**ACADEMIC PROGRAMME: BACHELOR OF COMMERCE**

**COURSE CODE AND TITLE: GUCC 300: ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT**

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## INTRODUCTION TO ENTREPRENEURSHIP

**Expected Learning Outcomes:**

By the end of this lesson, Students should be able to: (Arial, font size 12)

1. Define Entrepreneurship and State the key traits of Entrepreneurs
2. Outline why people venture into Business

**DEFINITION OF ENTREPRENEURSHIP**

Entrepreneurship is the process of coming up with new processes or ways of achieving some set objectives. Mostly it will involve the production of goods and services. It requires some ingenuity coupled with a lot of time and effort. There are risks involved in this process and they all have to be assumed. With the risks come rewards that are derived by the person who has come up with the new process.

**Who is an Entrepreneur?**

An entrepreneur is a person who creates small businesses. Entrepreneurs are calculated risktakers---they strive to maximize potential of their venture while simultaneously minimizing risk. They are able to recognize opportunities as they arise and create goods or services in order to take advantage of the opportunity before competitors catch on to it. Entrepreneurs may create new products or services, improve on current products or services, or simply find a new way to market existing products or services (Michael Paul, University of Wisconsin)

An entrepreneur is a person who organizes and manages a business undertaking, assuming the risk for the sake of profit.

**What is an Enterprise?**

The term “enterprise” has two common meanings:

1. An enterprise is simply another name for a business. You will often come across the use of the word when reading about start-ups and other businesses…“Simon Cowell’s enterprise” or “Michelle set up her successful enterprise after leaving teaching”.
2. The word enterprise describes the actions of someone who shows some initiative by taking a risk by setting up, investing in and running a business.

A person who takes the initiative is someone who “makes things happen”. He or she tends to be decisive. A business opportunity is identified and the person does something about it. Showing initiative is about taking decisions and being bold – not everyone is like that!

Risk-taking is slightly different. In business there is no such thing as a “sure fire bet”. All business investments carry an element of risk – which is the chance or probability that things will go wrong. At the worst, the risk of an enterprise might mean the person making the investment loses all his/her money or becomes personally liable for the debts of the business.

The trick is to take calculated risks, and to ensure that the likely returns from taking a risk are enough to make the gamble worthwhile.

Someone who shows enterprise is an “entrepreneur”.

A business enterprise can also be looked as at: any type of operation that is involved in providing goods or services with the anticipated outcome of earning a profit. Its broad nature allows the term to be applied to any type of company or firm that is geared toward generating revenue by selling products of any type. The Terms Company, firm, and business enterprise are often used interchangeably.

**Employed (Paid Employment)**

1. Under control of another person (employer)
2. Supply your labor only
3. Cannot subcontract the work
4. Mutuality of obligation to offer work and perform work
5. Do not supply equipment/materials for the job
6. Receive fixed hourly/weekly/monthly wages
7. Entitled to sick pay/holiday pay etc.
8. Employer provides insurance cover
9. Work set number of hours per week
10. Employer deducts tax from wages under PAYE

**Self-employed**

1. Own your own business
2. Are exposed to financial risk
3. Can subcontract the work
4. No mutuality of obligation
5. Supply necessary equipment for the job
6. Cost and agree a price for the job
7. Not entitled to paid leave
8. Provide your own insurance cover
9. Control your own hours in fulfilling job
10. You are registered for Self-Assessment and are required to file your own returns

**Advantages of Self-Employment**

1. Being self-employed means that you're your own boss. Being your own boss means that you'll be in control of all of the decisions affecting your working life. You'll decide on your business plan, your quality assurance procedures, your pricing and marketing strategies--everything. You'll have job security; you can't be fired for doing things your way. As you perform a variety of tasks related to your work, you'll learn new skills and broaden your abilities.

1. If you're working for yourself, chances are you'll be doing work that you enjoy. You'll get to pick who you'll work for or with, and in most cases you'll work with your customers or clients directly--no go-betweens muddying the waters. As a result, you may have days when it hardly feels as if you're working at all. Such harmony between your working life and the rest of your life is what attracted you to self-employment in the first place.

1. You'll even have the flexibility to decide your own hours of operation, working conditions, and business location. If you're working out of your home, your start-up costs may be reduced. You'll also experience lower operating costs; after all, you'll be paying for the rent and utilities anyway. If the location of your work isn't important (perhaps you're a freelance writer or a consultant), you can live wherever you want. At any rate, if you work at home, you'll greatly reduce your daily commuting time and expense. iv. If all goes well and you're making money, chances are you can make more than you did working for someone else. And since you're working for yourself, you may not have to share the proceeds with anyone else. The fruits of your labor will be all yours, because you own the vineyard.
2. You get to decide when to spend money to help your business grow.
3. You can distribute income to family members by hiring them as employees.

**Disadvantages of Self-Employment**

i. You must be willing to make sacrifices for the sake of the job. ii. You're going to work long hours, which means that you won't have as much time as you used to for family or leisure activities.

1. If the cash flow becomes a trickle, you're going to be the last one to get paid.
2. When you're self-employed, particularly if you're starting your own business, you may have to take on a substantial financial risk. If you need to raise additional money to get started, you may need a cosigner or collateral (such as your home) for a loan. Depending on how much or little work you can line up, you may find that your cash flow varies from a flood to a trickle. You'll need a cash backup so you can pay your bills while you're waiting for business to come in or waiting to be paid for completed work. Since you'll have to pay your own creditors first, this means that sometimes you may eat cereal instead of steak.
3. Remember that you're not making any money if you're not working. You don't have any employer benefit package, which means that it's going to be hard for you to:  go on vacation
   * take a day off
   * Or even stay home sick without losing income.
   * It also means that you'll have to provide your own health insurance and retirement plan.
   * Remember, too, that you can choose your clients or customers, but you can't control their expectations or actions. If you don't come through for them, or if you do something that offends them, you might not get paid for your work. **Paid Employment**

**Advantages**

1. Job Security
2. Income stability
3. Predictable work life

**Disadvantages**

1. You are only paid for your efforts and unlike the entrepreneur; your brilliant ideas only receive commendation and little or no real monetary rewards.
2. You will simply be helping another man create wealth for himself while you make do with your wages which might be meager
3. Think of it as a case of not having your cake and eating it. iv. Paid employment is like Financial Bankruptcy.

v. It cages your mind from soaring to the sky financially.

**ENTREPRENEURIAL DECISION PROCESS**

Once an entrepreneur identifies a business opportunity he/she should follow the following process;

1. Identify his strength
2. Assess his surrounding
3. Identify gaps that may be capitalized on.
4. Select one of the gaps identified based on his strengths.
5. Identify the risks and constraints involved.
6. Lay out an execution plan
7. **Identification of strengths**

The entrepreneur needs to assess himself first before embarking on a business venture. This is important as it will enable him project how far he can carry on an idea that has been in his thought.

One major disappointment that befalls many entrepreneurs is the realization that an idea that once promised so much reward and fulfillment doesn‘t bear the results that were expected. This happens because the entrepreneur did not look deep into his abilities before going forth with his plan. A strength can be a talent that has been in a person since earlier days and has always manifested itself over time even in very subtle ways. One needs to identify these traits ad look at their business aspects.

