use again a product or natural resource that is broken instead of throwing it away.
- ✓ **Recycle;** This involves collecting natural resources that would be thrown away or burned and bringing it to recycling facility in order to turn it into a new product

**Sustainability of social enterprise** refers to the ability of the business to renew itself by use of its profits when expanding. It includes financial sustainability, resources sustainability and impact sustainability

### **THREATS CAUSED BY UNSUSTAINABLE USE OF RESOURCES AND BUSINESS ACTIVITIES.**

- ✓ Deforestation /clearing of vegetation. The destruction of forests in an area leads to decline in rainfall, soil fertility and changing weather patterns leading to environmental degradation
- ✓ Pollution. Manufacturing businesses discharge industrial wastes into water bodies, air and land leading to their contamination and making them unsafe for survival of society and environment
- ✓ Degradation of the land and loss of soil fertility most especially agri-businesses
- ✓ Displacement of people, animals, insects/loss of bio- diversity
- ✓ Destruction of wetlands and swamps/reclamation of swamps
- ✓ Depletion /exhaustion of non-renewable resource such as minerals
- ✓ Vibrations that weakens buildings and cause cracks in the soil structure
- ✓ Global warming as a result of destruction of the ozone layer
- ✓ Poor health as a result of water logging
- ✓ Moral decay due to manufacture of pornographic materials
- ✓ Health hazards such accidents caused by machines to workers.
- ✓ Loss of environmental beauty as a result of waste materials which may be poorly disposed
- ✓ Promoting rural-urban migration and its associated effects

### **MEASURES TO OVER COME THREATS CAUSED BY UN SUSTAINABLE USE OF RESOURCES.**

- ✓ By setting up environmental standards to be observed by businesses in the course of their operations and disposal of their wastes
- ✓ By undertaking compulsory environment impact assessment of all new businesses
- ✓ By conserving sources of raw-materials for instance re-afforestation
- ✓ By looking for alternative packing of materials such as paper bags to replace Polythene bags that are commonly used for packing goods for customers should be adopted
- ✓ By conserving of soil through terracing, planting of trees etc.
- ✓ By treating of industrial wastes.
- ✓ By looking for alternative source of power i.e. electricity, bio-gas etc.
- ✓ By using chemicals which are not or less harmful to human life, animals and plants.

- ✓ By setting up businesses which are environmental friendly e.g tree planting business
- ✓ By ensuring effective use of raw –materials in a sparing way.
- ✓ By using machine noise silencing tools to reduce noise pollution.
- ✓ By recycling ie use of already used materials e.g un burnt bricks can be recycled, polythene and other plastic materials can be recycled, old metal can also be recycled to avoid dumping them which could end up spoiling the environment
- ✓ By encouraging businesses to use less hazardous substances and chemicals when processing goods. The substance will not be too dangerous to environment thus helping preserve it
- ✓ By designing labels which cautions people about proper use of environment .e.g. don't litter.

### **Positive impact of business activities in the natural environment.**

- ✓ Provision of social services e.g centres, schools etc.
- ✓ Acts as a center for training and developing local manpower.
- ✓ Source of government revenue through payment of taxes.
- ✓ Provision of goods and services / provide products to meet society needs.
- ✓ Provision of market for the society's products.
- ✓ Provision of employment opportunities to society.
- ✓ Participation in community development programs e.g providing assistance to charities, welfare facilities etc.
- ✓ Improvement of food security through processing agricultural products.
- ✓ Providing information for research and study purpose.
- ✓ Source of tourist attraction.
- ✓ Recycle wastes that would have harmful effects hence cleaning the environment.
- ✓ Improve the environment through planting trees.
- ✓ Sponsorship of community activities.
- ✓ Utilizing idle resources.

### **Climate change and global warming**

Climate change is the changing temperature of the planet. Global warming is an increase in the temperature of the planet. Climate change is a pressing environmental threat caused in part by increasing amounts of carbon dioxide (carbon) and other gasses in the atmosphere.

Note. Global warming is a certain type of climate changes.

### **Effects of climate change.**

Melting of glaciers in mountainous areas surrounding, Uganda causes the rivers to increase in size and change course, which lead to loss of farmland and displacement of people (such displaced people are called refugees). For example, river Semiliiki

changes so does the boarder between Uganda and DRC, causes farmers to shift their homes. Furthermore, the melting of the earth's ice caps and increasing sea force people who live near the ocean to flee their homes.

Changing the pattern of seasons. As the rainy season in Uganda change, farmers are found to lead an uncertain lifestyle. Farmers lose crops, must adapt to new crops and are encouraged to migrate to overpopulated urban areas. The negative effect on farmers causes food price to increase which negatively affects the entire population.

Causing extinction of species which cannot survive the changing temperatures. Species go extinct or relocate, biodiversity is lost and tourism decreases, which causes the economy to suffer.

Changing vegetation belts from forests to savannah and savannah to desert cause people to migrate to areas with better growing conditions or into cities and slums. As vegetation and climate change, people are able to grow less crops for income and food prices increase.

### **Sample question**

- 1 a)** Define the term social entrepreneurship and state the salient features of social entrepreneurship
  - b) What are the objectives of social entrepreneurship?
- 2 a)** Explain various characteristics of a social entrepreneur
  - b) What are the key concepts of social entrepreneur?
- 3 a)** What is the importance of social entrepreneurship?
  - b) Explain the various types of social enterprises
- 4 a)** what are the negative opportunities in the communities?
  - b) Explain the perception of conflicts
- 5 a)** what are steps involved in bridge the gap approach (visionary gap)
  - b) Explain the GEPIC structure for Advocacy

### **PRODUCTION MANAGEMENT SKILLS**

Production refers to the activity aimed at bringing a physical change in a good or service (product) so as to make it useful. It is an activity that results in the creation of goods and services for the satisfaction of human wants.

**Production management** is the process of planning for production and ensuring your production plans are put into efficient operation.

**A product** may be defined as a set of tangible, intangible and associated attributes capable of being exchanged for value with ability to satisfy consumer of business needs.

### **The product concept**

To clearly understand a product, one needs to view the product from three different levels ie the actual product, the core product and the augmented product.

**Actual product.** This is the physical product defined by its design, packaging, quality and brand name.

**Core product.** This refers to the benefit of a product that actually satisfies the customers need.

**Augmented product.** This refers to the additional consumer service and benefit built around the actual and core products.

## **TYPES OF PRODUCTS**

Products are classified in various ways and they are normally divided into tangible and intangible products.

**Intangible products (non – material goods).** These refer to the services that can be used to satisfy human wants. Examples of intangible goods include the services offered by a teacher, a doctor, a lawyer etc, transport, banking services and others.

**Tangible products.** These are products which are physical and can be seen. Tangible products are divided into durable goods and non – durable goods.

✓ **Non – durable goods.** These are products designed to last a relatively short period of time. They are goods whose capacity to satisfy human wants ends after giving use. Examples of such goods are perishable items like milk, bread and vegetables.

✓ **Durable goods.** These are products designed to last a relatively long period of time. They are goods capable of giving longer service, durable goods are usually physical and reusable in nature and they normally depreciate over time. Examples of durable products include refrigerators, furniture, cars, radios, televisions etc.

Durable goods are further sub divided into two ie consumer goods and producer / industrial goods.

✓ **Consumer goods.** These are goods that are consumed / used by consumers as final users. Consumer goods are meant for immediate consumption and they include goods such as home applications like refrigerators, goods bought on a daily routine such as sugar, bread, salt, clothes, shoes, jewelry and services etc.

✓ **Producer / industrial goods.** These are goods that are used as inputs for further processing or for use in doing a business activity. They help the producer to produce consumers' goods. Examples of producer goods include raw materials used in the production process capital items like industrial machinery and equipment, vehicles for use in business like delivery vans and supplies like office stationery.

## **Elements of a product**

Elements of a product refer to the attributes / features or characteristics which make a product different from others. They are the techniques used by entrepreneurs to make their products unique. Every entrepreneur should strive to make his/ her product different from others so as for him / her to be able to market it. This can be done through various ways normally referred to as elements of a product and they include the following



**Branding.** This refers to process of making a product different or distinct from others by giving it a name that will be known and remembered by customers. It is a name intended to identify products of an entrepreneur and to differentiate them from those of other competitors. For instance, branding makes Close up to be different from Delident although they are all tooth paste.

**Product design / shape / model.** Design includes the style of the product, its shape, safety, simplicity and economy. Entrepreneur should always strive to design their products to look different from those of the competitors so as to make them appealing to customers. For instance cameras, cars, computers, mobile phones etc come in different types. However, each has been designed differently to appeal to customer needs.

**Packaging.** This involves defining what the package should be for a particular product. One should consider the nature of packaging materials to ensure that the design of the product conforms to the planned packaging materials. Packaging helps to promote or protect the product.

**Labeling.** Usually, products are labeled with a view of identifying a particular brand. Entrepreneurs should strive to label their products differently for easy identification purpose. Labeling can be done through bar coding, use of unique colours, logos, trade mark, symbols

**Product distribution.** This involves making the product conveniently more available by a firm than its competitors

**Methods of sales promotion.** Entrepreneurs use unique techniques to promote their sales e.g unique pricing of products.

**Technology used in production.** Entrepreneurs normally use unique methods of production that come up with quality output than their competitors

**Blending.** This involves combining varieties or grades to obtain a mixture of a particular character, quality or consistency e.g blended tea leaves, tobacco etc

## **FACTORS CONSIDERED WHEN DESIGNING / DEVELOPING A PRODUCT**

- ☞ Development of a product in relation to customer's needs. The entrepreneur / producer uses product attributes like shape, colour texture , brand name , durability , quality etc. that are appealing to his / her customers
- ☞ Availability of raw materials to be used for making products. The entrepreneur designs a product that can easily be made using readily available raw materials and costs that will leave him / her with a profit.
- ☞ Compare your products with competitors' products. You should decide whether to produce exactly the same products as of your competitors or producing a different and better product than those of competitors
- ☞ Government policy on product design. The entrepreneur should design a product that meets the set regulatory bodies like Uganda National Bureau of Standards

(UNBS), National Environmental Management Authority (NEMA) and other government policies

- ☞ Nature of potential market. An entrepreneur should consider the type of customers to whom he expects to sell the products like their age, gender and income bracket etc
- ☞ Duration / life span / shelf life of the product. An entrepreneur should consider a life span of his products so that the materials used in making it can fit in the desired time of the product before its consumption
- ☞ Quality should also be considered right from the production process up to the sale of the product as consumers will always run for a product with a better quality
- ☞ Technological skills required for products, this normally applies in the production process, as entrepreneur should ensure that the skills required in designing a product are applied well so as to achieve the required finished product
- ☞ Features of the competing products. This activity requires the entrepreneur to identify the products of potential competitors, analyze their strengths and weakness that are likely to cause impact on his / her intended product. This analysis enables the entrepreneur to develop a product better than those of his / her competitors

### **CAPACITY PLANNING AND DESIGN.**

Refers to the factors and operational ingredients needed to produce the targeted number of units of a product / service. These factors included

- ❖ The physical capacity needed
- ❖ Equipment and tools required
- ❖ The amount of labour demanded
- ❖ The time projected to produce the total number of products or services
- ❖ The amount of raw materials and suppliers needed

### **PRODUCTION PROCESS**

This is how the business intends to produce the desired goods and services. It involves carrying out the following activities

**Market research.** This involves funding out the potential customers opinions about the product to enable the present and future decision making

**Developing a product idea,** this involves planning the shape, size, colour etc of the product to be produced

### **Translating a product idea into a product design**

**Sourcing raw materials,** an entrepreneur obtains the raw materials necessary for production of a particular product

**Carrying out actual production while observing the quality standards,** this involves transforming the raw materials into finished products

**Packaging the product,** this involves wrapping the product produced and compressing it to protect it against pilferage, pouring and contamination

**Branding the product**, this involves labeling the products as well as including distinguishing features from similar products of other producers

**Storing the product**, the product is then stored in good place with good storage conditions that do not tamper with the product's quality

**Distributing the product**, this involves offering the product for sale to customers. It includes all activities that enable the product to reach the final consumer

**Making a follow up with customers** to find out how the product is performing in the market

**Making any improvement desired.** After obtaining feedback on quality from the customers, an entrepreneur makes improvement of the product.

## **FACTORS AFFECTING PRODUCTION DECISION**

**Facilities and organisations.** Efficient production facilities like equipment promote more production while inefficient ones discourage production.

**Sale potential.** High turnover encourages high production levels while low sales discourage production.

**Production cost.** High production costs limit production while moderate production costs encourage production.

**Sales promotion and growth.** Increased in business market share encourages more production while declining number of customers limits production.

**Money requirements.** Existence of money to buy the required inputs encourages production while absence of such limits production

**Labour requirements.** Existence of labour with required skills encourages production while absence of such limits production.

**Supply sources.** Reliable suppliers promote quick production while unreliable ones discourage quick production.

**Transportation.** Good transportation encourages production while undeveloped transport network discourage production.

**Acceptance by community.** A community that buys goods produced by the business encourages high production while unsupportive communities towards business products discourage production.

**Legal requirements.** Tight production requirements by government on business limit output while friendly measures promote production.

## **PURCHASING SKILLS**

Purchasing means production supplied with required goods and services at the right time and at the right price from the right supplier. Purchasing is done in accordance with the requirements of a business either for the production and operational process or trading.

## **PRINCIPLES OF PURCHASING**

The main principles of effective procurement / sourcing of raw materials in businesses include

**Right quality.** The person purchasing should be able to determine the right quality of materials needed. The quality of any raw materials comprises of the features, which are relevant to its ability to meet a given need.

**Right quantity.** The right quantity of purchases to be made depends on the level of stock an entrepreneur wants to maintain, availability of finance purchases and other costs, the consumption rate of the raw materials in terms of time and quantity.

**Right price.** This is not necessarily lowest price but should be the lowest price consistent with the quality specifications to leave the entrepreneur with a profit.

**Right time,** proper timing of purchase is important to avoid excessive stock and stock out problems. The entrepreneur should consider the lead time, the minimum stock in the store room, the place of buying materials and the mode of transport.

**Right place.** Raw materials should be received and stored near the factory as possible in order to minimize the cost and time involved in issuing and carrying them to the factory.

**Right source.** A source refers to the supplier or vendors of materials. Selection of right source is essential for getting the materials of right quality and quantity at the right place and the right time.

## **PROCEDURES FOR PURCHASING GOODS/ RAW MATERIALS AND EQUIPMENT**

**Determining the business needs.** This is done through conducting market surveys in order to know who the business customers are as well as establishing their wants. This enables the business to know how much to stock, the materials and equipment it needs to produce goods for sale to customers.

**Identifying potential suppliers.** This involves finding out the different suppliers to sell the materials needed by the business. This can be done by asking friends, contacting media or business support organisation.

**Contacting suppliers.** The entrepreneur contacts different suppliers either by visiting their offices personally or using cost- effective means of communication. The aim is to get information regarding the kinds of goods, raw materials or equipment each supplier can provide.

**Selecting the best suppliers.** The entrepreneur compares the quotations received from various suppliers and selects one with the most favourable terms and conditions in terms of price, discounts, credit, reliability etc.

**Ordering for goods.** Having chosen the best supplier the buyer then places an order requesting for the supply of a particular item. An order can be filled by filling a pre-printed form. Writing an order letter or by verbal ordering where the buyer goes to the supplier and orders for a commodity by a word of mouth.

**Checking the goods as soon as they are received.** This involves checking the delivery note to ensure that it corresponds with the ordered goods. Goods which got damaged during the transportation are isolated and excluded.

**Checking the invoice** for accuracy by comparing it with the delivery note.

**Making payments** either by cash or cheque and a receipt should be issued to acknowledge receipt of cash by the supplier. The entrepreneur / buyer should ensure that a receipt is issued to acknowledge receipt of cash by the supplier.

## **PURCHASING OF RAW MATERIALS**

Raw materials refer to basic materials from which products are made through a transformation process. Raw materials may be natural or artificial. Examples of natural raw materials include cotton for cloth, timber for furniture and clay for bricks. Artificial raw materials include plastics, nylon and tar.

## **FACTORS CONSIDERED WHEN SELECTING THE RIGHT SUPPLIER OF RAW MATERIALS**

**Terms and conditions of payment.** Suppliers have got different terms and conditions of payments. For example some can supply goods only on cash basis; others can deliver / allow credit terms while others can allow the buyer to get goods on hire purchase or differed payment. Some suppliers can also offer discounts such as cash and trade discount. The entrepreneur therefore selects a supplier whose terms and conditions are favourable to him / her.

**The lead time.** This how long it will take to order and receive goods needed. Entrepreneurs usually choose a supplier of raw materials whose lead time is short so as to avoid stock outs of raw materials and loss of customers to other competitors.

**Distance from the supplier and mode of transport to be used.** An entrepreneur selects a supplier who is not too far or where the transport system is efficient and effective to avoid delivery delays.

**Communication with the supplier of raw materials.** Most entrepreneurs select suppliers whom they can communicate to easily so that whenever raw materials are required, the supplier can and easily be accessed.

**Quality of materials supplied.** An entrepreneur selects a supplier who persistently offers items of good quality approved by the National Bureau of Standards in order to come up with qualitative finished goods.

**The price at which the supplier is selling the product.** This is normally done through comparing suppliers. Entrepreneurs will always move in for low cost suppliers of quality goods.

**The ability of the supplier to supply the requirement of the business.** The entrepreneur selects a supplier who has the capacity to supply enough and sufficient quantities whenever required.

**Taxes and regulatory procedures in the purchase and delivery of goods.** Normally, taxes make products more costly (they increase the cost of the product). For that matter therefore it is always very important for the entrepreneurs to look for the source of goods / suppliers who are located in a country where regulatory procedures are not so tight or where taxes are low or not levied.

**Consistency and reliability of a supplier.** This involves looking at the lead time and the supplier's ability to supply goods required whenever they are required for.

**Quantity required by the entrepreneur.** Entrepreneur select suppliers basing on the level of stock of raw materials they want to maintain as well as their consumption of materials per production cycle.

**Amount of waste from the production process.** Businesses prefer to use raw materials that produce fewer wastes to those that produce many waste.

## **PROCESS OF ORDERING FOR GOODS AND SERVICES OR ACITIVITIES INVOLVED IN ORDERING SUPPLIES**

**Identifying the goods and services required.** Here the business from its needs is able to identify the required goods and services.

**Sending inquires to possible suppliers.** This is done together with accompanying documents like drawings and specifications which enable the supplier to quote.

**Receiving a quotation which is the response to inquiries.** This will be accompanied by the price list, catalogue samples, quality delivery and other terms of the supplier

N.B a quotation refers to a document which is prepared by the potential supplier and sent to the buyers stating information about most of things which have been inquired for in a letter of inquiry e.g prices, lead time, delivery terms etc.

**Placing an order to the supplier whose quotation has been accepted.** A copy of the order is always retained for reference purposes.

N.B. a purchase order is a document requesting to be supplied with the goods already quoted

**Receiving goods delivery note.** This refers to the document that accompanies the goods supplied. The purchaser signs the document after delivery.

**Receiving the dispatch note.** This is normally given at the time when goods are being dispatched. It is expected to be sent separately and is expected to reach the purchaser before the arrival of the goods. It is therefore informs the purchaser that the goods have been dispatch and are on the way. This gives him a chance to prepare his store room in advance or make arrangement for sale of the old stock.

**Receiving an invoice.** This is a demand note. Once the delivery note has been received, checked and signed by the purchaser. The supplier is expected to prepare an invoice which indicates the balance due. The invoice actually shows that goods have been delivered on credit.

N.B. the following should be observed when receiving goods and services purchased

- ✓ Check quality and quantity against order
- ✓ Check delivery document against order
- ✓ Check for any damage
- ✓ Reject deliveries that do not conform to the order

## **PURCHASING PLAN**

A small entrepreneur has to appreciate the critical importance of purchasing. Purchasing is not merely a matter of buying. It proves to be a linking element between the major function

### **When purchasing the following should be needed**

- ✓ Determine the proper quality of each item needed
- ✓ Establish and follow quality standards
- ✓ Ensure on time delivery of items needed
- ✓ Purchase at the right value of the quality of items bought

## **SELCTION OF RAW MATERIALS**

FACTORS TO BE CONSIDERED WHEN SELECTING RAW MATERIALS FOR A MANUFACTURING FIRM

**Source of raw materials,** ie from where the raw materials for the business can be acquired from. An entrepreneur selects a reliable, nearby and cost effective source so as not to affect the profitability of the firm.

**Cost of raw materials.** An entrepreneur selects raw materials that are relatively cheap and affordable since high cost materials will reduce the profits of the business.

**Quality of raw materials** ie the raw materials should be of good quality in order to produce quality products that are needed by customers.

**Terms and conditions for purchase,** ie an entrepreneur selects favourable terms to the business like whether they involve cash or credit for instance most entrepreneurs would wish to select raw materials where suppliers offer it on credit and even discounts due to bulk purchase.

**The lead time**, ie how long it takes for the supplier to deliver the raw materials ordered for, entrepreneurs tend to select reliable suppliers who can deliver raw materials within the shortest time possible.

**The amount of raw materials needed or used per production cycle** ie the amount of raw materials should correspond with the amount of goods to be produced per production cycle.

**Availability and reliability.** A manufacturer selects raw materials that are available whenever he/she needs them.

**Risk of damages**, businesses use raw materials that are less likely to get damages.

**Amount of waste**, businesses prefer materials that produce little waste.

**Amount of raw materials to be maintained in inventory**, this depends on the business policy and the rate at which the goods produced are bought. For goods that are bought immediately an entrepreneur stores more raw materials to enable continuous production and for slow moving goods fewer raw materials are maintained in stock.

## **CONCEPT OF INVENTORY**

Inventory refers to good/ stock that are held by a firm for eventual sale

Or inventory refers to the stock of goods held in the business at a given period of time

## **TYPES OF INVENTORY**

**Raw materials:** these are goods used in the course of production to produce other goods for consumption. They are goods which have been received by the business but not yet committed to the production process.

**Work in progress / process (semi – finished goods):** these are goods which are still in the production but are not yet completed.

**Finished goods:** these are goods which have been completed and gone through the production process waiting for sale to customers.

**Goods under repair:** these are goods that may be damaged during the process of production or distribution and need repair.

**Office supplies:** these are materials which are used to support the production process for instance stationery, cleaning materials like soap or detergents.

## **NEED FOR INVENTORY**

It is necessary to hold some inventory both for a manufacturer as well as a trader so that production and sales can continue uninterrupted. The specific benefits of holding inventory may include.



- ✓ To avoid loss of sale, By holding inventory, a business firm can avoid sales losses, which may occur because goods are not available when demanded by customers.
- ✓ To reduce ordering costs, cost of placing orders e.g typing, mailing etc can be reduced in a firm. A firm places a few large orders instead of several small orders.
- ✓ To achieve efficient production run. Holding enough inventory protects against shortage of raw materials that may either delay or halt production due to no availability of materials.

### **COSTS OF HOLDING INVENTORY**

Several costs and risks are involved in maintaining inventory. They may include

- ✓ Material costs. This includes the costs of purchasing the goods, transportation and handling charges less any discount allowed by the supplier of goods.
- ✓ Ordering costs. It comprises of cost of placing orders for purchase of raw materials and components. The fewer the orders, the lower the costs.
- ✓ Carrying costs. These are composed of expenses for storing the goods e.g insurance, cost of funds tied up in inventory, spoilage costs, decline in price of goods etc.

### **INVENTORY CONTROL/ MANAGEMENT**

Inventory control refers to the system which ensures that the right quantity and quality of the inventory required is supplied at the required time without unnecessary investment in inventory. It includes control of raw materials; semi-finished and finished goods, office supplies and goods under repair.

### **Reasons for proper management of inventories in business / objectives on inventory management**

- ✓ To maintain adequate so as to avoid production stoppage, loss of customers and revenue to competitors.
  - ✓ To avoid excessive investment in inventory ie to avoid tying up a lot of working capital in investment.
  - ✓ To reduce stock losses while in stores through theft, expiry of products, damages, unauthorized use, pilferage etc.
  - ✓ To relieve management on excessive supervision of inventory.
  - ✓ To minimize storage costs in terms of rent.
  - ✓ To encourage proper accountability for the goods which have been purchased as issued
  - ✓ To allow flexibility in production scheduling as well as marketing. This is possible through ensuring that inventories are available whenever required for production or for sale
  - ✓ To ensure efficient use of raw materials
  - ✓ To ensure timely replacement of raw materials for production of products for sale.
- Inventory management helps and entrepreneur to ensure that inventories are available whenever required for production or for sale

- ✓ To meet demand fluctuation and avoid expensive and embarrassing stock out. through ensuring that inventories are available whenever required for production or for sale.

### **Tools for inventory management**

**Re-order level.** It refers to the minimum level below which the stock should not fall before fresh (new) orders are placed. This technique reminds the entrepreneur to place fresh / new orders because the stock is running out.

**Lead time.** This refers to the time it takes from when one places an order for goods and when the ordered goods are received.

**Working capital.** This is the amount of money used to buy stock for a given business or to meet daily financial operating needs of the business. Working capital helps the entrepreneur to meet the day to day operations. In case an entrepreneur has a small working capital then he/she has to place small but many repetitive orders.

### **THE CONCEPT OF STORE MANAGEMENT**

Store refers to places where stock of raw materials or goods are kept before they are sold or dispatched to business which ordered for them

Stores are important because they help to protect the stock of raw materials or goods from getting spoilt, damages or stolen. It is therefore important that a business manages its stores properly so as to avoid losses through theft, damages, unauthorized use, expiry etc

### **Tools for effective store management**

**Stock cards.** These are cards used for recording stock received and issued in the store. Stock cards normally show amounts of goods available in store, the date when goods have been issued.

**Stock requisition and issue form,** a stock requisition and issue form refers to a document that shows details of goods being requested for the corresponding need, the issues under this technique, the person in need of goods fills it and gets it authorized by the responsible person / store that against receiving the form issue them.

**Physical and stock counting.** This refers to the counting of stock physically to find out what is available in store and cross check to what is expected to be there as per the stock cards.

**Stock reconciliation.** This refers to the process of updating and balancing all the records regarding what is in the store so as to give a true record and then checked to what is physically in the store. This technique helps the entrepreneur to decide whether to order for more goods or not.

**Stock taking.** This refers to the actual counting of the stock available in the store. Under this technique, the entrepreneur counts his stock one by one so as to ascertain the actual number.

### **Labour requirements / employees**

Labour is the human effort, physical or mental engaged in the production of goods or service in return for payment

### **Types of labour**

- ✓ Skilled labour. These are workers with special skills, knowledge or (usually acquired) ability in their work and can produce best production.
- ✓ Semi – skilled labour, these are workers who possess particular skills in their area and can perform a job in that particular area but with close supervision.
- ✓ Un - skilled labour. These are workers who possess no special training and the work done involves the performance of simple duties which require less previous experience.

**Labour planning** involves the determination of the number of workers, skills and wages or salaries of the labour force

### **Reasons why labour is needed**

- ✓ To increase production of goods and services.
- ✓ To manage the business operation.
- ✓ To promote good public image of the business.
- ✓ To combine with other factors of production to aid production.
- ✓ To facilitate exploitation of would be idle resources.
- ✓ To increase government revenue through payment of tax.

### **Factors to consider when determining the number and type of employees to work in an enterprise**

**Number of jobs available.** This may vary with the size of the business such that the smaller the size of the business, the less the jobs available, and hence the smaller the number of employees. On the other hand, the more the jobs that are available, the higher the number of employees that are needed.

**Family member supporting the business.** Presence of family members supporting the business necessitates recruitment of few workers and vice versa.

**Cost of hiring labour in relation to business output and profits.** High costs involved in hiring labour reduce business profits and consequently few people are employed in business and vice versa.

**The level of demand for products.** High demand for products leads to massive recruitment of workers to increase output and low demand lead to employment of few workers.

**The level of technology used in business.** High technology leads to employment of fewer workers since most of the works done by machines while low levels of technology used in production leads to employment of many workers in the business.

**Types of skills required** for some particular business / industries and work they do in relation to the production process for example carpentry skills for carpentry business, negotiation and communication skills for marketing etc

### **Factors considered when recruiting workers in an organisation**

Before embarking on recruitment of workers, one should put into consideration the following factors.

**Age of the employee.** Employers always employ people above 18 years more than those below the age of 18 years as this would be taken as child labour according to the law.

**Cost of employee.** Labour whose cost is relatively low and affordable are purchased more than those which are very expensive.

**Gender / sex of the employee.** Most entrepreneurs employ more men than women maintaining that women have a lot of responsibilities and they need to balance between domestic and workplace duties which make them inefficient at work than men.

**Number of workers needed.** For a bigger business the number of workers should be relatively big as compared to a smaller business that requires less labour.

**Working experience of the employee.** Employers always recruit more workers with the required experience to perform the job so as to increase output as compared to those with little no work experience.

**Type of skills required ie ability of the workers.** Employees who possess the skills required in production are recruited more than the semi-skilled and the un – skilled.

**Health conditions of the employee.** Employees normally employ workers with good health status as they are in position to be at work compared to workers with poor health associated with high levels of absenteeism from work.

**Size of the business.** The smaller the size of the business, the less the jobs available and hence the smaller the number of employees. On the other hand, the more the jobs that are available, the higher the number of employees that are needed.

**Marital status of the employee.** Most employers prefer people who are single because they will be committed to work and are flexible to married people with a lot of responsibilities and at times inflexible.

**Languages spoken by the employees.** Some businesses require people who can speak variety of languages for instance radio and television stations and journalists.

This is because of the nature of the business that consists of customers with varied languages.

### **BUSINESS LOCATION AND PREMISES**

**Businesses location:** This refers to setting up a particular business in a given area. A number of entrepreneurs consider the areas where costs of production are low and easy access to customers when determining a business location.

**Business premises:** These are composed of buildings, workshops or ware houses from which the business operations are carried out.

#### **Factors considered when choosing a business site and premises**

**Market factor:** A business should be located nearer to the market or customers so as to save transport costs for both the business and customers. This is also important in a case where products are bulky and costly to transport or where competitors are nearer to market and in a situation where goods are perishable and there are no means of preserving them before they reach the market.

**Raw material source:** A business should be located nearer to the source of raw materials, this is so when raw materials are bulky and perishable. The costs of transport are hence reduced and reduces the risk of the raw materials getting spoilt.

**Accessibility to transport and communication network,** a business should be set up in an area where there are good roads in order to facilitate a smooth flow of its raw materials, products and customers, the area should also be equipped with communication services like telephone, internet which also facilitates communication with customers, suppliers, bankers, etc.

**Availability of premises to be purchased or leased,** premises required by the business to operate from should be available in terms of renting, purchasing or leasing the premises, this should be highly considered as it affects the overall capital of the business, so the associated costs should be in line with the planned costs to avoid problems of insufficient working capital.

**Availability of human resource,** A business should be located in an area where the required labour is available, for instance if there is a need for skilled labour, its supply should be at reasonable wage rates or salary scale.

**Availability of power,** this should be highly considered when choosing where to locate a business, this is because some businesses require a lot of power like an industry, so they should be located near the power source to reduce the costs of extending it up to the premises and to reduce the costs of using other sources of power like generators which is expensive.

**Government policy on location of business,** the government may direct the location of some enterprises in a particular region, this is done for different reasons like balanced industrial growth, in the country, like to-day they are promoting industrial growth in Northern Uganda, So any business to be set up should ensure that it does so in line with the government policies.

Availability of water, this is an important factor as a component and a raw material in the production of some goods like soda, brick making etc, so if a business is to use water as a raw material, it should be located where it can be cheaply sources and reliable.

Availability of security, all entrepreneurs would wish to set up their businesses in areas which are secure in order to avoid losses. That's why most business men fear to set up enterprises in northern parts of Uganda due to the political instabilities in the area.

Availability of business support services, there are some business support services that are very important in business like banks that provide extra funds to facilitate smooth operations, like insurance companies that protect the business against risks, etc. So such support services should be highly considered i.e if they are existing in a given locality (area) before one chooses a given site.

## **PRODUCTION MACHINERY, EQUIPMENT AND FACILITIES**

To attain and maintain the quality of products and control capacity of production, there is need for an entrepreneur to select machinery, equipment and tools which can operate efficiently and effectively.

- ✓ **Machinery** refers to a group of machines in general that gets work done. A machine on the other hand refers to device in which each part works together with the other to perform some function for example a sewing machine, recording and counting machine, vending machine, washing machine etc.
- ✓ **Equipments** are things needed to do some work, so machines, which are specific for particular functions are also referred to as equipment. Examples of equipments include office computers, cash counters, calculators, typewriters etc.
- ✓ **Tools**. A tool is any instrument or apparatus like axe, hammer, spade etc. which is held in the hands for doing some work. However, tools can be equipments although not all tools are equipments.

## **FACTORS CONSIDERED WHEN SELECTING MACHINERY, EQUIPMENT AND TOOLS**

**Capacity of machines and equipment** ie how many units it can produce within a given time, this is compared with the demand it has got to meet, leaving other factors constant an entrepreneur selects machinery with higher production capacity in order to meet his/her demands.

**The initial cost of machinery and equipment.** An entrepreneur selects machinery whose costs are relatively low and affordable in order to reduce the costs ie to be cost effective.

**Ease of maintenance and repair.** This involves spare parts and repair services, one would select machinery whose spare parts and repair services are available and cheaper, with a view to reduce the operating costs.

**Flexibility** for adjustment in relation to customer's changing tastes and preference, an entrepreneur selects machinery that can easily adjust to the changing needs of customers.

**Availability of other complementary machines and equipment;** an entrepreneur would select machinery that is easily compatible or that can easily complement with the existing or other machinery, in order to facilitate consistence and continuous production.

**Productivity and efficiency of machinery and equipment.** Ie machinery that can produce quality products (efficiently). An entrepreneur selects machinery that can produce efficiently in order to increase productivity and profitability of the business.

**Useful life of machinery and equipment,** an entrepreneur selects, machinery/ equipment that is long lasting or durable in order to reduce unnecessary costs of buying or replacing other machinery

**Guarantee given by manufacturers.** Guarantee given by the manufacturer in terms of efficient, durability, maintainace and safety devices encourages businesses to select that kind of machinery compared to those without guarantee

**Users – friendly of the machinery**

**Ways of ensuring proper machine handling, use and safety in an enterprise**

- ✓ By switching off machines in case of any break down.
- ✓ By ensuring that machines are thoroughly checked before switching them off.
- ✓ By following instructional labels and guidelines on the use of machines.
- ✓ By making sure that machines are well maintained and have no broken or unstable parts.
- ✓ By using machines for work they designed for.
- ✓ By ensuring close monitoring and supervision of workers and the production process.
- ✓ By cleaning off the machines frequently and oiling all hand lubricating points daily to minimize wear.
- ✓ By training of workers on the usage and maintainace of machinery.
- ✓ By attaching proper guards or warning labels to dangerous moving parts of machines and power transmission equipment.
- ✓ By providing safety devices to workers like hand gloves, helmets, gum boots, masks, overall etc.
- ✓ By using mechanical devices for feeding machines so as to avoid hazards and increase production.
- ✓ By using trained and experienced labour force so as to avoid machine accidents.
- ✓ By installing warning devices which can alert in case of any likely danger.
- ✓ By making use of the closest power point when plugging in the market.
- ✓ By avoiding messing up with machines if they are still plugged in or still running.

## TECHNOLOGY FOR SMALL ENTERPRISE

**Technology** refers to the know – how design and intellectual input of doing things

Technology is constantly changing the demands of consumers. Business use new technologies to produce new products and services.

**Appropriate technology.** This is the technology for use in small business and is determined by a number of characteristics.

- ✓ **Simple;** for technology to be considered appropriate, it must be simple to operate. The user of such technology must be able to apply without encountering problems
- ✓ **Effectiveness;** effectiveness of technology is judged by how well it fits in with the objectives of the user
- ✓ **Availability;** some technology may be appropriate for certain purposes but not available locally. Information technology for example may be the most appropriate for certain task but it may not be readily available locally
- ✓ **Flexible;** as time changes so do the requirements of technology. Appropriate technology must be flexible enough to adapt to changing time in the future
- ✓ **Durable;** technology that is durable requires less maintenance and repairs
- ✓ **Efficient;** technology should be efficient in its utilization of local resources
- ✓ **Cost effective.** The cost of technology should be justified by the benefits achieved. The overall benefits should be greater than the cost of the technology

## TECHNOLOGY IN PRODUCTION

**Technology** refers to the know –how, design and intellectual input of doing things. Technology means the practice of any or all the applied sciences that have practical value and or industrial use.

### TYPES OF TECHNOLOGY

**Indigenous technology.** This is the art developed within a country and passed over the years from generation to generation often with no development of improvement.

**Advanced technology.** This is technology that has been developed from modern scientific principles. It is classified as adapted technology which is obtained from other countries, transferred technology which is extracted from advanced countries and appropriate technology which is relevant to the needs of the community

### FACTORS INFLUENCING THE CHOICE OF TECHNOLOGY

- ✓ **Technological requirements,** industrial projects especially processing industries have a minimum economic size determined by the technological factor e.g a cement plant should have a capacity of at least 300 tons per day
- ✓ **Input constraints:** developing countries have constraints in obtaining certain inputs such as power fluctuations, scarcity of basic raw materials and inadequate foreign exchange thus select technology to use accordingly
- ✓ **Investment control:** the relationship between capacity and investment control should be considered since investment cost per unit of capacity decreases as the plant capacity increases



- ✓ **Market conditions:** a higher capacity is preferable for a product with a stronger market and a smaller capacity is used where the market is uncertain
- ✓ **Resources of the business:** the availability of resources such as management, financial resources etc, the business capacity design since they determine the capacity of obtaining a specific type of plant
- ✓ **Government policy on technology:** the capacity level may be constrained by government policy which may require a license and approval of operation
- ✓ **Availability of spare parts:** entrepreneur prefer technology whose spare parts are readily available to that whose spare parts are scarce
- ✓ **Skilled man power requirement:** the technology to be used depends on the availability of skilled man power to operate it, availability of cheaper man power make the technology good

### **PRODUCTION CONTROL**

The term production control implies the existence of a product plan. It is therefore the means to monitor the execution of production plan in order to achieve its objectives

There are various production – related factors, which are quite important and therefore, must be carefully considered in entrepreneur's production process. These aspects are discussed below

a) **QUALITY CONTROL.** No business enterprise can be successful without providing a product of the right quality as demanded by customers

#### **Advantages of quality control**

- ✓ It helps in improving the brand image of the enterprise
- ✓ It facilitates standardization
- ✓ It helps to reduce costs
- ✓ It enables the enterprise to determine its cost prices at competitive levels in advance of production
- ✓ It enables the enterprise to comply with standards prescribed by responsible supervisory authorities like Uganda National Bureau Of Standards

b) **TECHNOLOGY AND TECHNICAL SKILLS FOR THE PRODUCTION PROCESS.** This modern era, technology is changing very fast and there are enterprises with superior often have an edge over their competitors

c) **PRODUCTION PROCESS.** This aim of every manufacturing enterprise is to increase productivity; this means that whatever is spent on production should generate the maximum output possible

### **WAYS OF REDUCING THE OVERALL COSTS OF PRODUCTION IN BUSINESS**

- ✓ Ensuring use of efficient and effective methods of production. This may be achieved through thoroughly studying the production methods to be employed in the production process to ensure that they efficient and effective. This is because inefficient methods of production usually lead to increased costs of production.

- ✓ Use of cheap but quality raw materials. Entrepreneurs should always buy their supplies or raw materials from the cheapest sources so as to minimize their production costs.
- ✓ Fixing time standards for all operation. Time standards for all operation should be fixed ie minimum and maximum time should be noted and the time for the process standardized. This helps to avoid wastage of time as well as minimizing production cost.
- ✓ Use of appropriate technology in production. The entrepreneur should ensure use of machines and tools which make work easier and lessen labour force so as to minimize labour costs and other costs that may arise from use of inappropriate technology.
- ✓ Ensuring close and constant supervision and monitoring of workers and the production process to ensure that work is going on well as planned. This helps to avoid relax times, movements and repetitive operations.
- ✓ Training and developing of employees (workers) to perform efficiently as per the set targets should be encouraged. This helps to equip workers with the necessary skills for production of goods and services and it enables workers to perform tasks in the shortest time possible.
- ✓ Employing skilled and experienced labour force. The producer / entrepreneur should ensure use of workers with the required skills to perform the production of the intended product. This helps to minimize costs arising from damages as a result of using inexperienced and unskilled workers.
- ✓ Spelling out duties and responsibilities for each employee (worker) to minimize conflicts, duplication of services, and lack of co-ordination and wastage of services. This also helps to minimize production costs.
- ✓ Studying the lead time i.e the time lag between placing of orders and receiving of the raw materials and other supplies should be established to ensure that raw materials and other supplies are received in time and do not disrupt the production process. This avoids unnecessary delays in the production process.
- ✓ Awarding tenders for supplies and raw materials to competent, reliable and affordable suppliers so as to avoid disruptions, losses and unnecessary delays in the production process.
- ✓ Laying off redundant workers. The business can lay off some redundant workers or employ part time workers to cut down the costs of maintaining employees at the station throughout the year.
- ✓ Proper handling and storage of both raw materials, finished and semi-finished products. This helps to minimize damages, wastage and losses.
- ✓ Buying raw materials and other supplies in bulk so as to take advantage of trade discounts and at the same time ensure adequate provision of both raw materials, finished and semi-finished products.
- ✓ Encouraging specialization and division of labour. This helps to promote efficiency in production which leads to increased output and thus reduced costs of production.

