LECTURE SESSION TEN

MANAGING THE BUSINESS

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10.1 Introduction

The success of any business depends greatly on the quality of its management. Management is a social process entailing responsibility for the effective and commercial planning and regulation of the operations of the organization in the fulfillment of a given purpose or task

10.2 Learning Outcomes

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

i) Explain the traditional functions of management in entrepreneurship.

ii) Describe the Strategies for business Growth.

iii) Explain the risk reduction strategies for new entry exploitation.

Let us start our discussion by asking ourselves this question.

Intext Question 1: What helps an entrepreneur grow his/her business?

Well done.

10.3 The Traditional Functions of Management in the Entrepreneurship.

The traditional functions of management in the entrepreneurship are still those of:

a) Planning
b) Organizing
c) Coordinating
d) Communicating
e) Controlling
f) Motivating
g) Leadership and
h) Decision-making

a) **Planning.** The process of setting the objectives of the firm and then choosing the course of action, that the firm will follow to move from where it is currently to where it wants to be at some future time. Planning being the basic management function, entails setting of the organizational objectives and deciding on the best ways of achieving the objectives. It is usually at all the levels of management and staff both in setting of objectives and implementation of such objectives.

b) **Organizing.** Organizing is the determination of the activities to be performed such as providing the personnel and the material required, defining responsibility, authority and the relationship between employees, and creating departments, sections or different units. The principles of organizing include division of labour, unity of command centralization and decentralization, span of control, and discipline. For effective organization, entrepreneur must be competent in job analysis, job description, job evaluation, job enlargement and job enrichment programs.

c) **Coordination.** This refers to harmonization of activities in the organization and directed towards achieving the organizational goals. Planned and clear-cut objectives have to be set and articulated for an effective coordination in an organization. Adequate knowledge of human relations is required for coordination to be accomplished in an organization.

d) **Communication.** Communication is the flow of information between the entrepreneur and the subordinates or between the subordinates and others in either direction. Effective communication is required in the organization as it is important to ensure that objectives of the organization are understood, and plans digested. An effective communication system helps an entrepreneur to carry out basic management functions. Communication assists in satisfaction, coordination, and good human relationship and facilities decision-making. This may be in form of instruction, feedback, query, report or notice.

e) **Controlling.** Controlling is a process of setting standard, comparing performance with standard, determining variance and taking remedial action whenever the variance is significant. The purpose of control is to ensure that performance is in accordance with the plan. Control may be in the form of an open loop system or a close loop system. Examples of control system are; internal, inventory, budgetary and quality control systems.

f) **Motivation**. Motivation involves stimulation of employees' performance for effectiveness in accomplishing the organizational objectives. Motivation creates the urge in employees to carry out their functions in line with entrepreneur's expectation. It is a force that induces somebody to work without or with less supervision.

g) **Leadership.** Leadership is the ability to influence people to work above the ordinary level. An entrepreneur, in achieving business objectives, should have a bettter knowledge of the objectives and the plans of the enterprise. An entrepreneur should be above average initiate actions, give directives, and be result oriented; this will enable him/her to lead him/her subordinates effectively. Leadership can be autocratic, participatory, situational and laissez faire.

h) **Decision Making.** Decision-making is the process of selecting between alternative courses of action. An entrepreneur makes decisions on day-to-day basis. Decision-making thus determines the success or otherwise of entrepreneurship. Entrepreneurs take decisions on such issues as what kind of goods to buy, where to obtain funds, at what rate, the quality of commodities, channels of distributions to use, the promotional tools to adopt and others.

1. Managing of the business involve the following issues:
   a) Entrepreneurial strategy
   b) Strategies for growth
   c) Managing the entrepreneurial growth
   d) Going global
   e) Accessing resources from external sources
   f) Winding or ending the business.

10.4 Entrepreneurial Strategy

The set of decisions, actions, and reactions that first generate and then exploit overtime, a new entry in a way that maximizes the benefit of newness and minimizes costs.