1. **Assess his Surrounding**

Once the entrepreneur has assessed his abilities, he needs to look back at what is surrounding him. This entails learning the economic trends of his surrounding and trying to project the outcome of certain events. The entrepreneur needs to study the economy very well. This is important since the result of his study will act as a personal bench mark for him to know how far he can go in an attempt to bring in something new. The study of the economy can be achieved by reading journals and articles written by experts, studying current economic events both in his country and the world at large. For a comprehensive analysis, the entrepreneur will need to go far back, may be five years. This of course, will depend on the nature of the economy and the growth rate. Certain events may have short term implications and some may have long term implications, so the entrepreneur needs to look at all these in perspective. The entrepreneur will need to relate the various economic events to each other and identify a connection, if any. The

world economic climate has an effect on the local economy and this will need to be studied in detail by the entrepreneur. As part of his surrounding, the current political and social situation will also impact on the identification of a business opportunity. These form the foundation of a stable society that will support his business in future. The entrepreneur should also assess his potential competitors. This involves analyzing the latest technologies that are in use in most businesses that he may find lucrative to engage in. He also needs to find out the availability of supplies for his business and whether these are likely to be reliable and if not, what other options exist.

1. **Identification of Gaps**

The result of the study above will give the entrepreneur sufficient material to identify loopholes that need to be filled. This will happen as a result of serious study and analysis. What the entrepreneur needs to ask himself is ‗What role can I play to fill these loopholes?‘ Once he has a solution to this basic question, the entrepreneur is well on his way to coming up with a brilliant idea. Many renowned entrepreneurs such as Steve Wozniak of Apple Inc., who made computers suited for ordinary people, identified the need for the ordinary man to be computer literate. This of course among other outcomes made many people become more efficient and productive in their work places.

1. **Selection of Gaps to be filled**

The loopholes may be very many but the entrepreneur needs to identify only those that bear a correlation with his strengths as identified earlier on. He will be able to relate what he is good at with what problems lie out there that need to be rectified. This will ensure that the entrepreneur does not engage in a venture that may take all his resources and be a disappointment as a result of poor correlation between his strengths and the gaps identified.

A mistake would be the entrepreneur taking his chances and trying to solve many problems at the same time. This will overwhelm him and will be a sign that the first stage of this process was not done thoroughly enough. The entrepreneur needs to take his time and select only those problems he finds himself capable of contributing towards finding a viable solution.

1. **Identification of Risks and Constraints**

Here, the entrepreneur will look at potential weaknesses that would exist in the business. Any business venture has pitfalls which if not well planned for, can ruin it. The entrepreneur needs to come up with strategies that will enable the business to get through the potential risks and constraints that may include; change in legislation, natural disasters, burglary e.t.c. He may mitigate against these risks, for instance, by insuring the business against losses that may result from these events.

1. **Lay out an execution Plan**

The Entrepreneur should put all his ideas and plans in writing. This involves coming up with a business plan that clearly sets out the objectives and strategies of the business. The business plan acts as a reference whenever he needs to communicate with thirds parties in convincing them, for instance to invest. The preparation of a business plan is explained in detail in Chapter Four .

**ENTREPRENEURIAL DEVELOPMENT**

**What is an enterprise?**

An enterprise is a well-organized business set up that is constituted by a manager along with a team who work together to pursue a business goal, which essentially is to improve the economic environment in the surrounding in addition to the major objective of making profit. A successful enterprise requires a lot of effort and boldness at the initial set up. It has to convince all the stake holders involved that it is a project that is viable and will bring rewards

**Importance of enterprise development**

Enterprise Development and job creation go hand in hand. They are programs that are dedicated to unlocking the enormous potential of enterprises to create decent, long-lasting jobs. Decent work can only exist in competitive, productive, and economically viable firms. A good development program in any economy seeks to enhance the positive interaction that exists between the improved competencies of managers, basic workers' rights and productivity.

Small and medium sized enterprises and cooperatives are major contributors to job creation. An increase in their number can provide decent employment to the many people around the world now toiling under poor working conditions and trapped in poverty. This idea is further supported by the fact that most small business enterprises are labor-intensive and could use the large numbers of available cheap labor.

Young people after graduating from universities and colleges need an avenue to demonstrate their knowledge and skills in a productive manner. This requires that the environment for this is conducive for them to set up. The government should play a role in ensuring a stable political, social and economic environment that will ensure the smooth start of the enterprises. In addition, funds should be availed for viable projects that have passed through the relevant testing by experts before the proposals are presented for deliberation. This acts to ensure that resources are optimally utilized.

On their side, prospective entrepreneurs need to be creative and innovative enough to put on paper ideas that have a business angle, ideas that do not just lead to their own self fulfillment but also puts the needs of the society they serve into account. Small enterprises tend to be more effective in the utilization of local resources using simple and affordable technology. Small enterprises play a fundamental role in utilizing and adding value to local resources. In addition, development of small enterprises facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, small enterprises technologies are easier to acquire transfer and adopt. Also, small enterprises are better positioned to satisfy limited demands brought about by small and localized markets due to their lower overheads and fixed costs. Moreover, the owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation. Through business networks, partnerships and subcontracting relationships, small enterprises have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where small enterprises and large enterprises not only coexist but also function in a symbiotic relationship

**Business Life cycles and How to Manage Growth**

A business‘s success is also often governed by the success of the industry in which the entrepreneur has decided that the business will settle. The economic trend affects industries in a dissimilar manner; some are worse hit than others and as the entrepreneur chooses a business opportunity, this is one thing he may be wise enough not to ignore.

As the entrepreneur plans for the future of the business, he needs to bear in mind that certain things may be beyond his control while others he may be in a position to control. To delve more into the life cycle of a business, we will begin by looking at the growth curve of an industry.

Industries are born, just like people. They grow, mature and eventually die. The power of growth of an industry is very important to an entrepreneur since it has a lot of impact on the success of the business. Some of the factors that may lead to the collapse of an industry may well be beyond the control of the entrepreneur. For instance, the entrepreneur has no control over the country‘s currency and so if its value falls, this may have negative impact on the tourism sector. A firm in this industry may have tough times ahead. Research shows that most firms do well in industries that are just starting. Many factors can be attributed to this;

**Ease of entry**

Because the number of entrepreneurs willing to invest in the less known industry is small, those that do, stand to settle in with relative ease if the market response is positive. Barriers that exist in established industries are fewer in an emerging industry and the firm is thus able to set its own bench marks as it tries to do what few have tried to do before.

**Less competition**

Given the fact that there are few entrants in the industry, the entrepreneur has fewer headaches thinking more of the growth of his venture than what his would be competitors are doing.

**High level of innovation**

Because he wants to create a name for the business, the entrepreneur with a clear vision for his business is in a good position to try and invest more on research and development as he is convinced that what he is doing will yield good returns. He is well poised to come up with even better ways of carrying on the venture.