- ✓ Motivating workers by ensuring good working conditions. Providing a conducive working environment motivates workers to be more productive leading to increased output hence reducing on the costs of production.
- ✓ Using cheap means of transport for both raw materials and finished products so as to minimize the costs of production in terms of transport.
- ✓ Use of alternative cheap sources of energy like solar, bio gas so as to minimize power costs.
- ✓ Lobbying the government support through business associations like Uganda Manufacturers Association, Uganda small scale Association etc for low tax rates, tax holidays etc which can help to minimize costs of production.

## **COSTING IN PRODUCTION**

**Meaning of costs of production.** These are expenses incurred when producing goods and services.

### **Elements of costing**

This is an analysis of the various items which together form the selling price of a manufactured article sold by a small manufacturing unit at a price.

### **Methods of costing business product.**

- ✓ **Job costing.** This involves determining costs for each work order or job.
- ✓ **Contract costing.** This involves determining costs for big jobs spread over a specified period of time.
- ✓ **Batch costing.** This is used in determining costs for identical goods in a factory.
- ✓ **Process costing.** This is used in determining costs of production at each production stage,
- ✓ **Operation costing.** This is used in determining production costs in repetitive / mass production.
- ✓ **Unit costing / output costing.** This is used in costing single and identical products like cement.
- ✓ **Operating costing.** This is used in costing services like transport.
- ✓ **Multiple costing.** This involves determining production costs for the same product using more than one method of costing.

### **Types of costs.**

The costs incurred by a business are different and can be broadly categorized into two major groups' i.e direct costs and indirect or overhead costs.

**Direct costs / prime cost.** These are costs that are directly linked to the level of production of goods and services. The amount of direct costs incurred varies with the level or volume of production of a product or service. For instance, when the volume of production rises, the total direct costs incurred rise. In a producing business, direct costs consist of costs incurred towards purchasing direct materials (raw materials and labour).

- ✓ **Direct materials costs.** Direct material costs refer to those materials that can be physically identified and traced to a particular product as part of the finished product. Examples of direct materials include wood/ timber that is used in the manufacture of furniture, cotton for cloth etc; direct costs constitute the largest share of business' working capital requirements.
- ✓ **Direct labour costs (direct wages).** Direct labour consists of the labour that can be specifically identified or traced with the production of a particular product.

Examples of direct labour include wages of the workers who are directly involved in the operation of machines engaged in the production process and those who assemble parts into the finished product. For example, in a carpentry workshop, the wages paid to carpenters, machinists and finishers constitute direct labour for a furniture making business.

- ✓ **Direct expenses.** These are expenses that are directly linked with the production of a particular product. For example cost of hiring machinery to produce a particular product, fuel / energy for running the machine etc. however, most items falling under this category tend to be indirect expenses.

**Note:** all direct costs of a product are referred to as prime costs.

For example, in the case of a small carpentry workshop, the following would be the prime or direct costs.

Item	Cost (shs)
Direct materials – timber	600,000
Direct labour – wage of machine and joinery staff	150,000
Direct expenses – fuel / transport	20,000
Prime costs	770,000

### **INDIRECT COSTS / WORK COSTS / OVERHEAD COSTS**

Indirect costs are costs that cannot easily be traced to a particular product. Over a given range, indirect costs do not vary with the level or volume of production.

Note. Indirect costs may also be referred to as overheads.

- ✓ Indirect materials. These are materials that are not traceable to a particular product for example glue threads. Sandpaper, lubricant, cotton wastage, but get used up in course of general production. Using the example of a small carpentry workshop, indirect material costs would include glue m varnish, nails etc.
- ✓ Indirect labour. It consists of supportive labour of a product for instance manager, administrators, watchmen, gatekeepers, secretaries, tea girls etc. their services are applicable to all sections of a business and cannot be attached or traceable to any particular product. Their cost does not vary with the volume of production. A gatekeeper will remain working regardless of the level of business' production.
- ✓ Indirect expenses. These are a type of business expenses that are not linked to a specific product or a given range of production level. They do not vary within production range. Examples of indirect expenses include factory rent, factory insurance, repair of machinery, electricity, telephone and office expenses etc.

Note. Indirect expenses which are also known as overhead expenses.

**Selling and distribution overheads.** These are indirect cost incurred during the selling and distribution of goods and services. Examples of selling and distribution overheads include.

- ✓ Advertising
- ✓ Sales promotion
- ✓ Delivery expenses / carriage outwards
- ✓ Salary of foremen
- ✓ Cost of samples given to potential buyers
- ✓ Free gifts
- ✓ Displays and exhibition materials
- ✓ Printing and stationary (for receipts , price lists, catalogues, invoices etc)
- ✓ Packing cases

- ✓ Insurance for ware house, delivery vans etc.

**Administrative overheads.** These are indirect costs incurred by the business during the formulation of policy, direct control, management and supervision of its affairs, examples include

- ✓ Printing and stationery for administration
- ✓ Administrative salaries and allowances
- ✓ Postage and stationery
- ✓ Telephone expenses
- ✓ Legal and accountancy charges
- ✓ Heating and lighting
- ✓ Depreciation of office equipment
- ✓ General expenses etc

### Calculating the total costs of a business

The format below will be followed when calculating the total of the business.

Item	shs	shs
Direct materials	Xxx	
Direct labour	Xxx	
Direct expenses	Xxx	xxxx
Total prime / direct costs		
Add indirect costs / over heads		
Indirect materials	Xxx	
Indirect labour	Xxx	
Indirect expenses	Xxx	xxxx
Total indirect / overhead costs		
<b>Total production costs</b>		
Add selling and administration overheads	xxx	
Add administration overheads	xxx	
Total administration, selling & distribution costs		xxxx
<b>Total business costs</b>		xxxx

If we are to consider the previous example of a carpentry workshop, the total costs could be summarized as below;

Item	shs	shs
Direct materials	500,000	
Direct labour	150,000	
Direct expenses	40,000	
<b>Direct prime costs</b>		<b>690,000</b>
Indirect materials	100,000	
Indirect labour	150,000	
Indirect expenses	60,000	
<b>Total production costs</b>		<b>310,000</b>
Selling and distribution overheads	150,000	
Administration expenses	200,000	
<b>Total administration and distribution expenses</b>		<b>350,000</b>
<b>Total business costs</b>		<b>1,350,000</b>

## **WAYS OF MINIMIZING COSTS AND MAXIMIZING PROFITS**

An entrepreneur can minimize costs in the following ways

- ✓ Paying labour a low wage
- ✓ Making labour work for long hours
- ✓ Reducing fringe benefits for labour e.g transport and medical allowances
- ✓ Buying raw materials from the cheapest source
- ✓ Avoiding unnecessary costs ie un planned expenditures
- ✓ Employing few workers

### **Maximizing profits**

- ✓ Reducing credit sales
- ✓ Carrying out sales promotion
- ✓ Increasing the price of the product
- ✓ Employing few workers

### ***Internal control systems of a business***

This involves the control over business operations in various areas to achieve the set goals

### ***Areas under which business control may be exercised***

- Purchasing
- Quality control
- Employee morale
- Financial analysis
- Cost controls
- Sales pricing

### **Purchasing**

This can be controlled by buying from at least two suppliers to check on prices, cater for a shortage in case one is affected by strikes, fire etc. purchasing is built to enjoy discounts and improve relationship with the suppliers.

### ***Quality control***

Refers to the process which attempts to minimize or eliminate differences in production quality or it refers to the organizational techniques and activities that are used to fulfill requirements for quality

### ***Measures to ensure quality control***

- Reducing the price of slow selling goods to get rid of them and keep faster selling items on the shelves
- Surveying customers from time to time to determine if they are satisfied with the level of product quality and service.
- Discussing merchandise returns with customers to determine the source of their discontent.

**Note. Check others in the previous topic covered**

## **Employee morale**

This involves keeping the employees attitude towards work positive such that they promote the company product.

### **Ways of improving employee morale.**

Check the ways of motivating employees under personnel management or human resource management.

## **Financial analysis**

It involves analyzing the costs and the sales (price) to ensure that the business costs are lower than the revenue hence operating at a profit.

### ***Cost control***

This involves reducing the costs of production in order to operate at a profit.

### **Ways of controlling costs**

- Check for ways of reducing costs in the previous notes

### ***Sales control***

These are the total collections (revenue) from the selling of products produced

Ways of controlling sales

- Selling sales quotas
- Checking on the effect of seasonal variation on sales
- Examining the ways of smoothing out the sales to achieve better utilization of the facilities throughout the year
- Learning how to advertise the business efficiently and correctly

### ***Pricing***

This is the process of establishing the exact price to be charged on customers

### ***It involves***

- Setting prices high enough to provide gross margin that allows for a reasonable profit.
- Ensuring that the prices are in line with competition so that one does not loose sales on one extreme or go block to the other
- Marketing down the end of season merchandise to get rid of them.

### **Reasons/ objectives for setting internal control systems (ICS) in a business**

- To maintain costs and maximize profits
- Maintain stable supplies for stable production
- Motivate employees for better productivity
- To control fraud among employees
- Ensure continuous production

- Meeting demand fluctuations among customers
- To control / maintain quality of the product that are produced
- Establish right prices affordable by the customers
- Enable the use of right employees in right jobs
- To ensure the safety of assets / inventory of the business
- To ease the operation of the business policy
- For easy monitoring and supervision of the business activities
- Develop a good relationship with customers / public
- To ensure proper management of business finance
- To increase and maintain business periodical sales
- For ensuring consistent business cash flows through regulating outflows.

#### Work place management

A work place refers to a place where production of goods and services are done like a kitchen, store etc.

#### ***Objectives of managing a work place***

- To properly handle and store materials as some need careful handling and storage
- To facilitate easy movement of workers at the workplace
- To avoid accidents and dangers that are caused by workers and machines
- To control hazardous substances involved in the production process of chemicals from affecting others.
- To suite the condition of production
- To create conditions favourable for workers so as to increase productivity

#### ***Elements of a workplace***

- Material handling and storage
- Work station
- Machine handling and storage
- Control of hazardous substance
- Lighting facilities
- Premises
- Work organisation
- Welfare facilities

**The Material handling and storage.** This involves proper handling and storage of materials in right places.

#### **Reasons for proper material handling and storage**

- To reduce material damage and losses due to theft
- To reduce time wastage during production
- To reduce accidents that would be caused to workers
- To gain space for further production and easy
- To reduce costs related to over/under stocking

#### **This can be maintained and handled in the following ways.**

- i. By removing things that are not frequently used out of work place



- ii. By providing convenient storage racks for tools and equipments for easy retrieval
- iii. By training the store keepers the proper handling methods of raw materials.
- iv. By providing caterpillars, movable racks, cranes for easy moving of heavy loads.
- v. By removing expired or out dated materials out of workplace.
- vi. By storing materials out of the workplace.
- vii. By storing materials in easy accessible places especially if they are heavy.
- viii. By using coolers or refrigerators in case materials require cool conditions.
- ix. By using stores ledgers, bin cards for numbering materials for easy retrieval.

**b) Work stations.** These are places where actual production of goods and services is done. Work stations should be designed in the following ways.

- Putting machine switches and other tools within easy reach of workers
- Using lifts and other mechanical measures to reduce the effort required by workers
- Providing a stable work surface at each work station
- Using cramps for holding things tightly and vices with two jaws for holding things firmly
- Adjusting the height of equipment to avoid bending postures or high hand positions which strain workers
- Providing chairs or benches of correct height with steady back rest to promote efficiency of workers
- Provision of enough space within workstation which enables smooth production process to take place.

### **Machine handling and safety**

#### **Ways of ensuring proper machine handling and safety**

- Attaching proper guards to dangerous moving parts of machines and power transmission equipment
- Using safety devices which prevent running of machines while the workers' lives are in danger
- Redesigning situations which interfere visibility, production and maintenance aeration
- Making sure that the machines are well maintained by regularly servicing them
- Reducing and following instructions about the use of machines before using them.
- Putting precautions for instructions manually
- Painting machines to avoid rusting which affects its use
- Covering machines when not in use like computers to avoid dust effects
- Employing skilled employees to avoid accidents caused by machines
- Through close monitoring and supervision of employees
- Through proper storage of machines as they need care when handling them
- Switching off machines in case of any breakdown and reporting it immediately to competent personnel
- Checking machines to find out whether they are in good order before they are switched on for use.
- Avoiding use of the machines for something they are not designed for respecting machine capacity.
- Ensuring proper connection of machines to avoid short power circuits and damaging machines.

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**ROUTINE MAINTENANCE SCHEDULE OF MACHINES**

Date of service	Type of machine	Description of work	Person in charge	Venue of service	Date of next service	remarks
7/11/18	2 trucks	Changing oil	technician	Business premises	2/12/18	
9/12/18	2 trucks	Over hauling	Technician	Business premises	2/01/18	

**Prepared by**  
**Sign:**  
**Name: Namubiru Edith**  
**Title : transport manager**

**approved by**  
.....  
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.....

**Control of hazardous substances**

Refer to dangerous materials to workers e.g broken glasses, chemicals, contaminated food.

**Reasons for controlling hazardous substances**

- To minimize losses in business
- To improve or enhance quality
- To improve health complaints among workers
- Need to promote efficiency/ productivity of workers
- To minimize or control pollution
- To avoid accidents
- To maintain good relationship within the society

**Ways of controlling hazardous substances in an enterprise.**

- Substituting hazardous substances or chemicals with less hazardous ones
- Keeping hazardous substances in covered containers
- Providing adequate and appropriate types of protective equipment
- By ensuring proper disposal of hazardous substances
- By training workers on proper use and maintenance of protective substance
- By providing adequate emergency, health and safety facilities
- Through reading and understanding instructions on the hazardous substances before using them
- Ensuring proper lighting facilities or ventilation
- Providing warning labels on hazardous substance or areas to minimize accidents.
- Developing general rules on safe working habits and publicizing them e.g washing hands with soap, changing clothes and cleaning the environment
- Through maintenance of health and safety records or statistics

**LIGHTING FACILITIES**

- By adding skylights and keeping windows clean to let in natural light.
- By painting ceilings white and walls for concentration and reflection of light.
- By providing artificial lighting which is adequate for the type of work.
- By reducing obstructions and eye strains through repositioning g of Lamps or bulbs
- By providing ventilations and ensuring their cleanliness.

- Providing local lighting or adjustable lights
- Switching off in case there is no need of light
- By replacing bulbs when they are fault.

### **WELFARE FACILITIES**

This helps to enhance health, morale and productivity through work related welfare facilities

**This** can be managed in these following Ways.

- By providing adequate and safe drinking water in all workplaces to the workers.
- Providing regularly cleaned sanitary facilities close to the workplace including soap for washing hands and separate toilets for both sexes.
- Providing a separate comfortable hygienic place for meals of the workers while at work.
- Availing storage space for person clothing, bicycles or private changing rooms to workers as they report for work.
- Availing resting time (breaks) and resting place to help workers get refreshment at work.
- Providing recreational facilities to the workers within the workplace to help workers spend their leisure time
- Providing first aid equipments
- Providing special clothing e.g company uniform
- Providing working incentives which keep the mind awake like music during production.

### **PREMISES MANAGEMENT (WORKPLACE LAYOUT)**

**This can be managed in the following ways.**

- By providing a sign post for business premises to direct visitors and other people involved in the workplace.
- By providing a clean environment for business premises.
- Through improving room temperature of the premises by covering the walls and roofs with insulating materials
- By carrying away sources of heat and noise through constructing noise proof walls.
- By providing fire extinguishers to protect premises against fire accidents.
- By providing two ways out of every room for easy way out in case of any accident
- By minimizing the steps in the passages with in the premises. This can interfere with the movement of wheel barrows which carry heavy loads.
- By eliminating loose wire connection which can cause accidents.
- Providing walk ways and freeways at the workplace.
- Clearing passage and providing marking barriers to keep them clear and allow free movement of workers
- Eliminating regular wiring connections to reduce risks
- Ensuring that the layout and the working conditions are in good order to suite the nature of the product and productivity of the business
- By ensuring safety and security of assets of the business
- Providing good storage facilities for raw materials, work in progress and finished good during production
- Ensuring enough work space for workers during the production process.
- Ensuring stability of the work surface for quality products to be produced
- Providing proper furniture to the employees to use during production with stable back rest
- Allowing for furniture development plans where expansion can take place.

## **Work organisation**

It helps to optimize production and job satisfaction through better work organisation

### ***Ways of ensuring proper work organisation***

- Eliminating some tasks by using machines
- Keeping workers alert and reducing fatigue through frequent changes in task, opportunities to change posture, short breaks music etc.
- Using quality circles or group work to improve productivity and quality of the workers
- Through re-arranging layout and order of operations to improve production flow, efficiency and productivity
- Dividing labour and separating tasks so that each worker knows what is supposed to do and when.
- Avoiding monopoly by using shifts for workers during production process.
- Keeping records for worker's performance and those who are better being rewarded e.g by promotion.

### **Factors considered when designing a workplace**

- Cleanliness / sanitation / hygiene. A well designed workplace should ensure a clean environment
- Ventilation ( heat production)
- Storage facilities
- Safety / security
- Emergency facilities / fire extinguishers
- Work place
- Stability of the work surface
- Nature of the furniture
- Sign post
- Installation of power requirements
- Machine requirements
- Future workplace development plant
- Nature of the products
- Inventory management

## **STRUCTURING TIME FOR INCREASED PRODUCTIVITY**

**Making productive use of hidden time:** Hidden time is the time that was previously mismanaged, consumed with distractions or used for other tasks. This should be used to accomplish priority tasks.

**Using energy high and lows:** this involves improving the schedules of work depending on the time where performance is high

**Ensuring that work is started faster** by accomplishing the first tasks earlier to avoid interfering with actual work time

## **TIME MANAGEMENT / CONTROL**

Time management is a technique for allocating of the managers' own time through setting goals, assigning priorities, identifying and eliminating time wasters and using managerial techniques to reach goals efficiently

### **EFFECTIVE TIME MANAGEMENT / CONTROL**

**Spending time planning and organizing,** use time to think and plan for the time well spent.

**Setting goals,** setting clear goals which give people a sense of direction. Set goals which are specific, measurable, realistic and achievable

**Prioritizing time** to concentrate on work / items which have a greatest reward.

**Using a to do list:** the to do list is the last thing constructed the previous day or first thing in the morning such people may combine to do list with a calendar or schedule.

**Being flexible:** allowing time for interruptions, distractions and unplanned emergencies, when interrupted begin with the most important thing.

**Considering biological prime time.** Prime time is the time of the day where high performance is expected of an individual. If it is effective to use this prime for major activities.

**Doing the right thing right:** doing the right thing is effectiveness and doing things right is efficiency, focus on effectiveness and concentrate on efficiency.

**Eliminating the urgent:** urgent tasks should be dealt with first so that time is set for important priorities.

**Practicing the art of intelligent neglect:** eliminating from life tasks which have no long term consequences

**Avoiding being a perfectionist:** believe that errors and mistakes are to humans

**Conquering procrastination:** trying the "Swiss / Cheese" of Allan taken of breaking the task into smaller tasks and doing just one smaller task and doing just one smaller task and setting time for the bigger

**Learning to say no:** after getting convinced about the importance of priorities, say no to the unimportant ones

**Rewarding him/her:** an entrepreneur has to celebrate achievement of his/ her success in achieving goals

## **TIME MANAGEMENT TECHNIQUES**

**Identifying goals:** this involves understanding what is required to be accomplished each month, week or day, list your goals in order of importance.

**Ensuring self-motivation:** entrepreneurs should motivate themselves to produce high output in work which they have to do in a specific time frame.

**Establishing a dead line:** more work can be done if specific deadlines for achieving certain tasks are set.

**Taking notes:** recording thought and ideas and note down such things as names, telephone numbers, appointments and things to do.

**Being goal oriented:** concentrating on activities which lead to significant results, be selective in your work activities and try not to do everything.

**Working in blocks of time:** do major tasks in blocks of time during the period of the day you feel more effective.

**Asking questions before working:** for example what, who, how and why?

**Being action oriented:** outline your specific course of action and do it.

**Being reflective:** reflective thinking is the act of learning from one's past, present and potential future activities.

**Planning the next day's activities at the end of each day**

**Questioning yourself on time usage,** in order to manage time properly.

## **HOW DO ENTREPRENEURS WASTE TIME**

- ✓ Talking with people about personal matters unconnected with work
- ✓ Having unnecessary or extra-long group meetings
- ✓ Allowing too many interruptions
- ✓ Being disorganized or on specific targets
- ✓ Engaging in little or no delegation
- ✓ Being indecisive ie failure to make decisions on the side of entrepreneur
- ✓ Being late or absent
- ✓ Misusing time reminders

### ***Effects / disadvantages / costs of wasting time***

- It leads to the delays in production
- It lowers sales volume hence reducing revenue
- It leads to poor or late service delivery
- Puts the business / firm at a competitive disadvantage ie the firm can easily be out competed
- It leads to consumer dissatisfaction
- It worsens employee – employer relationship

- It destroys team work
- Reduces the profit of the firm
- Lowers productivity of the firm
- Delays or prolongs decision making process.
- It makes strategic planning difficult.

## **PACKAGING**

Packaging refers to the process of wrapping, crafting or compressing goods to protect them from spoilage, breaking, theft, contamination etc during the process of transit, storage and use.

### **Importance of packaging**

- Packaging protects the contents there in from rough handling and external conditions like poor weather.
- It facilitates easy handling and transportation of goods to the markets especially liquids, cereals etc.
- Through packaging goods can be preserved like food products, chemicals that can be protected against external conditions and germs like through putting them in tins.
- Well packed goods may attract a number of customers and facilitates easy selling as a customer can easily identify the product through its appearance and they end up buying them.
- Products are normally packed in relatively small sizes, which are easy to display in retail stores, easy to price and hence being affordable to different / many customers.
- It is easy to distribute / deliver packed products to the markets; it can facilitate mail order services which are convenience, fast and hence increasing profitability through increased sales of the product.
- Packed goods are usually accompanied with instruction labels which serve as a guide to inform / teach customers about the content and usage of the product there in.
- Self-service is possible with packaged goods; this saves time, attracts more customers and increases the sales of the business.

### **TYPES OF PACKAGING**

- ✓ Bottling / Canning. This involves putting in bottles and cans
- ✓ Putting in bags (like paper bags, polythene bags etc)
- ✓ Putting in plastic containers
- ✓ Putting in boxes
- ✓ Tinning / putting in tins

### **Different types of packaging materials**

- ✓ Metal – aluminum , tin plate, steel
- ✓ Plastic polythene papers, jerry cans, bottles etc
- ✓ Wood –wood , packing cases etc
- ✓ Glass for example bottle

- ✓ Laminators – aluminum foils, films etc
- ✓ Polyesters
- ✓ Hessians / jute for bags

**Note.** The nature of goods determines the types of packaging to use. For instance, oil, wine and other liquid products are put in bottles, tins or cartons,

## **FACTORS CONSIDERED WHEN CHOOSING THE TYPE OF PACKAGING MATERIALS TO USE**

**Sources of packaging materials and suppliers,** the source where the materials are got should be reliable in terms of quality and suppliers must be willing and able to supply whenever a need arises in order to avoid changing materials for the products over and over again.

**Availability of the packaging materials required,** an entrepreneur selects a material that is available or that can be got in the required quantities to allow constant production and distribution of the goods.

**The unit cost of packaging materials required per production cycles and inventory levels to be maintained,** the unit cost should be relatively low and one should only acquire these materials that are needed depending on the volume and type of materials in stores.

**The cost of packaging in relation to the value of the good being packaged,** one should select a material which is not expensive to package, Cheap and lowly priced commodities, as it affects the profitability of the business.

**Types of goods to be packaged,** like liquids, gases, solids, should be considered e.g one is not expected to choose wood boxes to package oil or petroleum products, instead jerry cans are preferred.

**The purpose of packaging,** there are some goods that are packaged purposely to store them for a long time, one should choose long lasting materials like wooden boxes instead of glasses that are delicate, then others like food stuffs that are to be consumed in a short period of time, might be packaged in polythene bags or paper bags.

**Means of transport to be used,** this greatly affects the packaging materials e.g products that are to be moved via the roads (using trucks) should use a strong packaging materials for proper protection like wooden boxes.

**The nature of goods to be packaged** determines the materials like oil, wine and other liquid products are put in bottles or tins, cotton and other bulky products can be put in bales, while fragile goods like fruits, glasses are packed in paper boxes.

**The government policies may also be considered ,** the government may decide to ban certain materials for packaging, so one is not expected to use such materials, for example the government of Uganda recently banned the importation and use of certain types of polythene bags.



**Note.** For packaging of a product to be successful, an entrepreneur must ensure that it is easy to use, open, of practical size and has instructions which can be easily followed and understood.

## **QUALITY MANAGEMENT**

Quality refers to the ability of a good or service to meet/ satisfy a customer requirements or wants.

### **ATTRIBUTES THAT DEFINE QUALITY OF A PRODUCT**

- 1. Performance.** It refers to the basic or primary operating characteristics of a product. E.g in case of a TV performance may mean sound, clarity etc
- 2. Features.** These are the secondary operative characteristics of a product. They supplement the basic functions of a product e.g DVD player on a computer.
- 3. Durability.** This attribute measures the product life. Durability is the amount of use one gets from a product before it breaks down, the longer the life of a product the more the quality.
- 4. Reliability / Guarantee (expiry date)** the longer the expiry date the more the reliability of the product.
- 5. Conformance.** This refers to the degree to which a product design and operating characteristics meet the set standards like weight for example bread is sold in different weights like 500gms or 1kg.
- 6. Serviceability.** It refers to the speed competence and ease of repair a given product. Consumers not only mind about a product breaking down but also the time before the service is restored , the timeliness with which service appointment are kept, the nature of dealing with service personnel etc.
- 7. Perceived quality.** This is how consumers view things. Consumers have different tastes and therefore, perceive quality of products differently. In such circumstances, things like images, advertising, brand names and misconceptions about quality are critical in perceived quality.

### **Common terms used in relation to quality**

**Quality policy:** this refers to the overall intentions and direction of a business or an organisation with regard to quality as prescribed by the top management. Quality policy is normally expressed and developed by the top management and is communicated to the subordinates / workers. In most cases, quality policy is expressed in the mission statement.

**Quality planning:** it refers to the establishment of what the business or an enterprise is planning to do so as to achieve quality.

Or

**Quality planning** refers to establishment of measures of what an enterprise is going to do so as to achieve quality.

**Quality control:** this refers to the activities and operational techniques that are used to fulfill the requirements of quality.

**Quality system:** it refers to organisational structure, procedures, process and resources needed to implement quality management.

**Quality assurance:** it refers to all the plans and systematic activities which are to be implemented within the quality system so as to achieve quality.

### **CONSUMER'S PERCEPTION ABOUT QUALITY**

Due to differences in tastes and preferences, consumers usually perceive quality differently. This however, results into various inference / misconceptions about the quality by consumer.

### **CONSUMERS MISCONCEPTION ABOUT QUALITY**

**Misconception about price:** it is always assumed that the higher the price, the higher the quality. However, this may not be the case.

**Misconception about the brand name:** consumers usually assume that some products are superior to others basing on their brand names. This is because a brand name tends to give a product either a good or bad reputation. For example one may prefer a DVD player branded "Toshiba" because of the brand name to that of Sony.

**Consumers' point of view:** consumers perceive quality of product differently. This is due to differences in consumers' tastes and preferences. Such differences results into various misconception about quality of goods and services.

**Misconception about durability/ guarantee.** Here, different consumers assume that quality products are those ones that take long time to get expired or break down.

**Misconceptions about the origin of goods and services:** consumers tend to assume that quality products are produced from specific countries or places e.g in Uganda people assume that cars from Germany are of high quality than from other countries.

**Misconception about the size of the product:** consumer considers quality products as those that can serve the purpose while in large quantities.

### **FACTORS THAT INFLUENCE THE GENERAL QUALITY STANDARDS OF AN ENTERPRISE**

**Selection of raw materials that are used as inputs in production.** The use of low quality raw materials usually results into poor quality products while use of good quality raw materials yields quality products. Therefore, it is always important to use good quality raw materials so as to have a good quality product.

**Cleanliness of the environment under which the product is being developed.**

A clean environment under which a good is produced or a service is offered helps in the production of quality products compared to unclean environment.

**Packaging.** The way of packaging may affect its quality in various ways for example, packaging can lead to contamination. It can also bring about damage or it can lead to product expiry if the product is kept long time. Therefore, the entrepreneur considers the packaging materials to ensure that the design of the product conforms to the planned packaging materials.

**Technical specifications regarding quality and quantity.** This affects the quality of products in a way that if there is change in the technical specifications like in the mixing of ingredients or size of the product, the quality and quantity are affected. For example in a bakery, if there is alteration in the mixing of ingredients and size, the quality of bread will be affected.

**Storage of raw materials and finished goods.** Improper storage of raw materials and finished goods results into low quality products while proper storage of raw materials and finished goods promotes production of quality products. Therefore, the producer should consider proper storage of raw materials and finished products.

**Limits of deviations from set standards** ie there is always set standards and specification for quality that should be maintained. The more the deviation from them, the more the quality of the product will be affected

**Machinery used in production.** Quality of products produced is greatly affected by the type of machines used in production process. This means that use of unsuitable machines in production process leads to low quality output and vice versa. Therefore an entrepreneur / producer should determine the machines required for production, the technical aspects of producing the product and proper installation of machines.

**Availability of necessary skills for the production of products.** This refers to Labour with the required skills to perform the production of the intended product. Usually the use of skilled labour leads to quality products and vice versa.

**Product design and development.** Wrong and improper product designs lead to low quality of the product while right product designs as demanded by customers lead to quality output.

**QUALITY CONTROL IN A BUSINESS**

**Quality** refers to various activities and operational techniques employed by an entrepreneur to achieve and maintain quality of a product or services.

Quality refers to the measures under taken by an entrepreneur to ensure that high quality products are produced

**Why is necessary to observe quality in a business**

- ✓ To improve the brand image of the business. Quality control helps to improve the brand image of a business while helps the business to expand its market share.
- ✓ To reduce costs of production. This results from the minimizing wastage of raw materials when producing good quality products.
- ✓ To create consumers' loyalty. Quality control helps the entrepreneur to maintain his customers as the entrepreneur has to design and develop a product that conforms the needs of the customers.
- ✓ To facilitate standardization of the business products ie through production of uniform products or service.
- ✓ To comply with the quality standards prescribed by the relevant authority e.g UNBS in Uganda.
- ✓ To produce quality products. Quality control leads to production of high quality products which improve the image and reputation of the entrepreneurs' business.
- ✓ To compete with other competitors in the same line of business through improving on the quality of the output.
- ✓ To determine product costs and price at competitive levels in advance of production.
- ✓ To achieve business objectives concerning quality specification.
- ✓ To maintain business customers through improved quality.

#### **WAYS / MEASURES OF ENSURING QUALITY OF A PRODUCT**

- Ensuring selection and use of better quality raw materials. The entrepreneur ensure use of good quality raw materials so as to produce quality products.
- Monitoring and supervision of the production process. To ensure that the goods produced conform to the set standards.
- Ensuring proper packaging of the product. The entrepreneur ensure use of suitable materials in line with the product design.
- Selecting appropriate production machines and ensuring proper installation of such machines and equipment.
- Carrying out market research before developing the product and even in the process of making the product so as to understand the needs of the customers
- Employing labour with the required skills to perform the production of the intended product.
- Ensuring proper sale and distribution of the product. This requires the entrepreneur to select a suitable channel of distribution for his production.
- Ensuring a clean environment under which the product is to be produced.
- Considering the technical specifications regarding quality and quantity of the product to be produced like mixing ingredients or produced chemicals, size of the product etc.
- Ensuring good / right product design and branding of goods as demanded by the customers.
- Ensuring proper storage of both raw materials and finished products.
- Motivating employees to keep their morale high towards quality production.

## **Importance of quality control in business.**

- ✓ Quality control helps to improve the brand image of a business while helps the business to expand its market share
- ✓ It helps to reduce costs of production. This results from the minimizing wastage of raw materials when producing good quality products
- ✓ Quality control helps the entrepreneur to maintain his customers as the entrepreneur has to design and develop a product that conforms the needs of the customers
- ✓ It facilitates standardization of the business products through which production of uniform products or service
- ✓ It helps the entrepreneur to comply with the quality standards prescribed by the relevant authority e.g UNBS in Uganda
- ✓ Quality control leads to production of high quality products which improve the image and reputation of the entrepreneurs' business.
- ✓ It helps entrepreneur to compete with other competitors in the same line of business through improving on the quality of the output.
- ✓ It enables entrepreneur to determine product costs and price at competitive levels in advance of production.
- ✓ It enables entrepreneur to achieve business objectives concerning quality specification.

## **Quality and production management**

Quality control involves activities at all phases of the production process ie product design, purchase of raw materials, marketing / marketing research, production machines and their installation, production of the product, Storage of materials and finished products, packing, sale and distribution. In the process of producing a product, the quality of the end – product is influenced by activities in each phase of the production process.

### **Phases and activities in the production process that have an impact on quality**

**Marketing and market research for the product.** This involves collecting and analyzing information relating to markets so as to find out opinions of potential customers about the product that the entrepreneur intends to produce.

**Product design and development.** This stage involves planning the shape, fashion, size and colour of products to be produced.

**Purchase of production raw materials.** Poor quality raw materials lead to purchase to poor quality products and vice versa.

**Production of the product.** This stage involves transforming of the raw materials through the use of inputs like machines into finished products.

**Packaging and storage of the product.** This involves wrapping and compressing of the products produced in various packing materials so as to protect them from

spoilage and damage and for easy transportation. After packing the products are then stored.

**Selling and distribution of the product.** This involves selecting of an appropriate channel of distribution and an effective mode of transportation to enable the entrepreneur's products reach the final consumer.

**Installation of the product at the user's premises.** After distribution of the product. The entrepreneur or salesperson installs the product at the client's premises. Installation may be free or at a small charge. However, this only applies to those products which require installation like machinery and equipment.

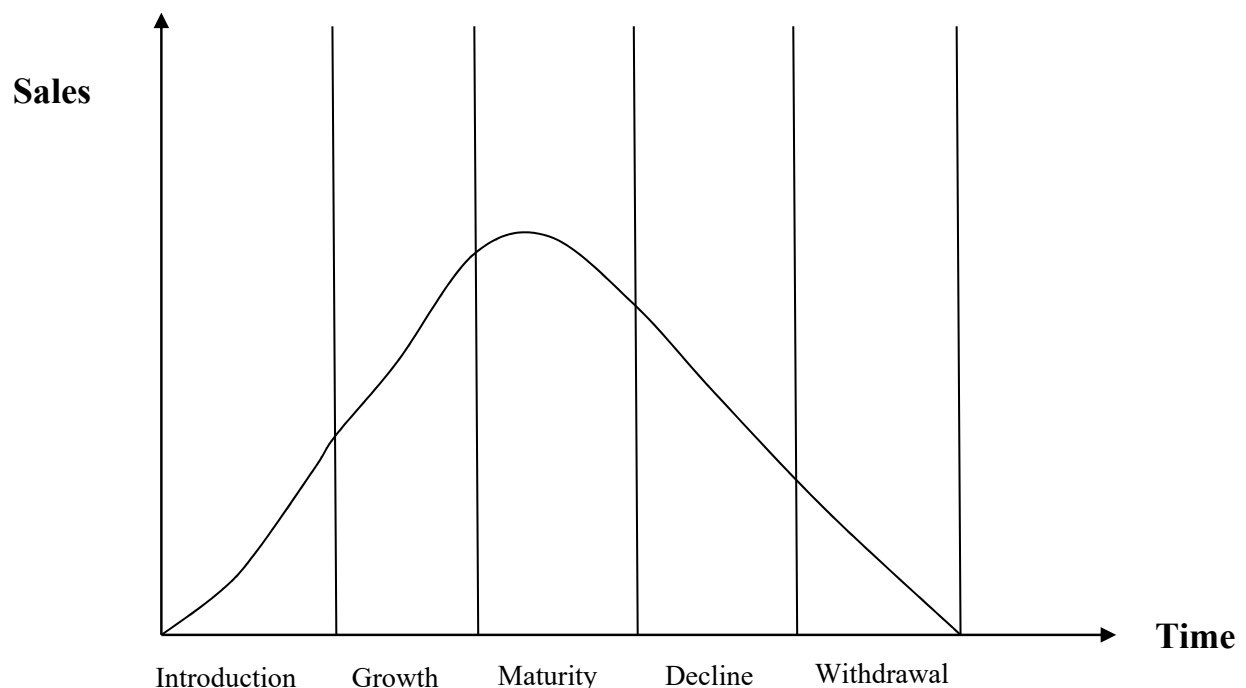
**Technical assessment and servicing of the product.** This is the last stage in the product life cycle. It involves the activities carried out to ensure that the customer is satisfied with the good or service and the entire business enterprise. It includes after sales activities like checking and ensuring product smooth performance and maintenance / servicing.

### **THE PRODUCT LIFE CYCLE (PLC)**

**Product life cycle** refers to the combination of various activities that influence the quality of a given business product. The product life cycle merely views and enterprise from the angle of production management. Other angles to view and analyze an enterprise are human resource management and financial management.

#### **STAGES OF PRODUCT LIFE CYCLE**

Summarizing major events during product life cycle stage. This provides a summary of the major differences between the stages in the product life cycle with respect to sales, costs, profits, types of customers and the nature of competition



### **a) Introduction stage**

The market size and growth is slight. It is possible that substantial research and development costs have been incurred in getting the product to this stage. In addition marketing cost may be high in order to test the market undergo launch promotion and setup distribution on channels

It is highly unlikely that companies will make profits on products at the introduction stage. Products of this stage have to be carefully monitored to ensure that they start to grow otherwise the best option may be to withdraw, low sales and high unit cost

#### **Characteristics of the introduction stage**

- ✓ Sales generally are low and somehow slow to take off. Customers are characterized as innovators
- ✓ Production costs tend to be high on a per unit because the firm has yet to experience any significant economies of scale
- ✓ Marketing cost required for creating awareness, interest and trial and for introducing the product into distribution channels are high
- ✓ Because of low sales and high unit costs, profits tend to be negative or very low
- ✓ Competitors tend to be few in number indeed there may be only major player in the market place the innovating firm
- ✓ No profits

### **b) Growth stage**

It is characterized by rapid growth in sales and profits. Profits a rise due to an increase in output, economies of scale and possibly better prices. At this stage, it is cheaper for the business to invest in increasing market shares as well as enjoying the overall growth of the market

#### **CHARACTERISTICS OF GROWTH STAGE**

- ✓ Sales increase rapidly. This increase is due to consumers' rapidly spreading positive word of much about the product
- ✓ Declining cost on per unit basis because sales leads to longer production runs and therefore economies of scale in production
- ✓ Decline unit costs and rapidly increasing profits due to increasing sales
- ✓ Customers are mainly majority. It is the early adoption specifically that is responsible for stimulating the WOM effect
- ✓ Competition continues to grow throughout this stage as competitors recognize profits, potentials in the market e.g enter the market with their own session of the products

### **c) Maturity stage**

It is in this stage that competition is intense as companies fight to maintain their market share. Here both marketing and financial become key activities. Marketing expenses have to be monitored carefully, since any significant moves are likely to be

copied by competitors. The maturity stage is the time when most profit is earned by the market as a whole.