10.4.1 Elements of Entrepreneurial Strategy

a) **The generation of a new entry opportunity**: The firm should consider the following:
   (i) Resource as a source of competitive advantage.
   (ii) Creating a resource bundle that is valuable, rare and inimitable. This includes, market knowledge (possession of information, technology, knowhow, and skills that provide insight into a market and its customers) and technological knowledge (possession of information, technology, know how, and skills that provide insight into ways to create new knowledge).

b) **Assessing the attractiveness of a new entry opportunity**
   (i) Information on a new entry. This includes prior knowledge and information search, window of opportunity (the period of time when the environment is favourable for entrepreneurs to exploit a particular new entry).
   (ii) Comfort with making a decision under uncertainty (trade-off between more information and the likelihood that the window of opportunity will close

provide a dilemma for entrepreneurs. Here the choice of error is considered. Such errors include, error of commission – negative outcome from acting and error of omission – negative outcome from not acting).

(iii) Decision to exploit or not to exploit the new entry, which depends on the entrepreneur's access of sufficient information to make decision and on whether the window is still open for this new entry opportunity. It is important to realize that the assessment of a new entry attractiveness is less about whether this opportunity really exists or not and more about whether the entrepreneur believes s/he can make it work that is, create the market demand, efficiently produce that products, built a reputation, and develop customer loyalty and other switching costs.

c) **Entry strategy for new entry exploitation**

d) **Creating a competitive advantage can help**

1. Develop a cost advantage
2. Face less competitive rivalry
3. Secure important channels
4. Better positioned to satisfy customers
5. Gain expertise through participation

i) Environmental instability and first mover disadvantages. Need to consider,

2. Key success factors – Requirements that any firm must meet in order to successfully compete in a particular industry.
3. Emerging environmental changes such as emerging industries – industries that have been newly formed and are growing.
4. Demand uncertainty – considerable difficulty in accurately estimating the potential size of the market, how fast it will grow, and the key dimensions along which it will grow.
5. Technological uncertainty – considerable difficulty in accurately assessing whether the technology will perform and whether alternate technologies will emerge and leapfrog over current technologies.

6. Adaptation – entrepreneur should adapt to the new technology.

ii) Customer's uncertainty and first mover disadvantage

7. Customer's uncertainty may have considerable difficulty in accurately assessing whether the new product or service provides value for them.

iii) Lead time and first mover disadvantage. Lead-time is the grace period in which the first mover operates in the industry under conditions of limited competition. This can be improved by:

8. Building customer loyalties
9. Building switching costs. These are costs that must be borne by customers if they are to stop purchasing from the current supplier and begin purchasing from another.
10. Protecting product uniqueness.
11. Securing access to important sources of supply and distribution.

e) **Risk reduction strategies for new entry exploitation**

i) **Market scope strategies.** A scope is a choice by the entrepreneur about which customer groups to serve and how to serve them. Choice of market scope ranges from narrow to a broad scope strategy and depends of the type of risk and entrepreneur believes is more important to reduced.

12. **Narrow scope strategies** – offers a small product range to a small number of customer groups in order to satisfy a particular need. It can be implemented in terms of producing customized products, localized business operations, and high levels of craftsmanship, focus on a specific group of customers, and high end of market typically represents a highly profitable niche.
13. Broad scope strategy – take a portfolio approach to dealing with uncertainties about attractiveness of different market segments.

ii) **Imitation strategies** – copying the practices of other firms. It can assist the firm in the following ways.

14. Enhance firm performance

15. Can imitate successful firms other than going through the process of systematic and expensive search.
16. Provides organization legitimacy
17. Type of imitation is franchising which focuses on imitation to reduce the risk of downside loss for the franchise.

iii) **Managing newness.** New entry can occur through the creation of new organization. The creation of a new organization offers some challenges not faced by entrepreneurs who manage established firms. Arises from the following unique conditions:

18. Costs in learning new tasks
19. Overlap and gaps in responsibilities
20. Communication channels and structures.

Take Note

The term **Entrepreneurship Strategy** refers to the set of decision**s,** and actions and reactions that first generate and exploit overtime, a new entry in a way that maximizes the benefits of newness and minimizes costs**.** The **Strategies for growth** applies when small companies always looks for ways and means to grow their business and increase sales and profits.

Having looked at the traditional functions of management in the entrepreneurship and entrepreneurship strategy . We now look at Strategies of growth.

10.5 Strategies for Growth.

Small companies or businesses always look for ways to grow their business and increase sales and profits. There are probable techniques that companies must use for executing a growth strategy.

The technique used by a company to expand business is highly dependent upon its financial situation, the competition and even government regulations and policies. Some common growth strategies marked in small scale business are:

a) Market penetration
b) Market expansion
c) Product evolution and expansion
d) Diversification
e) Acquisition

10.5.1 Market Penetration

One of the growth strategies reported in business is market penetration. A small company uses a market penetration strategy when it agrees to market existing products within the same market. Increasing market share is the only way of growing through existing products and markets.