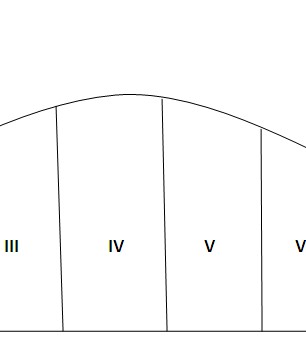
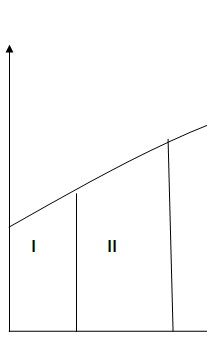
**THE PHASES IN THE GROWTH OF A FIRM**

If not well managed, the growth of a business can have serious repercussions. An entrepreneur needs to assess his environment against the growth of his business and ensure that the growth of the firm is also taking into account external factors, which may well be beyond his control. Every entrepreneur wants to see his business grow. That is the short term and long term vision for every firm. The growth rate will also give an impression of how the firm‘s product or service is meeting customers‘ demands. A product‘s life cycle from inception to eventual decline can tell how a firm will fair both in the short term and the long term. The growth of a firm is likely to take the following stages in its life;

**Business life cycle**

Business life cycles refers to the phases that a business passes from the time the idea is formed in the entrepreneurs mind to the time business' rolls and expands or even declines

Many businesses go through six stages in their life. Others may go through five stages:



1. **Idea Generation stage**

This is the preliminary stage for the business. Here, the entrepreneur does a lot of ground work to access the viability of the venture he is about to get into. At this stage, the entrepreneur is expected to come up with the business idea. Several needs may require to be fulfilled but the entrepreneur may not meet all of them; it becomes necessary at this stage to select the most viable business idea from the many available.

This stage may involve creativity and assessment of various ideas. It is at this stage that an entrepreneur decides on the business mission, scope and direction. This mean, an entrepreneur gives the prospective business a purpose. Some purposes may include provision of quality goods and services and to make profit

He will carry out due diligence to ensure he has taken all important factors into Recount setting off the business. He will incur expenses to execute some of these important activities. He may for instance require the services of a legal representative to acquire land. He may also hire the services of a surveyor if he wants to build his own premise, if he will hire personnel to assist in running the business, he should ensure that he has sufficient funds to pay them for at least 6 months. He may need to get a loan to do this.

1. **Start - up stage**

Activities at the start up stage may involve preparation of a formal business plan, registration of the business, sourcing capital, recruiting staff and designing the product. At this stage, business may also launch the product and sign up with distributors or dealers.

At this stage, the entrepreneur has already set the business up. The business is operational despite the setbacks that befall all businesses that start up at the initial stages. The entrepreneur realizes that he may need to make adjustments in order to survive. He may see the need to insure the property in case he hadn't He may also realize that he does not need an extra staff hence he may cut down on that, sales may be slow in picking up, so he may decide to come up with new marketing strategies, He may see the need to have proper records for tax purposes.

1. **Growth stage** 
   * At the growth stage of business common experiences may include:
   * Increased sales and profits
   * Wider market coverage in terms of geographical regions.
   * A growing number of employees
   * Variety of products/services
   * Increased competition
   * Need for additional expenditure

During this phase, the business will experience rapid growth as customers’ needs become the main focus for the entrepreneur. It is at this stage that he will realize there is need to gain a competitive edge in order to make more sales. The entrepreneur at this stage may think seriously about automating his operations, hiring professionals like accountants, perhaps even expanding the business. The signs that these requirements are necessary will be felt by the growing need to meet the increasing and dynamic needs of the customer

1. **Stabilization Stage**

At this stage, the business sales and profits stagnate. The business may also experience intensified competition.

* + There is also market saturation by similar (“look like”) products
  + Consumers’ indifference to the-product
  + Sales may decline and consequently profit may decline.

This is the phase that determines whether the business has managed to meet its long term objectives and a period to assess how successful the short term objectives have been met. At this stage, the entrepreneur is more concerned about corporate governance, issues and how this impacts on customer needs. He will also be concerned with the management of the business in various departments such as finance, sales and marketing. The entrepreneur will have his sights on a higher level of competition with other, firms that belong to a higher circle, hence he see the need of turning the business into a public limited company in order to compete as such levels.

This model can be applied to the growth or otherwise of a firm. The entrepreneur thus needs to ensure that the business opportunity he has before him has a road map charted in advance and based on due diligence. This does not mean that every firm will follow the above model. The entrepreneur needs to be aware of the possible outcomes.

1. **Innovation Stage**

Organizations that fail to innovate at stabilization stage are likely to decline. To ensure the firm comes back to growth, the entrepreneur is required to re- look at the ways business has been conducted. The aim is to undertake activities differently and rescue the firm from decline. It is expected that innovative strategies would ensure accelerated growth. .

**Among innovative attempts include:**

###  Change of management

The aim is to bring new-and better ideas that will ensure the firm is back to the growth path.

###  Re- package the product/ service

This would ensure the market gets the impression of a new product that is modified and. Better than the former. It is also a strategy of winning customers back from competitors.

* **Change the technology**

The aim of new technology is to ensure efficiency in production and enhance customer service. It is important that the entrepreneur chooses a technology that matches the type of business he is doing

* **New distribution methods** .

The firm may also design new distribution methods. Changing the distribution strategy would ensure customers access their products at the convenient places especially providing personalized distributions to customers or even ensuring 24 hour service to customers

* **Advertise and promote differently**

The firm may decide go to different regions and promote its product or services.

**VI. Decline Stage**

This stage is not in the normal plan of business. The entrepreneur does not foresee business declining at the start- up stage. Some of the experiences at this stage include:-

* Drastic fall in sales and profits

This is as a result of customers moving to competitors and in large numbers. It is also a result of consistent expenditure against limited income.

* Consumer indifference to the product/ service

This means consumers no longer prefer the product to competing brands. The entrepreneur may experience huge stocks of unsold product.

* Inability to meet bills/ debts as they fall due

This arises from persistent low income or losses against increased expenditure.

* Key management staffs leave the organizations.

This may result-from the organizations inability to remunerate top managers or provide them ' with adequate facilities for their performance of various tasks.

**MANAGING GROWTH**

We have already mentioned that the entrepreneur will need to assess the economy in which he intends to settle his business before embarking on anything serious. This entails doing a research into the economic variables that are likely to play a major role in the future of the firm. Over and above this, he will need to lay out a strategy for development of the firm.

A strategy follows the research and ground work and is based on the idea that has been determined to be the driver of the business venture. In developing a strategy, the entrepreneur will need to do the following;

**Assess the likely demand for the product**

This entails doing a survey in a particular targeted section of the market where very important variables can be collected. The entrepreneur will need to see whether there have been other products and services that have been or are still there in the industry

**Identify a specific customer need that has been ignored**

Even where similar products or services have existed in the industry, the entrepreneur may identify a specific need that has not been fully met. Here, the entrepreneur will assess whether by meeting this need, his firm will pull away customers from other firms

**Consider the added value to the customer**

The entrepreneur will also need to assess whether the customer will experience an added value by using the new product. This will come out as a result of a survey.

Assess the company image enhancement as a result of the new product

The entrepreneur will also be looking at the interest of the firm. Will the introduction of a new product likely to boost the image of the business and to what extent?