Any expenditure on research and development is likely to be restricted to product modification and improvement and perhaps to improve production efficiency and quality

### **CHARACTERISTICS OF MATURITY STAGE**

- ✓ Sales continue to grow during early stage (post) of maturity but at a much slower rate than experienced during the growth phase. At some point, sales reach the peak. This peak may last for extended periods of time
- ✓ Costs continue to rise during maturity because of market situation and continually intensifying competition
- ✓ Competition, where this slowing of sales is combined with this stage, the result is that profits will have reached their highest level and must from this point on decline
- ✓ The only remaining customers to enter the market will be late, the late majority and the laggards. These customer groups are by far the most risk averse and most hesitant to adopt new products
- ✓ Competition is mostly intense. The intensity of competitive fighting drives the changes in costs and profitability

#### **d) Decline stage**

The market is shrinking / reducing the overall amount of profit that can be shared amongst the remaining competitors. At this stage, great care has to be taken to manage the product carefully; it may be possible to take out some production cost to transfer production to a cheaper market. Ultimately depending on whether the product remains profitable, a company may decline to end the product

### **Characteristics of the decline stage**

- ✓ Sales continue to deteriorate in addition unless major changes in strategy or market conditions occur, sales aren't likely to be recovered costs because competition is still spent on promotion particularly sales aimed at providing customers with price concessions
- ✓ Profits continue to decline with little hope of recovery
- ✓ Customers again are primarily laggards
- ✓ There are generally a significant number of competitors still in the industry at the beginning of decline. However as decline progresses marginal competitors remaining thus decline leads to the large more entrenched competitors with significant market shares

#### **e) Withdrawal stage**

There is a down turn in the market e.g more innovative products are introduced or customers tastes change. There is intense price cutting and many more products are withdrawn from the market. Profits can be improved by reducing marketing expenditure and cost cutting



## **Benefits of product life cycle in enterprise**

- ✓ It helps the entrepreneur in product decision making
- ✓ It helps the product designers and service providers, government agents and individuals to make choice
- ✓ It leads to increased productivity
- ✓ It reduces wastage of products and raw materials
- ✓ It minimizes product costs through the re – use of the original data
- ✓ It enhances the entrepreneur ability to quickly identify potential sales opportunities and renew contribution

## **Problems with product life cycle (critics of product life cycle)**

- ✓ In reality very few products follow such a prescriptive cycle. The length of each stage varies enormously. The decisions of marketers can change the stage e.g from maturity to decline by price cutting, not all products pass through this stage. Some go from introduction to decline, it's not easy to tell which stage the product is in
- ✓ it doesn't any way predict the length of each phase and it can't be used to forecast sales with any accuracy
- ✓ The model is self-filling e.g if a marketer decides that a product is approaching its decline phase and stops actively marketing it. The product sales will almost inevitable decline. This might not have happened had it been managed as if it was still in its maturity stage
- ✓ It's possible that by improving a product aggressively on an ongoing basis growth can continue for a long time. The model doesn't consider them
- ✓ Successful marketer need to draw on a wide range of data and on analysis to help them decide which phase a product is in and whether that phase can be explained

## **TOTAL QUALITY MANAGEMENT**

This is the method designed to prevent errors such as poor quality products from happening. It's a way of managing an organisation so that every job, every process is carried out right from first time of every time.

### **FEATURES / ELEMENTS OF TOTAL QUALITY MANAGEMENT**

**Quality chains,** it emphasizes the linkage between suppliers and customers. The chain remains intact if the supplier satisfies the customers. Failure to accomplish this make delays in the next stage of production.

**Company policy and accountability.** Total quality stresses the role of the individual and aims to make anyone accountable for their own performance.

**Control.** Customers' needs will only be satisfied if the business has control of the factor that affect a product's quality. These may be human, administrative or technical factors.

**Monitoring process,** monitoring the business process enables possible improvements to be made thereby leading to total quality management. An entrepreneur has to develop methods to achieve this.

**Team work,** total quality management stresses that team work is the best effective way of solving problems in an organisation. The main advantages are

- ✓ A greater range of skills, knowledge and experience can be used to solve the problem.
- ✓ Employees' morale is often improved.
- ✓ Problems across departments are better dealt with.
- ✓ A greater variety of problems can be tackled.
- ✓ Team "deals" are more likely to be used than individual ones.

Total quality management strongly favours team work throughout the business. It builds trust and morale, improves communication and cooperation and develops interdependence.

**Consumers' views.** Firms have to be committed to their customers by responding to all their needs as per the quality standards customers expect. This leads to total quality management

**Zero defect policy,** this is aimed at ensuring that every product manufactured is free from defects. Companies that guarantee zero defects in customers order builds a good reputation and lead to new clients and improved sales

### **Advantages of total quality management**

- ✓ A greater range of skills, knowledge and experience can be achieved to solve a problem
- ✓ Employees' morale is often improved
- ✓ Problems across departments are better dealt with
- ✓ A greater society of problems can be tackled from individual ones
- ✓ Total quality management favours team work throughout the business. It builds trust and morale improves communication, co-operation and develops interdependence

### **BENEFITS OF TOTAL QUALITY MANAGEMENT**

- ✓ It focuses dearly on the needs of clients or customers and relationship between suppliers and customers.
- ✓ It helps to achieve quality in all aspects of business not just product or service quality.
- ✓ Enable entrepreneur to critically analyze all the processes to remove waste and inefficiencies
- ✓ It helps to find improvements and develop measurement of performance
- ✓ It develops effective procedures from communication and acknowledgement of work
- ✓ It develops a team approach to a problem solving
- ✓ It helps entrepreneur to utilize human resources better

- ✓ It reduces product development time

## **CRITICS / PROBLEMS OF TOTAL QUALITY MANAGEMENT**

- ✓ It involves taking developmental costs of the new system
- ✓ Total quality management only works if there is commitment from the entire business or organisation
- ✓ Involves a great deal of bureaucracy and documentation and regular audits are needed. This may be a problem for entrepreneurs or small firms
- ✓ Stress is placed on the process and not on the product
- ✓ Some workers and unions regard total quality management as management by stress and a way of de-unionizing work place
- ✓ It delegate the determination of quality to quality experts because total quality management is a complicated entity beyond the comprehension of the coverage employee

## **QUALITY BUSINESS MANAGEMENT TASKS**

In small enterprise, management also carries out special activities designed as functions. The basic management functions in a small enterprise are shown below:

**Planning:** planning is management task which involves the establishment of goals and objectives of a business and determination of how they will be achieved.

### **Advantages**

- ✓ It gives and entrepreneur direction and course of activities
- ✓ Helps the entrepreneur to set and achieve goals
- ✓ Enables the entrepreneur to allocate time from the different activities
- ✓ Enables the entrepreneur to make proper utilization of resources
- ✓ Enables the entrepreneur to evaluate alternatives and achieve the best alternative to benefit the business

**Organizing:** refers to the identification of what activities are to be done, grouping their activities into sections (departments) and designing or delegating the activities to particular individuals to carry them out.

**Staffing:** it involves the process of recruiting, training, developing, compensating and evaluating employees who identify tasks.

**Leading:** leading involves motivation and guiding employees about the process and methods of work in the organisation. It requires leading by example and ensuring open communication.

**Controlling:** controlling in small enterprise deals with monitoring the goods purchased and sold. Money received and paid out, stock and other property of the business. This ensures the smooth running of the business and achievement of the set goals and objectives.

**Communication:** it is the process of passing information with suppliers, workers, customers, for successful performance.

**Motivation:** it's the process of encouraging people to give their best towards the achievement and get employees to willingly pursue business objectives.

**Budgeting:** a budget is a document showing expected income and expenditure of an enterprise of a given period of time. This is used as guide in monitoring and controlling the implementation of the planned business activities.

#### **Need for budgeting in an enterprise.**

- ✓ To price business products appropriately in order to make the desired profits.
- ✓ To calculate the cost of goods in advance.
- ✓ To prioritize expenditure of business funds.
- ✓ To encourage workers to work harder so as to achieve the set targets.
- ✓ To be able to compare actual performance with targeted one.
- ✓ To facilitate future planning of the business basing on set objectives.
- ✓ To motivate workers by involving them in setting targets to be achieved.
- ✓ To enable top management to communicate its expectations to workers for proper understanding.

#### **Benefits of budgeting**

- ✓ It provides managers with a way to cost their financial implications
- ✓ It provides specific goals and objectives that serve as a yard stick for evaluating performance
- ✓ It reveals potential problems before they occur
- ✓ It coordinates the activities of the entire business by integrating the plans and objectives of various department

### **MARKETING MANAGEMENT**

Is the performance of activities that are necessary to get the goods or services from the producer to the customers resulting into customer satisfaction and realization of profits on the part of the entrepreneur

Marketing involves identifying, anticipating and satisfying customer's needs effectively and profitably.

#### **Objectives of marketing**

- To recover the cash earlier enough
- To penetrate the market especially for a new product
- For product line promotion
- To satisfy customers and the entrepreneurs by realizing a better profit
- For functional satisfaction
- To achieve the four utilities ie possession, time, form, and place utilities
- Offering a total consumption system
- Increments of satisfaction

- Facilitating exchange

### **Conditions of exchange**

- There are at least two parties
- Each party has something of value to the other party
- Each party is capable of communication and delivery
- Each party is free to accept or reject the exchange offer
- Each party believes it is appropriate or desirable to deal with the other party.

### **SELLING FUNCTION**

Selling is a two – way communication between the buyer and seller. The purpose of this personal contact is to enable the entrepreneur (or his sales person) persuade the buyer to accept a product at a stated price.

In selling, a customer may be told how the product will help meet his/her needs, its price, how to use it, and why it would be good to but it.

### **Differences between selling and marketing**

- ✓ Marketing focuses on customer's needs while selling focuses on seller's needs
- ✓ In marketing, a customer enjoys supreme importance while in selling product enjoys supreme importance.
- ✓ In marketing, there is an integrated approach to achieve long term goals while in selling there is a fragmented approach to achieve immediate gains.
- ✓ In marketing, an entrepreneur converts customer's needs into a product while in selling he converts product into cash.
- ✓ In marketing there is caveat venditor (let the seller be aware) while in selling there is caveat emptor (let the buyer be aware).
- ✓ In marketing profits are realized through customer satisfaction while in selling profits are realized through sales volume.
- ✓ Marketing aims at external market orientation while selling aims at internal business orientation.
- ✓ Marketing is based on customer approach while selling is based on product approach.
- ✓ Marketing is a series of activities an entrepreneur does to find out who his customers are and what they need or want while selling is a two- way communication between the buyer and seller aimed at persuading the buyer to buy the product.

### **TERMINOLOGIES ASSOCIATED WITH MARKETING**

#### **Market**

A market is an arrangement that enables buyers and sellers to come in contact with each other with the main aim of exchanging goods or services.

Or

A market refers to all people / institutions in a specific geographical area that need products and are able and willing to pay for them.

## **Market share**

It refers to the section or portion of the total market which is controlled or served by one firm or entrepreneur.

**Marketing ethics**, Are those standards, values, moral principle or guidelines which control or govern the behavior of the marketing product in the market

**Market fit**, is the extent or degree to which a new product of the firm is likely to attract or appeal to its existing customers

## **TARGET MARKET POPULATION**

This refers to various groups of people or customers where an entrepreneur intends to sell his/her products.

It is where likely buyers of one's products will be sourced. It includes women, men, students, rural and urban people, rich and poor, adolescents (youth) etc.

### **FACTORS THAT DETERMINE A TARGET MARKET POPULATION**

- ✓ Level of income. Customers with high income levels form a bigger target market due to their high demand for a products on the other hand, low income customers tend to have low demand for the products hence forming a small target market
- ✓ A consumption habit, customers whose consumption habit involves spending huge amounts of money to buy a product forms a bigger target market for business. On the other hand, customers who usually spend less on a given products forms a small a small market.
- ✓ Level of competition, Availability of many substitute products leads to a small target market population due to division of customer consumers for similar products. On the other hand less competition i.e. few substitute goods increase the target market population
- ✓ Market share. Existence of money potential buyers in a given area increases the target market population. However, limited number of potential buyers in a given area forms a target market for a business
- ✓ Age and sex composition. A target market for a product is high if a population is made of potential customers of a given age or sex. However the target market for a product is small if the number of customers for a given age or sex is small
- ✓ Market trends / patterns. Positive market trends can bring a big target market area etc. however negative market patterns like increase in population in a given market area etc. however negative market patterns like a depression, unemployment etc. form a smaller target market for the business
- ✓ Size of the population. A big population size increases the target market population unlike a small population size that lowers it
- ✓ Government policy of taxation and subsidization. Increased subsidization especially for the consumers increases the level of their income and eventually the purchasing power hence increase in target market population. However, increase in government taxation lower the level of disposable income of the population which eventually lowers the TMP
- ✓ The level / degree of advertisement. Persuasive and repetitive advertising of products increases the size of the target market population since the consumers

are influenced to buy and continue buying the product. On the other hand reduced advertisement

## **THE MARKETING MIX**

This refers to a set of the controllable variables a company puts together to satisfy the target customers.

### **ELEMENTS OF MARKETING MIX**

**Product.** This is a good/service offered by a business to satisfy customers' needs. The product should be designed in an appropriate way to ensure that it meets desired needs of customers.

**Place.** This is concerned with how and where the seller can make product available to customers. It involves the entrepreneur selecting the best channel of distribution to ensure that goods are in the right place when required.

**Price.** This is the monetary value of the product. The price charged by an entrepreneur for his/her products should be affordable to attract customers but also high enough to earn profits.

**Promotion.** This refers to any activity used in informing and attracting customers to buy a product for the first time and to buy more of it.

**Positioning.** This involves the targeting of a particular segment of potential market to whom the entrepreneur aims to sell his/her product. It reflects the emphasis and entrepreneur puts on a product for a particular segment of customers purposely to attain them or maintain their loyalty.

**Packaging.** Wrapping of products in attractive packages to add value

**Planning.** Process of deciding what, when, how to produce

**Physical evidence.** Lay out, official company documents, staff uniforms etc.

**Process.** The way we offer services to our customers

**People.** The kind of people we employ, their competences, attitude and commitment

### **PRICING OF GOODS AND SERVICES**

This refers to the activity that involves attaching of monetary values to goods and services at which the entrepreneur is to offer his products. Pricing is an important activity in an enterprise as it influences the profit of the entrepreneur and it also determines the consumer's purchasing power ie his ability to acquire particular goods and services.

## Methods used by the entrepreneurs when pricing their products

- ✓ **Penetration pricing.** This is where by a low price is combined with persuasive advertising aimed at capturing a large percentage of the market.
- ✓ **Target pricing.** This is where a firm pre-determines a target level of profits and then charges a price to generate the target profits.
- ✓ **Skimming method.** This is the price policy suitable for the top quality versions. It is set to target a distinct class of customers.
- ✓ **Price discrimination.** This involves charging different prices in different markets for the same good for different reasons associated rather than costs of production.
- ✓ **Auctioning.** Here the highest bidders take the product. Prices are determined depending on who offers a highest price.
- ✓ **Demand oriented pricing.** This is the method of setting price basing on the level of demand for the product. A high price may be charged where there is high demand and low price is charged where demand is low
- ✓ **Bargaining.** This is where the prices are determined after a further discussion between the customer and the seller and there after they reach final agreement.
- ✓ **Government pricing policy.** This is where the government dictates prices especially essential products; it fixes the price at which sellers should sell their products.
- ✓ **Cost oriented method.** This is a form of pricing determined by the cost of production incurred by the entrepreneur. The higher the costs of production, the higher the price and vice versa.
- ✓ **The fashion oriented pricing.** This is where prices are determined basing on the prevailing fashion or modal. If the fashion is attractive, a high price is set while low price will be set if the fashion is low.
- ✓ **Competition oriented pricing.** This is a form of pricing which is determined mainly by the other business competitors for the same products.
- ✓ **Limit pricing.** This is where the existing firms collectively chose to charge lower prices than the prevailing price on the market in order to discourage the new entrants.
- ✓ **Through forces of demand and supply.** This is the method of pricing where the set price is based on customer's demand and supply of the product in market.

## The Objectives for pricing the products

- ✓ To target the return on investment
- ✓ To target the market share
- ✓ To discourage the new entrants
- ✓ To maximize the short run profits
- ✓ To determine the distribution of goods and services
- ✓ To stimulate the growth of the business
- ✓ To establish the market
- ✓ To maintain price leadership arrangement



## **Factors affecting price decisions of a product / factors considered when determining price of a product.**

- ✓ **The nature of customers.** Customers with low incomes are always charged with a low price compared to high income earners.
- ✓ **The government policy.** The government at times influences price decisions by setting up minimum and maximum price levels.
- ✓ **The cost of production.** High costs of production for produced products encourages entrepreneurs to charge high prices while low costs make them to charge low prices e.g cost for raw materials.
- ✓ **The level of competition.** High competition encourages entrepreneurs to charge fair prices to their customers and vice versa.
- ✓ **The main objective of an enterprise.** Enterprises whose main objective is profit maximization always charge high prices for their products and where the objective is sales maximization, the entrepreneur always charges fair and low prices to increase on the sales of the business
- ✓ **The quality of the products.** High quality products are always charged with a high price value compared to low quality products.
- ✓ **The level of demand for the products.** Products with high demand encourage entrepreneurs to charge customers a high price compared to products with low demand.
- ✓ **The seasonal factor** .Some products are always charged highly during some seasons .E.g scholastic materials like books, bags are always charged highly when students are going back to school.

## **MARKETING SURVEY / RESEARCH**

Market research is systematic process of collecting and analyzing information relating to markets and opinions of the public about the products of a firm to enable present and future decision making.

It is the process of collecting and analyzing information relating to demand of a good or service in order to identify market opportunities and problems.

## **AIMS / OBJECTIVES OF CARRYING OUT MARKET RESEARCH OF A PRODUCT**

- ✓ To find out the type and nature of product preference by consumers at a given period of time.
- ✓ To find out the quality of products consumers desire to buy.
- ✓ To determine the quantity / volume of products to be on market ie how much is likely to be bought now and in future.
- ✓ To find out consumers reactions on the prevailing prices.
- ✓ To increase sales/ turnover of the firm.
- ✓ To determine the best channel of distribution of goods and services for possible area where the distribution channel is most appropriate.
- ✓ To find out the effectiveness of advertising and sales promotion on the sales of a particular product.

- ✓ To assess the level of competition with vital forms e.g crown bottlers may carry out market research to determine its market share and how its products are competing with those of century bottling company.
- ✓ To know where to locate your business.
- ✓ To find out where and when the customers want the good or service.
- ✓ To guide entrepreneur in making decisions whether to expand or improve on the current product.

## **METHODS / TOOLS OF MARKET RESEARCH**

**Observation method.** This is where the entrepreneur watches the behaviour and attitudes of the public towards his product and products of competitors. It involves making an informal survey by observing business activities in the community. It reveals the need for the particular business.

**Experimental method.** This is where an entrepreneur sells his products within a small selected area before selling on large scale. If the product is liked within a small selected area, then the entrepreneur can distribute nationwide.

**Interviewing method.** Under this method, the entrepreneur asks oral questions either face to face or by telephone to obtain response of people towards his products. It is a formal discussion which can identify the short comings of the business.

**Telephone surveys.** Under this method, an entrepreneur calls different groups of customers to obtain information about aspects of the product to establish the market stand.

**Questionnaire method.** Under this method, an entrepreneur carefully design questions which are printed on paper then sent to possible respondents to give answers. It is a formal survey which obtains market information.

**Personal contacts.** This involves making an informal survey by talking to family members and friends. These provide information about the best business to set up and the best products to be purchases in the locality.

**Brain storming.** This is a technique used to solve a problem by generating as many ideas as possible. It begins with a question from a leader and another person in a group gives the answer and then any one adds to it or changes it.

**Surfing / use of the internet.** This is where information is gathered through surfing from different websites from the internet.

**SWOT analysis.** This method involves collecting data by a business through gathering information about its strength, weaknesses, as well as information about opportunities and threats from the outside environment.

## **Steps taken in carrying out market research / survey**

- ✓ Defining the research problem ie setting objectives to be achieved.

- ✓ Designing / planning the research ie the strategy to be employed when collecting data.
- ✓ Collecting information. This involves gathering relevant information needed to make rational marketing decisions using the selected technique.
- ✓ Presenting the research report. This involves writing a final report about the research findings and making recommendations after analyzing data.

### **Sources of data for conducting market research**

**Competitors / competition.** This is where data is collected by monitoring the activities of competitors in the same line of business. This may provide important information about customers demand that were over looked and they may be capturing part of the market by offering something unique.

**Customers.** The entrepreneur should talk to customers to get their feelings and ask them where improvement can be made. Encouraging and collecting customers' comments is an effective form of research which involves asking customers to explain how the product could be improved to satisfy their needs.

**Employees (workers).** This is one of the best sources of information about customers' feelings, likes and dislikes, usually employees work more directly with the customers and hear their complaints that may not reach the owner. They are in most cases aware of the items customers request for that the business does not offer.

**Company records and files.** Examining company records and files can be very informative e.g looking at the sales records, complaints, receipts or any other records can show an entrepreneur where his customers live and work, what their preference is, amount purchased etc.

### **Importance of carrying out market research**

- ✓ Market research helps an entrepreneur to assess / check the effectiveness of his advertising and promotional activities.
- ✓ It helps an entrepreneur to find out the responses of customers to new product developments that he has introduced in the market.
- ✓ It helps an entrepreneur to identify problems in the current product or service so as to fulfill the customers' demands.
- ✓ It helps an entrepreneur to find out his market share ie the number of customers he is serving in the market.
- ✓ It helps an entrepreneur to find out who his customers are, where they live, what the customers want and when they want, their buying patterns etc.
- ✓ It helps an entrepreneur to collect information which can be used as a basis for decision making.
- ✓ It helps an entrepreneur to identify his / her competitors, their activities and strategies and device various ways of out competing them.

## **Problems faced when conducting market research of a given product**

- ✓ Language difference. Given that Uganda lacks a national language, researchers sometimes miss the information they desire to get due to inability to communicate in the languages understood by the different respondents / consumers.
- ✓ Inadequate financial resources. It is very expensive to carry out market assessment. Small firms with limited capital may not be able to undertake it and this greatly affects their planning.
- ✓ Inadequate skills to handle data collection due to limited man power to effectively and efficiently handle market assessment. This leads to inaccurate interpretation of information from the public.
- ✓ Inadequate communication facilities. Accessibility of some areas of the country is difficult due to poor road network. Therefore, information from such areas cannot easily be got by researchers.
- ✓ Change in demographic factor like population, sex, age etc which affects the findings.
- ✓ Inadequate co-operation from the customers or public. Some people refuse to answer the questions; others give wrong answers while some chase away the researchers. All these distort research findings and conclusion.
- ✓ Insecurity / hostility in some areas which hinder effective data collection.
- ✓ Competitors, who subrogate effective data collection.
- ✓ There is also a possibility of getting information from a biased sample / source.

## **MARKETING TECHNIQUES USED IN BUSINESS**

These refer to the tools that may be employed by an entrepreneur so as to carry out his marketing effectively. These include the following:

**Marketing decision making.** This involves making right decisions on how to market and distribute the product. This gives an entrepreneur an opportunity to take action on a given situation.

**Effective communication.** This enables the entrepreneur to satisfactorily pass a message to the target buyers about products available for sale. It can be conveyed through media like radio, sign posts, newspapers etc either orally or in written.

**Negotiations.** This is the bargaining situation of a better deal. It enables an entrepreneur to reach an amicable understanding with the customer on a deal.

**Display.** This is when items are made known to potential buyers by strategically putting them in certain positions so that everybody can be able to see them e.g through attractive windows display.

**Offering discounts / price reductions.** This is the lowering of the price of a given product aimed at encouraging customers to buy them.

**Offering credit.** This is where an entrepreneur allows buyers to take goods and make payment for them at a later date. This can attract buyers who do not have immediate cash to customers to buy them.

**Quality improvement.** It helps an entrepreneur to meet the needs of the market and therefore accord bigger market share.

**Distribution.** This is the method where an entrepreneur makes the product available at places where customers can easily buy them. E.g by using distribution trucks, opening up distribution centres in different towns.

**Personal selling.** Is a situation where a team of sales persons are employed to sell directly to customers so to increase the sales of a business.

## **MARKETING STRATEGY**

Includes identifying customer groups (target customers) which a small business can serve better than its large competitors. The business can tailor its product offers, prices, distribution, promotional efforts and services towards a particular market segment.

### **Tools for effective marketing strategy**

Most business owners rely on two or three marketing strategies to attract new business. However, there are several ways to attract new business to your door.

**Networking.** Networking is perhaps the most commonly used approach by small business owners. This involves cultivating relationships with other people in the business.

**Referrals.** This is also effective in generating business ideas. It ensures that a pro-active approach is taken rather than a passive one. Ask your satisfied clients to refer other potential customers to you

**Cold calling.** This involves stating with a conversation with a good opening to capture other person's attention

**Newsletters.** This involves keeping your name in front of your customers and prospects. Provide valuable information to customers to act as advertising information / smart marketing.

**Giving free information to interested prospectus.** Offer information that will help your target market with their problems.

**Offering guarantee.** Assume it is for better and offer guarantee especially when charging suppliers after being dissatisfied with the current suppliers.

**Advertising.** Focus on customers' problems than product features then make the advertisement great by concentrating on the problem you can solve.

## POTENTIAL CUSTOMERS

Potential customers are a group of people sharing common needs and characteristics that a business decides to serve

### Characteristics of potential customers

**Age.** This is important where the product is aimed at a specific age group. For example, toys for children, as general rule people at different ages have different requirements for different reasons.

**Sex.** Some products by nature are designed for a particular sex whoever do not advise because some customers may buy for others. For example a man may buy a dress for his girlfriend or daughter.

**Location.** Customers can be defined by where they live, work and where they go. A small restaurant may cater for workers in nearby offices.

**Occupation / employment.** Analyse the social class or occupational group the product is targeting. Peoples' occupations determine their tastes / attitudes.

**Income.** Not many businesses appeal to ranges of income. If your business is going to focus on high price quality products, your customers will be in high income bracket.

**Leisure activities.** The leisure industry is an ever growing one. Define customers according to their leisure activities.

**Usage.** Identify segments based on the way the product is used by the customers, on a simple level, heavy use / medium use, low use, skilled use / unskilled use.

## MARKET SEGMENTATION

Is the dividing the market into groups of individual markets with similar wants and needs.

### Objectives of market segmentation

- ✓ To accurately and profitably meet the needs of selected customers.
- ✓ To boost sales and cut advertising costs by targeting customers with a high likelihood of product purchases.
- ✓ To enable positioning of each branch within the portfolio against a distinct set of customer needs.
- ✓ To match customers' needs in a better way. Creating separate offers for each segment makes sense and provides customers with better solutions.
- ✓ To enhance profits for the business. Customers have different disposable income and are therefore different in how sensitive they are to price. Segmenting markets enables business to raise average prices and finally enhance profits.
- ✓ To increase opportunities for growth. Market segmentation boosts sales for example if introduced to lower priced products.

- ✓ To retain more customers. Customers circumstances change for example they grow older, have families, change jobs through promotions and change buying patterns. Marketing goods which appeal to different customers at different stages enables the business to retain customers than changing to competing products.
- ✓ To target marketing communications. Businesses need to deliver their marketing message to a relevant customer's audience.
- ✓ To gain share of the market segment. It enables businesses to achieve competitive production and reduce marketing costs. Small firms are able to compete with bigger firms.

### **Basis for market segmentation**

There is a large collection of possible segmentation bases. Some of these are briefly described below

**Demographics.** Consumers can be grouped on the basis of characteristics such as age or household composition (family size).

**Socio-economic characteristics.** Similarly, characteristics such as income, occupation and education can be used to derive segments that are easy to reach. Such segments are indicators of behaviour like lifestyle, price sensitivity and brand preference.

**Product usage.** Potential to use the firm's product is behaviour based segmentation. Potential could be determined by asking questions about disposition to use (such as awareness, used in the past, would consider using) in a survey and respondents grouped accordingly.

**Psychographic.** Personality, attitudes, opinions and life styles are often used as segmentation bases. These characteristics have some relationship to behaviour and provide insight into how to communicate with chosen segments.

**Generation.** Generation refers to people born in the same period of time. Such people share much in common. Not only of a similar age, but they experienced similar economic, cultural and political influences in their formative years.

**Benefit sought.** Some people are price sensitive, others seek quality or service. Some people are brand loyal, while others frequently switch brands. It is possible to group consumers on the basis of these factors.

**Geography.** There are two reasons why people who live in the same area may share similar characteristics. First, some areas have more expensive properties than others and so people with similar socio-economic characteristics may cluster together, second they have similar transport and shopping options, it is easy to reach particular areas by using local newspaper, cinema, outdoor and selective direct mail but mass media is less effective.

**Geo-demographic. This combines demographic and geography.** This identifies groups of small geographic areas which have similar demographic profile

**Discussion.** The segmentation basis depends on the decision to be done. For pricing decisions the segmentation should be price sensitive, advertising decision include benefit sought, media use or psychographic or a combination of these

### **Criteria for selecting segmentation basis**

**Internal homogeneity / eternal heterogeneity.** This means that potential customers within a segment should have similar responses to the marketing mix variable of interest but a different response to members of other segments

**Parsimony.** This is the degree to which the segmentation makes every potential customer a unique target. That is, the segmentation should identify a small set of grouping of substantial size

**Accessibility.** This is the degree to which marketers can reach segments separately using observable characteristics of the segments

### **CUSTOMER CARE**

Refers to the practice that enable an organisation to deliver services or products in a way that allows the customer to access them in a most efficient, fair cost effective and humanly satisfying and pleasurable manner possible

#### **THE MANIFESTATIONS OF GOOD CUSTOMER CARE**

- ✓ By being honest to customers ie being trustworthy while handling business transactions with customer and suppliers, financiers and competitors.
- ✓ By handling customers objections and complaints well for instance underweight, over priced products, wrong size, contaminated products etc.
- ✓ Offering prompt and excellent services to customers ie serving them whenever they show interest or demand for goods or services.
- ✓ By being available to meet customers' demands and assist them all the time.
- ✓ By listening to customers suggestions and opinions
- ✓ By giving basic knowledge to customers about how the product can be used.
- ✓ By being pleasant to customers when serving them.
- ✓ Offering technical and after sales services like packaging, transport, free gifts etc.
- ✓ Improving on the quality of the products regularly depending on the market demands.
- ✓ Offering occasional price reductions or discount to customers.
- ✓ By giving credit facilities to customers when they don't have ready cash.
- ✓ Being clear when communicating to customers.

Indicators of good customer care in the business

- Increase in the sales thus increase in profits
- Decrease in advertising costs/ rates
- Increase in number of customers
- Repeat purchase by customers



- After sales service available
- Suggestion boxes
- Discounts allowed
- Honesty to the customers

### **BENEFITS OF GOOD CUSTOMER CARE IN ENTERPRISE**

- ✓ It improves on the business' image before the public.
- ✓ It promotes good relationship between the business and its customers.
- ✓ It promotes high sale since more customers are attracted.
- ✓ It acts as a marketing technique to expand the market.
- ✓ It creates a platform to handle customers' complaints.
- ✓ It helps business to out compete its business competitors.
- ✓ It helps customers from being exploited like buying poor quality goods.
- ✓ It helps to retain business customers and attract the new ones.
- ✓ It promotes repeated purchases from the business customers.

### **PROMOTION OF GOOD CUSTOMER RELATIONS IN A BUSINESS**

Customer relations are the ways a business deals with customers

**The following are the ways through which good Human Relations can be promoted in a business.**

- ✓ Proper handling of customer's complaints and queries. Customers complaints should be handled with care so as to promote good relations between employees and employers
- ✓ The entrepreneur and employees should always show genuine respect to individual customers. This can be done by communicating to employees or customers in a friendly manner
- ✓ The entrepreneur and staff should be honest when handling the business transactions. There is need for an entrepreneur and staff to be trust worthy and avoid over charging customers and providing them with substandard goods / services
- ✓ Through provision of services promptly to customers. Time management is very important when serving customers so as to encourage them keep on purchasing from the same business
- ✓ Politeness and good business language of the entrepreneur. An entrepreneur needs to handle his customers very well and encourage them to keep on buying goods or services from his business
- ✓ Customer care. A customer is a king to the business and therefore there is need for an entrepreneur to care for them with required respect
- ✓ Quality improvement of products. An entrepreneur should be able to supply better quality products that can fully satisfy customers' needs
- ✓ Provision of credit facilities to trustworthy customers. There is need for an entrepreneur to extend credit facilities to trust worthy customers in order to attract them and to promote sales of the business

- ✓ Offering gifts and samples in the business. Giving gifts and free samples to customers will attract them and maintain good relations between the entrepreneur and the customer
- ✓ Offering discounts and after sales services to customers. Customers who buy goods in large quantities should be given discount and after sales services to promote relations between the entrepreneur and the customer

### **Customer satisfaction survey**

This is a study conducted to find out whether customers are satisfied with product or not.

### **Ways of establishing whether the customers are satisfied**

- Face to face interaction ie asking how, what, they think about the product
- Calling them on phone
- Mailing them on phone
- Emailing them a customer satisfaction guide
- Emailing them an invitation to take a customer satisfaction survey

### **Measures / ways of ensuring customer satisfaction**

- **Offering** or selling good quality products
- Timely response to customers' concerns or being responsible
- Good packaging of the products
- Charging fair prices or giving discounts
- Ensuring constant supply of the products
- Being honesty or fair or transparent to customers
- Providing sufficient information about the use of business products or services
- Being courteous or sincere
- Being kind cheerful and able to control ones temper
- Offering a variety of products or services.
- Ensuring constant supply of the products

## **PRODUCT PROMOTION**

Promotion of goods and service refers to the process of informing, persuading and influencing the customer's decision in buying of a good or service.

### **Objectives / aims / purpose of promotion**

**Entrepreneurs normally undertake a variety of promotional activities so as to communicate with customers but with five major objectives ie**

- ✓ To increase and stabilize sales
- ✓ To increase and expand market share
- ✓ Increase business profits
- ✓ To inform the public about available products
- ✓ To constantly remind consumers of the availability of his products
- ✓ To out compete other firms ie fight competition in the market
- ✓ To retain the existing market

- ✓ To introduce new products or designs
- ✓ To inform new customers about the availability of the entrepreneur's products
- ✓ To promote publicity of all enterprise and also acquire good will
- ✓ To create direct contact between the business men and the customers

**Promotional mix.** This refers to the combination of various activities / methods under taken by an entrepreneur to promote his products. It's a combination of methods used to achieve the objectives of promotion

### **Methods of promotion / attracting customers**

- ✓ Sales promotion.
- ✓ Advertising.
- ✓ Personal selling.
- ✓ Publicity.

### **SALES PROMOTION**

Refers to various activities undertaken by an entrepreneur to increase the sales of goods and services. It involves ways or behaviour that any entrepreneur uses to influence people to buy more of his goods or services so as to maintain profits

Objectives of sales promotions

- ✓ To inform or remind the public of the products available for sale
- ✓ To target a particular segment of the market to whom the products are to be sold
- ✓ To stabilize sales/retain market for the products
- ✓ To increase the sales of the entrepreneur by attracting new customers and retaining old ones
- ✓ To bridge the gap between the entrepreneur and the customers
- ✓ To out compete rival brands or to meet the challenge of competition
- ✓ To introduce new brands to market. This can be done by distributional samples
- ✓ To maintain sales of seasonal products

### **Ways / methods / techniques / tools used by entrepreneur to promote sales**

The various methods through which a business person can communicate with his/her customers to promote sales include the following

**Giving free sample.** These are distributed to attract customers to try out a new product and thereby creating new customers. Sometimes these samples may be distributed among selected persons in order to popularize the product e.g when century Bottling Company (Coca-Cola) was introducing the 500ml and 1 liter bottle, people in Kampala were given free soda (samples).

**Through premium or bonus offer.** This is where a product is accompanied by an extra pack of product(s), in order to induce consumers to buy a particular product. This is very common today with toothpaste products like the big sized colgate herbal which is packed with a tooth brush. It is also useful for encouraging and rewarding existing customers.

**Through exchange schemes.** This refers to exchange of an old product for a new one at a price less than the original price of that product. It is useful for drawing attention to product improvement. It is common with those shops that sell phones and their accessories in Kampala.

**Through price – off offer.** Under this offer, products are sold at a price lower than the original price. It boosts sales in off peak seasons and during introducing a new product in the market.

**Through use of coupons.** These are issued by manufacturers either in the packet of a product or through an advertisement printed in newspaper or magazine through mail. These coupons are presented to the retailers while buying the product and the holders buy at a discount.

**Through trade fairs and exhibitions.** These may be organized at local, regional, national and international levels to introduce new products, demonstrate the products and to explain the special features and usefulness of the products. Goods are displayed and demonstrated and their sale is conducted at a reasonable discount e.g. UMA trade fairs at Lugogo show ground.

**Through trading stamps.** These stamps are distributed among customers according to the value of their purchase. Customers collect these stamps of sufficient value within a particular period in order to get some benefits.

**Through scratch and win offer.** Some companies use scratch and win scheme to induce the customers to buy a particular product. A customer scratches a marked area on the package of the product and gets benefits according to the message written there.

**Through money back offer.** Customers are given assurance that full value of the product will be returned to them, if they are not satisfied with the product. It creates customers confidence regarding the product's quality especially when introducing a new product.

**Selling goods on credit.** This attracts customers who cannot pay promptly. It is offered to customers well known to the business to avoid bad debts.

**Through window display.** This involves putting the products near glass windows such that passerby, observe them and if possible buy by impulse.

**Offering cash and trade discount.** This is offered to those customers who buy goods in large quantities and those who buy on credit and pay promptly in an agreed period of time.

**Giving donations.** Donations can be given by way of contributing money or goods to charitable organisations or to disabled children's homes. This is done to attract publicity for the enterprise and its product.

**Organizing competition or games.** Business may offer products to winners of a game in order to attract them buy particular products.

**Creating the right attitudes in employees.** Training employees to be friendly to customers and knowledgeable about the products / services they are selling increases sales.

**Maintaining links with others.** Proper communication with other people like current and potential customers, whole sales, agents, retailers keeps the right people well informed about the business.

**Offering after sales services.** These include delivery, maintainace, repairs, installation, servicing etc from a bigger impact on the business image and customer royalty as long as they are not affecting the profit margin of the business.

**Giving out free gifts.** Producers may offer free gifts to their customers to encourage them buy more. Such gifts may be enclosed in the packages of goods or may be given directly to the buyers. For example, if you buy fuel worth 5,000 shs and above, from Jovena petrol stations, you are given Sackets of OMO.

**Carrying out Intensive advertising of products** in newspapers, radio, television, posters, sign posts, Music, banners, bill boards, electronic display (neon signs), calendars, brochures etc.

**Using nonproductive value methods** like providing free and convenient parking space, sales guides to customers etc, these also help to promote a firm's product and they are mainly used by supermarkets.

#### **Note.**

Non product value method of sales promotion do not involve financial benefits to the customer and do not involve financial loss to the entrepreneur. For example free and convenient parking space, guiding customers on how to use the product

Product value methods of sales promotion involve a financial benefit to the customer and a financial loss to the entrepreneur, for example reducing the price of the articles, offering delivery services

#### **Importance of carrying out sales promotion in business**

- ✓ It leads to increased sales. This is because promotion of goods and services increases market for the entrepreneur which leads to increased profits
- ✓ It helps the business to become popular and also acquire good will result of the various promotional activities that may be undertaken by the firm
- ✓ It informs new customers about the availability of the entrepreneur's product. This is makes the goods and service of the entrepreneur to become known to the public
- ✓ It helps the business man to regain market share so that he does not lose some of the customers to other business men or competitors

- ✓ It's used to persuade the customers to buy the products of an entrepreneur instead of buying those from their producers. This is because many customers got to know such products through sales promotion
- ✓ It helps the entrepreneur to introduce new product designs. Some adverts are aimed at informing the public about the new styles, fashions, and tastes of a product. This is especially done through the giving of samples and gifts
- ✓ Helps an entrepreneur to constantly remind customers of the availability of the products hence increasing sales in areas of low or declining demands
- ✓ It creates direct contact between business man and customers such that other middlemen aren't able to increase prices which may lower demand for the given firm's products
- ✓ It promotes publicity of an enterprise of an enterprise thereby helping the businessmen to out compete his competitors hence making a lot of profits in the business

### **Sales promotion strategies**

A sales promotion strategy is an activity / technique that is designed to help in the boosting of sales of products or services.

### **Examples of sales promotion strategies**

- Free sample campaign
- Advertising campaign
- Public relations activities e.g sponsoring sports
- Free gift campaign
- Trading stamp campaign
- Demonstrations / trade shows
- Prize trading competition
- Temporary price reduction
- Door to door sales
- Tele- marketing
- Personal sales letter and e-mails.

### **Types of sales promotion strategies**

There are three types of sales promotion strategies

- A push strategy. This involves pushing distributors and retailers to sell your products or services to the customers to buy by offering various kinds of promotion and personal selling efforts. E.g buy-back guarantees, free trials etc.
- A pull sales promotion strategy. This involves getting the consumer to buy or purchase the product or service directly from the company itself. It focuses more on the seller than the consumer. E.g coupons, samples, refunds, loyalty programs etc
- Combination of pull and push sales promotion strategies. These involve the combination of the push and pull strategies. It focuses on both the distributors as

well as the consumers. If offers customer's initiative side by side with the dealer discounts.

## **ADVERTISING**

Refers to the spreading of information about one's products to the customers.

Or, is a system through which information about the existing goods and services is brought to the knowledge or awareness of the public / customers.