Market share is the share of unit and sales a company acquires within a certain market when compared to all other competitors. The best way to increase the market share is by lowering the prices of the commodities.

10.5.2 Market Expansion

Market expansion is another remarkable growth strategy, which is often referred to as market development that involves selling current products in a new market. There are different reasons explaining why a company needs to consider a market expansion strategy.

Competition may be such that there is no scope for growth within the current market. If an entrepreneur is unable to search for new markets, then it is not possible to increase sales or profits.

A small company considers using market expansion strategy if it successfully finds use of its product in a new market.

10.5.3 Product Evolution and Expansion

This is the process for developing and commercializing an innovation through entrepreneurial activity that in turn stimulates economic growth.

The process is characterized by four stages:

a) **Recognition of social needs.** This is traditional symbol abundance that commences with knowledge in the base technology and science such as thermodynamics, fluid mechanics, or electronics.
b) **Initiation of technological innovation**
c) **Iterative synthesis leading to invention (pressing toward invention).** The intersection of knowledge and social need that starts the product development process.
d) **Development phase.** Involves modeling, planning, financing, manufacturing and marketing.
e) **Industrial phase**.

A small-scale company can expand its line of products or add new features to increase sales and profits. When small companies use a product expansion technique, it is also referred as product development. The selling continues within the current market. A product expansion growth strategy basically works well when there is a change in technology. Companies may also be compelled to add new products as older ones become outdated.

10.5.4 Diversification

Growth strategies in business involve diversification. Diversification means a company selling new products in new markets. This type of strategy is highly prone to risk and losses.

A small company acknowledges the plan carefully while utilizing a diversification growth strategy. Marketing research is important to identify if consumers in the new market will potentially like as well as buy the new products.

10.5.5 Acquisition

Growth strategies or method to expand business also engages acquisition of other businesses. In acquisition, a company purchases another company to expand its functions.

A small company uses this type of strategy to bolster its product line and enter new markets. An acquisition growth strategy is very risky, but not as risky as a diversification strategy, as in this case the products and market are already authorized.

A company must have complete knowledge of exactly what it wants to achieve when using an acquisition strategy, mainly due to the significant investment required to execute it.

10.5.6 Managing Growth

The entrepreneur's management of the growth of the business raises many important issues. Amongst these include activity level, retaining entrepreneurial spirit, delegation and ownership. The ability need and opportunity will determine the business growth.

First and foremost, the entrepreneur has to make the big decision as to what level of activity he wants for business. Churchill and Lewis (1992) categorize the entrepreneur's business growth into the five stages of *existence, survival, success, take-off, and maturity*. So, the entrepreneur must want to move from each stage to the next, otherwise he must remain at a stage where he is comfortable with the level of activity.

The high entrepreneurial spirit that exists in a small business can erode as the business grows in size, unless a conscious effort is made to avoid the adverse effects of bureaucratization. This can be achieved by creating entrepreneurial momentum that exists within the business and which, in itself, becomes a driving force of entrepreneurship. The business cannot grow unless the entrepreneur is able to effectively delegate. This can create a problem for many entrepreneurs who might fear that they are losing control of the business by giving greater responsibility to their staff. The act of delegation is made easier if the entrepreneur is able to create work procedures for standard activities like accounting, dispatch, etc.

The final main issue of growth management is that of ownership. It is not possible for most entrepreneurs to achieve growth with their own limited financial resources and the surplus cash flow of the business, especially in the early years. Working capital requirements increase dramatically with increasing growth rates because of the need to outlay capital for expenditure before revenue is received. For this reason, the entrepreneur must raise capital through debt or dilution of ownership. Many entrepreneurs fear that shareholders or venture capitalists (Steve Jobs – lost control of their firm) will influence the management of their venture or, in the extreme, remove them from the business

Activity

Using a hypothetical company explain ways a Bakery Company in the Central Business District of Mombasa can use to increase sales and profits.

10.6 Summary

The session embarked on discussing the traditional functions of management in entrepreneurship, the entrepreneurial strategy and strategies of growth. All these geared to making the business grow its profits and sales in the market.

10.7 Review Activity

i) Discuss THREE ways a company can use to manage growth of a company.

ii)Using a Utopia, a diagram depicting abundance, explain the Product evolution process.

10.8 References and Further Reading

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