With this in mind the entrepreneur will come up with a clear chart of where he wants his business to be in future and how it will get there. The business strategy can be looked at in the following ways;

**Market Penetration**

Here, the entrepreneur is asking himself, ‗How can I take up a bigger share of the market?‘ He will have to think of ways through which he can establish his presence and exert himself through his product or service. He may have the objective of controlling a certain percentage of the market. This in itself is a strategy and the entrepreneur will need to devise ways of achieving this. Some of the means he could use to attain this objective are;

* Investing on advertisement
* Encouraging customers to buy his products through customer incentives for instance special deal if a sale reaches a certain value, discounts e.t.c
* Offering better customer care

All these may pay off if the results are tangible. This will be realized through increased revenues and a larger client base.

**Geographical Expansion**

This strategy will be a result of a well thought out plan to introduce a product or a service to a wide region all at once and capture the entire market in one single attempt. The success or failure of this move will depend on how much due diligence the entrepreneur will have done. If the initial survey tells him that customers from diverse backgrounds and from different walks of life will respond positively to the new product or service then he has a good chance of succeeding.

**Product/ Service diversification**

This strategy will mitigate against the risk of losing market share when the product reaches the final stage of its life cycle. As we saw earlier, the lifecycle of a business will necessarily follow that of the product if there is no backup plan. Through product diversification, the entrepreneur will ensure that even though the product is squeezed out of the market as a result of fierce competition, others will still come up to replace it in terms of market share.

The entrepreneur should be careful not to diversify into unrelated products or services. He should choose a product or a service that can be used instead of the mainstream product or service. At the end of it all, he should not do away with the original product all together

**LIMITATIONS OF ENTERPRISE DEVELOPMENT**

**Unfavorable legal and regulatory framework**

The absence of policies governing the growth of small enterprises could hamper the growth of small enterprises. This would mean that the small firms are not protected in the harsh markets and the law does not complement their activities. It thus becomes very hard for an entrepreneur to set his toehold in the economy. The high cost of compliance to regulations may discourage potential entrepreneurs from formally setting up their businesses, while driving some existing enterprises out of business and those working for them into unemployment

**Undeveloped infrastructure**

This could be a drawback in the sense that the entrepreneur may not have access to facilities that will enable him pursue the objectives of his business on a larger scale. Most institutions are cautious to lend money to small businesses because of the risks involved. At the same time some of these institutions may require the businesses to pay high interest rates for loans acquired

**Poor business development services**

Lack of training may be a setback in the industry for the small businesses. Most NGOs that come up with the plans lack support from the government and mostly operate on good will from the potential investors. The entrepreneurs lacking in skills need to be imparted with knowledge that will set them at par with the other accomplished businesses, giving them a chance to provide healthy competition

**Poor entrepreneurial Culture**

It has become a trend for most school leavers to look for employment. While it serves as the most convenient route to earn a living, most young people have shied away from engaging in entrepreneurial initiatives because of the high risks involved in setting a business. Most of these young people find it a big struggle that is laden with disappointments.

**Lack of Skills and competence**

Most entrepreneurs lack the relevant skills to engage in meaningful business enterprises. Those that manage get the support of strategic investors and managers who mobilize resources on their behalf. On his own a potential entrepreneur will find he is limited if he has not undergone some basic entrepreneurial training.

**THE GOVERNMENT‘S ROLE IN ENTERPRISE DEVELOPMENT**

The Government has a huge role to play in creating a conducive environment for the growth and development of enterprises. There are things that the entrepreneur will not be able to accomplish without the support of the government. On this note, it is imperative that supportive institutions and structures are set up for this. We shall look at the government‘s role through the following salient headings.

#### Policy Formulation

The Government through an Act of Parliament stands in a very strategic position in directing the growth of small businesses. Policies that will enhance the creation and establishment of small businesses need to be set and discussed at length in parliament. This should be done while putting the interest of the small business owners first. Policy documents that address various areas and even geographical locations should be designed with the objective of ensuring equitable chances to all stake holders.

#### Supporting N.G.Os

In recent years, the country has witnessed the mushrooming of Non- Government Organizations that are doing a commendable job in promoting entrepreneurial initiatives. Most of the NGOs are mainly involved in credit delivery, business training, providing general consultancy, and providing short term loans. However, most of the institutions supporting small businesses are rather weak, fragmented, concentrated in urban areas and uncoordinated. This calls for the need to strengthen the institutions supporting small and medium enterprises. This is where the government comes in with its wealth of influence.

#### Establishing Linkages/ Networks

Networks are so important for the entrepreneur who is just starting out. He needs all the support he can get from other entrepreneurs and strategic investors looking for franchises. The business linkages are also critical because networking is crucial in the business world. This is clearly demonstrated by the chain of supply of goods and services between firms in an industry and even between industries. The government can establish organs that will specialize in bringing entrepreneurs with good proposals and strategic investors together in a common forum.

Entrepreneurs also benefit through access to information on financial assistance, materials and suppliers, pricing, training, workshops sub-contracting opportunities and potential joint venture.

**Political Stability** Ideally a world where the politics of the government do not interfere with the economic climate would be the best for any kind of business to establish itself. Unfortunately this is not the case and any change doesn‘t seem forthcoming. There is always bound to be political interference where the business environment is concerned raising questions as to the main issue that needs to be addressed. The government can ally fears of political interference in small enterprise development by setting aside an organ that will strictly concern itself with these matters, while ensuring little or no political interference in small enterprise development

**Economic Stability**

The government can regulate the economic down turns in the country through the fiscal policies that are enacted and revised from time to time. These can cushion the small businesses against the adverse effects of economic cycles

**SOURCES OF FINANCE**

Businesses can acquire finances from various sources. These include;

**Owner's Capital**

This is often the only source of capital available for the sole trader starting in business. The same often applies with partnerships, but in this case there are more people involved, so there should be more capital available. This type of capital though, when invested is often quickly turned into long term, fixed assets, which cannot be readily converted into cash. If there is a shortfall on a Cash Flow Forecast, the business owners could invest more money in the business. For many small businesses the owner may already have all his or her capital invested, or may not be willing to risk further investment, so this may not be the most likely source of funding for cash flow problems.

**Ploughed back profits**

Firms make profit by selling a product for more than it costs to produce. This is the most basic source of funds for any company and hopefully the method that brings in the most money.

**Borrowings**

Like individuals, companies can borrow money. This can be done privately through bank loans, or it can be done publicly through a debt issue. The drawback of borrowing money is the interest that must be paid to the lender.

**Issue of Shares**

A company can generate money by selling part of itself in the form of shares to investors, which is known as equity funding. The benefit of this is that investors do not require interest payments like bondholders do. The drawback is that further profits are divided among all the shareholders

**Overdraft**

This is a form of loan from a bank. A business becomes overdrawn when it withdraws more money out of its account than there is in it. This leaves a negative balance on the account. This is often a cheap way of borrowing money as once an overdraft has been agreed with the bank the business can use as much as it needs at any time, up to the agreed overdraft limit. But, the bank will of course, charge interest on the amount overdrawn, and will only allow an overdraft if they believe the business is credit worthy i.e. is very likely to pay the money back. A bank can demand the repayment of an overdraft at any time. Many businesses have been forced to cease trading because of the withdrawal of overdraft facilities by a bank. Even so for short term borrowing, an overdraft is often the ideal solution, and many businesses often have a rolling (on going) overdraft agreement with the bank. This then is often the ideal solution for overcoming short term cash flow problems, e.g. funding purchase of raw materials, whilst waiting payment on goods produced.