## **TYPES / FORMS OF ADVERTISING**

**Informative.** It is a type that aims at creating awareness, reminding the customers about existing goods and services, facts like the nature of the product, where it's found, the price, its use, the quality, terms of sale are very important. E.g advertising for a job opportunity, when also advertising for cigarette a phase like "Cigarette may be harmful to your health" is informative advertisement.

**Persuasive.** This is also called competitive advertising. It is type which aims at inducing or convincing consumers to buy the producer's products and leave out other producers' product. It is common for branded products and goods which are close substitutes e.g drinks. It tends to be misleading in most cases and hence at times undesirable common phrases are used such as "simply the best", "our product is second to none".

**General / mass advertising.** This is where producers in the same industry combine and advertise as one person instead of each of them advertising his/her own brand they form a trade association whose aim is to advertise members' products. Such association also undertakes other services in the interest of members like negotiations with government e.g UMA

**Direct advertising.** This is where the adverts appeals to a specific group of people e.g a radio programme in a particular language, local language newspapers, advertising of fair and lovely products for ladies

**Indirect advertising.** This is one that does not appeal to a specific of group. It's for whoever comes across it. E.g posters inviting people for a music show, aids awareness posters appeal to general public regardless of class, age, level of education

**Institutional advertising.** This one that attempts to promote the recognition and goodwill towards the firm or industry. Like when Uganda Christian University advertises all the other campuses benefit and are recognised.

## **Aims / purpose / objective of advertising.**

- ✓ To stimulate buying by encouraging people to buy products being advertised even if they did not intend to buy.
- ✓ To arouse interest for example most adverts especially on television and magazines are aimed at increasing people's interest towards the goods or services of the producer.

- ✓ To create desire through indicating the benefits and satisfaction one is likely to gain from using a particular good or service for instance "Colgate makes you stronger".
- ✓ To convey / pass on information to the public about product for example its quality, price, use, where it can be found etc.
- ✓ To introduce new products or designs, new styles, fashions and taste of a product by creating customer interest for it. For example a new brand Samsung cellular phone, a new model of Mercedes Benz car.
- ✓ To inspire / create confidence in consumers in using a good or service for example "you have Got what you want" for Pilsner larger" people who think differently" for club beer.
- ✓ to attract new customers through advertising a product by giving its good qualities attracts customers for instance "Pau clere for smooth skin"
- ✓ To sustain customers by advertising products repeatedly with an aim of keeping the already existing customers in the market. For example MTN, UTL, Century Bottling Company, etc continuously advertise so as to maintain their market share.

### **Guidelines for preparing an advertising media**

- do not cluster the whole space with words or picture
- the advertisement should be easy to recognize and should stand out like including the logo of the business
- the head line should emphasize benefits of the customers from the product
- the content should be simple and easy to understand
- It should include important information about the business e.g location, telephone contact and services offered.
- One must be honesty in the advertisement must deliver what his or her promises
- The name of the business must be in line with the type of the business
- The selection of certain things used to attract customers like colours should be emphasized.

### **ADVERTISING MEDIA**

It refers to the several channels / methods through which advertising message are conveyed to the public. An advertising medium refers to channel through which advertising is delivered to the prospective customers

### **Types advertising media**

**Newspapers.** These are printed on papers in black and white or coloured and they are used to advertise various business products showing even the illustrations

### **Advantages of newspaper advertising**

- ✓ Messages can reach a huge number of people in a given geographical area
- ✓ There is flexibility in deciding on the advert size and placement within the newspaper



- ✓ The advert can be large enough as necessary to communicate as much story as possible
- ✓ Exposure to the advert is not limited since readers can go back to the message again and again if so desired
- ✓ Free help is always possible in creating and producing advertising copy

### **Disadvantages of newspaper**

- ✓ Newspapers are usually read once and stay shortly in the readers minds
- ✓ The print quality of the newspapers is not the best especially for photographs
- ✓ The page size of the newspaper is fairly large and small advertisements can look tinny
- ✓ Competition is high within the same newspaper which requires making it attractive to capture the reader's attention
- ✓ Advertising space is expensive in a newspaper
- ✓ Poor photo reproduction limits creativity
- ✓ It is a highly visible medium thus competitors can quickly react to your prices
- ✓ Some readers prefer online versions of the publication to the print version

### **Magazines**

These are in form of booklets which bear advertising message. They are on quality papers, with more colours published weekly or monthly

### **Advantages**

- ✓ It leads to high reader involvement since more attention is paid to the advert
- ✓ Better quality permits better colour reproduction and full colour adverts
- ✓ The smaller page permits even small adverts to stand out
- ✓ Allows better targeting of audience since one can select a magazine publication that cater for audience or that specialize in the topic of interest of the audience

### **Disadvantages**

- ✓ The long lead time requires planning a week or months in advance
- ✓ The slower lead time heightens the risk of your advert getting overtaken by events
- ✓ There is limited flexibility in terms of advert placement and format
- ✓ Space and advert layout costs are higher

### **Radio**

This is where the programmes are broadcasted in local languages spoken in the country so that adverts can reach all groups of people

### **Advantages**

- ✓ All classes of people, literate and illiterate equally benefit by listening to adverts in their language
- ✓ Detailed explanations through repeated advert a clear view about the product
- ✓ The radio also provides entertainment in form of music combined with advert giving an impression about the products being advertised

- ✓ Radio programmes are on air the whole day giving enough time to broadcast adverts in all major languages
- ✓ It covers a wider geographical area because it has a wider coverage
- ✓ Many people can afford a radio

### **Disadvantages**

- ✓ Radio adverts and announcements are expensive
- ✓ It may be difficult to broadcast in all languages. Therefore too many programmes on radio to provide time for commercial news / adverts

### **Television**

Television as a medium can be used to show film display about the product advertised

### **Advantages**

- ✓ It reaches many people at the same time at one moment
- ✓ It offers entertainment in form of music and films
- ✓ Provides details about the goods concerning the direction and application of such goods
- ✓ It can serve both literate and illiterate people
- ✓ Messages can be perceived both visually and audually
- ✓ It can serve a large geographical area

### **Disadvantages**

- ✓ Few people have access to the television. It is only rich – ones can afford TV set
- ✓ It is very expensive to sponsor programmes on TV
- ✓ There is language problem especially in a country with many advertising languages like Uganda with so many local languages
- ✓ It may not adequately sever blind
- ✓ Sometimes the information given to use is not enough

### **Outdoor advertising**

Outdoor advertising is also a very popular form of advertising which makes use of several tools and techniques to attract the customers outdoors. The most common examples of outdoor advertising are bill boards, Kiosks, banners, posters, neon signs and also general events and trade shows organized by the company

- a) Trade fair and exhibition. This is where a group of traders gather to display their different products to buyers e.g UMA Lugogo show ground for trade fairs. The aim is to bring products in contact with wholesalers and customers

### **Advantages**

- ✓ There is close contact between manufacturers and buyers
- ✓ Normally they sell at reduced prices
- ✓ Occasionally they demonstrate the operation of some of their products

- ✓ Many buyers normally turn up both locally and internationally increasing the turn over (sales)

### **Disadvantages**

- ✓ They are not permanent like shops, they occur once in a given season
- ✓ They are costly to arrange if they are to succeed
- ✓ They are limited especially to urban centres thus rural areas may not benefit from them
- ✓ The blind cannot benefit from trade fairs and exhibitions

**b) Posters.** These are designed carefully by producers to convey the message for the goods. These can be located on the walls of public parks, schools, railway stations, sports grounds etc

### **Advantages**

- ✓ Posters are most effective and economical way of advertising
- ✓ All are wide spread i.e. their coverage is big
- ✓ The cost of display is very low
- ✓ They are displayed 24 hours a day

### **Disadvantages**

- ✓ The blind cannot benefit from them
- ✓ Illiterate people may not benefit from them
- ✓ They can be vandalized or destroyed by rain and people

c) Neon signs. These can be installed on major buildings where writing on them advertise for commodities

d) Sign posts. These are majorly informative, however, they also persuade people to buy e.g. Mukwano products

e) Banner. Is a cloth with writing is put up advertising the occasion, they are commonly used by musicians and other artists. They advertise conferences and events

f) Window display. The goods are well organized in clear glass windows of shops. The buyers are able to inspect the goods on display, compare their labeled price and make a choice

### **Advantages**

- ✓ Window display leads to window shopping which influences the buyer's mind to buy the commodity
- ✓ The buyers are able to see what they buy
- ✓ It is not costly to arrange the goods on display in the shop

### **Disadvantages**

- ✓ The blind never benefit from this form of advertising
- ✓ Sometimes goods on display are different from what is being sold

**Direct mail.** It involves direct communication by the producer to the general public through mail

**Business directory.** This involves businesses listing or selected classification puts in the book with an assumption that if people need the product / service they look at the classification and contact the manufacturer

**Internet advertising.** This is online advertising. It offers the possibility of reaching potential customers 24 hours a day, seven days a week. The promotional message can be delivered with the click of a mouse at customer's home or work place

### **Importance of advertising to an entrepreneur**

- ✓ It increases firm's sales due to increased demand for goods and services. When more adverts are carried out people will demand for more goods leading to mass production hence increased profits
- ✓ It helps an entrepreneur to introduce a new product or design into the market. Some adverts are aimed at informing the public about the new styles, fashions and tastes of a product
- ✓ It facilitates large scale production. This is because it results into increased demand which annually results in large scale production and its associated advantages
- ✓ Due to increased production, Advertising stimulates research and development activities this is so because competing producers on how to find ways on how to improve their product so as to out compete their competitors with sales for research in productions
- ✓ It persuades the customers to buy those products of an entrepreneur instead of buying those from other producers. This is because many customers get to know such products
- ✓ It promotes sales of goods and services of entrepreneurs by informing people about them and asking them to buy the advertised
- ✓ It helps the entrepreneurs' business to become popular and also acquire good will. This is because it helps to build reputation and image of the advertisement and creates customers' loyalty
- ✓ It helps the entrepreneur to constantly remind consumers of the availability of his products hence increasing sale in areas of low or declining demand
- ✓ It informs new customers about the availability of entrepreneurs' products. This makes the goods and services of the entrepreneur to become known to the public
- ✓ It helps the business to retain its market share so that it does not lose some of the customers to the other business men / competitors
- ✓ It creates direct contact between the business man and the customers such that other middlemen are not able to increase prices, which may lower demand of a given firm's products

### **Disadvantages of advertising**

- ✓ unsuccessful advertisement lead to wastage of resources
- ✓ It increases the operational costs of a business ie it is expensive.
- ✓ It leads to closure of weak or high cost firms in the market.
- ✓ It leads to movement from one producer to another without increase in total demand in the market.

## **Components of an advertising media**

- The appeal; this refers to the underlying idea that captures the attention of the message receiver.
- Value proposition. This is the reason for customers to be interested in a product.
- Slogan. This is a word or phrase that is repeated across several different messages and different media e.g where quality matters, gives you wings to fly etc.
- Business name
- Business location
- Product offered
- Contact
- Illustration of the product where possible
- Benefits of the product to the customer.

## **FACTORS FOR CONSIDERING WHEN SELECTING AN ADVERTISING MEDIUM**

**The cost of the medium.** Expensive products are better advertised through expensive media like the television, newspapers and magazines whereas cheaper goods are advertised through cheap means like radios and posters.

**Target consumers have to be considered.** It will be useless to advertise a product in newspapers and magazines when your group is composed of illiterates and local people who cannot even read nor access the magazines and newspapers, you rather use radio, then if you are targeting rich people and literates, and you can then use television and newspapers.

**Age group of target market has to be considered,** different age groups have different media like if you are targeting youths, better use televisions, magazines, whereas if you are targeting adults, use radios and newspapers since they listen to radios more than televisions.

**Speed and urgency of the information should be considered,** where an entrepreneur needs to access his market very fast, he selects media like the radio, television etc than magazines that are out weekly, monthly etc

**Geographical area to be covered.** One selects an appropriate medium that can reach the geographical area he/she is targeting, newspapers, radios and televisions cover a wider area while outdoor advertising and window display that target customers in a small area like a trading center.

**Medium used by competitors,** one is expected to use a medium that is better off than the competitors' in terms of market coverage, urgency, reliability etc but this should be done in consideration of the cost of the medium in comparison with expected returns

**Availability of the medium,** for instance however much as one would wish to use neon signs as a medium of advertising in areas where there is no electricity / power,

it would not be possible, like in remote areas thus one should consider media forms that are available and affordable.

**Nature of the commodity to be advertised should be considered**, like there are some commodities that can best be advertised by showing their fashions, models, colour and forms like cars, machines etc, so such items cannot be advertised over the radios instead of a television is appropriate as it will portray all the necessary features to the potential market.

**Number of people reached by the medium**, newspapers reach more people than magazines and while radio does it better than the television.

**Economic status of the target group**. Traders use television, newspapers or magazines while advertising to the rich while the radio and outdoor advertising appeals mostly to the ordinary people.

### **Preparing advertising message for goods and services (elements of advertising media)**

Most advertising messages share common components within the messages including

- a) **The appeal**. This refers to the underlying idea that captures the attention of a message receiver. Appeals can be into categories as motional, fearful, humorous and sexual.
- b) **Value proposition**. The advertising message often contains a reasons for customers to be interested in the product which often means the advert will emphasize the benefits obtained from using the product.
- c) **Slogan**. To help position the product in customer's mind and distinguish it from competitors' offerings, advertisement will contain a word or phrase that is repeated a cross several different message and different media outlets e.g "everywhere you go" for MTN.
- d) **Awareness value**. The advertisement should bring the awareness for the product or service.
- e) **Problem solving**. The advertisement should provide the information regarding the use and utility benefit of the product that may remain in the minds of customers.
- f) **Recall value**. The advertisement should be so effective that the product should stick to the memory of customers.
- g) **Sincerity**. An advertisement must gain the confidence of the customers. It should avoid bold claims and the product should deliver the results as per claims made by the company.
- h) **Enlightening / educative value**. A good advertisement should educate the general public about uses of the product
- i) **Instinctive value**. A good advertisement must possess natural value so that customers are induced, persuaded and motivated to think well of a product and take to its use.

- j) **Strong fee offer.** Good words which contain a strong offer should be used which tell the reader the next step in the buying process and encouraging him to take it now
- k) **Clear illustration.** Good adverts do not use abstract concepts which puzzle the reader on what is being sold.

**PUBLICITY.** Is the movement of information with the aim of increasing public awareness of a business product. It is the communication through significant unpaid presentations about the organisation in the impersonal media.

## **DISTRIBUTION CHANNELS**

A distribution channel refers to the arrangement or path through which products move from the producer to the final consumers. The distribution channel consists of a set of business entities (middlemen) who participate in the distribution of goods and services as a link between the manufacturer and the consumer.

### **Features / characteristics of an effective distribution channel**

- Maximizes the sales of an entrepreneur
- Maximizes profits for the producer / entrepreneur
- Maximizes the cost of distribution of the product and the general costs involved.
- Convenient to operate by the entrepreneur / producer and the customer.
- Capture a big market share i.e captures many customers.
- Does not affect the quality of the final product
- Minimizes the risks involved in distributing the product.

## **TYPES OF DISTRIBUTION CHANNELS**

Distribution channel are classified according to the number of middlemen involved. There are mainly three types of distribution channels ie the short/direct channel, medium channel and the long channel.

**Direct distribution / manufacturer to consumer channel.** This channel is also known as direct – selling or short channel distribution. It is a method where an entrepreneur makes and sells his products directly to customers. This channel, a producer or trader may sell directly or through his or her own retail stores through mail or door to door selling

**Retail distribution / manufacturer to retailer to customer.** This is known as the medium channel. This is where the manufacturer sells to large scale retailers who in return sell to the final consumers. It is common in the distribution of most goods hence increasing the firm's total sales and profitability

**Wholesale distribution / manufacturer to wholesalers to retailers to customers.** This is the traditional and normal channel of distribution. In this channel, manufacturer sell products to wholesalers usually in bulk who in turn sell to retailers

in relatively small quantities who finally sell them to final consumers in affordable quantities

### **Other types of distribution channels.**

**Manufacturer to agents to wholesalers to retailers to consumer.** In this channel, the producer / manufacturer distributes his/her products to agents in different places who then sell to the wholesalers who sell to the retailers and finally retailers sell to the final consumers

**Manufacturer to agents to retailers to consumer.** In this channel the manufacturer distributes his/her products to her agents who then sell them to retailers and retailers finally sell to the customers

**Manufacturer to agents to consumer.** This is channel the manufacturer distributes his/her products through appointed agents found in different parts of the country or world who in turn sell to consumers

### **Factors that should be considered when choosing a distribution channel for goods and services**

- ✓ **The nature of the product.** Durable goods are distributed through a long channel because they cannot easily be damaged; bulky goods are sold directly to the consumers to reduce the transport costs. Also perishable products are sold directly to consumers.
- ✓ **The location of potential customers.** Where customers are near and within the reach of your business, a direct or short channel will be preferred. This helps an entrepreneur in identifying customer needs easily and reducing the distribution costs and the reverse is true where customers are far from your business
- ✓ **The level of competition.** High levels of competition in the market require the use of a shorter distribution channel in order to ensure that goods are delivered in time so as to out compete the other firms. On the other hand, low levels of competition in the market allow the entrepreneur to use medium or longer channel.
- ✓ **The nature of the business.** A manufacturer who is financially strong with marketing experience can afford to use direct selling to customers. Similarly if a manufacturer wants to have control over distribution and promotion of the products he uses direct selling. On the other hand a firm dealing in a single product and where the manufacturer is not financially strong, he may opt to use a long channel of distribution.
- ✓ **The cost of distribution.** Where the cost of distribution is high, and the producer has low level of finance, he/she prefers selling directly to the final consumers. On the other hand where the cost of distribution is low and the product is not perishable, the manufacturer can use a long channel of distribution.
- ✓ **The manufacturer's distribution policy.** Different manufacturers have different policies as to their distribution of goods and services. Where the distribution policy of enterprise is to directly reach customers, then a direct



channel of selling to consumers is suitable. The business can use a longer channel of distribution if the distribution policy requires using middlemen.

- ✓ **The value of goods.** Highly valuable products and does not need a lot of handling, the short distribution channel should be used. On the other hand if the product is of low value a longer distribution channel may be used to minimize the costs.
- ✓ **The availability of middle men.** When the desired middlemen are not available the direct selling may be necessary, while if the available middlemen are desirable and able to handle the goods, a long and medium channel which involves middlemen should be used.
- ✓ **The availability of storage facilities.** For the cases where the storage facilities are available at the manufactures premises, a direct channel is always used but if the producer lacks storage facilities along channel is used.
- ✓ **The reliability of the channel.** A producer should choose a channel which is reliable and has a good image that will not alter the quality of the products. In case middlemen dilute products, then the producer may sell directly to consumers.
- ✓ **The level of frequency in using the product.** Products which are used frequently to customers are always sold through retail outlets and other middle men.
- ✓ **Nature and size of the market where good are to be sold.** When the market is small / narrow, the manufacturer uses direct selling (short channel). If the market is big and with geographically scattered customers, a long channel is better.
- ✓ **Method of delivery.** Where a manufacturer owns delivery trucks he/she can use short channel. On the other hand, an entrepreneur who has no proper distribution means can use a longer channel involving middlemen.
- ✓ **Scale of production.** Small scale producers who lack sufficient capital to handle the marketing task of their output sell their products through middlemen while large scale producers tend to have enough capital to handle the marketing costs and therefore can delivery to the customers.
- ✓ **Amount of goods to be brought by consumer.** Producers whose customers buy on large scale sell directly. On the other hand, sell through middlemen who are able and willing to provide all the relevant services to the customers enable the entrepreneur to sell through them.

## **MIDDLEMEN IN THE CHANNEL OF DISTRIBUTION**

Middlemen refer to wholesaler, retailers and agents that serve as intermediaries between the manufacturer (producer) and his customers/ clients.

There are two type of middlemen ie the merchant who buys goods and the agent middlemen.

- ✓ **Merchant middlemen.** These are middlemen who buy goods and handle them as their property before reselling. They include retailers and wholesalers.
- ✓ **Agent middlemen.** An agent middleman is a person who employed by another person to represent him in dealing with third party. An agent hold goods on behalf

of the seller (principal) and the goods never become his. Examples of agents include the factor agents, brokers, del-credere agents etc.

## **RETAILERS.**

A retailer is a trader who buys goods in large quantities and sells them to the consumer in small affordable quantities. A retailer is the last link in the chain of distribution of goods between the producers to the final consumer.

### **Roles / functions of a retailer in the chain of the distribution**

- ✓ Selling goods directly to customers
- ✓ Breaking the bulk through selling goods in small quantities.
- ✓ Offering storage facilities for the goods until they are picked by the final consumers
- ✓ Offering transport facilities for himself when buying goods from the wholesaler or producer thereby saving him the burden of transport
- ✓ He anticipates demand of consumers and informs the wholesalers who in turn informs the producer.
- ✓ He offers a variety since he buys goods from different producers.
- ✓ He at times offers credit to trust worth customers.
- ✓ He acts as a financier of a wholesaler by paying him promptly.
- ✓ He carries out advertising on behalf of the wholesaler and producer
- ✓ He offers after sales services to the final consumers

## **WHOLESALE**

A wholesaler is a trader who buys goods from the manufacturer and sells them to the retailers or final consumer in smaller quantities.

### **Role/functions of the wholesaler in the chain of distribution**

- ✓ Providing a link between the producer and the retailer.
- ✓ keeping prices stable by ensuring a steady supply
- ✓ Transporting goods from the producer to his warehouse and then to the retailer's shop.
- ✓ Providing the manufacturer with ready working capital by paying for the goods bought promptly.
- ✓ Breaking bulk by selling goods in small quantities that retailers can afford.
- ✓ Providing storage facilities for the goods bought from the manufacturer by keeping them in his warehouse.
- ✓ Preparing goods for sale by grading, pre-packaging and pricing goods which reduces the retailers' workload and enables him/ her to serve customer faster.
- ✓ Providing consumer with steady supplies throughout the year by holding large stocks and releasing them regularly.
- ✓ Advising the retailer on a range of goods to be held, prices to be charged, services to be offered etc.

## **DISADVANTAGES OF MIDDLEMEN IN THE CHANNEL OF DISTRIBUTION.**

- Middlemen tend to overcharge their customers and they do this because they want to make a lot of profits.
- Some middlemen tend to dilute some products so that they get more units in order to make large profits. This is especially common with liquid items like milk, juice etc which leads to poor quality products.
- Hiding of commodities. Some middlemen create artificial shortages by hiding of certain goods in order to sell them when their prices have increased. This means consumers to pay higher prices especially for essential goods like sugar, soap, paraffin, salt etc.
- Sale of defective goods. Some middlemen sell defective and expired products to the customers which may be harmful to their customers especially food stuffs.
- Their profit margins of wholesalers as middlemen tend to be too high as compared to those of the manufacturers and retailers in most cases. This forces to charge high prices hence exploitation of customers through charging higher prices.
- Wholesalers exploit manufacturers if do not buy goods from them in time. This leads to over production that can result into losses to the producers. Similarly, wholesaler can refuse to supply goods to some retailers due to minor reasons. This means they can spoil the business of the manufacturers and retailers.
- Sometimes, wholesalers provide incorrect information to the manufacturers regarding the market situations. This may lead to over or under production by the producer.

## **Terms and conditions for selling goods and services**

Terms and conditions are areas, which agreed upon by the seller and the buyer to access, use and own the seller's products

**Cash basis.** This is where immediate payment for goods and services is made, it is simplest and most preferred way of selling by businesses where goods and services are sold on cash basis, cash receipts should be issued to the buyer or seller.

## **Advantages of selling goods on cash basis.**

- ✓ It ensures enough working capital for the business.
- ✓ It saves the business from extra paper work costs involved during credit transaction.
- ✓ It creates low risks for bad debts.
- ✓ It ensures constant supply of the business stock.
- ✓ It reduces administrative expenses that are associated with credit sales and debt management such as hiring edit officers.
- ✓ It allows selling to buyers from unknown customers.
- ✓ It facilitates the sale of small items.

- ✓ It enables flexibility in the business since capital/finances are always available.
- ✓ Extra expenses like legal expenses experienced when handling bad debtors are saved from the entrepreneur.
- ✓ It enables an entrepreneur to have ready cash to pay his creditors promptly and obtain cash transaction.

### **Disadvantages of selling goods on cash basis**

- ✓ It is convenient to only a limited number of customers with ready cash.
- ✓ It is difficult to operate on cash basis in a very competitive market.
- ✓ It leads to low sales.
- ✓ It is a risky form when selling expensive items like industrial machinery.

**Selling on credit.** This involves a seller giving out his/her goods, or providing service to a customer but payment is to be made a future date

### **Reasons for carrying out credit selling**

- ✓ To promote more sales and high rate of turn over
- ✓ To attract more customers who may come to enjoy credit services
- ✓ To ensure good relationship between the business and its customers
- ✓ To reduce stock losses resulting from expiry of goods. This is because stock which is about to expire can be given on credit basis
- ✓ To promote repeated purchases from the business customers
- ✓ To enable the business customers who lacks ready cash to acquire expensive goods.
- ✓ To ensure enough market for the business products
- ✓ To create an alternative technique for marketing business products
- ✓ To increase on the profits made by the entrepreneur on sales. This is because goods sold on credit are always charge highly
- ✓ To create a chance for selling very expensive goods like industrial machinery
- ✓ To ensure enough market for the business products

### **Circumstances/conditions under which goods may be sold on credit**

- ✓ When goods are about to expire.
- ✓ When sales are low and there is a need to attract more customers.
- ✓ When an entrepreneur has enough working capital
- ✓ When an entrepreneur can also purchase on credit
- ✓ When there are set standards as regards to credit recovery
- ✓ When a credit customer has presented a collateral security
- ✓ When goods are getting out of fashion or expired
- ✓ In case there is a need to out compete other business competitors.
- ✓ When the entrepreneur expects prices to fall in the near future
- ✓ If the supply exceeds demand. I.e deflationary tendencies
- ✓ When the entrepreneur has got the means to know about the credit worthiness of the customer. E.g the customer may get recommendations from other traders or suppliers.
- ✓ When an entrepreneur has insured himself against losses which may result from bad debts

- ✓ When goods are very expensive and it is hard to be sold on cash basis
- ✓ When the credit customer is well known
- ✓ When the entrepreneur is operating on a large scale
- ✓ In case of dead stock

### **THE COSTS / DISADVANTAGES OF CREDIT SELLING**

- ✓ It's administratively expensive.
- ✓ It may make the business to run out of working capital.
- ✓ It may spoil the relationship between the business and its customers
- ✓ At times poor quality goods are sold to customers.
- ✓ It creates high chances of bad debts.
- ✓ It limits customers from making their own choices.
- ✓ The business may run out of stock in case credit customers take long to pay.
- ✓ The system is disadvantageous especially during inflationary tendencies where money value is not stable.
- ✓ Hinders the business expansion
- ✓ High recovery costs leading to cash problems.

### **FACTORS CONSIDERED WHEN SELLING GOODS ON CREDIT**

- ✓ The condition and financial status of the borrower
- ✓ The collateral security possessed by the customer.
- ✓ The period for making payments
- ✓ Whether the customer is daily customer or irregular customer

### **WAYS OF MANAGING CREDIT SALES.**

- ✓ By ensuring proper documenting of all credit sales made.
- ✓ By setting up short credit periods for the business debtors
- ✓ By continuously reminding the business debtors their due dates for clearing their dates.
- ✓ By extending discounts to business debtors who clear their debts in time. This will encourage them to make prompt payment.
- ✓ By giving reminder notes to business debtors to remind them the due dates for clearing their debts
- ✓ By extending credit facilities to only well-known debtors with a good historical back ground.
- ✓ Asking for collateral security with a high value

### **WAYS OF ENSURING PROPER CASH MANAGEMENT.**

- ✓ By ensuring proper counting and checking of the cash received to ensure that it is correct ie that it is the required amount
- ✓ By recording of all cash sales made.
- ✓ By locking of all the cash received in safe drawers all the time for security reasons
- ✓ By reconciling all the sales made per day with physical cash collected.
- ✓ By banking all the cash received intact on a daily basis
- ✓ By employing skilled personnel to handle business cash
- ✓ By carrying out proper accountability of cash expenditure
- ✓ By limiting unnecessary withdrawing of cash to reduce cash expenditures.

- ✓ By properly documenting all the cash documents for easy reference. E.g cash receipt.

## **PERSONAL SELLING**

This is where a team of sales persons are employed to sell goods directly to consumers. It involves sending sales persons to suit customers in their home land offices and discuss with them about the existing products sold by them

### **QUALITIES OF A GOOD SALES PERSON**

- ✓ Attractive personality ie the capacity to attract and influence customers
- ✓ He should have enough knowledge about the firm and products of the business and their qualities the target customers, competitors as well as the selling techniques
- ✓ He should be honest and sincere ie should be one who talks the truth, does not steal or cheat
- ✓ He should be persuasive to encourage buyers to buy more products from him /her
- ✓ Should be polite to the buyer ie should care for other peoples' feelings
- ✓ He should possess good communication skills. Ie having the ability to approach a person since customers have different characteristics
- ✓ He should be smartly and decently dressed. This makes him to be more presentable.
- ✓ He should be hard working and fulfill the customer's needs.

### **CIRCUMSTANCES UNDER WHICH PERSONAL SELLING MAY BE NEEDED**

- ✓ When the product is still new on the market
- ✓ When the competition is high
- ✓ When there is a need to extend after sales services to potential customers
- ✓ When goods are very expensive
- ✓ Where the market consist of few customers who can easily be accessible
- ✓ When the firm is financially capable of hiring a large number of sales persons
- ✓ When demonstration is needed
- ✓ When goods needs minimum handling

### **REASONS OBJECTIVES FOR PERSONAL SELLING**

- ✓ To increase sales
- ✓ To out compete other business competitors
- ✓ To expand the market share
- ✓ To save customers from being exploited by the middle men in form of high prices.
- ✓ To attract new business customers
- ✓ To identify and collect the customers opinions and suggestions towards a given product
- ✓ To create a chance for bargaining by the business potential buyers
- ✓ To improve the relationship between the business and its customers. This is because it involves direct contact

- ✓ To create a room for carrying out bulk or heavy purchases to customers
- ✓ To create confidence and mutual trust between the sales person and the customers
- ✓ To create a chance for business potential customers to ask questions and clear their doubts about the business products
- ✓ To create a chance for giving after sales services to customers to customers. E.g demonstration

### **Procedures /steps of carrying out effective personal selling**

- ✓ **Presale preparation.** This involves recruiting, training and motivating the sales person. At this stage the sales persons acquires knowledge about the firm, products of the business and other qualities, the target customers, competitors as well as the selling techniques.
- ✓ **Prospecting.** This stage involves understanding the market properly ie analyzing / knowing their prospective buyers, their needs and their purchasing power. This can be done through asking the already existing customers for their names, locations, needs etc and other potential customers who could want to benefit from the product.
- ✓ **Pre-approach.** It involves identifying the customers' habits, preferences, income levels, attitudes etc so as to be able to select the right sales appeal before approaching them.
- ✓ **The approach.** This is the first meeting face to face with the customers. The sales persons must introduce himself and the product of the firm in a polite and dignified manner.
- ✓ **Presentation.** This involves gaining customers attention by the sales man. It involves giving a brief description about the product in the question, to the customers, mentioning and explaining briefly the unique features that may not be self-evident. The sales person tells the prospective customer the price, terms and conditions of payment or delivery.
- ✓ **Demonstration.** Here the sales person displays how the product works. It is done to maintain the customers interest customers and a rousing his desire. Here the sales person is required to explain the utility and unique qualities of the product so that the prospective customers realize the need for the goods and services to satisfy his wants.
- ✓ **Handling objections.** This involves clearing all the customers' doubts and objections amicably by the sales man. At this stage the sales person should endeavor to convince the customers that he is making the best use of his money by buying the product. However the sales person should avoid proving that his products are superior to those of the competitors.
- ✓ **Closing the sale.** This is the climax of personal selling. The sales person should carefully guide the customer in making the choice without imposing any view on him/her. Therefore the sales person shouldn't force the transaction / deal but rather allow the customer to make the final decision. For successful closing some adjustments in price and other things may sometimes be necessary. In closing the sale, the item bought should be packed properly and handled over to customer who has bought an article.

- ✓ **Post sale follow up.** These are activities undertaken by the sales person to ensure that customer is satisfied with the goods and services from the business. Post sale follow up therefore includes after sales activities like free installation of the products, checking and ensuring its smooth performance Maintenance and ensuring after sales services. These activities help the entrepreneur to secure repeat sales evaluate the effectiveness of the sales persons.

### **Importance of personal selling to an enterprise**

- ✓ It enables the entrepreneur through the sales persons to deal directly with customers. This allows the customers on how the product works
- ✓ It provides a two – way communication channel that helps entrepreneur to meet his customers' requirements (needs) as regards prices, quality, and services offered as well as increasing sales for his products
- ✓ Personal selling enables the entrepreneur to negotiate specific needs to different customers as regards prices, quality etc
- ✓ It helps to gain quick feedback about the entrepreneur's goods and services as well as suggestions for improvement
- ✓ It helps in winning customers confidence about goods and services

### **Disadvantages**

- ✓ In addition, the free gifts and samples given to customers make it more expensive
- ✓ Some salesmen don't give out samples to customers. They tend to use them for their own consumption and in the end, the products are not known to the public.
- ✓ Travelling salesmen face a lot of risks and problems like road accidents, highway robbery and bad weather conditions.
- ✓ Personal selling cannot effectively be carried out where many products are involved since this will call for employment of very many salesmen.
- ✓ It is expensive; this is because sales men are always paid commissions.
- ✓ It may make the final cost of the product high.
- ✓ Some sales men are not honest enough.
- ✓ It has a very limited coverage and it appeals to very few individuals at time.
- ✓ It requires enough capital which most businesses lack.
- ✓ Some customers are not friendly and this makes it difficult to be approached.
- ✓ It needs special skills and techniques to be conducted successfully.
- ✓ Some attendants in show rooms may be rude and unfriendly to customers.

## **HUMAN RESOURCE MANAGEMENT (HRM)/ MANAGING PERSONNEL**

HRM is the part of management which deals with effective control and use of workers to do all the activities involved in an enterprise. It is the art of influencing people to so all activities required in an enterprise.

### **Nature of personal management**

- ✓ It includes the function of employment, development and compensation. These functions are performed primarily by the personnel management in consultation with other departments.
- ✓ It is an extension to general management. It is concerned with promoting and stimulating competent work force to make their fullest contribution to the concern.



- ✓ It exists to advise and assist the line managers in personnel matters. Therefore, personnel department is a staff department of an organisation.
- ✓ Personnel management lays emphasize on action rather than making lengthy schedules, plans and work methods. The problems and grievances of people at work can be solved more effectively through rationale personnel policies.
- ✓ It is based on human orientation. It tries to help the workers to develop their potential fully to the concern.
- ✓ It is also motivates the employees through its effective incentive plans so that the employees provide fullest co-operation.
- ✓ It deals with human resources of a concern. In context to human resources, it manages both individual as well as blue – collar workers.

### **Role of personal manager.**

Personal manager is the head of personnel department. He performs both managerial and operative functions of management. His role can be summarized as;

- ✓ Providing assistance to top management. The top management are the people who decide and frame the primary policies of the concern. All kinds of policies related to personnel or workforce can be framed out effectively by the personnel manager.
- ✓ Advising the line manager as a staff specialist. Personnel manager acts like a staff advisor and assists the line manager in dealing with various personnel matters.
- ✓ Counseling personnel manager attends problems and grievances of employees and guides them. He tries to solve them in best of his capacity.
- ✓ Linking top management and workers. Personnel manager acts as a mediator between management and workers.
- ✓ Representing the organisation. Since he is in direct contact with the employees, he is required to act as representative of organisation in committees appointed by government. He represents company in training programmes.

## ***ELEMENTS OF HUMAN RESOURCE MANAGEMENT***

**Man power planning:** this is concerned with assessment of the man power of an enterprise in terms of both quality and quantity.

**Recruitment:** refers to the process of attracting and identifying a suitable worker for a given job. It can be done through advertisement.

**Selection:** this is a process an enterprise or entrepreneur follow so as to pick out the moist suitable candidates for a particular job.

**Placement:** this involves assigning workers tasks to be done in an enterprise.

**Induction training:** this involves introducing a new worker to the enterprise so as to build confidence and sense of co-operation.

**Human resource development:** this is concerned with improving the skills of workers like through further training, study tours etc

**Determination of employees' remunerations, terms of employment and working conditions:** this involves assessment of monetary and non-monetary rewards payable to workers.

**Motivation:** this involves encouraging or stimulating workers to work hard in order to achieve desired goals of an organisation / enterprise.

**Communication:** this involves putting in place formal and informal communication requirements and procedures for the enterprise. It involves making consultation between employers and employees.

**Termination:** this concern with laying off a worker due to some reasons such as inefficiency, indiscipline etc.

### **Importance of Human Resource management**

- ☞ It enables an organisation to get competent workers with the right skills and knowledge. This promotes productivity and better production.
- ☞ It enables an organisation to be efficient and effective in order to achieve its goals and objectives. This is because workers are informed of production standards and other expectations of the organization.
- ☞ It helps to minimize damage of machines and equipments by the fact that machines and pieces of equipment are operated by technically competent workers, damages are controlled.
- ☞ It helps to minimize costs of production, within an organisation. This may come about as a result of employing skilled and experienced workers to minimize wastage of time and resources.
- ☞ It helps an organization to achieve its targets of profits maximization since the needs of the workers are well catered for.
- ☞ It helps in staff training and development. This is done through organizing various training programmes and seminars by the personnel department which improves workers skills.
- ☞ It promotes good staff relations through development of co-operation between the employer and the staff.
- ☞ It promotes good image of the business to the public through the good skills exhibited by the personnel manager.
- ☞ It helps in evaluating the performance of employees in all departments of an enterprise through performance appraisal.

### **TYPES OF PERSONNEL IN AN ORGANISATION**

**Production personnel:** this personnel is responsible for transforming of raw materials into finished goods and providing services depending on the nature of the business.

**Marketing and selling personnel:** this is responsible for marketing, selling and distribution of goods produced by an organisation.

**Transport personnel:** this one is responsible for transporting raw materials from suppliers to the organisation and finished goods to market centres.

**Security personnel:** this is responsible for safeguarding the environment of the business and ensuring that the stock and assets of the business are not tampered with.

**Financial personnel:** This is responsible for keeping and counting business funds and all the money received or paid out in an organisation.

**Entrepreneur (the owner):** this carries out overall supervision within this organisation, makes clear the job available and the required skills and knowledge of the required workers.

## **RECRUITMENT PROCESS**

It refers to identification of vacant post, advertisement, short listings, and interviewing in order to get the best candidates. It involves attracting qualified applicants for jobs in an enterprise.

## **SOURCES OF RECRUITING EMPLOYEES**

### **Internal sourcing methods**

This is where an organisation recruits workers from within itself, internal recruitment takes the following forms (sources).

**Through transfers:** A transfer of workers from one job to another within the same enterprise is a source of recruitment. This is usually done to meet the demand of workers in the enterprise or business.

**Through promotion:** this refers to the appointing a worker to a position of a greater and high authority. This is an internal source of recruitment that brings change in the duties and authority of the worker.

**Present employees/ employees' referrals:** this is where an entrepreneur asks employees to recommend their friends and relatives to fill vacant posts in an organization.

**Demotions.** This is a form of internal recruitment where employees who may have been proved ineffective in performing their tasks may be transferred to fill lower positions as compared to their current positions. This method is commonly used in security organisations like the police, army and the private security organisations like Saracen.

### **External sources**

This is where employees are got from outside the organisation, such sources include the following.

**Unsolicited applicants /walk ins:** small businesses receive many un-solicited applications from qualified and un qualified individuals. The former should be kept in file for future reference. Good business practice suggests that all applicants be treated courteously whether or not they are offered jobs.

**Advertisement:** this involves looking around for the type of person by making the vacancy known to the public by the use of media like newspapers, television, radio stations etc.

**Visiting institutions of higher learning and technical institutions:** these are sources for certain types of employees, especially if prior work experience is not a major factor in the job specification. Schools are also excellent sources for part time employees.

**Private employment agencies:** these are organisations which specialize in recruitment of workers for different employers. The entrepreneur or employer

provides them with job description for the vacancies to be filled together with the applicable terms and conditions in so that they look for and recruit the appropriate candidates for the employer. This is done in from the employees or employer for a highly qualified applicants exchange for a fee.

**Head hunting / talent spotting:** this involves looking around for the type of person that would suit the specification of the job. This is normally done by Human Resource Manager who inquiries from friends, giving them the description of the type of person he needs.

**Field trips:** this is where an entrepreneur goes out to different places spotting the right type of personnel needed for existing job.

**Internet (surfing).** This is where information about certain jobs is entered into the computer and those looking for jobs feed data also in the system. The computer then will match the jobs with people. However, computer networks are used by multi – national companies.