**Bank Loan**

This is lending by a bank to a business. A fixed amount is lent e.g. Kshs.10,000 for a fixed period of time, e.g. 3 years. The bank will charge interest on this, and the interest plus part of the capital, (the amount borrowed), will have to be paid back each month. Again the bank will only lend if the business is credit worthy, and it may require security. If security is required, this means the loan is secured against an asset of the borrower, e.g. his house if a Sole Trader, or an asset of the business. If the loan is not repaid, then the bank can take possession of the asset and sell the asset to get its money back. Loans are normally made for capital investment, so they are unlikely to be used to solve short-term cash flow problems. But if a loan is obtained, then this frees up other capital held by the business, which can then be used for other purposes.

**Leasing**

With leasing a business has the use of an asset, but pays a monthly fee for its use and will never own it. Think, of, someone setting up business as a Parcel Delivery Service, he could lease the van he needs from a leasing company. He will have to pay a monthly leasing fee, say Kshs.50,000, which is very useful if he does not wish to spend Ksh.800,000 on buying a van. This will free up capital, which can now be used for other purposes. A business looking to purchase equipment may decide to lease if it wishes to improve its immediate cash flow. In the example above, if the van had been purchased, the flow of cash out of the business would have been Ksh 800,000, but by leasing the flow out of the business over the first year would be Ksh 600,000, leaving a possible Ksh 200,000 for other assets and investment in the business. Leasing also allows equipment to be updated on a regular basis, but it does cost more than outright purchase in the long run

In an ideal world, a company would bring in all of its cash simply by selling goods and services for a profit. At some point the company may need to invest in big investment that will yield returns in the near future. For this reason, a time will eventually come when the company will need to acquire funds from any of the above mentioned.

**LEGAL FORMS OF OWNERSHIP**

If a person is considering starting a small business, he may be trying to sort out the different types of businesses and wondering which type is best for him/ her. Each type is best for a specific purpose or situation, relating to taxes, liability, and the ability to control the profits and losses of the business. The various forms of business ownership are sole proprietorship, partnership and corporation. Each of these is discussed in further detail below;

**Sole Proprietorship**

This is a business owned by one person. It needs no charter, has few costs, and that person gets to keep all the money to his/her self. The problem is, of course, that a one-person business can‘t make as much money as a large business, the owner will have to work very hard, and if the business loses money, the loss translates directly to the owner A sole proprietorship is generally the simplest way to set up a business. A sole proprietor is fully responsible for all debts and obligations related to his or her business. A creditor with a claim against a sole proprietor would normally have a right against all of his or her assets, whether business or personal. This is known as unlimited liability.

**Partnership**

A partnership is a relationship that exists between two or more persons carrying on a business common with a view to making profit. It is an agreement in which two or more persons combine their resources in a business with a view to making a profit. In order to establish the terms of the business and to protect partners in the event of disagreement or dissolution of the business, a partnership agreement should be drawn up, usually with the assistance of a lawyer. Partners share in the profits according to the terms of the agreement. Where two or more persons wish to form a partnership, then it is recommended that they agree on the terms upon which the partnership will be run and the relationship between each other. This is done in writing and signed off as agreed by all the partners and therefore it becomes a partnership deed or agreement.

**Contents of partnership agreement**

* Name(s) and address(s) of both the firm and the partners
* Capital to be contributed by each partner
* The profit sharing ratios that may be expressed as a fraction or as a percentage.
* Salaries to be paid to any partners who will be involved in the active management of the business
* Any interest to be charged on drawings made by the partners.
* Interests to be given to the partners on their capital balances.
* Procedures to be taken on the retirement or admission of a partner

**Types of Partnership General Partnership**

All members share the management of the business and each is personally liable for all the debts and obligations of the business. This means that each partner is responsible for and must assume the consequences of the actions of the other partner(s).

**Limited Partnership**

Some members are general partners who control and manage the business and may be entitled to a greater share of the profits, while other partners are limited and contribute only capital, take no part in control or management and are liable for debts to a specified extent only. A legal document, setting out specific requirements, must be drawn up for a limited partnership.

**Reasons for partnership**

1. Additional capital incase a sole trader or one person is not able to raise sufficient capital.
2. In case there is need for skills or expertise in certain areas of the business.
3. To involve more persons in the business especially for a family.

**Membership**

A partnership has minimum membership of two (2) and a maximum of fifty (50) except for professional firms (e.g.) lawyers, doctors, accountants etc. whose maximum membership is twenty (20) persons.

**Corporation**

A corporation is a legal entity that is separate from its owners, the shareholders. No shareholder of a corporation is personally liable for the debts, obligations or acts of the corporation. Directors, officers and insiders can bear some liability for their involvement with the corporation. A corporation is identified by the terms "Limited", "Ltd.", "Incorporated", "Inc.", "Corporation", or "Corp.". Whatever the term, it must appear with the corporate name on all documents, stationery, and so on, as it appears on the incorporation document. A corporation has legal rights and obligations of its own which are distinct from those of the individuals who either constitute its membership or management. This attribute of legal personality has received considerable judicial exposition in relation to registered companies and the overall practical effects of the decided cases may be summarized as follows:

1. **Limited Liability**

The debts of the corporation are its own and a member of manager of the corporation cannot be sued on order to recover the debts. If a corporation such as a registered company is unable to pay its debts it may be wound-up and during the winding-up its members will be asked to 'contribute' what is required to pay the debts but a member cannot be asked to pay more than the amount, if any, that is unpaid on the shares held by him (or the amount he guaranteed if it is a company limited by guarantee).

1. **Perpetual Succession**

The death of a member or members of the corporation does not result in the death of the corporation. Members come and go and are merely succeeded by other persons who become new members. The corporation 'dies' only when its legal life is brought to an end by a legal process known as liquidation.

1. **Owning of Property**

The property of a body corporate such as a registered cooperative society or a registered company does not belong to its members. Consequently, a member cannot insure the property since he does not have insurable interest therein. . A person cannot, generally speaking, have insurable interest in the property of another person. The law regards a corporation and its member as separate persons for this purpose.

1. **Suing or being sued**

Because of the legal separation between a corporation and its members, it follows that a wrong to, or by, the corporation is not a wrong to, or by, its members.

**Formation of Corporations**

A corporation may be brought into existence by

1. Registration
2. Statute
3. Charter

**Types of Corporations**

There are four types of corporation which are recognized by the Kenya Law.

**(a) Corporation Sole**

This is a legal office that is occupied by one human being only at any one time. If the person ceases to occupy the office, he is succeeded by another person who will then discharge the duties and exercise the powers of the office. It is a legal person with perpetual succession capacity to sue or be sued. Example are owning of property and limited liability. Examples are:

1. **The Public Trustee**

The Public Trustee Act, S.27(1) states that 'the Public Trustee shall be a corporation sole by the name of Public Trustee'.

1. The Permanent Secretary to the Treasury of Kenya.

Section 2(1) of the Permanent Secretary to the Treasury (Incorporation) Act states that "the officer for the time being discharging the duties of the Permanent Secretary to the Treasury of Kenya and his successors in office shall be a body corporate". It should be noted that the Constitution of Kenya which created the office of the President of Kenya does not have a provision that the office of President shall be a body corporate.

**(b) Corporation Aggregate**

This is a legal entity formed by at least two people and whose membership at any one time legally consists of at least two people. Examples are private and public companies registered under the Companies Act, and co-operative societies registered under the co-operative societies Act 1966 (cap.490). It has a legal personality with perpetual succession, capacity to contract, own property and sue or be sued. The company acquires legal personality from the date of its registration by the registrar of companies. The Companies Act, S. 16 (2) provides that ―from the date of incorporation ... the subscribers to the memorandum ... shall be a body corporate by the name contained in the memorandum". S.28 of the Co-operative Societies Act provides that "a society, on registration, shall be a body corporate".

1. **Statutory Corporation**

This is created by an Act of Parliament and comes into existence from the date of commencement of the Act. An example of a statutory corporation is the Agricultural Finance Corporation". Section 3(1) of the Act states that "there is hereby established a corporation to be known as the Agricultural Finance Corporation". Section 3(3) of the Act states that "the corporation shall be a body corporate with perpetual succession and a common seal".

1. **Chartered Corporation**

A chartered corporation may be created under Section 14 of the Universities Act, 1985. Section 12 of the Act empowers the President of Kenya to grant a charter to any private university intended to be set up in Kenya if, in his opinion, the grant of the charter to the Institution concerned may be of benefit to the future development of university education in Kenya.

**Business contracts and tendering procedures**

A business contract is a legally binding agreement between two parties for an exchange of goods or services that are of value. For a contract to be valid, an offer must be made and accepted. By using a contract in business dealings the entrepreneur will ensure that all terms of trade are adhered to. The contract protects the interests of both parties privy to it. The entrepreneur should be careful when signing contracts insofar as a broken contract could result in a lawsuit or out-ofcourt settlement and the payment of damages caused by the breach. The best way the entrepreneur can avoid a dispute or potential litigation, however, is to prepare a solid agreement in which he is confident he has negotiated the best terms for his business.

**THE TENDERING PROCESS**

The tendering process refers to the procedure followed in procuring services from parties external to the business in a transparent manner. Services to be procured will most often be outsourced services for which the entrepreneur does not find it worthwhile to allocate most of the business resources. These will be non – core activities such as security, transport, provision of stationery, catering e.t.c. The process of tendering for these services will normally be given to the purchasing officer of the company. The entrepreneur from time to time will find himself doing this if the business has not grown large enough to warrant such an office. The procedure to be used in tendering for services includes;

**Step 1: Identifying the need for the service**

The need for the service will be triggered by one of the employees of the firm or by the entrepreneur himself. The justification should follow due process to avoid wastage of resources for services that are not needed.

**Step 2: Short listing of possible service providers**

Based on the need, the purchasing office or the entrepreneur will identify the possible third party firms that can provide these services and get their quotations

**Step 3: Selection**

Based on pricing and other considerations such as efficiency of service, terms of payment, quality of products e.t.c, the entrepreneur will select the quote from successful supplier and communicate to him that he has been selected to supply the services or good.

**Step 4: Communication with unsuccessful applicants**

It is good practice for the entrepreneur to communicate with the unsuccessful applicants the fact of their non selection and the reasons for the same.

**Business Amalgamations**

Business amalgamation refers to the process where, by mutual agreement, the owners of two or more business combine resources to operate as one legal entity. This can take any of the following forms.

* Merger
* Acquisition  Take over  Franchise.

These are explained briefly as follows;

**Merger**

In a merger, two companies cease to exist as separate entities and register a single entity where both share a common stake. The managers of the two firms sign an agreement stipulating the terms and conditions of the merger and depending on which firm was larger before the merger, considerations such as lines of reporting are realigned. A new legal name will be identified that takes into account the identity of the previous entities.

**Acquisition** In an acquisition, two companies combine resources to run as a single entity but in this case, the company that is usually larger than the other in terms of financial resources and experience, will in essence take over the operations and management of the new entity.

**Take-over** In a takeover, the entrepreneur of a business will relinquish ownership of his firm to another, usually larger company in exchange for a financial consideration.

**Franchise** In a franchise, a sponsor identifies someone with an idea or a proposal and decides to fund his project and give it the financial boost it needs to start off. In this case, the entrepreneur is the franchisee who operates under the franchiser's name.

**CONTRIBUTION TO ECONOMIC DEVELOPMENT**

**What is the Role of an Entrepreneur in Economic Development?**

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important inputs in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector. The major roles played by an entrepreneur in the economic development of an economy are discussed in a systematic and orderly manner as follows.

1. **Promotes Capital Formation:** Entrepreneurs promote capital formation by mobilizing the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises. Such type of entrepreneurial activities leads to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.
2. **Creates Large-Scale Employment Opportunities:** Entrepreneurs provide immediate largescale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.
3. **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. Setting up of more industries leads to more development of backward regions and thereby promotes balanced regional development.
4. **Reduces Concentration of Economic Power:** Economic power is the natural outcome of industrial and business activity. Industrial development normally leads to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.
5. **Wealth Creation and Distribution:** It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.
6. **Increasing Gross National Product and Per Capita Income:** Entrepreneurs are always on the look out for opportunities. They explore and exploit opportunities, encourage effective resource mobilization of capital and skill, bring in new products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.
7. **Improvement in the Standard of Living:** Increase in the standard of living of the people is a characteristic feature of economic development of the country. 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 avail better quality goods at lower prices which results in the improvement of their standard of living.
8. **Promotes Country's Export Trade:** Entrepreneurs help in promoting a country's exporttrade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development.
9. **Induces Backward and Forward Linkages:** Entrepreneurs like to work in an environment of change and try to maximize profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country.
10. **Facilitates Overall Development:** Entrepreneurs act as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialization is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

## Lesson Title: ENTREPRENEURSHIP ORIENTATION

**Expected Learning Outcomes:**

By the end of this lesson, you should be able to:

1. Explain the various types of entrepreneurs
2. The main roles of an Entrepreneur
3. The critical Characteristics of an Entrepreneur.

FUNCTIONS OF ENTREPRENEURS

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. He recognizes the commercial potential of a product or a service, formulates operating policies for production, product design, marketing and organizational structure. He is thus a nucleus of high growth of the enterprise.

According some economists, the functions of an entrepreneur is classified into five broad categories:

1. Risk-bearing function,
2. Organizational function,
3. Innovative function,
4. Managerial function, and 5. Decision making function.

1. Risk-bearing Function:

The functions of an entrepreneur as risk bearer are specific in nature. The entrepreneur assumes all possible risks of business which emerges due to the possibility of changes in the tastes of consumers, modern techniques of production and new inventions. Such risks are not insurable and incalculable. In simple terms such risks are known as uncertainty concerning a loss.