## **FACTORS CONSIDERED WHEN RECRUITING EMPLOYEES IN AN ORGANISATION / ENTERPRISE**

**Types of skills required:** this is a very important factor; the recruited personnel should possess the required skills. This depends on the nature of the organisation; people with required skills will help a firm to achieve the set goals.

**Employees' working experience:** in every business, experience matters a lot; it is assumed that employees, who have enough experience in doing a particular activity, perform efficiently, so an organisation would look for those with enough experience, depending on the available work to be done.

**Cost of the employee is considered when recruiting employees:** cheap labour is always wanted by employers to minimize on the wage bill of workers. This enables employers to maximize profits.

**Age of employee is greatly considered when recruiting employees:** in most cases, employers do want to use minors in the business (people below 18 years). This is because in case of any problems, they cannot be blamed too much by the law. Actually, this would be taken as a case of child labour. Therefore employers always employ people who are above 18 years and at the same time those who are not too old.

**Nature of the job to be done:** employees to be recruited should vary with the type and nature of work to be done, for instance if the need for employees is in the marketing department, one would not expect to recruit accountants or doctors; instead he has to look for personnel who follow in that category (marketing).

**Health conditions of the employee:** most firms (mainly profit making firms) would not want to recruit employees with a lot of medical problems e.g those with chronicle disease. This is because it will affect the business in terms of reduced working days, increased medical allowance.

**Sex of an employee:** this also depends upon the nature of work to be done. some jobs are fit for a particular sex, for instance those who work in heavy machinery in factories loading and offloading of commodities etc are fit for men while others like

receptionists, secretary etc are fit for ladies. So depending on a particular work, one should recruit a particular sex, which is fit for the job.

**Language:** it is also important as this is the only way for effective communication in an organisation that's why today firms need educated people who have common language to facilitate easy communication or want employees who speak many different languages.

**Marital status is another vital factor always taken into consideration when recruiting employees:** some employers prefer workers who are single because they will be committed to work and are easily flexible than the married people who always tend to have a sense of maturity are not easily flexible. For example, it becomes very hard for married people to move to other work stations, leaving behind their families.

**Size of the business:** some businesses are small and need few workers and at times large businesses need many workers. At recruitment therefore, the number of employees depends on the size of the enterprise.

### **Procedures followed when recruiting business employees**

- i. Identifying the vacant posts / man power .
- ii. Advertising the posts.
- iii. Receiving applications.
- iv. Cross checking the applicants and handling inquires.
- v. Short listing candidates
- vi. Conducting interviews.
- vii. Selecting suitable workers.
- viii. Appointing successful workers in their jobs.
- ix. Giving induction training to newly recruited workers.

### **CAUSES OF DIFFERENCES IN WAGES OF WORKERS IN AN ENTERPRISE**

- ✓ Differences in the nature of job performed: more difficult or demanding jobs earn high wages and salaries compared to simple jobs.
- ✓ Differences in level of education and training: workers with high level of education and skills would normally be paid higher wages and salaries compared to those with low level of education.
- ✓ Differences in productivity of labour: more productive employees in terms of output are paid higher wages than those whose productivities are low.
- ✓ Differences in cost of living: some entrepreneurs fix wage rate depending on cost of living of workers, in places with high cost of living workers earn higher wages than those working in places with low costs of living.
- ✓ Differences in entrepreneur's capacity to pay: entrepreneurs enjoying higher profits can afford to pay higher wages than those firms earning low profits or operating on losses.
- ✓ Demand and supply for labour: where the demand for labour in relation to supply is higher, the wage rate tends to be high and where the supply is higher than their demand, the wage rate tends to be low.
- ✓ Differences in working conditions: jobs with poor working conditions such as high levels of risks should be paid highly compared to less risky jobs.
- ✓ Differences in trade union's bargaining power: a stronger and more powerful trade union will secure higher wages for their members and weak unions may only afford to negotiate a bare minimum wage for their members.

- ✓ Differences in level experience / expertise: highly experienced workers tend to be paid higher wage rates than less experienced.
- ✓ Government policy on wages: the government may set up minimum wage rate. If these minimum wage rates are high, wages and salaries will also be low.
- ✓ Difference in the nature of employment: workers on contract receive high payment compared to those on temporary or permanent basis/
- ✓ Difference in workers bargaining power.
- ✓ Difference in efficiency of the worker.

### **SILENT FEATURES OF MAN POWER PLANNING**

Man power planning involves forecasting of the future man power needed so that adequate and timely management can be made to meet the man power needs in the business

The major purpose of man power planning is to determine the types of workers and the right number required for effective accomplishment of the tasks and goals of the enterprise

Human resource planning is continuous process since the demand and supply of the labour change frequently. It leads to development of policies, programmes and procedures for the acquisition and development of the man power employed by the enterprise

It involves both qualitative (determination of number of workers needed) and quantitative (determination of appropriate skills for various jobs) planning

### **OBJECTIVES OF MAN POWER PLANNING**

- ✓ To forecast or predict type of skills required in future
- ✓ To determine the number and type of the workers required
- ✓ To promote the development of the existing personnel
- ✓ To ensure optimum use of present man power
- ✓ To ensure proper control measures of an enterprise so that the man power is available when it is needed

### **BENEFITS OF SUCCESSFUL MAN POWER PLANNING**

- ✓ It enables the management to reduce labour cost since imbalance due to the shortage in surpluses in demand can be controlled before it becomes unmanageable
- ✓ It helps in identifying gaps that need to be filled so that the suitable training programmes can be designed so as to build particular skills required in the future
- ✓ It helps in formulation management and succession plans since it provides enough time to the employer to identify and help managers to be promoted
- ✓ It provides a sound basis for the development of workers so as to ensure optimum use of the available talents
- ✓ At national level it guides the government in employment creation in education reforms and in transfer of workers in the country
- ✓ It helps in diversification of business to undertake new projects and expansion programmes aimed at increasing earnings

### **ORGANISATIONAL CHART**

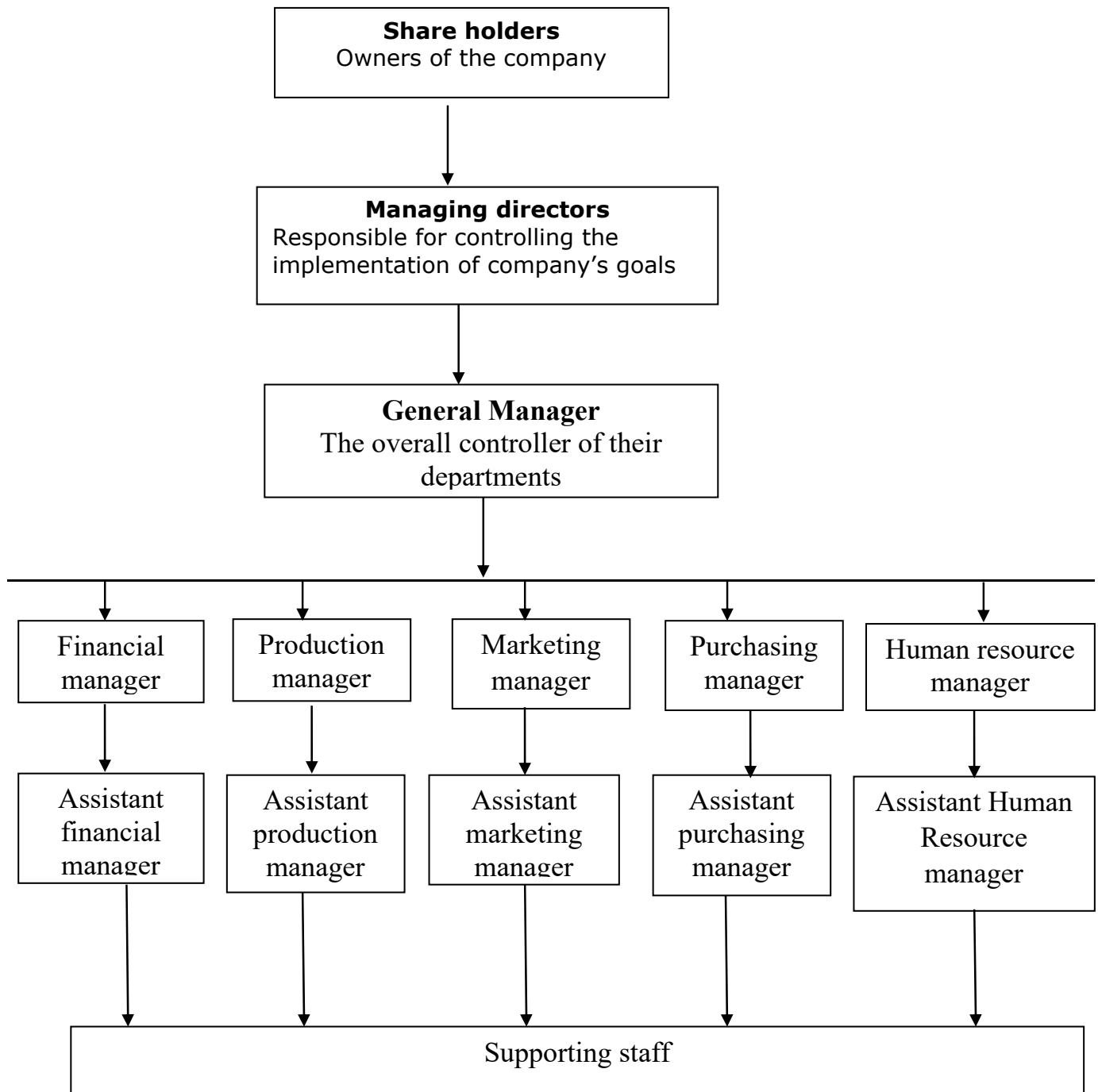
This is a diagram that shows the organisational structure of a firm showing the overall top management shown in different departments of the firm. The organisational chart

shows the different departments and the job functions and the personnel within those units

### **USES OF AN ORGANISATIONAL CHART**

- ✓ It acts as a visual aid for staff training during induction session
- ✓ It specifies duties and responsibilities of different personnel in an organisation
- ✓ It shows the hierarchy of authority within the organization
- ✓ It is used as a reference whenever transfers and promotions are to be done in an enterprise
- ✓ It facilitates smooth flow of information communication in an enterprise
- ✓ It helps an entrepreneur to identify vacant posts in an enterprise
- ✓ It helps an entrepreneur to coordinate with different department
- ✓ It ensures an entrepreneur to determine the man power requirements of the business
- ✓ It gives the organizational structure of the enterprise
- ✓ It shows the reporting relations in an enterprise
- ✓ It is used as a reference point whenever transfers and promotions are to be done in an organization
- ✓ It creates a platform for delegation of authority between superiors and subordinates
- ✓ It enables the successfulness of performance appraisal basing on employees duties and responsibilities
- ✓ It instills discipline among employees and manager as it specifies the level of administration and subordination

## Illustration



## REASONS WHY AN ENTREPRENEUR MAY RECRUIT WORKERS

- ✓ To recruit the right people with the required skills and abilities. When workers with skills and abilities are recruited there are high chances of increasing productivity in the enterprise.



- ✓ To minimize damages to machines and equipment by using technical competent persons. When competent workers are recruited, damages which can increase costs on machines and equipment can be minimized.
- ✓ To minimize costs in an enterprise. Recruitment of workers helps to avoid wastage of resources and time thus increase in efficiency and effectiveness.
- ✓ To replace workers who are retiring, dismissed and die. Recruitment helps an enterprise to fill the gaps caused by the workers moving out.
- ✓ To get workers for future use in case an enterprise expands. Workers may be recruited to be kept for future programs e.g when more branches are open.
- ✓ To increase productivity and output in an enterprise. Recruitment of workers improves performance leading to high productivity and output.
- ✓ To cater for advancement in skills required to perform certain tasks. Some workers may be recruited due to more development in an enterprise e.g advanced technology.
- ✓ To be groomed by the business. Workers may be recruited when they are under qualified or not experienced hoping to be groomed to become better workers.
- ✓ To fill the gaps caused as a result restructuring within the enterprise. Unqualified or not experienced staff members may be restructured in order to recruit skilled workers.
- ✓ To increase man power required for efficient and effective in achieving the set target of the business. Recruitment enables an enterprise to increase labour force so as to achieve its set standards and targets.

#### **Competencies expected of an applicant during an interview**

- Consistence
- Qualifications / education
- Confidence
- Courtesy
- Time management
- Decency / smartness
- Respect
- Intelligence
- Experience
- Team work
- Controlling emotions
- Good communication
- Creativity and innovativeness
- Concentration
- Self – motivation
- Knowledge
- Flexibility
- Attentiveness / listening

#### **PERSONAL REQUIREMENT OF THE BUSINESS**

Personal resource requirement of the business implies determination of the staff, their skills and experience or specific requirements required by the business in its operation

#### **JOB ANALYSIS**

This refers to the systematic collection and recording of information concerning the jobs to be performed in an organisation. It involves recording of information that

concerns the purpose of the job and major duties and conditions to be performed. It also involves knowledge; skills and abilities needed to perform the job effectively and efficiently for example the job of an accountant would require knowledge of accounting duties

### **Job analysis therefore involves the following activities**

- ✓ identifying the purpose of the job
- ✓ Identifying duties and responsibilities of a job / position.
- ✓ Stating the terms and conditions of the job.
- ✓ Identifying the knowledge, skills, experience and abilities required to perform the job effectively and efficiently.
- ✓ Identifying the reporting relationships i.e to whom to report.
- ✓ Identifying of the qualifications one should have to perform the job.
- ✓ Identifying the personnel qualities and behaviour one should possess for example age.
- ✓ Identifying of physical and mental characteristics one should have to perform the job.

### **Steps followed when carrying out job analysis**

- ✓ Collecting the relevant data ie information about the job
- ✓ Selecting the representative positions
- ✓ Collecting job analysis data i.e information is related with the future of the job with required qualifications
- ✓ Developing job specification
- ✓ Developing a job specification

### **JOB DESCRIPTION**

This is a broad statement of the purpose, scope, duties and responsibilities of a particular job to be done. Job description should be written or prepared under the following headings

- ✓ type of the job
- ✓ Location of the job / department.
- ✓ main duties and responsibilities of the job / position
- ✓ supervision given and reporting line
- ✓ the limit of jobholder's authority
- ✓ job relationship to other jobs or departments
- ✓ any office equipment to be used on the job like computer
- ✓ some terms and conditions of employment
- ✓ Job circumstances ie whether pleasant / unpleasant, demanding or undemanding etc.

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JOB DESCRIPTION

JOB TITTLE: Sales Manager

DUTIES AND RESPONSIBILITIES

- Identifying suitable advertising media
- Selecting appropriate way of increasing sales
- Motivating the sales team
- Receiving customer orders

Reporting to: Human Resource Manager  
Working conditions: Normal working conditions

**JOB SPECIFICATION**

It refers to a detailed statement of the physical and mental activities involved in doing the job. It defines the desired human requirements needed for a given job e.g knowledge, experience, skills, physical requirements like health etc

Job specification is expressed in terms of what the workers does what knowledge he/she uses in doing it and the judgment he/she make

**Such requirements may include.**

- ✓ identifying the level of education and training one should have attained in order to perform a particular job
- ✓ Specifying the knowledge, skills and experience that one should possess.
- ✓ Identifying the personal characteristics that one should have to perform the job such as age, sex, integrity etc.
- ✓ identifying the physical requirements
- ✓ age range
- ✓ health and appearance (not commonly considered)

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Job specification for an accountant

**Qualification**

- A first class degree in commerce or any Business related degree course from a reputable institution
- ACCA or CPA (Uganda) at least two stages is an added advantage

**Experience:** A minimum of 3 years working in recognized institution / firm

Other requirements and skills

- Good communication and interpersonal skills
- Computer literate, with knowledge of MS- office, Pastel, Tally or Quick books
- Self-motivated and minimum supervision

Health status: should be normal without any chronic diseases

Marital status: should be married

Age: between 25-45 years

Mode of application

- A hand written application with a C.V and all the relevant documents
- Two referees plus their current addresses
- Should send an application to the above address, not later than 2 weeks from the date of this advertisement
- Only short listed applicants will be contacted

**Job grading**

This refers to the process of determining the relative value of every job in the organisation in order to price the jobs in terms of wages and salaries. It is what is expected to be the output for a given job and one should perform as expected

**The main objectives for carrying out job grading.**

- ✓ To determine the relative value for each job.
- ✓ To provide factual information to be used when settling salary disputes.
- ✓ To provide a basis for negotiations between employers and employees since salary grievances are reduced
- ✓ To ensure good relationship between employers and employees since salary disputes.
- ✓ To provide adequate information used when designing job analysis.
- ✓ To motivate employees this improves their morale.
- ✓ To promote hard working among employees.

## Methods of payment

- ✓ **Salary:** this is a fixed periodic payment within a given time to workers. It is a fixed period payment to workers after a long period of time. It is commonly paid to non-manual either monthly basis or other wise

## Characteristics of salaries

- ✓ It is confidential to the employee earning
  - ✓ It is progressive in nature therefore it should be increased after a given period of time. But not remaining static or constant
  - ✓ It is considered personal to the workers earning
  - ✓ It has no additional payments like bonus, overtime
2. **Wages:** this is the payment to manual workers and it's usually expressed as a rate per hour. It is a method of payment used by entrepreneurs to their temporary workers in enterprise. It is normally paid after a short period of time e.g daily basis, hourly or weekly

## Wages have different structures and they include

- Overtime pay.** This is paid to the worker who works or serves over and above the normal working time.
- Shift pay.** This refers to an allowance or payment given to workers who alternate as they perform their duties. Sometimes employees work during unusual hours and this allowance is given to them as way of compensating them for their hard work inconvenience and hardships.
- Cost of living allowance.** This refers to payment given to workers in response to an increase in the general price level. It is a payment given to employees who work in places where there are high costs of living e.g in urban areas like Kampala.
- Piece rate payment.** This refers to the payment where a worker is paid doing a given piece of work. This is applicable where work to be done is measurable and payment rates are usually agreed upon before work is done.
- Time rate.** This refers to method of payment based on the amount of time worked. It is a type of payment arrangement where remuneration is given according to the time one take doing the job.
- Contract based payment.** This refers to a mode of payment where a given worker takes on a piece of work to be done which should be completed in agreed time for agreed amount of money.
- Special wage addition.** This is a situation where the worker is paid during abnormal working conditions for example in insecure places.
- Bonus scheme payment.** This refers to extra reward given to the worker over or above his regular pay and it is normally given to workers who perform their duties exceptionally well.
- Standard pay.** This refers to the payment given to workers as a fixed pay in a given period, this may be monthly, weekly, this is irrespective of the amount of work done.
- Policy allowance.** This is usually paid to workers whose services are very scarce. The intention of this payment is to motivate and encourage the workers to serve for the organisation.

## Factors considered when determining payments for workers in an enterprise.

- ✓ **Level of competition for workers among different employers.** High levels of competition for workers force employers to pay their workers higher wages so

as to motivate and retain them. On the other hand, absence of competition for workers among different employers leads to relatively low wages paid to employees.

- ✓ **Level of education and training that a person undertakes.** Workers who have high levels of education are paid higher wages because of the extra period of training incurred. On the other hand, low wages are paid to those workers with low levels of education.
- ✓ **Cost of living.** employees who work in areas where cost of living is high for example in urban areas are paid higher wages than those who work in areas where the cost of living is relatively low for instance in rural areas.
- ✓ **Experience and skills for a particular job.** Higher wages are paid to employees with experience and the required skills relating to a particular job. On the other hand, workers lacking experience and the required skills to perform a particular job are paid less.
- ✓ **Amount of work (duties and responsibilities) being done.** employees with more tasks to perform than others should be paid highly because of the extra assigned duties while those with less duties and responsibilities should be paid according to the amount of work being done ie they should earn less.
- ✓ **Nature of employment opportunities.** Permanent workers with guaranteed job security are paid relatively low wages than those doing work which is on a contract basis. This is because the job security for contract jobs is usually for a limited fixed period which is agreed.
- ✓ **Strength and bargaining power of workers.** Workers with a lot of bargaining power and whose services are highly demanded by the organisation are paid higher wages. On the other hand, employers who take advantage of workers with low bargaining power through paying them less provided they are helping to achieve its goals.
- ✓ **Demand for the services being rendered by the worker.** There are workers whose services may be highly demanded than those being offered by the others. In such situations, such workers are paid higher wages than those offering services that the organisation / business would still continue to operate even without such employees.
- ✓ **Nature of work being done.** Workers who perform mental / knowledge-based type of work are paid higher wages / salaries for example accountants than those who perform physical type of work like cleaning.
- ✓ **Risk involved in the work being done.** Workers who do risky jobs like the night watchmen should be paid higher than those doing less risky jobs like office or toilet cleaning.
- ✓ **Profitability of the business/ employer.** Business or organisation which make a lot of profits motivate their workers by paying them higher wages. On the other hand, workers in businesses with low profits being made are paid relatively lower wages.

## **JOB PERFORMANCE STANDARDS**

These refer to acceptable competency aspects required for a given job. It is minimum expected from output from the job

Sourcing. This involves identifying the sources of the required personnel. Source may include the organisation itself (internal sourcing), compiling organisation (other organs of the same industry) newspapers, journals, colleges and institutions

Selection. This involves evaluating and choosing among different candidates it involves the following steps

- Receiving application forms
- Initial screening of the short listed candidates
- Reference to check the truthfulness of the candidate
- Physical examination
- Job letter (accompanied with an appointment letter)

However the selection exercise is always accompanied by a recruitment programme

Example of recruitment programme

- ✓ Identifying the vacant post and the value in the enterprise
- ✓ Advertising the vacant post
- ✓ Receiving application and handling inquiries about the advertised posts
- ✓ Cross checking applications against job specification
- ✓ Establishing interview panel, rooms and questions
- ✓ Short listing the candidates
- ✓ Contacting successful candidate for the interview
- ✓ Conducting interview
- ✓ Analyzing the interview results and selection of the suitable candidates
- ✓ Appointing the successful candidates
- ✓ Carrying out induction training for the successful candidates

## **JOB INDUCTION OR ORIENTATION**

This is the process by which a newly recruited employee is introduced to a job and various aspects are given. An induction training or programme include the following

- ✓ Issuing an appointment and discuss the content there
- ✓ Introducing the worker to the board of directors, shareholders and other heads of departments
- ✓ Introducing the worker to other supporting staff
- ✓ Carrying out tour or survey around the business premises
- ✓ Providing him with all the necessary resources and introducing him to his office
- ✓ Welcoming part with the boards of directors and getting ready to report to work

### **Factors considered when preparing induction of new employees**

- ✓ Knowledge and job ie one should have the necessary knowledge about the job which employees are to be inducted
- ✓ Having a current employee serve as a mentor ie there is need to give a new employee a mentor to guide him on the job
- ✓ Setting/ preparing a sample job break down. This spells out the contents of the job to be done in terms of job content.
- ✓ Setting a training time table. This shows the activity / time
- ✓ Work area. This involves arranging the venue for induction by providing facilities required.
- ✓ Evaluating new employee's work on a daily basis. This helps to know their performance to guide them well where they are to work.
- ✓ Employee special needs. In case of this provide special facilities for them during induction.

## **Advantages of induction of new employees**

- ✓ It leads to increased productivity. Adequate training increases skills which improves both the quality as well as quantity of the product due to increase in level of performance
- ✓ It improves employees' morale. Training improves needed skills which build up confidence and satisfaction of the employees
- ✓ It decreases supervision. A trained employee supervises himself. He accepts responsibility and expects more freedom and autonomy and less supervision

## **PERFORMANCE APPRAISAL**

This refers to the continuous process of assessing and providing employees' feedback about how well or how poorly they are doing their work for the organisation

It refers to the continuous process of evaluating workers' process against the organizations' job standards

It refers to a judgment of employee performance on the job based on various considerations than productivity alone. It is sometimes termed as merit attracting assessment

## **Reasons to appraise workers performance**

- ✓ To determine the future use of an employee i.e. whether he/she should remain on the present job or be transferred, promoted, demoted or dismissed.
- ✓ To decide whether there is need to increase a worker pay or not basing on ground of merit
- ✓ To identify the training needs of employees
- ✓ To motivate employees to do better in present jobs by allowing them to appraise their own performance
- ✓ To judge whether the employee has performed according to the expected standards of performance or not
- ✓ To provide performance records needed by financiers donors /creditors so as to evaluate performance of the enterprise
- ✓ To enable employees set realistic job targets
- ✓ To promote good working relationship between employers and employees those who obtain proper communication.
- ✓ To re-enforce desired competencies / behaviors among workers
- ✓ To obtain feedback on performance
- ✓ To validate selection techniques and human resource policies for equal opportunities of worker
- ✓ To monitor and ensure efficiency and effectiveness of workers

## **Importance of performance appraisal**

- ✓ It helps to determine the future use of an employee i.e. whether he/she should remain on the present job or be transferred, promoted, demoted or dismissed.
- ✓ It helps to judge whether there is need to increase a worker pay or not basing on ground of merit.
- ✓ It helps to identify the training needs of employees. This is because after performance appraisal it is easy to identify areas of performance where there is need for improvement and appropriate training
- ✓ It helps to motivate employees to do better in present jobs by allowing them to appraise their own performance. The employee (appraise) is in position to get knowledge of results of his performance and recognition of his merit and opportunity thus discussing the results with the managers or entrepreneur



- ✓ It helps to judge whether the employee has performed according to the expected standards of performance or not. it enables the employer to identify the best performers in the business enterprise
- ✓ It provide performance records needed by financiers donors /creditors so as to evaluate performance of the enterprise
- ✓ It enables employees set realistic job targets for work to be done. This enables an entrepreneur to meet business standards and long term goals
- ✓ It promotes good working relationship between employers and employees those who obtain proper communication.
- ✓ It re-enforces desired competencies / behaviours among workers
- ✓ It helps to obtain feedback on performance
- ✓ It validates selection techniques and human resource policies for equal opportunities of workers
- ✓ It helps to monitor and ensure efficiency and effectiveness of workers. This is because workers tend to perform carefully bearing in mind that they are to be appraised
- ✓ It enables an enterprise to monitor the progress of the employees on the jobs. This is because the strength and weakness of workers are easily identified through performance appraisal

### **Methods of appraising performance**

- ✓ **Ranking method.** This method requires an entrepreneur to rank his/ her subordinates in order of merit. Basing on the total skills, knowledge and experience
- ✓ **Grading.** this method requires an entrepreneur or manager to group his employees in different categories basing on the total performance usually quality and quantity
- ✓ **Rating scale.** This method consists of a list of personal characteristics of factors against each of which is a scale up to 5 points for the manager to base his assessment of workers e.g better performance are given excellent and worst performance are given poor
- ✓ **Open ended method.** This method emphasizes the way the job is performed and expect the manager or supervisor to write a few sentences about the subordinates' performance rather in different aspect of the job
- ✓ **Behavior expectation scale.** This method requires the manager to select some aspect of the worker behaviour where appraisal can be based. It is sometimes termed as behaviorally anchored rating scale (BARS)

## An example of performance appraisal

<b>BYONNA TWALA ENTERPRISE</b> P.O BOX 3333, Kampala, UGANDA TEL: 0725556677						
						DATE.....
<b>PERFORMANCE APPRAISAL FORM</b>						
Name of the employee: .....						
Job title;		Accountant				
Evaluation period:		1 Month				
Method:		Rating Scale Method				
KEY ASPECTS						
Details	Excellent	Good	Fair	Average	Poor	Points
Quality of work	✓					100
Beating deadline		✓				70
punctuality				✓		50
smartness	✓					100
Social interaction			✓			50
Team player					✓	10
Total						380
Weight of comments						
Excellent – 100, Good – 70, Fair - 50, Average – 40, Poor – 10						
Comment: quite good employee and deserves a certificate of merit						
Recommendation: more improvement should be made on punctuality in order to enable the organisation achieve its goals and objectives						
Prepared by .....			Approved by.....			

## MOTIVATION

It refers to the process of stimulating labour to take up a desired course of action

Or it refers to the process of encouraging workers so that they may perform efficiently and effectively in an organisation

## METHODS USED WHEN MOTIVATING EMPLOYEES.

- ✓ Ensuring Timely and adequate remuneration of workers. Workers payment should be made on time as agreed upon in terms of payment and it should be adequate to enable them perform their duties efficiently and effectively
- ✓ Management of discipline in the organisation. The discipline among the workers, managers and entrepreneurs should be well unforced basing on rules and regulations in order to have effective working culture
- ✓ Rewarding good results. Giving rewards to specific good result on the work well done encourages employees to work hard and get more rewards
- ✓ By providing fringe benefits to workers like pensions, housing allowance, maternity leave, sick leave where applicable to workers so that to encourage them perform better in the organisation

- ✓ Through job training. Training of workers helps them to develop express, skills and acquire more knowledge used to improve performance of the organization e.g use of tools and equipment
- ✓ Ensuring good working conditions. Improving working conditions costs a pleasant working environment which enhances the employees motives to achieve the desired set objectives and goals of the organisation
- ✓ Ensuring job security. There is need to ensure workers that they have job security and therefore an employer should avoid sending away employees at any time he feels
- ✓ By ensuring open communication to all business employees. There is need for employer and employee to communicate efficiently and effectively through top-bottom and bottom – top communication with feed back
- ✓ Through organizing staff parties. There is need to organize parties for staff members they socialize and share ideas and get encouraged to serve in the organisation
- ✓ Through promotion aspects. Workers need to be promoted, if they perform better so that they are encouraged to perform to their best hoping for more promotions
- ✓ Through participating in decision making. Allowing employees to participate in decision making promotes motivation among the employees since they develop sense of belonging
- ✓ By carrying out performance appraisal to evaluate employees' performance
- ✓ By sharing and showing concern of workers problems.
- ✓ By involving employees in profit sharing schemes since they are one of the people who contribute towards profits
- ✓ Through giving sponsorships to workers. This enables the workers to acquire more knowledge and many opportunities in their profession

### **Reasons for motivation of workers**

- ✓ To stimulate workers to perform their duties positively so as to contribute towards the achievement of desired objectives and goals of the organization
- ✓ To promote good human relations through job satisfaction
- ✓ To improve the productivity of workers through inducing them to work hard which increase outputs
- ✓ To create a better image of the firm or business since employees will be given financial and non-financial rewards
- ✓ To improve skills of worker s through provision of training programmes like on the job training
- ✓ To minimize labour strikes and other forms of labour un rests through regular and appropriate communication with workers
- ✓ To retain workers in the business through making them contented by promising them promotional prospects
- ✓ To reduce supervision costs
- ✓ To improve the quality of products
- ✓ To improve self-esteem of employees
- ✓ To encourage employees to be open
- ✓ To attract a competent employee
- ✓ To ensure timely completion of work and beating deadlines
- ✓ To encourage the spirit of hard work
- ✓ To ensure team and spirit of togetherness

### **Importance of motivation**

- ✓ It stimulates workers to perform their duties positively so as to contribute towards the achievement of desired objectives and goals of the organization

- ✓ It helps to prevent workers from seeking alternative employment opportunities in other enterprises. If workers are well motivated, they cannot easily move to other enterprise for jobs
- ✓ It promotes good human relations through job satisfaction
- ✓ It improves the productivity of workers through inducing them to work hard which increase outputs
- ✓ It creates a better image of the firm or business since employees will be given financial and non-financial rewards. This attracts more workers to the organisation
- ✓ It improves skills of workers through provision of training programmes like on the job training
- ✓ It minimizes labour strikes and other forms of labour unrests through regular and appropriate communication with workers
- ✓ It reduces supervision costs
- ✓ It helps to increase relations between the employees and employers. When the workers are encouraged to participate in management in decision making, it increases labour relations in the organisation
- ✓ It improves the quality of products this is because workers are well motivated and their morale is kept up, thus production of quality products and services in an organisation
- ✓ It encourages employees to be open
- ✓ It attracts a competent employee
- ✓ To ensure timely completion of work and beating deadlines
- ✓ It encourages the spirit of hard work. when workers are motivated they work hard in order to achieve the set goals of the organisation leading to high productivity in the long run
- ✓ It promotes team and spirit of togetherness. When workers are motivated they work together in order to achieve the set goals of the organisation leading to high productivity in the long run

### **Employee – employer relation**

For nay organisation to achieve its objectives and goals there is need for good employee – employer relations

### **Methods of ensuring good employee – employer relations**

- ✓ Creating favourable working environment. For good relations an entrepreneur or manager should assist the people who want to perform certain tasks through positive methods of relationship
- ✓ Through ensuring proper motivation of workers. An employer should motivate the workers by giving them prices and fringe benefits when they perform well and there should be appropriate punishments to minimize indiscipline in the organisation
- ✓ Through proper communication. an employer should communicate effectively to employees the fundamental objectives of the business and basic policies so as to promote good relations
- ✓ Promoting economic satisfaction of workers. It is necessary for the employer to satisfy the needs of the workers especially basic needs so as to provide opportunity for personal development e.g provision of training facilities
- ✓ Providing good relationship. An employer or manager can ensure good relations with workers by becoming good examples in their actions e.g an employer shouldn't be harsh to the workers
- ✓ Treating workers with dignity and respect. There is need for an employer to recognize that workers are human beings who need to be accepted and helped in order to perform better

- ✓ Putting in place proper machinery and handling of disputes. An entrepreneur needs to utilize proper methods, tactful and speedy ways of handling disputes among the workers so as to improve good relations

### **Common Causes of indiscipline among employee**

- ✓ Inadequate work rules and regulations within an organisation. Failure to avail and inform the employees the rules and regulations concerning the organisation may cause indiscipline among them
- ✓ Defective culture and habits at work. Some workers may adopt bad habits like late coming, absenteeism and rudeness which may cause indiscipline among the workers
- ✓ Inconsistence in enforcing discipline. When an employer becomes tough on certain worker and tends to relax on another one like a relative or friend then this may cause indiscipline
- ✓ Lack of proper procedures for handling disputes. When there is no clear way of handling grievances of employees, dissatisfaction may come up leading to indiscipline
- ✓ Poor administration or management within an enterprise. Conflicts and quarrels come up between management and employees there is likely hood of indiscipline
- ✓ Corruption and favouritism within an organisation. When top management treats some employees fairly compared to others in an organization then indiscipline tends to come up
- ✓ Excessive dictatorship in administering the activities of an organisation. An employer should not be too much authoritative since it may irritate the workers thus causing indiscipline

### **Under what circumstances may an entrepreneur terminate the services of an employee?**

- ✓ If the employee is unproductive
- ✓ When there is need to have capital intensive technology than labour intensive / labour saving, technology
- ✓ In case of closure of the company or a business
- ✓ In case there is need to reduce costs of production in term of labour costs
- ✓ Where the workers contract comes to an end
- ✓ When it's time for retirement of the workers
- ✓ In case the worker fails to cope up with changes in technology
- ✓ If the worker is in poor health condition
- ✓ In case of restructuring
- ✓ If the government policy is against the line of operation of a certain business
- ✓ In case of unsuitable qualification
- ✓ When there is change in management
- ✓ In case an employee requests to retire
- ✓ In case of absenteeism
- ✓ If a worker is a drunkard
- ✓ In case a worker leaks company secrets
- ✓ In case a worker is a late comer
- ✓ When a worker fails to cope with the company culture
- ✓ In case of corruption and embezzlement (fraud, theft)

### **Ways in which good human resource management can be used as a tool to promote the quality of products in an enterprise**

- ✓ Training of workers to equip them with the necessary skills
- ✓ Motivating workers to encourage them work hard

- ✓ Ensuring proper organizational structure
- ✓ Giving workers detailed instructions
- ✓ Providing a favorable working environment and working conditions
- ✓ Carrying out performance appraisal to enable judgment of performing in respect to quality
- ✓ Ensuring discipline among workers to help promote unity and peace at work to enable production of qualitative products
- ✓ Giving timely and adequate remuneration which make employees satisfied at work
- ✓ Giving workers appointment letters to work with job security
- ✓ Involving workers in the decision making process

### **Labour turn over**

Refers to the ratio of the number of employees that leave a company through attrition, dismissal or resignation during a period to the number of employees on payroll during the same period

Or refers to the number of employees moving in and out of the business

### **Causes of the high labour turnover in Uganda**

- ✓ Inadequate wages leading to workers moving to competitors
- ✓ Sexual harassment of workers by bosses
- ✓ Low levels of motivation/poor morale
- ✓ Promotion prospects in other businesses
- ✓ Recruiting and selecting of wrong employees
- ✓ Delayed payment of workers' salaries
- ✓ Communication gaps which leads to poor relationship between employees and employers
- ✓ Disrespect of employees by bosses
- ✓ Transfers caused by marriage
- ✓ Excessive work load to workers

### **Costs of labour turn over**

- ✓ it leads to additional recruitment costs
- ✓ Low productivity
- ✓ Increased costs of training and replacement of workers
- ✓ It lowers business's performance
- ✓ Loss of know-how and customer good will
- ✓ Potential loss of sales due to high turnover in the scale force
- ✓ Damage the morale and productivity to those workers remain in the enterprise
- ✓ Hiring costs
- ✓ Higher accident rates
- ✓ Underutilization of production facilities
- ✓ High rate of scrap and waste
- ✓ Over time pay is increased
- ✓ It lowers reputation of the enterprise which may make the business to lose its potential customers

### **Benefits of labour turn over**

- ✓ New employees bring new skills, ideas, enthusiasm and contacts with them
- ✓ New employees are resistant to changes in most cases
- ✓ New employees are willing to accept lower pay rates

- ✓ New employees are excited about their new jobs and work harder to please management and clients
- ✓ Employee turnover allows for flexibility in the way the organisation is to run
- ✓ It allows management the opportunity to restructure departments and functions

### **Strategies to minimize employee turn over**

- ✓ **Engaging employees.** This involves engaging, retaining and optimizing the value of employees to motivate them to stay in the organisation
- ✓ **Increasing knowledge accessibility.** The extent of the organization's collaborativeness and its capacity for making knowledge and ideas widely available to employees to stay in the organisation. Sharing information should be made at all levels of management
- ✓ **Optimizing workforce.** This can be done through establishing essential processes for getting work done, providing good working conditions establishing accountability and many good hiring choices would retain employees in their organisation
- ✓ **Empowering of employees.** Superiors empowering subordinates by delegating responsibilities to them leads to subordinates who are more satisfied with their leader and consider them to be fair and in turn to perform up to the superior's expectations
- ✓ **Ensuring job involvement.** This involves an individual's ego involvement with work and indicates the extent to which an individual identifies psychologically with his / her job. Workers who have greater variety of tasks tend to stay in the job
- ✓ **Employee training and development.** Staff training and development refers to the process programs and activities through which or organisation develops, enhances and improves the skills, competencies and overall performance of its employees and workers

### **METHOD OF CALCULATING LABOUR TURNOVER**

**Separation method.** This method takes into account those workers who have left during a particular period. Its formula is

$$\frac{\text{number of separation}}{\text{average number of workers during the period}} \times 100$$

**Replacement method.** This method takes into account only those workers who have joined in place of those who have left. The formula

$$\frac{\text{number of replacement}}{\text{average number of workers during the period}} \times 100$$

**Flux method.** This shows the total change in the composition of labour force due to separations and replacement of workers. Its formula is

$$\frac{\text{number of replacement} + \text{number of separation (left)}}{\text{average number of workers during the period}} \times 100$$

**Additional method.** Under this method, number of employees added during a particular period is taken into consideration for computing the labor turnover. The method of computing is as follows.

$$\frac{\text{number of additions}}{\text{average number of workers during the period}} \times 100$$

During October 2007, the following information is obtained from the personnel department of a manufacturing company

Labour force at the beginning of the month 1,900 and at the end of the month 2100. During the month, 25 people left while 40 persons were discharged. 280 workers were engaged out of which only 30 were appointed in the vacancy created by the number of workers separated and the rest on account of expansion scheme. Calculate the labour turnover by different methods.

### **Solution**

Additional method

$$\frac{\text{number of additions}}{\text{average number of workers during the period}} \times 100$$

$$\begin{aligned} \text{Average number of workers} &= \frac{1900 + 2100}{2} = 2,000 \\ \frac{280}{2,000} \times 100 &= 14\% \end{aligned}$$

Separation method

$$\frac{\text{number of separation}}{\text{average number of workers during the period}} \times 100$$

$$\frac{20+45}{2,000} \times 100 = 3.25\%$$

Replacement method

$$\frac{\text{number of replacement}}{\text{average number of workers during the period}} \times 100$$

$$\frac{30}{2,000} \times 100 = 1.5\%$$

Example two.

From the following information, calculate labour turn over using the following methods

- i. Separation method
- ii. Replacement method
- iii. Flux method

Number of workers at the beginning 800

Number of workers at the end 1,700

During the year, 12 workers left and 89 workers were discharged. The company recruited 1,000 workers and of these 70 were to fill the vacancies of those leaving, while the rest were engaged for an expansion scheme

$$\text{Average number of workers} = \frac{800+1,700}{2} = 1,250$$



Separation method

$$\frac{\text{number of separation}}{\text{average number of workers during the period}} \times 100$$

$$\frac{12+89}{1,250} \times 100 = 8.08\%$$

Replacement method

$$\frac{\text{number of replacement}}{\text{average number of workers during the period}} \times 100$$

$$\frac{70}{1,260} \times 100 = 15.6\%$$

### **Idle time**

**Is a period** or duration for which payments are made when an employee is available for work but is not carrying out any productive work

Idle time can arise because of reasons like

- ✓ Machine break down
- ✓ Lack of orders
- ✓ Unavailability of materials
- ✓ Consultation
- ✓ Having lunch
- ✓ Resting etc

Idle time can be normal or abnormal

### **Abnormal idle time**

Time caused by factors that can be avoided if proper precautions are taken e.g long time power failure, shortage of raw materials, production stoppage, sudden strikes and lock outs etc

### **Idle capacity**

This means that plant and machinery is available for utilization but is not fully used due to normal or abnormal reasons.

### **How to control idle time**

- ✓ Strict supervision
- ✓ Proper planning
- ✓ Proper maintenance of stock
- ✓ Time procurement of stock
- ✓ Assurance of power supply from own proper plant
- ✓ Advance planning for machine utilization

### **Training of employees**

Refers to the process of identifying and developing the necessary knowledge for doing administratively and meeting complaint conditions.

### **Type/forms of employee training**

- Off – the – job training
- Induction / orientation training
- Mentoring
- Performance review training

- Apprenticeship
- On – the – job – service / in-housing training

### **Purpose of training employees in an enterprise**

- ✓ To create a pool of readily available and adequate replacement for personnel who may leave or move up in the organization
- ✓ To enhance the company's ability and use advances in technology because of a sufficiently knowledgeable staff
- ✓ To build a more efficient, effective and highly motivated team, which enhances the company's competitive position and improves employees morale
- ✓ To enable employees develop a greater sense of self-worth dignity and well-being as they become more valuable to be firm in society
- ✓ To optimize the utilization of human resources that further helps the employee to achieve the organizational goals as well as their individual goal
- ✓ To provide an opportunity and broad structure for the development of human resource technical and behavioural skills in an organisation. It also helps the employee in attaining personal growth
- ✓ To develop the job knowledge and skills of employees at each level. It helps the employee in attaining personal growth
- ✓ To reduce employee turnover since workers will have necessary skills needed for better performance of the job
- ✓ To reduce on supervision costs. This is because a trained employee accepts the responsibility and expect more freedom for less supervision
- ✓ To build the positive perception and feeling about the organisation. The employees get these things from leaders, subordinate and the peers
- ✓ To increase productivity of the employees that help the organisation further to achieve its long term goals
- ✓ To increase productivity of workers morale. Training improves needed skills which build up confidence and satisfaction of the employees
- ✓ To improve on the relationship between the business and its employees

### **The following are the importance of the training business employees**

- ✓ it creates a pool of readily available and adequate replacement for personnel who may leave or move up in the organization
- ✓ it helps to enhance the company's ability and use advances in technology because of a sufficiently knowledgeable staff
- ✓ it helps to build a more efficient, effective and highly motivated team, which enhances the company's competitive position and improves employees morale
- ✓ It enables employees develop a greater sense of self-worth dignity and well-being as they become more valuable to be firm in society
- ✓ It helps to optimize the utilization of human resources that further helps the employee to achieve the organizational goals as well as their individual goal
- ✓ It helps in providing an opportunity and broad structure for the development of human resource technical and behavioural skills in an organisation. It also helps the employee in attaining personal growth
- ✓ It develops the job knowledge and skills of employees at each level. It helps the employee in attaining personal growth
- ✓ It reduces employee turnover since workers will have necessary skills needed for better performance of the job
- ✓ It reduces on supervision costs. This is because a trained employee accepts the responsibility and expect more freedom for less supervision
- ✓ Builds the positive perception and feeling about the organisation. The employees get these things from leaders, subordinate and the peers

- ✓ Increases productivity of the employees that help the organisation further to achieve its long term goals
- ✓ Increases productivity of workers morale. Training improves needed skills which build up confidence and satisfaction of the employees
- ✓ Improves on the relationship between the business and its employees

#### **Reasons why most of the small business are reluctant to offer job training**

- ✓ Lack of interest and openness. Many managers prefer to keep information to themselves and thus hide information from subordinates
- ✓ Limited time this limits managers to train subordinates
- ✓ Failure to mind about the future benefits and concentrate on the present benefits like enjoying present benefits
- ✓ Broad expertise Managers tend to have broad expertise rather than specialized skills for training and development activities
- ✓ Limited funds to finance training requirements
- ✓ Getting started business owners expect workers to learn on job

#### **Procedure for training business employees**

- ✓ Identifying organizational objectives. The organisation reviews its objectives so that the training offered is geared towards attaining the set objectives
- ✓ Assessing the needs to discover the gap that requires training
- ✓ Setting training objectives. The training objectives are set to guide the training process for example developing a well-trained person, assisting employees towards achieving their high potential, motivating and stimulating employee participation
- ✓ Selecting the trainees. This involves deciding on who to be trained. This depends on employees ability to enable the success of the program
- ✓ Setting training goals. The training goals relate directly to the needs determined by the assessment. The goals help to transform on employee from the current performance level to where the firm wants him in future. Workers are motivated if mode part of the process of setting goals
- ✓ Selecting the training methods. The methods to use when training the workers are selected. This may be on the job which train employees on the job or off – the job training which is offered to workers in form of conferences, case studies, lectures etc
- ✓ Selecting competent trainers. People to conduct the training depend on the type of training and people receiving the training. On the job training is mostly conducted by supervisors and off the job training is commonly offered by outside instructors
- ✓ Administering the training. The training is then administered for the selected employees. While training, considerations are made on time, location, facilities, accessibility, comfort and equipment to use. The training steps are critically followed during the training
- ✓ Evaluating the training. This involves assessing the extent to which the desired changes are accomplished. The newly acquired skills are compared with the skills defined by goals of the training program. Timely evaluation prevents the training from straying from its goals.

#### **Factors that limit employees training / challenges of training employees**

- Limited time. Training needs time which most enterprises do not have
- Limited trust of employees
- Broad expertise of managers
- Limited trust of openness to employees
- Unpredictable future business needs

- Desire for high profits by business owners
- Limited commitment on the side of trainers
- Doubt about the value of training
- Fear of losing workers
- Difficulty in identifying training needs
- Limited skilled personnel

## TAXATION

Tax refers to a compulsory charge levied by the government or any other competent authority on persons (individuals, co-operation and other legal entities) in order to finance government activities.

Or

It is a legal compulsory transfer of funds from the public to the fiscal authority irrespective of the exact amount of benefits rendered to the tax payer by the government.

## BASIC TERMS USED IN TAXATION

1. **Tax base.** This refers to any item or economic activity that is subject to tax. This may include the following
  - ✓ Income earned from economic activities like trade and manufacturing
  - ✓ Consumption of goods which are subject to taxation
  - ✓ Income earned from employment
  - ✓ Property or assets like house, land and other investment
2. **Tax liability.** Refers to the total amount of money that a tax paying unit is expected to pay within a given period of time.
3. **Tax rate.** This is applied on a tax base to derive a tax liability which is the obligation the tax payer meets. The rate is represented as either a percentage or a fixed or s specific value based on units

For instance if the income tax payable by companies is 30% and the export duty for hides and skins is 0.25 dollars per kilogram

## Illustrations

(a) If A is the tax base and B is the rate, then the product of A and B is the tax liability ie  $A \times B = \text{Tax liability}$

(b) Assume a company had a taxable income of Uganda shs 200,000 and the tax rate is 30% its tax liability will be

$$200,000 \times \frac{30}{100} = \text{shs } 60,000$$

(c) Assume the company above export 150 kgs of hides and skins to Europe, its tax liability will be

$$150 \times 0.25 \text{ Dollars} = 37.5 \text{ Dollars}$$

N.B. if the tax base is to be paid in Ugandan currency, the ruling exchange rate will be applied, like if a Dollar is equivalent to 1960 shs, then the amount payable in Ugandan shillings would be shs 73,500

- 4. Tax compliance.** This is the degree to which the tax paying community meets the tax obligation as set up in appropriate legal and regulatory provisions.
- 5. Threshold of a tax.** Refers to the amount of money or level of income from which the tax liability begins.
- 6. Tax evasion.** This is the deliberate refusal of a tax paying unit to pay its tax obligations in order to reduce its tax liability.
- 7. Tax avoidance.** This is where a tax payer escapes paying tax or pay less by taking advantage of the Loopholes in the tax laws to reduce one's tax liability.
- 8. Value Added Tax.** Tax levied on consumption of goods and services and imposed on value added at every stage in the chain of distribution and production of goods and services
- 9. With Holding Tax.** These taxes are a form of income tax deducted at source by one entity upon making a payment to another entity
- 10. Excise duty.** This is imposed on the importation of specific goods with a view of influencing their supply or consumption in the local market, it is normally charged on socially undesirable and luxurious goods
- 11. Capitalization of a tax.** This is a situation where a tax paying unit usually a firm artificially increase the value of its capital employed so as to reduce its tax liability.
- 12. Tax holiday.** This refers to the period of non – tax payment given by the government to reduce consumers spending and encourage investment spending.
- 13. Average rate of tax.** This refers to the proportion of income that is paid out as tax.  

$$\text{Average rate of tax} = \frac{(\text{tax amount})}{\text{total income}} \times 100$$
- 14. Marginal rate of tax.** Refers to the proportion of additional income that is paid out.  

$$\text{Marginal rate of tax} = \frac{(\text{change in tax})}{\text{change in income}} \times 100$$
- 15. Tax rebate.** This refers to the tax reduction under special consideration
- 16. Tax yield.** This refers to the amount of tax revenue collected from a given number of taxes
- 17. Hidden tax.** This refers to the tax paid on purchase of goods and services and usually included in the prices of commodities being bought or taxed.
- 18. Tax haven.** This refers to a situation where a country deliberately offers low tax rates or relaxed / liberal tax so as to attract as much foreign investment and trade as possible.
- 19. Taxable income.** This refers to income subjected to taxation
- 20. Taxable capacity.** Refers to the ability of individuals to pay taxes imposed on them without affecting his / her standard of living.
- 21. Forward shifting of a tax.** This is when the money burden of the tax is shifted by the tax payer to another party who buys the output being taxed. For example a manufacturer may shift the burden to tax to the wholesaler who then shifts it to the retailer and the retailer then shifts it to the final consumer.
- 22. Back ward shifting of a tax.** This is when the official tax payer shifts the money burden of a tax to the person from whom he buys. For instance a producer using a given raw material may shift the money burden to the supplier of such a raw material.

## TYPES OF TAXES

There are two broad categories of taxes ie direct and indirect taxes

### **DIRECT TAXES**

These are taxes levied on the incomes and property of individuals and business entities, the burden of which is directly borne by the person paying it. Direct taxes include the following

- ✓ Income tax. This is the tax levied on profits or income earned by an individual or a business entity. It takes two forms ie personal income tax and corporation tax
  - (i) Personal income tax. Is a tax that is levied on the income of an individual and it's normally a progressive tax
  - (ii) Corporation tax is a tax levied on corporation or company premises and its normally proportional tax based on the net income of the company. The tax base for income tax include profits from business, rent and royalties (money paid for using one's patent right or assets like land) from selling assets and income from investments like shares, debentures and other securities and income from employment
- ✓ Wealth tax. It is a tax levied on the accumulated wealth and savings of an individual or business entity. It may be levied on shares, land and other investment
- ✓ Capital gain tax. This is tax levied on profits received from the sale of capital assets like sale of property, investment stock etc
- ✓ Estate duty. This is a duty levied on estates of deceased persons. It is levied before or after the property in the estate is shared out to the different beneficiaries as based on market value of the estate
- ✓ Gift tax. This is the tax on gifts or gratuitously acquired

### **MERITS OF DIRECT TAXES**

- ✓ Direct taxes help in reducing income inequalities. This is because they are progressive in nature where by the rich are taxed more than the poor e.g PAYE
- ✓ Direct taxes help in reducing inflation in the economy. This is because direct taxes reduce the people's disposal income and thereby reducing aggregate demand for goods and services
- ✓ Direct taxes satisfy the principle of equity; this is because they put into consideration the vertical and horizontal equity like progressive tax
- ✓ Direct taxes are certain, this means that tax payers are certain about the nature of the next pay, when to pay and how much to pay
- ✓ Direct taxes are economical; this is because the cost of collecting the taxes is generally known especially where taxes are deducted from the income or salary of an individual
- ✓ Direct taxes are flexible; this means that they change according to the prevailing conditions of the market thus satisfying the principle of elasticity

- ✓ Direct taxes are simple to understand and they encourage hard work. The tax payers are encouraged to work hard in order to pay taxes levied on them.

### **DEMERITS OF DIRECT TAXES**

- ✓ Direct taxes discourage savings and investments in the economy. This is because the income that would have been saved is taken away in form of taxes
- ✓ They make the government unpopular. These taxes greatly affects the people's disposable income to which leads to low purchasing power and standards of living of people
- ✓ Direct taxes are very easy to evade by the tax payers such taxes are less certain as compared to indirect taxes
- ✓ They are not compressive in nature since they are levied on small section of population. It is only those who earn income or own property that pays taxes leading to less government revenue
- ✓ Direct taxes are not convenient to the tax payers. This is because they are usually paid in lump sum and therefore the tax payer feels the burden more than the tax payer for indirect tax
- ✓ Direct taxes are less flexible; this is because they cannot be adjusted urgently to meet the prevailing conditions in the market or economy
- ✓ They are not economical. Direct taxes are in most cases collected by the tax authorities and this involve employing many people to collect taxes
- ✓ Direct taxes lead to capital outflow, this is comes as a result of rich people who tend to take out their capital to another countries where they are less paid
- ✓ Direct taxes discourage hard work since they are progressive in nature. The more one earns the more he or she is taxed
- ✓ Direct taxes affect the performance of the enterprises. This is more so in case of high corporation tax which takes away a bigger percentage of the profits of the company

### **INDIRECT TAXES**

These are taxes that are levied on goods and services paid by an individual or business entity and shifted to the final consumer. These taxes are voluntary in that sense you can only pay them if you opt to buy the goods or consume services which are levied. The common types of indirect tax include

- ✓ Customs duty. This is levied on goods that cross national boarder point either as imports into the country or exports leaving the country. The tax on imports is referred to as import duty while tax on exports is referred to as export duty.
- ✓ Excise duty. This is a duty levied on the production or importation of specific goods with a view to influence their consumption or supply in the market. The technology here is to levy tax on socially undesirable and luxurious
- ✓ Specific tax. This is a fixed monetary tax per physical unit of good imported for example shs 100,000 per tonne of maize flour.
- ✓ Octroi tax. This is a tax imposed on goods in transit through a given country.
- ✓ Sales tax. It is a tax levied as a percentage on goods or service sold.
- ✓ Value Added Tax (VAT). This is a tax levied on consumption of goods and services. It is levied on the value added at very stage in a chain of production or distribution of goods and services.

Or

It is abroad based indirect tax on consumption, charged on value added to "taxable" goods and services, at different stages on the chain of distribution ie the more you buy, the more you pay. It is charged on both local products and imports. It is not a cost to a producer or the distributor chain member and its full impact is borne by the end consumer. It was first introduced in the European Union in the 1970's

It was introduced in Uganda with effect from 1<sup>st</sup> July 1996. It replaced sales tax and commercial transaction levy (CTL)

The governing law is the VAT Act (Cap 349)

### **Main Features of VAT**

- ✓ Is abroad – based tax charged and collected at all stages in the chain of distribution. I.e. its multi stage
- ✓ Is an indirect form of tax i.e. the one paying is the one who incurs the tax burden
- ✓ It charged on expenditure (consumption) and not income
- ✓ Is charged on valued added
- ✓ It is ultimately borne by the final consumer
- ✓ Credit mechanism (VAT on inputs credited against taxes on output)

#### **Illustration 1**

Assuming that there are three levels in the chain of production as follows

(a) Stage 1. Importation of goods with a taxable value of 10,000 shillings

(b) Stage II. Sale of goods by the importer to a retailer at shs 15,000

(c) Stage III. Sale of goods to a final consumer by the retailer at shs 25,000

Calculate the total VAT payable

**Stage I.** VAT will be charged on importation price

VAT Rate = 18%

VAT Payable = VAT Rate X initial cost

$$18\% \times 10,000 = \text{shs } 1,800$$

#### **Stage II.**

VAT payable = Valued added X VAT rate

Valued added = 15,000 – 10,000 = 5,000

Vat payable =  $5,000 \times \frac{18}{100} = \text{shs } 900$

#### **Stage III**

VAT payable = Value Added X VAT Rate

Value added = 25,000 – 15,000

Vat payable =  $10,000 \times \frac{18}{100} = \text{shs } 1,800$

N.B total VAT payable from the 3 stages is 4,500 shillings

From the above, it is clear that though Vat is collected from the three stages, the one who bears the burden is the final consumer



## Illustration 2

The following VAT exclusive transactions were availed to you by VAT registered business in your town for the month of December 2016

- I. Rachael bought goods worth shs 80,000,000
- II. Rachael sold the same goods to Penrose for shs 90,000,000
- III. Penrose sold the same goods to Deborah a retailer for shs 100,000,000
- IV. Deborah sold the same goods to the final consumer for shs 120,000,000

Required

Using the VAT Rate of 18%

- I. Compute for the entrepreneurs the VAT chargeable for the value added at each stage
- II. Advise Deborah on the gross value for her goods to the final consumer

## Solution

### Stage 1

VAT Payable = initial cost X VAT Rate

$$80,000,000 \times \frac{18}{100} = 14,400,000 \text{ shillings}$$

### Stage 2

VAT Payable = Value Added X VAT Rate

Value added = (90,000,000 – 80,000,000) = 10,000,000 shillings

$$\text{VAT Payable} = 10,000,000 \times \frac{18}{100} = \text{shillings } 1,800,000$$

### Stage 3

VAT Payable = Value Added X VAT Rate

Value Added = (100,000,000 – 90,000,000) = 10,000,000 shillings

$$\text{VAT Payable} = 10,000,000 \times \frac{18}{100} = 1,800,000 \text{ shillings}$$

### Stage 4

VAT Payable = value Added X VAT Rate

Value Added = (120,000,000 – 100,000,000) = 20,000,000

$$\text{VAT Payable} = 20,000,000 \times \frac{18}{100} = 3,600,000 \text{ shillings}$$

(ii) Gross sales Value = selling price X VAT chargeable

$$\text{Shs } 120,000,000 + \frac{18}{100} \times 120,000,000$$

$$\text{Gross value} = 120,000,000 + 21,600,000 = \text{shs } 141,600,000$$

Deborah would be advised on the gross value as follows

- Deborah should include VAT chargeable in her selling price / determining her selling price
- Deborah should have sold her goods to the final consumer at shs 141,600,000 inclusive of VAT

## Trial question

The following VAT exclusive transactions were availed to you by VAT registered businesses in your town for the month of May 2015,

- (i) Masanso bought goods worth shs 60,000,000
- (ii) Masanso sold the same goods to Kibooko for shs 88,000,000
- (iii) Kibooko sold the same goods to Onzita a retailer for shs 96,000,000
- (iv) Onzita sold goods to the final consumer for shs 120,000,000

Required

Assuming the VAT rate is 18%

(a) Compute for the entrepreneur VAT chargeable for value added at each stage and advice Onzita on the gross sales value for his goods to the final consume

**Stage 1**

$$\begin{aligned}\text{VAT} &= \text{initial cost} \times \text{VAT rate} \\ \text{VAT} &= 60,000,000 \times \frac{18}{100} \\ \text{VAT} &= \text{shs } 10,800,000\end{aligned}$$

**Stage 2**

$$\begin{aligned}\text{VAT} &= \text{value added} \times \text{VAT rate} \\ \text{Valued added} &= 88,000,000 - 60,000,000 = 28,000,000 \\ \text{VAT} &= 28,000,000 \times \frac{18}{100} \\ \text{VAT} &= \text{shs } 5,040,000\end{aligned}$$

**Stage 3**

$$\begin{aligned}\text{VAT} &= \text{valued added} \times \text{VAT rate} \\ \text{Valued added} &= 96,000,000 - 88,000,000 = 8,000,000 \\ \text{VAT} &= 8,000,000 \times \frac{18}{100} \\ \text{VAT} &= \text{shs } 1,440,000\end{aligned}$$

**Stage 4**

$$\begin{aligned}\text{VAT} &= \text{value added} \times \text{VAT rate} \\ \text{Valued added} &= 120,000,000 - 96,000,000 = 24,000,000 \\ \text{VAT} &= 24,000,000 \times \frac{18}{100} \\ \text{VAT} &= \text{shs } 4,320,000\end{aligned}$$

$$\text{Total VAT} = 21,600,000$$

Onzita should sale his goods to the final consumer including the VAT of shs 21,600,000. Therefore he should sell his goods at shs 141,600,000 to final consumer

**MERITS OF INDIRECT TAXES**

- They are difficult to avoid and evade since they are contained in the prices of goods and services consumers buy
- They can be used to strengthen link with other countries or groups of countries through international trade. This is done by levying import duties discriminatively on products from other countries
- They help in income redistribution of selectively levied for example levying high taxes on products consumed by the rich and using the money to help the poor
- Indirect taxes are comprehensive and act as a more reliable source of government revenue
- Indirect taxes are elastic / flexible i.e the rate can be adjusted upwards downwards so as to achieve a particular government goal
- Indirect taxes are convenient to the tax payers since they are paid when a consumer spends on goods and services
- Indirect taxes can be used to check on consumption of harmful goods such as cigarettes
- They can be used to protect the infant industries from competition with well-established producers through increasing import duties on similar foreign products

- Indirect taxes can be used as a government tools in correcting the balance of payment deficit in an economy. This can be achieved through increasing of import duties
- Indirect taxes encourage hard working and initiative since they are not directly linked to earnings
- Indirect taxes are less felt and resented since they are usually paid as part of prices of products bought
- Indirect taxes are more economical in collection. They are collected by suppliers of goods / services and then passed onto the government

#### **DEMERITS OF INDIRECT TAXES**

- Indirect taxes are regressive in nature since the poor are more burdened than the rich for example taxes levied on consumable products will be paid by both the rich and the poor
- Indirect taxes are inflationary since they raise prices of commodities which in turn may cause increase in cost of product (cost push inflation)
- Indirect taxes may discourage production especially if imposed on products which have a very high elasticity of demand ie the high tax will greatly reduce demand as well as production and employment levels
- Indirect taxes may not be impartial especially when imposed on selected commodities which are only consumed by the few people for example taxes on cigarettes, liquor etc
- Some indirect taxes are difficult to understand for example VAT
- Certain indirect taxes such as import duties encourage smuggling of goods into the country
- Indirect taxes do not promote civic responsibility among the tax payers. This is because the tax payers are not aware that any time they pay for goods/services, they are paying the taxes.

**Non- tax revenue** is the revenue obtained by the government from sources other than tax.

#### **Non – tax sources of revenue include**

- Licenses
- Market dues
- Fine imposed on those who do not obey the law of the country
- Grants and gifts
- Sale of government property
- Profit from government undertakings like mines, national parks, forests etc
- Deficit financing. Deficit means an excess of public expenditure over public revenue. This excess may be met by borrowings from the market, borrowings from abroad, by the central bank creating currency.

#### **REASONS WHY GOVERNMENT IMPOSE / LEVIES TAXES**

- Taxes are imposed on imports so as to protect domestic / infant industries from competition by cheap and dumped products from outside countries
- It is a source of government revenue used to finance public activities like roads, Hospitals, schools etc
- Taxes are used to reduce income inequalities ie the rich are taxed highly while the poor are subsidized instead

- To recover the community wealth which individuals have obtained not as a result of their effort but as a result of efforts of other persons or the community. Death duty is charged for this purpose
- Taxes are imposed to check on the inflation rate by reducing the purchasing power of the people. This helps to stabilize the economy through stable prices in the economy.
- To restrict the consumption of certain products to a substantial amount like taxes on alcohol drinks, cigarettes etc
- To ensure higher employment levels, taxes are used by the government to create domestic industries hence creating employment opportunities for the citizens
- To control monopoly powers like lump sum and specific taxes, that are imposed on monopoly firms so as to reduce on their abnormal profits hence controlling their monopoly powers
- To improve the country's balance of payment position. The taxes may be imposed on imports to make goods expensive to the importing country thus saving foreign exchange that was formerly spent
- To encourage forced savings. Taxes may be imposed to firms or individuals to save for the future e.g NSSF contribution
- To reduce dependence of foreign aid. Taxes may be imposed by the government to reduce dependency on other economies
- To encourage the responsibility of citizens over public utilities or hard work. Taxes may be charged on individuals or firms in order to encourage hard work and in turn are provided with social services

#### **Benefits of paying taxes to business owners.**

- ✓ It enables the proprietor to run business activities without fear of being closed down by the government.
- ✓ It attracts government support and sympathy in times of need for example VAT refunds.
- ✓ it creates a good reputation / image of the business towards suppliers, customers, financiers etc
- ✓ Government uses tax revenue to provide free education and medical care which benefits the business.
- ✓ Government uses tax revenue to provide infrastructures ie roads used by the business owners.
- ✓ Government uses tax revenue to provide social security which benefits business for example creating police force and paying for its services.
- ✓ Government uses tax revenue to provide national security that protects the country from external enemies and terrorists which benefits business.
- ✓ Government uses tax revenue to pay its workers hence increasing their purchasing power to buy business goods and services.
- ✓ Taxes help to create a sense of social responsibility among business owners hence promoting hard work.
- ✓ Import duties paid by the business help to protect domestic market for local businesses.

## CHARACTERISTICS OF A GOOD TAX SYSTEM

- It should be comprehensive. This means that a good tax system should cover many economic activities of the economy as possible and should be of many types by this a lot of revenue would be collected
- It should pose a minimum burden on the tax payers otherwise tax payers will evade or resist it
- It should be simple to understand by both the tax payer and tax collectors. This enables them to follow the procedure of payment and tax administration
- It should be optimal i.e. maximum balance should be maintained between tax revenue, service rendered through public expenditure and the work efforts forth coming from tax payers in order to increase output
- It should be efficient i.e. not involved in high administrative costs in terms of efforts, time and financial resources
- It should consider the principle of double taxation ie a tax payer should never be taxed more than once on a tax base
- It should be neutral i.e. the tax system should have minimum distortion e.g. on consumption relative prices, production and investment
- It should be politically acceptable to tax payers so as to avoid conflicts between the government and the tax authority or the tax payer

## PRINCIPLES OF TAXATION

Taxation is aimed at ensuring that every tax payer contributes the fair share to a cost of government activities. Over the years, various principles have been developed as guidelines in tax administration. These are

**Simplicity:** The type of tax and the method of assessment as well as collection must be simple enough to be understood by both the tax payers and the tax collectors, complicated taxes lead to disputes, delays, avoidance and high costs of collection in terms of time and resources

**Equity or fairness:** This means that the tax should be levied fairly so that the distribution of tax burden is equitable. This can be applied in two different ways

- ✓ Horizontal equity. This is where persons who earn equal income or have the same wealth should pay the same tax
- ✓ Vertical equity ie where persons who are in different positions in terms of wealth or income levels should be treated differently ie persons who are better off than others bear proportionately heavier burden, the higher the salary earned, the higher the rate and tax paid. For instance if we had employee A and B.

	<b>Employee (A)</b>	<b>Employee (B)</b>
Salary	shs 10,000,000	shs 15,000,000
Tax rate	10%	20%
Tax payable	shs 1,000,000	shs 3,000,000

**Convenience:** convenience implies that tax should be levied at the time and the manner which is most convenient for the contributor to pay it. For instance, if the tax on agricultural land is collected in installments after the crop is harvested, it will be very convenient for agriculturalists to pay it. Similarly, property tax, house tax and income tax should be realized at the time when the tax payer is expected to receive it ( at the end of the month)

**Certainty:** A good tax system is one that ensures that all parties involved are clear of their rights and obligations. Tax should be certain in terms of time, place, manner of payment and the amount to be paid. Unclear tax systems discourage investments as they are perceived to be unfair, which reduce work effort and encourage corruption

**Economical / cheapness:** This principle aims at ensuring that the administrative cost of clearing taxes is kept as low as possible. Adam Smith suggested that costs involved in collecting taxes should not exceed 5% of the tax revenue. Likewise the cost of compliance to the tax payer should be as low as possible

**Ability to pay:** The tax payers should be able to pay the tax assessed on them without much difficulty, ie the payment of tax should not hinder the operation of the business entities or affect the standard of living of the individuals

**Elasticity:** The tax should change directly in the tax base. If the tax base increases, the tax yield should also increase. This helps the government to raise more revenue where necessary

**Flexibility:** A good tax system should be able to accommodate changes in the social economic environmental needs or the country needs. URA has always changed its tax system where a need is felt

**Productivity:** The tax should raise enough revenue to sustain its expenditure. The Tax should raise enough revenue to sustain its expenditure. The revenue collected Should be adequate to sustain the government. A tax which brings large revenue is Better than a number of taxes which bring small revenue

### **TAX COMPLIANCE.**

This is the degree to which the tax paying community meets the tax obligation as set up in appropriate legal and regulatory provisions.

### **TAX EVASION.**

This is the deliberate refusal of a tax paying unit to pay its tax obligations in order to reduce its tax liability.

#### **Forms / ways/ examples of tax evasion**

- ✓ smuggling ie failure to declare entry or exit of goods
- ✓ under declaration of income ie business income or personal income
- ✓ giving lower value of the goods / services imported or exported by the business
- ✓ refusal of the business to register for VAT
- ✓ overstating of business expenses so as to declare less profits
- ✓ Capitalization of tax so as to pay less on business profits
- ✓ Bribing tax collectors
- ✓ Hiding from tax collectors

**Causes / reasons for tax evasion**

- ✓ Progressive taxation where the tax rate increase with level of income.
- ✓ high taxes imposed by the government
- ✓ double taxation especially on companies and the share holders
- ✓ ignorance of the public about the importance of paying taxes to the country
- ✓ corrupt government characterized by misuse and embezzlement of tax funds
- ✓ Weak tax administration system characterized by loopholes in tax collection.
- ✓ Discontentment about provision of services by the government from taxes paid

**Steps to be taken by the business to minimize tax evasion / increase the level of tax compliance.**

- ✓ advocating for fair tax rates through business associations
- ✓ Obtaining tax education by attending workshops on taxes.
- ✓ Resisting corrupt tax officers to avoid bribe and pay little or zero tax.
- ✓ Filling monthly tax returns to the relevant tax authorities.
- ✓ Maintaining proper business records.
- ✓ Ensuring prompt payment of taxes to the tax authorities.

**Consequences of tax evasion to the business.**

- ✓ Temporally or permanent closure of the business hence loss of business income.
- ✓ Denial of government support or standing for election offices where tax compliance is considered a pre – requisite.
- ✓ Penalties for non – payment of taxes.
- ✓ Forceful payment of arrears from the business profits or entrepreneurs' income.
- ✓ Bad public image of the business especially when closed.
- ✓ Loss of smuggled goods that are confiscated by tax authorities.
- ✓ Imprisonment over non – paid tax obligation.

**TAX AVOIDANCE**

This is where a tax payer escapes paying tax or pay less by taking advantage of the Loopholes in the tax laws, it involves taking advantages of the loopholes in the law to reduce one's tax liability.

Though tax avoidance is legal, it is undesirable act that usually leads to non-compliance. Tax avoidance and tax evasion actions results into losses of tax revenue and thus undesirable to the authorities

**Smuggling**

Is an activity which involves the importation or exportation of goods by wrong or unlawful means with the objective of evading taxes. Smuggling is an illegal method of conducting business

Forms of smuggling

- Under declaration of goods
- Under valuation of goods
- Misclassification of goods
- Mis-declaration of country of origin
- Short landing transit / re-export of goods
- Falsification of goods
- Dumping
- Document counterfeiting
- Avoid customs entry points and concealment of dutiable goods

## **LEVELS OF TAX COMPLIANCE**

The level of tax compliance depends on the tax payer's attitude and knowledge, there are four levels

- ✓ Tax payers who are fully complainant and willing to fulfill their obligations voluntarily
- ✓ Tax payers who reluctantly feel obliged to be compliant ie those are the ones who know that non-compliant would be expensive and accordingly
- ✓ Tax payers who show slight resistance to compliance and this more often arises from lack of knowledge.
- ✓ Tax payers who are non-compliant and exhibit resistance to meeting their obligations. This category includes tax payers who take pride in falling to pay their tax.

## **FACTORS INFLUENCING TAX COMPLIANCE**

- ✓ The extent to which the tax is equitable. An inequitable tax system discourages tax compliance while equitable tax system encourages tax compliance.
- ✓ The extent to which tax laws and regulatory framework is simple and easy to understand. Complicated tax laws make compliance costs high while easy tax laws promote tax compliance.
- ✓ The level of consistency and fairness in application of tax laws and rules. Laws and rules that are applied consistently and fairly promote tax compliance while those which are inconsistent lead to non-compliance.
- ✓ The extent to which the tax burden is spread to all potential payers. Fairly distributed tax burden lead to tax compliance while un fair distribution of tax burden makes compliance difficult.
- ✓ The tax rate. Higher tax rate makes taxation costly and compel tax payers to avoid payment of tax while low tax rate will encourage tax compliance.
- ✓ The quality of management by the tax payers. Through record keeping, where managers are clear and ethical, it leads to compliance. On the other hand unethical behaviors of the managers limit tax compliance.
- ✓ Popularity of the government and quality of governance. Unpopular governance associated with corruption discourages tax compliance. On the other hand government's popularity and good governance encourage people to pay taxes.
- ✓ The quality of tax administration. High levels of professionalism, integrity and customer care exhibited by the tax collectors encourage high levels of tax compliance since tax payers will build trust in the tax authorities. On the other hand poor tax administration leads to non-compliance.

## **Factors limiting tax compliance in Uganda**

- ✓ Inconvenient tax system where the place, time and season in which tax dues are collected at times do not favour tax payers.
- ✓ An inequitable tax system discourages tax compliance as tax payers tend to feel that the distribution of tax burden is unfair.
- ✓ High taxes rates that make taxation costly and force tax payers to avoid payment of tax.
- ✓ Complicated tax laws and long administrative process make compliance costs high, lead to disputes, delays, avoidance hence leading to non – compliance.
- ✓ Unethical business management practices like capitalization of tax so as to pay less on business profits.



- ✓ double taxation especially on companies and the share holders
- ✓ ignorance of the public about the importance of paying taxes to the country
- ✓ corrupt government characterized by misuse and embezzlement of tax funds
- ✓ Weak tax administration system characterized by loopholes in tax collection.
- ✓ Poor methods of handling defaulters
- ✓ Poor service delivery by the government to justify tax payment
- ✓ Low levels of income among tax payers
- ✓ Political instabilities

**Measures that can be undertaken to encourage tax compliance in Uganda.**

- ✓ Providing tax payers and their authorized agents with clear and timely information about taxes.
- ✓ Ensuring that fair treatment is extended unconditionally to all tax payers.
- ✓ Responding efficiently to every tax payer's inquiry, complaint or request.
- ✓ explaining the grounds for every tax assessment and providing proper technical advice to the tax payers
- ✓ Assisting new tax payers to register for tax e.g. VAT registration.
- ✓ Educating the tax payers and the general community about their tax obligations and rights.
- ✓ Reducing corruption and embezzlement of tax revenue.
- ✓ Ensuring that taxes are simple to be understood by the tax collectors and tax payers.
- ✓ Sensitizing the masses on the role of taxation.
- ✓ Using trained personnel to assess and collect taxes.
- ✓ Imposing penalties to tax evaders for non-payment.
- ✓ Strengthening tax implementation laws.

**Penalties for non-tax compliance should include;**

- ✓ Forceful payment of all the tax arrears/ imposition of fines or penalty on tax defaulters.
- ✓ Temporally or permanent closure of the business that regularly evade taxes.
- ✓ Confusion of the goods being smuggled to evade taxes.
- ✓ Publishing of tax defaulters once identified.
- ✓ Denial of government support to non-compliant tax payers.
- ✓ Denial of public/government contracts and tenders once tax payer is blacklisted.
- ✓ Strict monitoring of the tax defaulters' business.
- ✓ Denial of any relevant tax refunds that ought to be paid by tax authority to a non-tax compliant tax payers.
- ✓ Imprisonment of tax defaulters after court ruling.
- ✓ Taking over a tax defaulters business
- ✓ Inclusion of tax defaulters in the shame list

**Procedures for tax compliance.**

- ✓ Registration of the tax payers with Uganda Revenue Authority.
- ✓ Obtaining the tax identification number (TIN)
- ✓ Preparation of tax records i.e income statement, tax returns
- ✓ Getting assessed for tax by the tax authorities.
- ✓ Submitting timely tax returns.
- ✓ Payment of taxes.

✓ Receiving feedback from the tax authority i.e by SMS, tax certificates

NB. The steps must be in chronological order.

Mark activities if programme is used.

### **TAXABLE CAPACITY**

**Taxable capacity** refers to the ability of an individual to pay the tax that is imposed on him/her and remain with enough money to enjoy the standard of living he/she is accustomed to.

The amount of tax burden which the citizens of a country are ready to bear is not rigidly fixed. It can increase with a change in the distribution of wealth, the size of population, method of taxation and other factors.

#### **Absolute and relative taxable capacity**

**Absolute taxable capacity.** Refers to the maximum tax paying capacity of the economy or country as a whole or a region, or an industry or a group of individuals

**Relative taxable capacity.** Refers to the comparison between the absolute taxable capacity of different taxpayers or industries or groups of tax payers

### **FACTORS INFLUENCING THE TAXABLE CAPACITY OF A COUNTRY**

**Types of taxes levied.** People are more willing to pay taxes imposed on goods from which they acquire direct benefit, the fairer the taxes the higher the taxable capacity.

Size of the taxable income, the greater determines the taxable capacity, the higher the taxable income, the higher the taxable capacity and the lower the taxable income, the lower the taxable capacity.

Income distribution in the country, taxable capacity is high where there is income inequality as the rich tax payers are heavily taxed while the poor have little income to be taxed

The level of voluntary compliance to tax laws, Taxable capacity becomes high where there is a high level of voluntary compliance and tax evasions and avoidance would be controlled

Efficiency of tax administrators, taxable capacity is high where the concerned authorities are efficiency in their duties e.g in educating tax payers, collection etc

The level of employment in a country, a person will only be in position to pay taxes when he is earning, taxable capacity will be high where people have enough employment opportunities where they can acquire income

The level of a tax base in the country, the higher the tax base the higher the taxable capacity and vice versa

Character of taxation. If taxes are devised wisely, then they give less resentment from people and bring forth a large yield.

## **Tax revenue performance in Uganda.**

Since an adequate volume of government revenue is essential for public expenditure and economic growths, the ratio of tax revenue to GDP had been used regularly to measure and judge the success of a country's fiscal management. Generally, the tax revenue to GDP ratio in developed countries has been high mainly above 30% and the less developed countries, low. The average sub-Saharan Africa ratio has been estimated at about 18-20%, while Uganda's has been stagnating at about 12-13% which is below the sub-Saharan average.

## **The reasons for the poor revenue performance in Uganda**

- A large informal sector where there is wide spread tax evasion
- Poor taxpaying culture that reduces tax compliance levels
- Low levels of income due to unemployment and underemployment with many people falling below the threshold and any further taxes on them would worsen their disposal incomes.
- Poor record keeping that poses a challenge in determining the correct taxes payable.
- High illiteracy rates that affect understandability of tax laws, record keeping and tax procedures.
- Limited applications of technology due to poor infrastructure like low coverage of reliable internet.
- Political interference and poor tax laws that do not enable expansion of the tax base.
- The poor state of social services that discourages people from paying taxes.
- Skills deficiencies of staff and lack of adequate training
- Corruption of both tax payers and tax officers that creates leakages.

## **Suggested solutions for improving revenue performance in Uganda**

- Exploiting information technology tools with automation of the tax collection system- e- tax, Asycuda World and others.
- Partnering with banks to ease tax collection exercise
- Tax education programs to increase awareness and tax compliance.
- Training tax officers and paying them well so as to minimize corruption.
- Widening the tax base by expanding the tax register by bringing in players in informal sector.
- Scrutinizing transactions of multinational corporations for instance through anti- avoidance measures like transfer pricing guidelines
- Tax administration reforms to increase efficiency.