The entrepreneur, according to Kinght, "is the economic functionary who undertakes such responsibility of uncertainty which by its very nature cannot be insured nor capitalized nor salaried too."

Richard Cantillon conceived of an entrepreneur as a bearer of non-insurable risk because he described an entrepreneur as a person who buys things at a certain price and sells them at an uncertain price.

Thus, risk bearing or uncertainty bearing still remains the most important function of an entrepreneur which he tries to minimize by his initiative, skill and good judgment. J.B. Say and other have stressed risk taking as the specific function of the entrepreneur.

2. Organizational Function:

Entrepreneur as an organizer and his organizing function is described by J.B. Say as a function whereby the entrepreneur brings together various factors of production, ensures continuing management and renders risk-bearing functions as well. His definition associates entrepreneur with the functions of coordination, organization and supervision. According to him, an entrepreneur is one who combines the land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his/her profit. In this way, he describes an entrepreneur as an organizer who alone determines the lines of business to expand and capital to employ more judiciously. He is the ultimate judge in the conduct of the business.

Marshall also advocated the significance of organization among the services of special class of business undertakers.

3. Innovative Function:

The basic function an entrepreneur performs is to innovate new products, services, ideas and information for the enterprise. As an innovator, the entrepreneur foresees the potentially profitable opportunity and tries to exploit it. He is always involved in the process of doing new things. According to Peter Drucker, "Innovation is the means by which the entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth". Whenever a new idea occurs entrepreneurial efforts are essential to convert the idea into practical application.

J.A. Schumpeter considered economic development as a discrete dynamic change brought by entrepreneurs by instituting new combinations of production, i.e. innovation. According to him innovation may occur in any one of the following five forms:

* + The introductions of a new product in the market with which the customers are not get familiar with.
  + Introduction of a new method of production technology which is not yet tested by experience in the branch of manufacture concerned.
  + The opening of a new market into which the specific product has not previously entered.
  + The discovery of a new source of supply of raw material, irrespective of whether this source already exists or has first to be created.
  + The carrying out of the new form of organization of any industry by creating of a monopoly position or the breaking up of it.

1. Managerial Function:

Entrepreneur also performs a variety of managerial function like determination of business objectives, formulation of production plans, product analysis and market research, organization of sales procuring machine and material, recruitment of men and undertaking, of business operations. He also undertakes the basic managerial functions of planning, organizing, coordinating, staffing, directing, motivating and controlling in the enterprise. He provides a logical and scientific basis to the above functions for the smooth operation of the enterprise thereby avoids chaos in the field of production, marketing, purchasing, recruiting and selection, etc. In large establishments, these managerial functions of the entrepreneur are delegated to the paid managers for more effective and efficient execution.

1. Decision Making Function:

The most vital function an entrepreneur discharges refers to decision making in various fields of the business enterprise. He is the decision maker of all activities of the enterprise. A. H. Cole described an entrepreneur as a decision maker and attributed the following functions to him:

* + He determines the business objectives suitable for the enterprise.
  + He develops an organization and creates an atmosphere for maintaining a cordial relationship with subordinates and all employees of the organization.
  + He decides in securing adequate financial resources for the organization and maintains good relations with the existing and potential investors and financiers.
  + He decides in introducing advanced modern technology in the enterprise to cope up with changing scenario of manufacturing process.
  + He decides the development of a market for his product develops new product or modify the existing product in accordance with the changing consumer's fashion, taste and preference.
  + He also decides to maintain good relations with the public authorities as well as with the society at large for improving the firm’s image before others.

The Roles of the Entrepreneur

Successful entrepreneurs are usually modeled as combinations of innovators (with creative and innovative flair) and managers (with strong general management skills, business know-how, and sufficient contacts). Over the years, economists have, however, described more roles of entrepreneurs. The following is a summary of the economists' interesting discourse that, aspiring entrepreneurs may, hopefully, find useful.

* 1. Entrepreneur as Risk-Taker

Richard Cantillon (1680-1734) suggested that an entrepreneur is someone who has the foresight and willingness to assume risk and take the requisite action to make a profit (or loss). Cantillon’s entrepreneur is forward-looking, risk-taking, alert though need not be innovative in the strict sense.

Two different kinds of risk were distinguished by Frank Knight (1885-1972): one is capable of being measured (i.e., objective probability that an event will happen) and shifted from the entrepreneur to another party by insurance; the other is un-measurable (i.e., no objective measure of probability of gain or loss), e.g., the inability to predict consumer demand. According to Knight, the entrepreneur takes the latter risk: “true” uncertainty found in situations, which do not repeat themselves with sufficient conformity to make possible a computation of probability (what we nowadays term as "unknown and unknowable").

* 1. Entrepreneur as Business Manager

Frank Knight established a boundary between management and entrepreneurship. He sees entrepreneurs in the strict sense as producers; while the great mass of population furnish them with productive services, placing their persons and property at the disposal of entrepreneurs who guarantee to them a fixed remuneration. Entrepreneurial profit depends on whether an entrepreneur can make productive services yield more than the price fixed upon them by those who furnish productive services think they can make them yield. Therefore, its magnitude is based on a margin of error in calculation by entrepreneurs and non-entrepreneurs who do not force the entrepreneurs to pay as much for productive services as they could be forced to pay. It is this margin of error in judgment that constitutes true uncertainty that is borne by the true entrepreneur and which results in his profit. In Knight’s view, the function of manager thus does not itself imply entrepreneurship.

* 1. Entrepreneur as Exceptional Leader

Hans Karl Emil von Mangoldt (1824-1868) developed the notion that entrepreneurial profit is the rent of ability. He divided entrepreneurial income into three parts: (1) a premium on uninsured risks; (2) entrepreneur interest and wages, including only payments for special forms of capital or productive effort that did not admit of exploitation by anyone other than the owner; and (3) entrepreneurial rents or payments for differential abilities or assets not held by anyone else. The first part is a return on risk taking; the second part from capital use and production effort, and the third part from ability or asset specificity. Alfred Marshall (1842-1924) carried forward Mangoldt’s notion of rent-of-ability by adding the element of leadership to “entrepreneurial” responsibilities. Marshall’s entrepreneurs “must be a natural leader of men who can choose assistants wisely but also exercise a general control over everything and preserve order and unity in the main plan of business. In fulfilling this organizational function, the entrepreneur must always be “on the lookout for methods that promise to be more effective in proportion to their cost than methods currently in use”. Marshall noted that not everyone had the innate ability to perform this entrepreneurial role as these abilities are so great that very few persons can exhibit all of them in a very high degree. Accordingly, he termed the entrepreneurial rents specifically as a “quasi-rent”, which is a return for exceptional natural abilities, which are not made by human effort, and enable the entrepreneur to obtain a surplus income over what ordinary persons could expect for similar exertions following similar investments of capital and labor in their education and start in life.