For administration purposes, taxes are mainly categorized in two broad tax heads namely;

## **International taxes (customs and excise) This includes**

- Customs duty and excise duties on imports
- VAT on imports

- Withholding tax on imports
- Trade regulations

### **Domestic taxes. The deals with**

- Income tax
- Rental tax
- Withholding tax on supply of good and services
- VAT on local goods and services
- Local excise duty
- Gaming tax

### **FACTORS HINDERING TAX ADMINISTRATION**

- ✓ Slow decision making resulting from the bureaucratic tendency in the tax collection department
- ✓ Low morale partly due to low remuneration and declining professionalism and corruption among tax collectors
- ✓ Inadequate support to the tax administrators regarding infrastructure, logistics and other sources
- ✓ Poor standards of business management and record keeping among the business community
- ✓ High degree of tax evasion through smuggling, forgeries , under declaration and other forms of indiscipline
- ✓ Low levels of professionalism and acceptance of corruption as a normal way of conducting public affairs

### **OBLIGATION OF A TAX PAYER**

- File returns in prescribed format and on time
- Pay taxes on due date
- Keep proper records of accounting
- Display registration certificate in business premises
- Communicate changes in registration details e.g. name, address, nature of the business etc
- A tax payer is required to register voluntarily with URA
- Disclosure / declaration of information which ever URA needs to know

### **RIGHTS OF A TAX PAYER**

- Right to be attended to URA as regards to appeal and objections
- Right to prior notice by URA on any matter like inspection
- Right to claim for refunds by URA within the prescribed time limit
- Right to be attended to by URA in regard to processing returns, customs entries and other documents

**Individual income tax.** This tax is imposed on the chargeable income of an individual. Chargeable income is derived from gross income

Gross income: there are three sources of income under the Income Tax Act.

- i) Business income
- ii) Employment income
- iii) Property income

**Business income.** Is any income derived by a person from carrying on a business and also includes a gain on disposal of a business asset.

**Employment income is** income earned by an employee from any employment and includes wages, salary, leave pay, payment in lieu of leave, overtime pay, commission, gratuity, bonus or the amount of any travelling, entertainment, utilities, cost of living, housing, medical or other allowance and the value of benefits granted.

**Property income** includes any dividends, interests, annuity, natural resources payments, rents, royalties and any other payments derived by a person from the provision, use, or exploitation of property.

The sum of the income from all the three sources above is referred to as gross income. This excludes income that is exempt from tax.

## INCOME TAX

Is direct tax imposed on a person's income at specific rates for a given period of time. It is charged on every person who has chargeable income for each year of income.

Chargeable income of a person for a year of income is the gross income of the person for the year of income less total allowable deductions.

### Example 1: chargeable income

Chemong limited is a printing company operating in karamoja dealing in general printing. The company registered gross revenue of shs 150 million for the year ended 31<sup>st</sup> October 2015. Expenditure incurred in deriving that revenue amount to shs 90 million.

Required

Compute chargeable income

Solution	
Sales	150,000,000
Expenditure	90,000,000
<b>Chargeable income</b>	<b>60,000,000</b>

### Gross income (sec 17)

Gross income of a person for a year of income is the total amount of Business income, employment income and property income, other than exempt income.

### Example 2

IVAN is a resident individual. He earned the following income during the year ended 2015.

Property income shs 120,000,000

Employment income shs 80,000,000

Business income from his whole sale shop in Kawanda shs 250,000,000  
Required

Compute Ivan's gross income  
Solution

Property income	120,000,000
Employment income	80,000,000
Business income	250,000,000
<b>Gross income</b>	<b>450,000,000</b>

### Question 1

Ms Kirabo Susan a resident of Lungala earned income from different sources in the year 2008 as indicated below.

Business income shs 1,000,000, employment income shs 2,400,000, property income shs 500,000, In addition, he incurred expenses totaling to 1,200,000 shs to earn the income, shs 150,000 is exempted from tax. Determine Ms Kirabo's gross income and her chargeable income

#### Solution

(i) Gross Income = Total Income – Tax exempted income

But Total income = Business income + employment income + property income  
1,000,000 + 2,400,000 + 500,000

Gross income = 3,900,000 – 150,000 = **shs 3,750,000**

(ii) Chargeable income = Gross Income – Expense

3,750,000 - 1,200,000

Chargeable income = **shs 2,550,000**

### Question 2

Marvin earned income from different sources for the year 2013

**Business income shs 2,000,000**

**Employment income shs 4,800,000**

**Property income shs 100,000**

In addition, he incurred expenses and losses amounting to shs 2,400,000. A total of shs 300,000 out of the income is tax exempt

Required: determine Marvin's Gross Income and Chargeable income

(i) Gross Income = Total Income – Tax exempted income

But Total income = Business income + employment income + property income  
Shs 2,000,000 + shs 4,800,000 + shs 100,000

Total income = shs 6,900,000

Gross Income = shs 6,900,000 – shs 300,000

Gross income = **shs 6,600,000**

(ii) Chargeable income = Gross Income – Expense

Shs 6,600,000 – shs 2,400,000

Chargeable income = **shs 4,200,000**

## EMPLOYEES RELIEF / EXEMPT EMPLOYMENT INCOME

**This** refers to gains or income that is not included in chargeable income and therefore not taxable.

- Pension; pension is tax exempt
- Medical expenses or discharge
- Life insurance
- Meals and refreshment ( if provided in equal terms to all employees)
- NSSF contributions
- Services of security guards
- Allowances paid to a member of parliament except salary
- Terminal benefit for a worker who has provided services for a period of ten years
- Non cash benefit whose value is below 10,000

### ***Taxable benefits for a tax payer***

- Housing / accommodation allowance
- Transport allowance
- Medical allowance
- Holiday allowance / leave allowance
- Entertainment allowance
- Training allowance
- Bonus pay
- Interest benefit
- Motor vehicle benefit
- Loan benefit
- House keeper allowance
- Etc ( make more research)

### **Computation of chargeable income**

Employment income	Shs	Tax Treatment
Basic salary	xxx	Taxable
<b><i>Add other allowance</i></b>		
Bonus pay	xxx	Taxable
Loan benefit	xxx	Taxable
Transport allowance	xxx	Taxable
Medical allowance	xxx	Taxable
Chargeable employment income	xxx	

### **Individual TAX RATES**

Income is charged tax in relation to a defined year of income where a tax rate of an individual is based on a year , however, in the case of PAYE, the rate administratively reduced to monthly rates

### Chargeable (monthly) income

Chargeable monthly Income (shs)	Tax rate (shs)
0 – 235,000	Nil
235,001 – 335,000	10% of the amount by which chargeable income exceeds shs 235,000
335,001 – 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 the chargeable income of an individual exceeds shs 10,000,000 an additional 10% is charged on the amount by which chargeable income exceeds shs 10,000,000

### Chargeable (annual) income

Chargeable annual Income (shs)	Tax rate (shs)
Not exceeding shs 2,820,000	Nil
Exceeding shs 2,820,000 but not exceeding shs 4,020,000	10% of the amount by which chargeable income exceeds shs 2,820,000
Exceeding shs 4,020,000 but not exceeding shs 4,920,000	Shs 120,000 plus 20% of the amount by which chargeable income exceeds shs 4,020,000
Exceeding shs 4,920,000	(A) Shs 300,000 plus 30% of the amount by which chargeable income exceeds shs 4,920,000
	(B) where the chargeable income of an individual exceeds shs 120,000,000 an additional 10% is charged on the amount by which chargeable income exceeds shs 120,000,000

### Non- resident individuals

The rate for non- resident individuals does not include tax free allowance.

Chargeable annual Income (shs)	Tax rate (shs)
Not exceeding shs 4,020,000	10%
Exceeding shs 4,020,000 but not exceeding shs 4,920,000	Shs 402,000 plus 20% of the amounts greater than shs 4,020,000
Exceeding shs 4,920,000	(A) Shs 582,000 plus 30% of the amount by which chargeable income exceeds shs 4,920,000
	(B) where the chargeable income of an individual exceeds shs 120,000,000 an additional 10% is charged on the amount by which chargeable income exceeds shs 120,000,000



Chargeable monthly Income (shs)	Tax rate (shs)
Not exceeding shs 335,000	10%
Exceeding shs 335,000 but not exceeding shs 410,000	Shs 335,000 plus 20% of the amounts greater than shs 335,000
Exceeding shs 410,000	(A) Shs 48,500 plus 30% of the amount by which chargeable income exceeds shs 410,000
	(B) where the chargeable income of an individual exceeds shs 10,000,000 an additional 10% is charged on the amount by which chargeable income exceeds shs 10,000,000

It should be noted that non- resident employees are not entitled to the threshold ( shs 235,000); so at every amount under rates of tax, add shs 23,500 or ( 10% of 235,000)

### Question 1

Suppose **Ms Nkinzi Penrose's** monthly income is shs 350,000. How much does she pay as PAYE?

Tax payable = 10,000 + 20% of excess of shs 335,000

$$10,000 + \frac{20}{100} \times (350,000 - 335,000)$$

Tax payable = 10,000 + 0.2 X 15,000

Tax payable = 10,000 + 3,000

**Tax payable = shs 13,000**

### Question 2

Mr. Kimuli Fred is earning shs 2,000,000. How much does he pay as PAYE?

Tax payable = 25,000 +  $\frac{30}{100}$  X (2,000,000 – 410,000)

Tax payable = 25,000 + 477,000

**Tax payable = shs 502,000**

### Question 3

Ms. Mulungi Anna works with Mega Standards Super Market as an Accountant and earns a monthly salary of shs 16,000,000. How much does shs pay as PAYE.

(i) Tax payable = shs 25,000 + 30% Of shs 410,000 Plus 10% of excess of 10,000,000

Tax payable = shs 25,000 +  $\frac{30}{100}$  X (16,000,000 – 410,000)

Tax payable = shs 25,000 + 4,677,000

Tax payable = shs 4,702,000

(ii) 10% (16,000,000 – 10,000,000) = shs 600,000

Tax payable is 4,702,000 + 6 00,000

**Tax payable = shs 5,302,000**

#### Question 4

**Ms. Nakimuli Patricia**, a Ugandan working with BMK publishers LTD earns shs 350,000. Calculate her PAYE

Tax payable = 10,000 + 20% of (350,000 – 335,000)

Tax payable = shs 10,000 + 3,000

**Tax payable = shs 13,000**

#### Question 5

Acul Ocolo is employed as a security guard in Karacen (U) Ltd. He earns a monthly salary of Shs 225,000.

Required: Is Karacen (U) Ltd obliged to deduct PAYE tax from Acul Ocolo?

Solution

No, because Acul Ocolo's monthly salary is less than the threshold so his salary does not attract PAYE.

**Acul Ocolo is an employee of company Y. He earns the following monthly income: a salary of Shs 300,000; travelling allowance of Shs 50,000 and medical allowance of Shs 30,000, NSSF shs 30,000, life insurance premium for shs 80,000.**

Compute his monthly PAYE tax liability.

Solution

Employment Income:

Salary	300,000
Travelling allowance	50,000
Medical allowance	30,000
Total	380,000

Use rates in the third bracket, i.e.

##### Step 1

Shs 380,000 - 335,000.....45,000

##### Step 2

20% × 45,000.....9,000

##### Step 3

9,000 + 10,000 .....19,000

PAYE.....19,000

Note. NSSF and life insurance premium are not included since they are exempt. Therefore not important when computing chargeable income.

## **TAXATION OF PROPERTY INCOME**

### **RENTAL TAX**

Rental income is defined as income earned by a person from letting out property on commercial terms.

Rent means payment including a premium or like amount, made as consideration for use or occupation of, or the right to use or occupy, land or buildings/

### **Treatment of rental income tax of an individual and a company**

The difference in tax treatment of rental income earned by an individual and company as follows

- ✓ An individual enjoys a threshold of shs 2,820,000 whereas a company enjoy no threshold
- ✓ Rental income earned by individual is subjected to 20% tax rate whereas for a company it is subjected to 30% tax rate.
- ✓ An individual is granted 20% of gross rental income as allowable deductions whereas a company is entitled to deductions on actual basis, that is allowable expenses incurred.

### **Computation of rental tax**

#### **INDIVIDUALS**

In computing the rental tax for individuals, the following are considered.

- ✓ Add up all rent amounts earned by the individual during the year.
- ✓ Deduct 20% of the gross rent as allowable expenses
- ✓ Deduct threshold shs 2,820,000 to arrive at the chargeable rental income.
- ✓ Apply 20% on chargeable income to determine the rental tax payable.

#### **Example**

**Step 1:** determine the total annual gross rents from all sources of the individual  
say shs 10,000,000

**Step 2:** deduct 20% allowance for costs (expenses) that is  
 $20\% \times 10,000,000 = \text{shs } 2,000,000$   
Therefore balance =  $(10,000,000 - 2,000,000) = \text{shs } 8,000,000$

**Step 3:** deduct Threshold (2,820,000)  
 $8,000,000 - 2,820,000 = \text{shs } 5,180,000$

**Step 4:** determine rental tax at 20%  
 $20\% \times 5,180,000 = \text{shs } 1,036,000$

#### **Rental tax for companies**

**Step 1:** determine the total annual gross rents from all sources of the company. Say shs 120,000,000

**Step 2:** deduct all expenses incurred in the production of the rental income, say expenses = shs 65,000,000

Therefore

Chargeable rental income =  $120,000,000 - 65,000,000 = \text{shs } 55,000,000$

**Step 3:** determine rental tax at 30%  
 $= 30\% \times 55,000,000 = \text{shs } 16,500,000$

### Question 1

Ms. Nyaketcho Martin and Ms Logose Delilah own a building in Busega that belonged to their late brother Muganga Anthony; they earn 4,500,000 shs as rental income from this building. The tax rate for rental tax is 20% of the chargeable rental in excess of the threshold which is shs 2,820,000

Calculate their rental tax payable

Solution

Rental income		shs 4,500,000
Less provision for loss	$20\% \times 4,500,000$	= shs 900,000
<b>Chargeable income</b>	<b>= (4,500,000 – 900,000)</b>	<b>= shs 3,600,000</b>
<b>Less</b> threshold		shs 2,820,000
Chargeable income		Shs 780,000
Rental tax payable (20% X 780,000)		shs 156,000

### Question 2

Musoke earned shs 6,500,000 as rental income from his house located in Kampala. Compute his rental tax

Rental income		shs 6,500,000
Less provision for loss	$20\% \times 6,500,000$	= shs 1,300,000
[Chargeable income	$(6,500,000 - 1,300,000)$	shs 5,200,000
Less threshold		shs 2,820,000
Taxable rental income		Shs 2,380,000
Rental tax	$(20\% \times 2,380,000)$	shs 476,000

## VAT MECHANISM

### Output Tax

This is the VAT a taxable person charges upon making taxable supplies i.e. tax charged upon selling taxable goods and services.

### Input Tax

This is the VAT a taxable person is charged on taxable purchases and expenses incurred for business purposes. The purchases could be from local sources or imported.

This involves three items ie

- i) VAT on purchases and expenses which is called input Tax
- ii) VAT on sales which is called output Tax
- iii) VAT liability which is output Tax – input Tax
- iv) VAT refund which is input tax – output tax

NB. Where output Tax exceeds input Tax, the tax payer pays the difference as VAT to URA, but where the input tax exceeds the output tax, the tax payer claims the difference as VAT Refund from URA

### Question 1

Ms. Nabuuma Oliver is a reknown retailer in Kikubo; she mainly deals in trading sugar from Kakira Sugar Uganda Ltd. In the month of February 2016 she bought 100 bags at shs 5,000,000 and resold all of them at shs 7,500,000

Calculate her input tax, output tax and VAT liability

$$(i) \text{ Input tax} = \frac{18}{100} \times 5,000,000 = \text{shs } 900,000$$

$$(ii) \text{ Output tax} = \frac{18}{100} \times 7,500,000 = \text{shs } 1,350,000$$

$$(iii) \text{ Tax liability} = \text{Output Tax} - \text{Input Tax} \\ 1,350,000 - 900,000$$

**Tax liability = shs 450,000**

### Question 2

In January Mzee Ssenkubuge bought the same quantity of sugar, at the same price, but due to credit crunch, he only sold 50 bags at a total of shs 3,750,000. Calculate his estimated VAT refund payable as at January 2016

Solution

$$\text{Input Tax} = \frac{18}{100} \times 5,000,000 = \text{shs } 900,000$$

$$\text{Output Tax} = \frac{18}{100} \times 3,750,000 = \text{shs } 675,000$$

$$\text{VAT Refund} = \text{input Tax} - \text{Output Tax} \\ \text{Shs } 900,000 - \text{shs } 675,000$$

**VAT Refund = shs 225,000**

### Question 3

In the month of July 2004. John Maria had VAT exclusive transactions with VAT registered enterprises as follow

- |             |            |
|-------------|------------|
| i) Purchase | 28,000,000 |
| ii) Sales   | 3,400,000  |

Calculate his Vat paid to URA

$$(i) \text{ Input Tax} = \text{Taxable value on purchases} \times \text{VAT rate} \\ = 28,000,000 \times \frac{18}{100} \\ \text{Input tax} = \text{shs } 5,040,000$$

$$(ii) \text{ Output Tax} = \text{Taxable value on sales} \times \text{VAT rate} \\ = 3,400,000 \times \frac{18}{100}$$

$$\text{Output Tax} = \text{shs } 612,000$$

$$\text{VAT refund} = \text{input Tax} - \text{Output Tax} \\ 5,040,000 - 612,000$$

$$\text{VAT refund} = \text{shs } 4,428,000$$

### Circumstances under which VAT is refundable

- When input is greater than output tax. For instance if for a given period the input tax is shs 10,000,000 and the output tax is shs 4,000,000, then the difference of shs 6,000,000 would be refunded to the tax payer.
- When a taxpayer pays more than what was supposed to be paid, the excess is refunded. For example if one is supposed to pay shs 5,000,000 and it is discovered that the true tax was supposed to be shs 3,000,000, then the excess of shs 2,000,000 is refunded.

- When there is a proven bad debt. A bad debt for VAT refund considers the following
  - Should have been outstanding for a period of at-least two years
  - There should be proof that all necessary steps were taken to recover the money but no avail.
- When one loses the stock through fire, burglary and any other proven methods.

### **NOTE; WHEN THE VAT EXCLUSIVE**

Example

Allan a wholesaler trader in Nakasero market made his purchases and sales during the month of September 2009 and it is as follows

No.	Items	Purchases (VAT exclusive)	Sales (VAT exclusive)
1.	150 bags of sugar	7,500,000	9,000,000
2.	10 boxes of soap	500,000	6,000,000
3.	300 carton of cooking oil	40,000,000	50,000,000
4.	100 bags of salt	2,000,000	3,000,000
Total		54,500,000	68,000,000

Required

Calculate Allan's VAT liability

VAT liability = Output – Input Tax

Output Tax = Taxable Value on sale X VAT Rate

$$68,000,000 \times \frac{18}{100}$$

Output Tax = shs 12,240,000

Input Tax = Taxable value of purchases X VAT Rate

$$54,500,000 \times \frac{18}{100}$$

Input Tax = shs 9,810,000

VAT liability = Output Tax – Input Tax

$$= 12,240,000 - 9,810,000$$

VAT liability = shs 2,430,000

b) When VAT Inclusive given by the formula:

$$\frac{r}{r + 100}$$

Where **r** is the VAT rate.

### **Illustration**

If the rate of tax (r) = 18% then the tax fraction =  $\frac{18}{18+100} =$

$\frac{18}{118}$ . For example if the consideration (VAT inclusive) is Shs. 20,000, then VAT =  $20,000 \times \frac{18}{118} = \text{Shs. } 3,051$ .

Allan who deals in steel and hard ware his transaction during the month of August 2009

No	Items	Purchases (VAT inclusive)	Sales (VAT inclusive)
1	Ms plate	50,000,000	70,000,000
2	Iron bar	70,000,000	130,000,000
3	Angle bar	30,000,000	50,000,000
4	Hollow Section	80,000,000	150,000,000
Total		230,000,000	400,000,000

Calculate the Vat liability

$$\text{VAT inclusive} = \frac{\text{VAT RATE}}{\text{VAT}+100} \times \text{VAT inclusive value}$$

$$\text{Inputs} = \frac{18}{118} \times 230,000,000 = \text{shs } 35,084,746$$

$$\text{Output} = \frac{18}{118} \times 400,000,000 = \text{shs } 61,016,949$$

VAT liability = output – input

$$61,016,949 - 35,084,746$$

**Shs 25,932,203**

### Computation of VAT Payable or Refundable

**VAT = output tax – input tax**

Where output tax is greater than input tax, the taxpayer pays the difference. Where input tax is greater than the output tax, the taxpayer claims the difference.

### More examples

Use the information below to determine the tax rates for the following tax payers

Tax payer	Income	Tax rates	Tax (liability)
Bwesigye	1,000,000		150,000
Innocent	800,000		80,000
Bossa	600,000		48,000
Ddungu	400,000		20,000

$$\text{Tax rate} = \frac{\text{tax liability}}{\text{taxable income}} \times 100$$

$$\text{Bwesigye} = \frac{150,000}{1,000,000} \times 100 = 15\%$$

$$\text{Innocent} = \frac{80,000}{800,000} \times 100 = 10\%$$

$$\text{Bossa} = \frac{48,000}{600,000} \times 100 = 8\%$$

$$\text{Ddungu} = \frac{20,000}{400,000} \times 100 = 5\%$$

(b) Onzita earned the following incomes in shillings from the different sources for the year 2014.

Property income	800,000
Business income	3,000,000
Employment income	4,380,000
Expenses and losses for the year	3,000,000
Income that is exempt was	1,180,000

Annual chargeable income (shs)	Tax rate (shs)
Not exceeding shs 2,820,000	Zero
Exceeding shs 2,820,000 but not exceeding shs 4,020,000	10% of the amount by which chargeable income exceeds shs 2,820,000
Exceeding 4,020,000 but not exceeding shs 4,920,000	Shs 120,000 + 20% of the amount by which chargeable income exceeds shs 4,020,000
Exceeding shs 4,920,000	Shs 30,000 + 30% of the amount by which chargeable income exceeds shs 4,920,000

#### Calculate Onzita's

- i. Gross income  
 Gross income = income from all sources – Tax exempt  
 = (property income + Business Income + employment income)  
 = shs (800,000 + 3,000,000 + 4,380,000) – shs 1,180,000  
 = shs 8,180,000 – shs 1,180,000  
 = **Gross income** = shs 7,000,000
- ii. Chargeable income  
 Chargeable income = Gross income – total losses and expenses  
 = shs 7,000,000 – shs 3,000,000 = shs 4,000,000
- iii. Income tax he paid  
 Income Tax = 10% (4,000,000 – 2,820,000)  
 Income tax = 10% of 1,180,000  
 Income Tax = shs 118,000

#### NON TAX REVENUE

Non tax revenue in Uganda is collected by URA includes stamp duty and other government non- tax revenue

Stamp duty. This is a duty payable on all the instrument of the schedule of stamps executed or signed in Uganda. Such instruments include transfer of land, Mortgages and agreements.

Stamp duty chargeable on transfer of land is 1.5 % of the value of land. The value of land is determined by the chief valuer of government in the ministry of lands. Stamp duty on mortgages is 0.5% of the value while stamp duty on agreement, letter of credit, caveat etc is at a fixed rate of shs 10,000 ie it doesn't vary with the amount in the agreements and others.

#### Question 1

Ms Nabunya purchased land at plot 25 Masaka Road for shs 5,000,000. The land has been valued by the chief government valuer at shs 7,500,000. You are required to compute the stamp duty payable

Solution

Stamp duty payable = 1.5 % X 7,500,000

**Stamp duty payable = shs 112,500**

#### Question 2

Ms Nalwoga Rachael and Ms Batambuliza Doris have signed a mortgage with Stanbic Bank Ltd for shs 10,000,000 they borrowed, calculate their stamp duty



Solution

Stamp duty = 0.5% X 10,000,000

**Stamp duty = shs 50,000**

### **Import duty**

On entering Uganda, goods are declared on the entry which is issued by URA on a prescribed format.

The assessment process would involve the following

- a) Determination of the customs value. This is based on cost insurance and freight value (CIF)
- b) Determination of tax payable using the tax rates as designed in the customs tariffs contained in the Customs External Tariffs (CEF)
- c) Examination of the goods and if satisfied with the valuer and documentation, the goods are released

Imported goods normally pay the following

- i) Import duty
- ii) Excise duty
- iii) Value added tax
- iv) Withholding tax

Environmental levy ( CIF X rates) – a levy imposed on old vehicles being imported into the country which are more than 5 years old from the date of manufacture.

Item	Current
Motor vehicles (excluding goods vehicles) which are between 5 -10 years	35 % of the CIF value
Motor vehicles (excluding goods vehicles) which are 10 years or more	50% of the CIF value

### **Computation of customs duties and taxes**

In January 2005 Uganda a member of EAC, a regional economic body referred to as the customs union comprising of Uganda, Kenya, Tanzania and today Rwanda. The EAC agreed to establish a common external tariff (CEF) for all goods and services outside the region and this has three tax bonds ie 25%, 10% and 0%

#### **Question 1**

Mr. Lwanga Hamza imports goods from Dubai at a CIF value of 100 US dollars, attracting an import duty of 10% in order to derive the custom duty, its necessary to convert US Dollars into Ugandan shillings by applying the current exchange rate. Assuming the current exchange rate is 1 US Dollar = 2,250

(i) assuming the trader had to pay VAT 18%, an excise duty 60% and withholding tax 6%

Calculate the total amount payable

### Step 1

Convert CIF value in US \$ to Uganda shillings

Custom value = CIF X exchange rate

Custom value = 100 US \$ X 2,250

Custom value = shs 225,000

### Step 2

Deriving import duty

Duty rate = 10 % of custom value

Import duty =  $\frac{10}{100} \times 225,000$

Import duty = shs 22,500

### Step 3 Excise duty

Excise duty value = custom value + import duty

Excise duty value = 225,000 + 22,500

Excise duty value = shs 247,500

Excise duty = 60% of excise duty value

Excise duty =  $\frac{60}{100} \times 247,500$

Excise duty = shs 148,500

### Step 4 Value Added tax (VAT)

Vat rate = 18%

VAT value = custom value + import duty + excise duty

VAT value = 225,000 + 22,500 + 148,500

VAT value = shs 396,000

VAT =  $\frac{18}{100} \times 396,000$

VAT = shs 71,280

### Step 5 withholding tax

Withholding Tax = 6% of custom value

Withholding Tax =  $\frac{6}{100} \times 225,000$

Withholding Tax = shs 13,500

Total Tax payable = import duty + excise duty + VAT + withholding Tax

Total Tax payable = 22,500 + 148,500 + 71,280 + 13,500

Total Tax payable = shs 255,780

### Question 2

Mr. Tugume imported a car from South Africa at USD 1,200 (the car is 6 years old).

Freight charges to Mombasa were USD 800. Insurance to Mombasa was USD 200.

Compute the taxes and duties payable by the owner (use rate 1 USD = 3,650 shs). Where import duty is 25%, Vat is 18% and withholding tax is 6%, environmental levy is 35%

Solution

Determination

CIF to Mombasa

Cost (1,200 X 3,650) 4,380,000

Freight (800 X 3,650) 2,920,000

Insurance (200 X 3,650) 730,000

CIF	8,030,000
Taxes payable	
Import Duty (25% of CIF) = $25\% \times 8,030,000$	2,007,500
VAT (18%) $(8,030,000 + 2,007,500) \times 18\%$	1,806,750
Environmental levy (35% $\times 8,030,000$ )	2,810,500
WHT (6%) $(6\% \times 8,030,000)$	481,000
Total taxes	7,106,550

### Question 3

**Mr. Mukasa** imported a used motor van from Japan in the month of June 2013. The motor van (FOB) was a Land Cruiser model 2000 invoiced at USD 12,000 free on Board (FOB) Tokyo, Japan. Shipment costs from Japan to Mombasa were USD 1,000 and insurance of USD 500 on board Mombasa.

#### **The additional information relating to the transaction includes**

- The ruling exchange rate as per Uganda Revenue Authority of 1 USD = shs 2,540.
- Import duty fee rate at 25%
- Environmental levy at 20% for used vehicles older than 8 years from the date of manufacture.
- VAT is 18%
- WHT is 6%
- Vehicle registration fees of shs 1,018,000

#### **Compute the necessary taxes payable at registration**

##### **Computation of CIF**

Cost	Ugandan shillings
FOB $(1,200 \times 2,540)$	30,480,000
Shipment $(1,000 \times 2,540)$	2,540,000
Insurance $(500 \times 2,540)$	1,270,000
<b>CIF or customs value</b>	<b>34,290,000</b>

##### **Computation of taxes due**

Description	Amount for tax	Rate	Tax
CIF	34,290,000		
Import duty $(34,290,000 \times 25\%)$	34,290,000	25%	8,572,500
VAT $(34,290,000 + 8,572,500) \times 18\%$	42,862,500	18%	7,715,250
Withholding tax	34,290,000	6%	2,057,400
Environmental levy	34,290,000	20%	6,858,000
Vehicle registration fees			1,018,000
<b>Total tax and charges for registration</b>			<b>26,284,150</b>

### Question 4

Kyagulanyi and Sons Ltd deals in the importation, resale and sometimes export of sugar. During the month of December 2011, the company imported 1,000 bags of sugar from UAE of 50kgs per bag. The cost of the sugar was USD 35,714. The cost of transporting sugar from UAE to Mombasa was USD 4,000 and insurance costs of USD 400 from Dubai to Mombasa, Kenya and USD 200 from Mombasa to Kampala. The import rates of sugar were as follows:

- Import duty – 75%
- Excise duty shs 25 per kg
- VAT – 18%
- Withholding tax – 6%. The company is exempted from WHT 6% on imports

- URA imports exchange rate for December 2011 was 1USD = 2,800 Uganda shillings

Tax is computed based on cost, insurance and freight (CIF) value. The freight value considered is up to Mombasa.

#### Required:

- Using the above information, compute the tax payable by Kyagulanyi and sons ltd to URA customs
- Uganda is a member of the East African community customs Union and common market. Currently, goods produced within any member state enjoy 0% import duty rate on importation. Suppose the sugar is imported by Kyagulanyi and sons limited was manufactured in Kenya, compute the tax that would be paid by Kyagulanyi and sons ltd on importation

#### Solution

Description	USD	shs
Cost (35,714 X 2,800)	35,714	99,999,200
Insurance (400 X 2,800)	400	1,120,000
Freight (4,000 X 2,800)	4,000	11, 200,000
CIF value	40,114	112,319,200

#### Computation of taxes due

Import duty (75% X 112,319,200)		84,239,400
Excise duty ( shs 25 X 50kg X 1,000)		1,250,000
VAT value ( CIF + ID + ED)	197,808,600	
VAT (18%)		35,605,548
<b>Total taxes paid</b>		<b>121,094,948</b>

b)

description	USD	shs
cost	35,714	99,999,200
insurance	200	560,000
freight	-	-
CIF value	35,914	100,559,200

#### Computation of taxes due

Import duty	-	-
Excise duty		1,250,000
VAT		18,325,656
<b>Total taxes</b>		<b>19,575,656</b>

#### Tax Computation/ Tax Rates

Local excise duty rates may be ad valorem or specific:

An ad valorem rate is a fixed percentage of the value of the goods that is the ex-factory price e.g. 10% of value X A specific rate is a value of a specific amount of money that does not vary with the price of the good but with its weight, volume, surface, etc. The specific rate stipulates how many units of currency are to be levied per unit of quantity (e.g. sugar is charged at a specific rate of Shs 50 per kg).

#### On Goods: (using ad valorem rate)

Excise duty is payable on the ex-factory price of the manufactured goods. If the Ex-factory price of water (price at delivery) is Shs 1,000 per litre, therefore excise duty will be 10% of the Shs 1000 per litre.

i.e. Ex-factory price = Shs 1,000

*Excise duty at a given rate (10%) = 1,000 × 10%,  
= Shs 100.*

Total price before VAT will be Ex-factory price plus excise duty.

**OR Total price before VAT = Ex-factory price + Excise duty**

*= 1,000 + 100*

*= Shs 1,100*

*VAT thereof at a given rate of (18%) = 1,100 × 18%*

*= Shs 198*

*Selling price = Shs 1298*

### **On Goods (using specific rate)**

If the total amount of sugar delivered out of the factory is 120,000 kg for a given period, then excise duty on the sugar will be Shs 50 for every kg delivered.

*i.e. Number of kg delivered = 120,000 kg*

*Excise duty on the delivery = 120,000 × Shs 50*

*= Shs 6,000,000*

### **On services**

Excise duty on services (airtime usage) is payable on the usage charged by the telephone services providers. **Sec. 2 of the Excise Tariff Act.** Section 5 of the Excise Tariff Act states that the excise duty shall be charged together with Value Added Tax. Therefore if the value of Airtime cards is Shs 1,539.

Then excise duty will be 12% of the Shs 1,539 and VAT will be 18% of the Shs 1,539.

*Therefore cost of airtime card Shs 1,539*

*Excise duty 12% = 1,539 × 12%*

*= Shs 184*

*VAT at 18% = 1,539 × 18%*

*= Shs 277*

*Total taxes = 277 + 184*

*30% = 461*

*Selling price of airtime card = 461 + 1539*

*= Shs 2,000*

### **Sample Questions**

- 1 a) Explain the principles of a good tax system  
b) Why are taxes imposed on firms and individuals in Uganda?
  - 2 a) Distinguish between direct and indirect taxes  
b) Explain the challenges facing taxation in Uganda
  - 3 a) Explain characteristics of a good tax system  
b) Give merits and demerits of direct taxes
  - 4 a) Distinguish between tax compliance and tax incidence  
b) Discuss the advantages and disadvantages of tax compliance
  - 5 a) Describe the factors that affect tax compliance in Uganda  
b) What measures that can be undertaken to encourage the citizens of a country to pay tax
  - 6 a) Distinguish between impact of a tax and tax burden  
b) Discuss possible solutions to the problems of taxation in Uganda
- c) Lucy has a flat in Kampala city, where she earns shs 72,000,000 as a rental income a year. Given that the rental tax rate is 20% provision for 20% and threshold is shs 2,820,000. Calculate (i) Lucy's rental tax (ii) Net rental income

d) kiyenge ltd is a retailer dealing in domestic appliances. In June 2014 he purchased appliances worth shs 7,500,000 exclusive of VAT. The company sold the same at shs 11,000,000 also exclusive of VAT.

**Required**

- a) Determine the value Added
- b) Determine the VAT payable or claimable.

e) Basajjakambwe enterprises purchased stationary worth shs 600,000 and incurred rent of shs 2,600,000 in May 2010. He made sales of shs 790,000 in the same month. All figures were VAT inclusive.

**Required**

Determine VAT payable / claimable.

**Question**

Muwonge a cotton ginner sold 10 bales of cotton to Nyanza textile at shs 10,000,000. Nyanza textiles produced bed sheets out of the cotton and sold them to Merowoma ltd (a wholesaler) at shs 17,500,000. Merowoma ltd sold to Meme Joy (a retailer) at shs 22,500,000. Meme Joy sold all the bed sheets to various customers and the total sales were shs 30,000,000.

N.B: all figures are VAT exclusive and the VAT rate applicable is 18%.

**Required.**

- a) Determine the total VAT payable through the process / trial.
- b) Compare your answer with the VAT Meme joy (the retailer) collects from her customers.

**Question**

KAMWESIGYE is a trader in Ntinda. His business is VAT registered. The following transactions appeared in her books for the Months of January 2016.

No.	PRODUCTS	PURCHASES (Shs )VAT Exclusive	SALES (Shs) VAT
1	Apples	4,000,000	9,000,000
2	Pineapples	4,500,000	6,500,000
3	Pawpaw	9,000,000	14,000,000
4	Mangoes	8,000,000	12,000,000
5	Oranges	12,000,000	18,000,000
		<b>37,500,000</b>	<b>59,500,000</b>

- a) Use 18% as VAT rate. Calculate
  - i. VAT paid by KAMWESIGYE on each type of product.
  - ii. Compute VAT paid to URA.

- b) NAMUSOKE is an employee of an NGO and she earns Shs 8,000,000 per year. The company uses monthly pay tax rates below to calculate PAYE deductions.

<b>MONTHLY CHARGEABLE INCOME (Shs)</b>	<b>RATE OF TAX</b>
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 – 10,000,000	i. Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000 ii. Above Shs 10,000,000, charge additional 10%

Calculate NAMUSOKE's monthly PAYE deductions.

- c) BUKIRWA owns a house in Kamwokya town where she earns rental income of Shs 28,000,000 a year.
- Use 20% as provision for expenses and losses of the total rental income
  - Use Shs 1,560,000 as Tax Threshold
  - Use 20% as rental income tax rate.
- Calculate.
- i. Chargeable rental income.
  - ii. Rental income tax.
  - iii. Net rental income.
- d) State two reasons for non- tax compliance in Uganda today.

### **Other Trial numbers**

1. Assuming Adyebo imports soda from South Africa at a CIF value US \$ 1,000 attracting 25% import duty, 60% excise duty, VAT of 18% and withholding tax 6%. The current exchange rate is Ug. Shs 1747.64. compute the ;
  - i) import duty
  - ii) excise duty
  - iii) Value Added Tax
  - iv) withholding Tax
  - v) Total tax payable
2. Ms. Kato a trader in Kikubo – Kampala imports Polythene bags from China. The CIF value for the goods is US \$ 5,000. Polythene bags attracting an import duty of 25%, Excise duty 50%, VAT 18% and withholding Tax 6%.  
Required  
What would be taxes payable for the polythene bags given that the exchange rate at the time of importation is Ug. Shs 1765 to 1 US Dollar?
3. Malcolm industries are manufacturers of drinking Straws. They import an item called high density polythene as their raw material. The CIF value for raw material

is US \$ 20,000. High density polythene is 0% import duty, 18% VAT and exempted from withholding tax. The exchange rate is shs 1765 to 1 US Dollar.

Required

What are taxes on the raw materials?

4. (a) Distinguish between impact of a tax and tax burden
- b) Discuss possible solutions to the problems of taxation in Uganda
- c) Lucy has a flat in Kampala city, where she earns shs 72,000,000 as a rental income a year. Given that the rental tax rate is 20% provision for 20% and threshold is shs 1,560,000. Calculate (i) Lucy's rental tax (ii) Net rental income
5. You are an entrepreneur employing five workers who are entitled to allowances. List four examples of taxable employment allowances for your employees
- b) In the month of July 2014, Joseph Mali had VAT exclusive transactions with VAT registered enterprises as follows:

Purchases	shs 1,800,000
Sales	shs 2,400,000

Calculate:

- i) VAT paid to Uganda Revenue Authority by Joseph Mali (use 18% as VAT rate)
- ii) Total purchase price (VAT inclusive) paid by Joseph Mali
- C) Sem, an employee earns a gross salary of shs 3,600,000 per year. The employer uses the monthly PAYE tax rate below to calculate PAYE deductions

	<b>Chargeable monthly Income</b>	<b>Tax rate</b>
1	Not exceeding shs 235,000	Nil
2	Exceeding shs 235,000 but not exceeding shs 410,000	10% of the amount by which chargeable income exceeds shs 235,000
3	Exceeding shs 335,000 but not exceeding shs 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000
4	Exceeding shs 410,000	Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000

Required:

Calculate the annual amount of PAYE deductions for Sem

- a) Explain three negative effects of taxation on the business
6. There is a concern about tax evasion among entrepreneurs in your district. As a tax compliant entrepreneur, the district trade officer has requested you to address entrepreneurs
  - i) Give the meaning of tax evasion
  - ii) Mention three examples of tax evasion practiced by entrepreneurs in your country
- b) The following VAT exclusive transactions were availed to you by VAT registered businesses in your community for the month of July 2014
  - ✓ Musa bought goods worth shs 40,000,000
  - ✓ Musa sold the same goods to Suba shs 58,000,000
  - ✓ Suba sold the same goods to Mweso the retailer for shs 70,000,000
  - ✓ Mweso sold the goods to the final consumer for shs 84,000,000



Required:

Using the VAT rate of 18%

- (i) Compute for the entrepreneurs the VAT chargeable for the value added at each stage
  - (ii) Advise Mweso on the gross sales value for his goods to the consumer
7. (a) Differentiate between Direct tax and Indirect Tax
- (b) Give two examples of each in 7 (a) above
- (c) State two advantages of Value Added Tax (VAT)
- (d) Jose is a Ugandan citizenship employed in Uganda. He earns shs 800,000 as gross pay per month.

**Required**

Use the income tax details below to calculate the Pay As You Earn (PAYE) chargeable to Jose per month

Chargeable monthly Income	Tax rate
Not exceeding shs 235,000	Nil
Exceeding shs 235,000 but not exceeding shs 410,000	10% of the amount by which chargeable income exceeds shs 235,000
Exceeding shs 335,000 but not exceeding shs 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000
Exceeding shs 410,000	Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000

(d) In the month of May 2016, Charles Odoi bought goods for shs 6,400,000 (VAT Exclusive). He sold these goods for shs 10,800,000 (VAT Exclusive). These transactions were carried out with VAT registered business.

**Required; Using 18% as VAT rate, calculate VAT;**

- i) paid by Charles Odoi on purchase
- ii) received by Charles Odoi on sales
- iii) paid by Charles Odoi to Uganda revenue Authority

**Question**

Several traders in your community have been complaining about URA and its taxes. URA has organized a tax education workshop and has invited you as an expert in taxation to speak to them.

- (a) (i) Develop a root cause analysis to solve the rampant tax evasion in the community.
  - (iii) Explain to the traders the consequences of tax evasion.
- (b) Explain to the traders the difference between
- (i) VAT inclusive and VAT exclusive transactions
  - (ii) VAT refund and VAT liability
- (c) Kikaawa an importer of motor vehicles , imported a tractor from Japan at a CIF value of 3,000 US dollars, attracting an import duty of 25% , excise duty is 40%, VAT is 18% and withholding Tax is 6%
- Calculate;
- (i) Customs value
  - (ii) Excise duty
  - (iii) Value Added tax (VAT payable)
  - (iv) Total amount of tax payable by Kikaawa
- Note: the exchange rate is shs 3,500 per US dollar
- (1 US dollar = 3,500 shillings)**

## **COPING WITH COMPETITION**

Competition is the battle between businesses to win customer acceptance and loyalty. Competition is all about value ie creating it, capturing it and retaining it. To be successful today, your company must be competitor oriented.

### **TYPES/FORMS OF COMPETITION IN BUSINESS**

There are basically four types/forms of competition ie perfect competition, monopolistic competition, oligopoly and monopoly

Perfect /pure competition. This is the market where there are many sellers and many buyers dealing in similar / uniform products. There is no government intervention.

Examples of firms facing perfect competition include

- ✓ Small bars and restaurants
- ✓ Variety stores, convenience stores
- ✓ Nail salons, barbers
- ✓ Small grocery stores
- ✓ Doughnut shops
- ✓ Professional services (dentist, doctor, lawyers, accountants, architects)

Features/characteristics or conditions of perfect competition

- ✓ Large number of firms. The basic condition of perfect competition is that there are large numbers of firms in an industry.
- ✓ Large number of buyers. In a perfect competitive market, there are very large numbers of buyers of the product.
- ✓ The product is homogeneous. The good produced by all the firms in the industry is identical (similar).
- ✓ No barriers to entry. The firms in a competitive market have complete freedom of entering into the market or leaving the industry as and which they desire.
- ✓ Complete information. The consumers and producers possess information about the prevailing price of the product in the market.
- ✓ Profit maximization. For perfect competition to exist, the sole objective of the firm must be get maximum profit
- ✓ No advertising is required to attract more customers since the products look alike
- ✓ There is perfect mobility of factors of production, factors of production can freely move from one place to another without any barrier

**Monopolistic/ imperfect competition.** This is the market where there are many sellers or producers of differentiated products. A variation may be a difference in quality, durability, price or utility.

Examples of firms facing imperfect competition include

- ✓ Restaurant industry where services differ in quality, quantity, price and cleanliness

- ✓ Google, there used to “pure competition” until Google grew very big and become dominant

### **Features of monopolistic competition**

The following are the features or characteristics of monopolistic competition

- ✓ Large number of sellers. There are large numbers of sellers producing differentiated products. So competition among them is very keen.
- ✓ Product differentiation. Every producer tries to keep his product dissimilar than his rival's product in order to maintain his separate identity.
- ✓ Freedom of entry and exit. This feature leads to stiff competition in market. Free entry into the market enables new firms to come with close substitutes.
- ✓ Existence of selling cost. Due to product differentiation, very firm has to incur some additional expenditure in the form of selling cost. This cost includes sales promotion expenses, advertisement expenses ,salaries of marketing staff etc
- ✓ Absence of interdependence. Large numbers of firms are different in their size. Each firm has its own production and marketing policy. So no firm is influenced by other firm. All are independent
- ✓ Two dimensional competitions. Monopolistic competition has two types of competition aspects ie price competition where firms compete with each other on the basis price and non-price competition where firms compete on basis of brand, product quality advertisement.
- ✓ Concept of group. A group means a number of firms producing differentiated products which are closely related.

Oligopoly. This is the market where there are few put large firms dealing in similar or differentiated products. It where a limited number of companies compete for consumer purchases, the quality of the product from one business to another may be differentiated or the products may be identical.

Examples of firms facing oligopoly competition include

- ✓ Banking industry
- ✓ Automotive manufacturers
- ✓ Petroleum retail companies
- ✓ Insurance companies
- ✓ Telecommunications companies

### **Characteristics of oligopoly**

- ✓ Interdependence. The firms under oligopoly are interdependent in making decision. They are interdependent because the number of competition is few and any change in price and product, etc any firm will have a direct influence on the fortune of its rivals, which in turn retaliate by changing their price and output.
- ✓ Existence of advertising and selling cost. The firms under oligopolistic market employ aggressive and defensive weapons to gain a greater share in the market and to maximize sales in view of these firms have to incur a great deal on

advertisement and other measures of sale promotion. Thus advertising and selling cost play a great role in the oligopolistic market structure.

- ✓ Group behaviour. The profit maximization behaviour on his part may not be valid. The firms under oligopoly are interdependent as they are in a group
- ✓ Element of monopoly. Under oligopoly with product differentiation each firm controls a large part of the market by producing differentiated product.
- ✓ Price rigidity. Under oligopoly there is the existence price rigidity; prices tend to be rigid and sticky. If any firm makes a price cut it is immediately retaliated by the rival firms by the same practice of price cut.

**Monopoly.** This is where there is only one seller dealing in one product with no close substitutes facing many buyers.

A monopoly firm may be owned by a person, a few numbers of partners or joint stock companies

Examples of firms facing monopoly competition include

- ✓ Hydro services
- ✓ Software companies like Microsoft
- ✓ Post office services

### **Features of monopoly**

- ✓ One seller and large number of buyers. Monopoly is a form of imperfect market structure where there is only one seller of a product. Under monopoly there are large numbers of buyers although the seller is one. No buyer's reaction can influence the price
- ✓ No close substitute. Under monopoly a single producer produces single commodities which have no close substitutes.
- ✓ Strong barriers to the entry into the industry exist. In a monopoly market there is strong barrier on the entry of new firms.
- ✓ Downward sloping demand curve. In case of monopoly one firm constitutes the whole industry. The entire demand of the consumers for a product goes to the monopolist. Since the demand curve of the individual consumer slopes downwards, the monopolist faces a downward sloping demand curve

### **Ways of competition in business**

There are many things one can do to win the competition. These include, pricing, packaging, quality, added convenience and attitude towards customers

- Attractive /unique product pricing. This involves offering similar products for a cheaper price hence giving one stands a better chance of winning the customer's loyalty.
- Using attractive packaging. This includes neatness and colour of the products, wrappers or containers and neatness in packaging.
- Improving quality of goods and services. The better the quality, the more the products would be suitable for the use which it is intended. By improving the

quality of products, it is possible for the enterprise concerned to attract a larger share of the market.

- Offering convenience services. This includes staying open late or during lunch when other businesses are closed. One could also think about offering to the customer something for nothing. This sounds crazy but people love free things. For instance some commercial banks close at 6:00 pm and even work for long hours on weekends
- Treating customers with respect. People generally choose to go where they are treated with dignity. Never argue with a customer
- Using attractive branding of giving business products unique and differentiated names to distinguish them from the competing products. For instance, branding makes close up to be differentiated from Delident although they are all tooth pastes.
- Blending / favouring ie combining varieties or grades to obtain a mixture of a particular character, quality or consistency e.g blending tea leaves, tobacco etc
- Using unique distribution channel that makes the product conveniently more available by a firm than its competitors.

### **Factors considered in analysis competition**

#### **Following are some of things that should be considered**

- ✓ **Description of competitors.** This involves identifying and characterizing those businesses which will be competing with you
- ✓ **Size of competition.** Large number of competitors implies stiff competition as compared to small number of competitors.
- ✓ **Profitability of competitors.** High profits by competitors imply high level of competition while their low profits imply low competition.
- ✓ **Operating methods.** Improved forms of selling like advertising and promotions indicate higher competition than poor methods of selling.
- ✓ **Price charged on similar products.** Very low prices of similar products implies stiff competition as compared to high prices of similar products.
- ✓ **Quality of substitute products.** Good quality of substitute products implies high competition while low quality of substitute products implies low competition.
- ✓ **Hours of business operation.** Long hours of operation in business implies high competition while short hours of operation in business implies low competition.
- ✓ **Quality of customer care.** Good customer care implies high competition in the business while poor customer care implies low competition.
- ✓ **Product added advantage e.g** packaging. Where competitors offer more added services it shows more competition than offering limited services.
- ✓ **Nature of after sales services offered e.g** free loading and off- loading, free repairs etc show higher competition than where these services are not provided.
- ✓ **Methods of product selling and distribution.** Improved methods of selling mean higher competition compared to ordinary methods of selling.
- ✓ **Nature of labour force or personnel used e.g** use of skilled personnel signal high competition and unskilled personnel signal low competition.

## Factors affecting competition

### FACTORS AFFECTING /ENHANCING COMPETITION

- **Mobility and accessibility overlap.** A business that is near to the customers has a better or competitive advantage over rival firms or businesses that are far or are not easily accessed
- **Product overlap.** Product overlap is the selling of products by different kinds of businesses that are similar or identical to each other. A business that provides a variety of similar product has a competitive advantage over a rival business that sells only one type of product.
- **Product priority.** A business that influences customers to spend on its products first has a competitive advantage over the rival firms or businesses that do not adequately influence customers to give their products priority.
- **Level of substitution.** A business that conveniently competes with the rival firms and has the capacity to attract a bigger percentage of the public /customers has better competitive advantage over rival businesses that cannot easily compete for the market share.

Terms to note.

1. Competitive cost advantage. It refers to ability of a firm or business to provide the same service to the customer at a lower cost than its competitor.
2. Competitive advantage. It refers to ability of a business or firm to provide the same service to a customer in a better way than its competitor's e.g the ability to bring new product in the market than competitor e.g like MTN with mobile money.
3. Sustainable competitive advantage. It refers to advantage that enables business to survive against its competitors over a long period of time. Or it refers to advantage that allows the maintenance and improvement of the enterprise's competitive to position in the market.

### Sustainable competitive advantage

Competitive advantage is an advantage that a firm has over its competitors, allowing it to generate greater sales or retain more customers than its competitors. It is an advantage that enables a business to survive against competition over a long period of time

### Ways of maintaining a competitive position in business

The stronger and more efficient operations are, the better your chances are of surviving competition in all its forms. The following areas are important to competing successfully

- ✓ Charging cheaper or affordable prices for the goods or services than those charged by rival firms
- ✓ Producing or providing high or better quality goods or services so as to attract more customers.

- ✓ Ensuring good presentation or appearance of different aspects related to business that attract customers e.g. attractive packaging of product, dressing workers with nice good quality uniforms.
- ✓ Ensuring added convenience to the customers like opening the business premises early in the morning and closing a bit late than the rival firms.
- ✓ Treating the customers with respect or receiving of customers pleasantly.
- ✓ Rewarding loyal and regular customers by giving them gifts, inviting them to get together parties etc.
- ✓ Offering credit to the loyal, trusted, and credit worthy customers to create confidence in them so as to continue buying from the business.
- ✓ Communicating regularly with customers like by communicating to them major changes in the business availability of new products etc.
- ✓ Maintaining up to date records of regular, loyal and big customers and recognizing them when they call or come to the business.
- ✓ Providing appropriate after sale services like offering delivery service, proper packaging of products etc
- ✓ Advertising the product or products especially persuasive advertisement to influence the customers to buy and continue buying from the business
- ✓ Motivating the business employees e.g. providing fringe benefits, ensuring job security, regular and timely payments, ensuring favourable working conditions etc. to inspire them to perform better rival jobs to overcome the rival firm

### **MERITS/POSITIVE IMPACTS OF COMPETITION**

- ✓ Leads to better customer satisfaction. Through competition, producers/sellers ensure that they produce/provide high quality products/services and do any other activity that ensures maximum customers satisfaction to attract more customers
- ✓ Promotes increased efficiency. Competition makes firms or producers develop or discover more efficient production methods hence ensuring efficient resource use.
- ✓ Leads to better employee payments/ remuneration. Competition in business forces employers or businesses to pay their highly skilled workers better salaries in order to induce them to stay within the business and make them work better to produce high quality goods or provide high quality services.
- ✓ Leads to production of a variety of products. Competition makes producers to vary their products or services in order to make them different from those of rival firms hence widening consumer choices and increasing their satisfaction.
- ✓ Consumers enjoy cheaper goods and services. Competition makes producer/sellers to lower the prices of their goods or services in order to overcome the rival of firms or businesses hence making consumer enjoy lower prices.
- ✓ Promotes hard work. Business competition forces entrepreneurs or businesses to put in more initiations in order to overcome the rival businesses and this leads to increased production.
- ✓ More profits for some businesses. Competition makes businesses that enjoy better competitive advantage to sell more than the rival hence realizing more profits.
- ✓ Leads to the production of better quality product. Due to competition, firms or businesses adopt improved methods of production through market research which improves the standards of living of the customers.

## **DEMERITS/ NEGATIVE EFFECTS/IMPACTS/COSTS OF BUSINESS COMPETITION**

- ✓ Makes resources to become more expensive. Competition makes businesses to compete or struggle to acquire the limited resources e.g. high quality raw materials, skilled workers hence making such resources costly to acquire.
- ✓ Reduces the number of customers. Competition from many businesses leads to the division of customers which eventually reduces the market share for each business.
- ✓ Leads to collapse/unemployment. Stiff competition leads to collapse of small or inefficient businesses hence resulting into unemployment.
- ✓ Lowers the profit of businesses. Competition makes business to duplicate activities or services as a way of attracting more customers leading to wastage of limited or source of resources.
- ✓ Misleads customers; persuasive advertising due to stiff competition urgently need or which may be of low benefit to them.
- ✓ Business competition increases labour turn over or employee which limits productivity of businesses and promote bad image to the public.

### **Indicators of an increase in the level of competition**

Nb. Do not use high or low when stating the answer

### **INDICATORS OR MANIFESTATION OF AN INCREASE IN THE LEVEL OF COMPETITION**

- Decrease in the level of sales. A fall in the volume of goods sold is an indication of increase in the level of completion.
- Increased advertising and sales promotional activities of businesses in order to retain the old customers or attract the new ones.
- Increased complaints by business customers especially about the quality, quantity and price of the products
- Increased labour turn over i.e. many employees especially leaving the enterprise to join the rival firms or businesses.
- Improved quality of the product is an indication of increase in the level of competition so as to sustain competition
- Reduction in prices of the products by competitors selling similar products in order to sustain the competitive advantage
- Reduction in the profit margin I.e. reduction in the investment returns realized by the business.
- Increased hours of operation by the competitors in order to attract customers' acceptance and loyalty.
- Improved customer care i.e. improved ways of handling the customers to make them satisfied reflects an increase in the level of competition.
- Demand for wage increase by employees or workers for the service they provide

### **Sample questions**

1 a) Explain the ways / methods / techniques which competition in business can be over come

b) Describe the factors considered in analyzing competition in business



2 a) State any four types of competition

b) Discuss various effects of competition

### **Financial markets**

Is any market place where buyers and sellers participate in the trade of assets such as equities, bonds and currencies.

Types of financial markets

1. Money market
2. Capital markets

Money market is a market that deals in short term financial instruments such as treasury bills, commercial papers, deposits, collateral loans and bills of exchange.

### **CAPITAL MARKETS**

Capital market is a markets deals in long term financial securities such as bonds and equity shares.

Capital markets deal with the trade of financial products such as share, bonds issued by the government or private companies, units in collective investment schemes, debentures etc. these financial products are collectively referred to as securities in Uganda, the market where these securities are traded is called the Uganda securities exchange.

Distinction between capital market and money market

- ✓ Money market is related to short term funds while capital market is related to long term funds
- ✓ Money market deals in securities such as treasury bills, commercial papers, deposits, collateral loans and bills of exchange
- ✓ Participants in money market are central banks, non – financial banking companies while capital market participants are stock brokers, under writers and individual investors.
- ✓ Money market is regulated by central bank while capital market is regulated by capital market authority.

TYPES/INSTRUMENTS USED IN CAPITAL MARKETS

**BOND.** This is a certificate issued by a company acknowledging that money has been lent to it and that it will be paid back with an interest at a specified period of time. When you buy bonds, you are lending the bond issuer money in return for a fixed rate of return, they are therefore known as a fixed – income investment and therefore become a creditor of the company

**SHARE.** This is a unit of ownership of a company, when you buy a share you become a part owner or a shareholder of the company. An investor will buy stake in business by buying shares which will automatically entitle him or her to a company's profits

**DEBENTURE.** This is a document showing that a company has borrowed a certain amount of money from a person named on it. The company pays a fixed rate of interest on this loan

**TREASURY BILLS.** These are short term government instruments issued regularly with a maturity period of less than one year

**COMMERCIAL PAPER.** This is a short term unsecured promissory note issued by a company or a bank which enjoy fairly high credit rating.

Types of commercial papers

- ✓ Promissory notes
- ✓ Cheques
- ✓ Certificate of deposits

#### **Conditions for issuing commercial papers**

- ✓ Since instrument is not backed by collateral, only companies with credit rating from recognised credit rating agencies are allowed to issue commercial papers
- ✓ Commercial papers are usually sold at a discount to its face value and repaid at a par on maturity
- ✓ The aggregate amount to be raised by the issue of commercial papers should not exceed 30% of the working capital
- ✓ Commercial papers shall not be issued 15 days later than intended date of issue
- ✓ The minimum current ratio of the company to issue commercial papers should be 1.3

#### **ROLES OF CAPITAL MARKETS IN BUSINESS**

- ✓ Raising funds through the sale of shares
- ✓ Provision of a market where the selling and buying of shares take place in an organized manner
- ✓ Attracting foreign investors who may wish to invest their money in an organized capital market
- ✓ Better standards of living brought about by increased employment opportunities caused by increased investments

#### **TYPES OF SHARES**

There are two types of shares

**ORDINARY SHARES.** These are the common one that are held by the owners of the business and they usually do not have a fixed rate of dividends realized from the business profits.

**PREFERENCE SHARES.** These are shares where the holders do not have voting rights but have a right to a fixed rate of dividend before any dividend is paid out to the ordinary shareholders, they also have the first priority over the business assets over ordinary shareholders in an event of winding up

## **Preference share are further categorized**

**Cumulative preference share.** Holders of these shares are entitled to a fixed rate of interest every year, irrespective of whether the business has made profits or not, this means that in case the holder misses dividend for a year (may be when the company has incurred losses), he/she will receive a double share in the following year (the dividends will continue to accumulate until paid)

**Non- cumulative.** Holders of such share are entitled to a fixed rate of dividends only when a company has realized profits

**Redeemable preference shares.** These shares are bought back (redeemed) by the company after a stated period of time

**Irredeemable preference shares.** These are ones that cannot be redeemed / bought back by the company

**Participating preference shares.** Holders of such shares are entitled to a share of the surplus profits remaining after the ordinary share have been paid i.e on addition to the fixed rate of dividend

## **Methods of issuing shares**

- ✓ Public offers. A company will invite the public to subscribe for shares, based upon the information contained in the prospectus, either a fixed price or via a tender process.
- ✓ Private placements. New shares are issued to the financial institution and large private clients rather than making an invitation to the public.
- ✓ Right issue. Is an offer to the existing shareholders to subscribe for the new shares at a discount to the current market value, in proportion to the existing shareholding.
- ✓ Bonus share / scrip dividends. A company could issue more shares to the existing shareholders at no cost on a pro – rate basis to their existing share holding.
- ✓ Stock split. Takes place when a company divides its existing shares into multiple that the shareholder will have two shares for every share hold earlier.

## **TYPES OF DEBENTURES**

Naked debentures. These are debentures which are not secured. Ie no property of the company has been pledged against them. So in case of the bankruptcy of winding up, these debenture holders will just be regarded as ordinary creditors of the company

Mortgaged debentures. These are debentures which are secured ie some property of the company has been pledged against winding up to pay off the mortgaged debentures

Redeemable debentures. These are debentures which are supposed to be bought back by the company any time after the specified minimum period. E.g if the period

stated is between 2-4 years, they can be redeemed any time after 2 years but before 4 years elapse

Irredeemable debentures. These are debentures which are never refunded until when the company is winding up

#### DIFFERENCES BETWEEN SHARES AND A DEBENTURE

- ✓ A share is a unit of capital while a debenture is a unit of a loan in a company
- ✓ Shareholders earn dividends ie part of the company's profits whereas debenture holders earn interest which is an expense that a company has to pay whether it has realized profits or not
- ✓ Shares are usually irredeemable while debentures are usually redeemable
- ✓ At the time of winding up, the debenture holders get only the face value and a specific interest even if the company's assets fetch returns while shareholders in most cases enjoy much more than the face value of their shares
- ✓ A shareholder is a member of the company whereas a debenture holder is a mere creditor to the company
- ✓ In case of decision making in the company, shareholders have voting rights whereas debenture holders do not have them

#### CAPITAL MARKETS AUTHORITY (C.M.A)

C.M.A is a semi-autonomous body that was established by the government (1996) to oversee the operations of capital markets, it is responsible for promoting, developing and regulating the capital market industry in Uganda, with the overall objective of investor protection and market efficiency

#### ROLE / FUNCTIONS OF CAPITAL MARKET AUTHORITY

- ✓ It regulates and promotes the development of capital markets in Uganda with particular emphasis on creation of incentives for longer term investments in productive ventures
- ✓ It guarantees and approves the stock exchange operations
- ✓ It is responsible for approving and giving licenses to brokers or dealers in stock exchange and investment advisors like Uganda securities exchange
- ✓ It is responsible for approving all offer of securities to the public
- ✓ It helps in the protection of the interests of investors
- ✓ It advises the government on policies concerning the development and operations of the capital market industry
- ✓ Provision of avenues for those required additional capital and others who wish to invest their money.

#### THE STOCK EXCHANGE

This is a market where the existing stocks and bonds are exchanged smoothly. It is an organized market where traders of securities meet as dealers / brokers represent them and acquire or sell securities

## **The key participants in capital markets/ players in stock exchange**

- ✓ **Brokers** – These are licensed financial professionals authorized to buy and sell shares on behalf of clients. They try to buy at cheapest price possible and then sell to someone else at a higher price. They receive a commission for their services
- ✓ **The registrar.** This is in charge of keeping records of keeping records of quoted stock and shares.
- ✓ **Jobbers.** These buy and sell shares on their own account at the stock exchange. Their reward is jobber's return being the difference between the buying price and the selling price of the share jobbers are further classified into:
  - Bulls: are jobbers who buy shares when they are cheap in anticipation that prices of these shares will rise in the near future and he/she will be able to sell them at a higher price
  - Bears: these are ones that sell shares when prices are high on his expectation that these prices will fall in the near future when he will be able to buy them again
  - Stags: these are ones that buy shares of a newly established company in the hope that prices will rise to be resold. They deal in new issues of a company
- ✓ **Investment advisors** – these are licensed individuals that engage in business of advising their clients about securities on issues of whether it is advisable to invest, purchase or sell securities.
- ✓ **Share holders.** These are individuals or companies that purchase shares in a company or business and hence own a part of that company with an expectation of returns afterwards
- ✓ **Capital market Authority (CMA).** This is a government established body which ensures the regulations and development of the capital market industry.

## **The major functions of stock exchange market**

- ✓ It provides a facility for raising funds for investment in long term assets
- ✓ They help in regulation of traded securities
- ✓ They help in publishing useful information about various businesses necessary for investors and other companies
- ✓ They help in monitoring the affairs of the quoted companies
- ✓ They help in raising capital for businesses
- ✓ They facilitate company growth through raising more funds for acquisitions of assets and increase productivity
- ✓ They help in creation of utility through providing ready market for stocks and bonds ie investors at any time can easily convert their securities into cash or other profitable security investments.
- ✓ They facilitate the diversification of government owned companies, the privatization process through capital markets involves the floatation of shares and needs of a secondary market for its success

## **Examine the role of capital markets to an economy**

- ✓ Enabling businesses raise long term finance through the sale of shares at low interest rates
- ✓ Providing a venue where to buy and sell shares by the members of the public
- ✓ Encouraging the inflow of foreign capital since investors will find it easier to buy shares in the companies listed in stock exchange
- ✓ Encouraging full disclosure and sticking to better accounting and management practices of companies

- ✓ Creating more employment opportunities through increase saving and investment by companies leading to better standards of living.
- ✓ They provide alternative investment and saving operations through the purchase of shares and bonds
- ✓ Individuals are given opportunities to diversify their investments like risk by investing in various products available on the market
- ✓ They are source of capital through capital pays and dividend payment

### **Benefits enjoyed by a share holder**

- ✓ There is possibility of earning dividends in case the company makes profits
- ✓ Shareholders gain capital in case their shares are sold at higher prices than the prices they were purchased, this represents profit which is termed as capital gain
- ✓ Shares may act as a collateral security for the owner, for instance if they wish to access a loan from financial institutions
- ✓ Shares are easier to transfer in case the shareholder wishes to leave the company, they can transfer to another person
- ✓ The shareholder have voting rights to decide on the issues concerning the company during the Annual General Meeting
- ✓ If the company is growing, the value of share will also grow and hence the shareholders will gain

### **Disadvantages of investing in shares**

- ✓ If the company's profits fall, the dividends will fall and if the company makes a loss, it may not pay any dividend at all
- ✓ If the share profits fall, their value lessens
- ✓ If the company collapse or becomes insolvent, the shares become worthless
- ✓ If the company goes into liquidation, shareholder are the last to be paid after all other creditors

### **Steps involved in the process of buying and selling share**

- ✓ Visiting the broke / dealer to obtain advice about companies to invest in and their prices
- ✓ Deciding which shares/stock to buy ie making an investment decision
- ✓ Placing an order through the broker / dealer
- ✓ Receiving a copy of the prospectors and reading it well or seeking advice.
- ✓ Filling in the security central depository account opening forms
- ✓ Filling client information form / share application form
- ✓ Signing a purchase transfer form
- ✓ Paying for the number of shares one is willing to buy
- ✓ Receiving a share certificate from the registrar to confirm the number of shares bought.

### **The process of selling shares**

- ✓ Finding out how much shares are selling in the market ie use broker or newspapers and through stock change
- ✓ Contracting the leader /broke and place an order at satisfactory price for you.
- ✓ Receiving a sale contract note from brokers showing the net proceeds payable
- ✓ Collecting the cheque from the dealer/broke
- ✓ Following the company's shares trading on stock exchange

An example of share certificate

<b>GOGOLO DISTRILLERS LIMITED</b>		
<b>P.O BOX 3444, Kampala UGANDA</b>		
No .....	<b>SHARE CERTIFICATE</b>	DATE.....
This is to certify that;		
Name .....		
Address .....		
Is a registered holder of ..... (No. of shares) ordinary shares of .....shillings each, fully paid in the above named company, subject to the memorandum and articles of association thereof		
DATE .....		
TRANSFER No. ....		
No OF SHARES .....		
For and on behalf of Gogolo distillers limited		
.....		
Chairman	company seal	

### **Investing in bonds**

A bond is essentially a loan an investor makes to the issuer of a bond. The investor receives regular interest payments on this loan until the bond matures or is called, at which point the issuer pays you the principal. Certain bonds have special provisions

Bonds are issued by government entities and corporations to raise money for their endeavors. There are four major types of bonds representing the four major issuers

- ✓ Government (treasury), Government Issue treasury bonds to pay for government activities like paying off the national debt or fighting inflation. The yield is lowest among bonds but considered low in risk if held until maturity. Bonds are exempt from state and local taxes
- ✓ Municipal: corporations issue bonds to expand, modernize, cover expenses and finance other activities. The yield and risks are generally higher than governmental and municipal. They are fully taxable

- ✓ Mortgage bonds: banks and other lending institutions pool mortgages and offer them as securities to investors. These bonds have a yield that exceeds those of corporate, with comparable maturity. They are also fully taxable

### **Advantages of investing in bonds**

- ✓ Bonds are predictable. you know how much interest you can expect to receive, how often to receive it and when the principal will be repaid
- ✓ Bonds are steadier than equity investments (shares) which fluctuate widely in short term that's why most investors prefer buying bonds than equity investments which are more volatile
- ✓ People on a fixed income and or in retirement will receive a predictable amount of regular income from bonds since most bonds pay interest to holders on a regular basis a part from the zero coupon bonds
- ✓ The interest rates paid by bonds typically exceed those paid by banks on savings accounts especially short term bonds

### **Disadvantages of investing in bonds**

- ✓ Companies and municipalities can go bankrupt and if they do, your bonds will lose value and become worthless
- ✓ Long term bonds will have your money tied up in low yielding bonds if interest rate goes up
- ✓ Unlike stocks, bonds don't offer the possibility of high long term returns
- ✓ Bonds are not immune from price fluctuations. A company can easily default on the bonds issued, resulting in a total loss principal on the bond holder

## **INVESTING IN COLLECTIVE INVESTMENT SCHEME**

**Collective** investment schemes are private financial arrangements that provide a means for mobilization of saving and enable small investors to participate in capital markets. They pool resources of many small savers, generating a large pool of funds, which resources are then invested in various assets like shares, bonds, property and treasury bills with the sole purpose of generating high returns while minimizing risk through diversification of investment

### **Advantages of collective investment schemes to investors**

- ✓ Diversification of risk. Investors can secure a much wider diversification of risk, because these funds are invested in different securities. The greater the diversification of portfolio, the lower the risk in relation to the return. Those who invest in CIS are therefore seeking to lower risks in relation to their returns
- ✓ Giving access to securities investments. By investing in small sum, an investor through the CIS can achieve a personal portfolio spread over several securities. Investors can access high priced markets because of the pooled resources which create a larger fund
- ✓ Lowering transaction costs. By investing in CIS, investors incur lower costs than if they were to buy and sell shares/bonds directly. This is because transaction costs are generally related and investors benefit from the fund manager's ability to deal in large quantities of shares at lower average dealing costs
- ✓ Exhibiting professional management. Due to the complexity analysis information regarding individual securities, most individuals do not have the professional skills to manage their own investment. CIS provide full time professional management in a direct and simple form and this is especially important where market information is not widely available



- ✓ Protection of investors. CIS have succeeded in developed markets due to an effective legal and regulatory frame work. People need to have confidence that their money is protected from fraud, theft and other forms of abuses
- ✓ Giving an opportunity to easily liquidate them at low prices. It gives an opportunity to easily liquidate investments by selling your units back to the unit trust manager. The manager is obliged to buy the units
- ✓ Some funds allow investors to buy more share in a regular basis even with smaller monthly installment
- ✓ Monitoring performance of shares on the market. The net assets value per share or the bid and offer are reported in the press, internet sited allowing the investors to continually monitor the performance of his/her investment

#### **N.B**

- ✓ **Portfolio**, Refers to funds managed on behalf of the clients at the discretion of a fund manager
- ✓ **A trustee**, refers to an individual or company that hold the assets of a collective investment fund on behalf of its clients or investors who are the beneficiaries of the trust
- ✓ **A unit trust** is an investment scheme that pool savings of the public who share the same financial interests, which savings are then invested in securities like bonds, shares etc
- ✓ **A fund manager** is a person / company licensed by the authority to undertake on behalf of the client, the management of a portfolio of funds
- ✓ **Trust deed** is an agreement between the fund manager and a trustee or any other authorized corporate director (ACD)

#### **Disadvantages of collective investment schemes**

- ✓ Loss of control. When you invest in CIS, you are not directly involved in deciding how your money is invested. As long as the unit fund managers invest your money in accordance to the prospectus and deed of the scheme, there is little that you, the unit holder, can do if you happen to disagree with their investment decisions
- ✓ Fees and charges. The funds provided by the fund manager are not for free. There are fees and charges payable by the unit holders to the CIS
- ✓ Opportunity cost ie by putting your money in CIS, you lost the opportunity to use it elsewhere and there is no guarantee that putting in it CIS, things will be perfect, thus in such a situation, you would have used money that you would have used productively somewhere else

#### **Conditions necessary for the operations of CIS**

- ✓ A conducive operating environment with laws that can enforce recovery of the saving
- ✓ Availability and conducive banking environment where saving can be kept
- ✓ Saving culture and environment among the population that can encourage the members to save
- ✓ Maximum co-operation among the savers

#### **Challenges facing the capital markets industry in Uganda**

- ✓ Under development capital and money markets to transact the sale and buying of products
- ✓ The challenge of fear of risks by players e.g fluctuation in the value of share capital
- ✓ Inflation that affects the value of shares
- ✓ Inadequate information by the public about the role of capital market

- ✓ Unfriendly government policies e.g unfair taxes
- ✓ Under developed financial institutions to lend funds for buying financial products
- ✓ The challenge of high levels of target players who aim at maximizing profits early
- ✓ Uncertainty to income in form of dividends since a business may or may not make profits to declare
- ✓ Unstable economic climate in Uganda that scare away investors who would invest in capital markets

### **RAISING LONG TERM FINANCE THROUGH CAPITAL MARKETS**

When sourcing for long term finance in business, there are many questions that may arise, these may include

- ✓ Should you apply for a bank loan? But the repayment period is quite short
- ✓ How about the micro finance institution, the interest rate is quite too high
- ✓ So how about capital markets?

### **Advantages of raising long term finance through capital markets**

- ✓ **Raising funds**, through the sale of shares on the capital markets, businesses are enable to raise funds, which is cheaper, easier and faster compared to other forms like commercial funds
- ✓ **Provision of markets to sell and buy shares**, capital markets provide members of the public or other interested individuals or company to buy shares. This provides them an alternative method of investing their savings
- ✓ **Inflow of international capital**, foreign investors who may wish to invest in the country will find it easier to do through the capital market where they will buy shares easily, this leads to inflow of international capital which contributes to the growth of the country's economy
- ✓ **Better standard of living**, increased investment by companies due to the existence of well-organized capital market will lead to more employment opportunities being created, more incomes generated and these may result in more disposable income that people may use for consumption and even more savings

### **Avenues of raising long term financing through capital markets**

There are two avenues through which a business can raise finance in the capital markets ie **equity financing and debt financing**

#### **EQUITY FINANCING**

With this type of financing, the business raises finance by issuing shares to the general public. Those who buy the shares of the company then become part owners of the company and thus called shareholders. A company must apply first and seek approval from the capital market Authority before it offers shares to the public

#### **Advantages of equity financing for a business**

- ✓ On closure of the company, shareholder's equity contributions will not be paid back until all the company's creditors have been paid
- ✓ The business assets are not pledged as collateral in order to obtain equity investments / sell share to the public
- ✓ The business / company does not have to make debt and interest payments to shareholders
- ✓ The company is better governed given the international standards accounting followed by listed companies.

### **Disadvantages of equity financing**

- ✓ The company owners may have to relinquish ownership of all proceeds and may have to share their business profits with other equity investors / share holders
- ✓ Owners will have to be accountable to all shareholders and therefore will be required to publish annual accounts, organize annual general meetings for all shareholders and communicate all major assurances in the company to all share holders

### **DEBT FINANCING**

**A** business can also raise finance by borrowing from the public and institutions through capital markets. The examples of debt financing instruments included

- ✓ Corporate bonds. Which is an arrangement that enables a company to borrow money from the public for a long period of time
- ✓ Government bonds/ municipal bonds, which is an arrangement that enables both government and local councils to borrow funds from the public for a long period of time
- ✓ Commercial paper, which is an arrangement that enables a company to borrow money for a short period of time

### **Advantages of debt financing**

- ✓ The company does not have to give up any ownership of the company
- ✓ The lender has no control over how to run the company whose bonds he/she has purchased all that the lender requires of the company is that the loan and interest should be paid back
- ✓ The company is not required to pay the under dividends when it makes a profit as is the case with the share holders

### **Disadvantages of debt financing**

- ✓ The company is required to pay back the principle and interest regardless of its financial position
- ✓ The company must have sufficient cash flow to repay the loan and interest

## **CORPORATE GOVERNANCE**

### **Meaning of Corporate governance**

Corporate governance refers to the system by which companies are directed and controlled. It is a set of processes, customs, policies, laws and institutions affecting the way corporation / company is directed, administered or controlled. Boards of directors are responsible for the governance of their companies. The share holders' role is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place

### **Parties to Corporate Governance**

There are various parties involved in Corporate Governance and these include the following:

- Board of Directors responsible for governance of the company
- Chief executive office
- The share holders / investors
- Creditors ie suppliers

- Workers / employees
- Customers

### Responsibilities of Board of Directors in Corporate Governance

- ✓ Setting the company's strategic aims
- ✓ Providing the leadership to put them into effect
- ✓ Supervising the management of the business and reporting to shareholders on the stewardship
- ✓ Developing directional policies
- ✓ Remuneration of staff

### Principles of Corporate Governance

In order for an effective relationship to be maintained between the providers of capital and company managers, high levels of trust must exist between the two groups. For sufficient levels of trust to occur, the main principles of Corporate Governance need to be in place. Such principles include the following

- **Transparency.** This principle means that Directors must make clear to the providers of capital and other key stakeholders why every material decision has been made
- **Accountability.** Directors should be held accountable for their decisions and account to key shareholders submitting themselves to appropriate scrutiny
- **Rights and equitable treatment of share holders.** Organisations should respect the rights of shareholders and help the shareholders to exercise those rights. They can help shareholders exercise their right by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings
- **Fairness /interest of other stakeholders.** This principle states that shareholder should receive equal consideration by the directors and management with a sense of justice and avoidance of bias or vested interests.
- **Role and responsibilities of the board.** The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance.
- **Integrity and ethical behaviour.** Organisations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making
- **Disclosure and transparency.** Organisations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability
- **Responsibility.** Directors should carry out their duties with honesty, probity and integrity

### Corporate Governance mechanism and controls

Corporate Governance mechanism and controls are designed to reduce the inefficiencies that arise from moral hazards and adverse selection for example to monitor management behaviours, an independent third party ie external auditor attests the accuracy of information provided by management to investors. An ideal

control system should regulate both motivation and ability. There are two forms of corporate Governance Mechanisms and controls ie internal corporate control and external Corporate Governance controls

### **Internal corporate governance controls**

Internal corporate governance controls monitor activities and then take the corrective action to accomplish organisational goals. They include the following

- Internal control procedures and internal auditors. Internal control procedures are policies implemented by an entity's board of directors, audit committee, management and other personnel to provide reasonable assurance of the entity achieving its objectives related to financial reporting, operating efficiency and compliance with laws and regulations
- Remuneration. Performance based remuneration is designed to relate some proportion of salary to individual performance. It may be in form of cash or non-cash payments such as allowances and other benefits
- Monitoring by the board of directors. The board of directors, with its legal authority to hire fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided
- Balancing of power. This involves separation of power where the president is required to be a different person from the treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions

External corporate governance controls

External corporate governance controls encompass the controls external stakeholders exercise over the organisation. They include the following

- ✓ Competition
- ✓ Debt covenants
- ✓ Demand for and assessment of performance information
- ✓ Government regulations
- ✓ Managerial labour market
- ✓ Media pressure
- ✓ Takeovers

### **Benefits of good corporate governance**

The broad benefits of corporate governance include the following

Greater access to capital and lower capital costs. Good corporate governance increase capital inflows to developing countries from domestic and global capital, equity and debt and from public securities markets and private capital resources

Improved performance of organisations. Good corporate governance brings better performance for organisations. Improved governance structures and processes help

to ensure quality decision making, encourage effective planning for senior management and enhance long term prosperity of companies

Capital and financial market development. Good corporate governance contributes to the development of public and private capital markets. This results from greater transparency and financial strength that corporate governance achieves

Greater financial sector stability. Improved corporate governance encourages stability in the financial markets across the globe. This results from the transparency and disclosure that corporate governance creates

Adding value to clients' companies. Companies that practice good corporate governance enjoy good reputation and image within the market they operate and the general public

Better image and reputation in the face of government. Corporate governance enables a business to run its activities without any fear of being prosecuted or closed by the government, enjoy tax holidays etc

Access to human resources. Good corporate governance attracts people to provide human resources to the business leading to efficiency and increased production

More bank lending as a result of greater transparency and financial strength that corporate governance achieves

Protection for all investors, including pension beneficiaries. Through internal corporate governance controls like monitoring by the board of directors, the board of directors, with its legal authority to hire fire and compensate to management, safeguards invested capitated

### **Systematic problems of corporate governance**

- **Monitoring costs.** In order to influence the directors, the share holders must combine with others to form a significant voting group which can pose a real threat of carrying or appointing directors at a general meeting
- **Supply of accounting information.** Financial accounts form a crucial link in enabling providers of finance to monitor directors. Imperfections in the financial reporting process will cause imperfections in the effectiveness of corporate governance
- **Demand for information.** A barrier to shareholders using good information is the cost of processing it, especially to a small shareholder

End