* 1. Entrepreneur as Perceiver/Restorer

John Bates Clark (1847-1938) noted that as static conditions change over time: population grow, wants change, and improved production technologies are discovered and implemented, the mobility of capital and labor is necessary to restore new equilibrium. He sees the entrepreneur as the human agent responsible for the coordination that restores the economy to an equilibrium position. For Israel Kirzner (1930- ), knowledge is never complete or perfect in a dynamic economy; markets are constantly in states of disequilibrium and it is disequilibrium that bars the return to equilibrium. Kirzner focused on the “discovery process” by which entrepreneurs discover error and new profitable opportunities, and thus move the market toward equilibrium. Therefore, the role of the entrepreneur is to achieve the kind of adjustment necessary to move economic markets toward the equilibrium state. According to Kirzner, the essence of entrepreneurship consists of the alertness to profit opportunities. By stressing alertness, Kirzner emphasizes the quality of perception, perceiving an opportunity that is a sure thing.

* 1. Entrepreneur as Innovator

Joseph Schumpeter (1883-1950), Austrian-born professor, is famous for focusing on the entrepreneur as the central figure in advancing the wealth of nations and creating dynamic disequilibrium in the global economy. In the process of “creative destruction” (of the market system), entrepreneurs plays a central role by constantly assimilating knowledge not yet in current use and setting up new production forms and functions to produce and market new products. He pointed out that knowledge underlying the innovation need not be newly discovered and may be existing knowledge that has never been utilized in production. Therefore, the entrepreneur need not be an inventor and vice versa. He is the one who turns an invention into commercial exploitation. For Schumpeter, successful innovation requires an act of will, not of intellect. It therefore depends on economic leadership and not mere intelligence. He felt that such a hazardous activity would not be undertaken by ordinary economic agents but only by entrepreneurs with the vision, drive and commitment to survive the uncertainty and turbulence involved. When he succeeds, the entrepreneur will realize exceptional (be it temporary monopoly) profits and he may be able to fundamentally change existing or introduce new market and industry structures. Therefore, Schumpeter’s theory of “creative destruction” has sometimes also been known as “heroic entrepreneurship”.

While Schumpeter emphasizes technological innovation and improvement, Ludwig von Mises (1881-1973) declared that changes in consumer demand may require adjustments, which have no reference at all to technological innovations and improvements. He thought that the business of the entrepreneur is not merely to experiment with new technological methods, but to select those, which are best, fit to supply the public in the cheapest way with the things they are asking for most urgently. Whether a new technological procedure is or is not fit for this purpose is provisionally decided by the entrepreneur and finally decided by the conduct of the buying public. For Mises, the activities of the entrepreneur consist in making decisions and while decisions regarding innovation and technological improvement come under his purview, such decisions alone do not constitute an exhaustive set. This echoed the viewpoint of American economist, F.W.Taussig (1859-1940) that although innovation is one of the activities performed by the entrepreneur, it is not the only one, and perhaps not even the most important one.

Peter Drucker (1909-2005) notes that entrepreneurship can be defined as changing the yield of resources (seen in supply or production terms) or as changing the value and satisfaction obtained from resources by the consumer (defined in demand terms) and innovation to be the specific instrument of entrepreneurship. Like Taussig and Mises, Drucker asserts that innovation does not have to be technical and are often social as well. He argued that management (as ‘a useful knowledge’) is an innovation of the 20th century as it has made possible the emergence of the entrepreneurial economy in America and converted modern society into something brand new: a society of organizations. He therefore prescribed a systematic form of entrepreneurship management, based on systematic innovation: “Systematic innovation consists in the purposeful and organized search for changes and in the systematic analysis of the opportunities such changes might offer for economic or social innovations”.

DIFFERENT TYPES OF ENTREPRENEURS

There are probably as many different types of entrepreneurs as there are people, since one of the great joys of being an entrepreneur is the freedom to invent and re-invent yourself and your business to meet your requirements and the needs of the market in which you operate. That's why agility, flexibility and future focus are clear advantages to successful entrepreneurs and most would resist being placed in any kind of box, and often defy description in the breadth and diversity of their activities.

That said, there are a number of general categories by which entrepreneurs can be loosely described, as shown here.

When we want to differentiate between the types of entrepreneur, ask what are the priorities of the organization or person? What are the actions of the organization or entrepreneur? The following are some types of entrepreneurs:

a) Co-operative Entrepreneur

A Co-operative Entrepreneur collaborates with other co-operative entrepreneurs to start and complete projects where each co-operative entrepreneur brings different skills and talents to the collaboration.

b) Creative Entrepreneur

A Creative Entrepreneur is a creative artist who values their product above all else and puts Intellectual Property (IP) first. Creative Entrepreneurs are dedicated to the artistic and creative expression that is unique to them.

c) Lifestyle Entrepreneur

A Lifestyle Entrepreneur values their lifestyle first and builds their businesses so that they have a rewarding and sustainable lifestyle founded on and driven by their personal interests and talents.

d) Social Entrepreneur

A Social Entrepreneur values social change first and is driven to improve and transform their society, their environment, and economic conditions.

A rapidly growing and vibrant sector, social entrepreneurs play an important role in providing products and services with the overall intention of creating social good, operating from a triple bottom line perspective of people, planet, and profit. Profit is often reinvested into the enterprise rather than being distributed to shareholders. There are different models of operation and varied legal structures to create such companies, and they are distinct from charities in being selfsustaining through income. Social enterprises have been a long-standing feature of the UK economy and contribute substantially to revenues.

Many people seeking to find meaning in their work are turning to social enterprise as a means of combining their desire to help others and make a difference with their ambitions to succeed in a worthwhile business. This means the demographic spread of social entrepreneurs is right across the spectrum from young to old and from every type of background and education.

Former UK Prime Minister David Cameron recently said: "Social enterprises have the human touch, the local knowledge and the personal commitment to get to grips with so many of our social and environmental problems…Social enterprises are businesses, just a different sort than most people are used to, but they create jobs and support growth. The evidence speaks for itself… We want to make the UK the best place in the world to do social enterprise"

Organizations such as Divine Chocolate, Belu and the Big Issue in the UK are social enterprises, and one of the most famous global ventures is the Grameen Bank which was started in Bangladesh by Nobel Peace Prize winner Muhammad Yunus.

"Social entrepreneurs are people who recognize social problems, decide to roll up their sleeves and get into action using entrepreneurial principles to organize, create, and manage a venture to implement social change that is sustainable, good for the planet and for the highest good of humanity."

e) Bottom-Line Entrepreneur

A Bottom-Line Entrepreneur takes the initiative and launches a new enterprise that takes advantage of market opportunities with the goals of building capital and profits.

1. Innovative Entrepreneurs:

An innovative entrepreneur in one, who introduces new goods, inaugurates new method of production, discovers new market and recognizes the enterprise. It is important to note that such entrepreneurs can work only when a certain level of development is already achieved and people look forward to change and improvement.

1. Imitative Entrepreneurs:

These types of entrepreneurs creatively imitate the innovative technical achievement made by another firm. Imitative entrepreneurs are suitable for underdeveloped countries as it is hard for them to bear the high cost of innovation.

1. Fabian Entrepreneurs:

Fabian entrepreneurs are characterized by very great caution and skepticism to experiment any change in their enterprises. They usually do not take any new challenge. They imitate only when it becomes perfectly clear that failure to do not so would result in a loss of the relative position in the enterprise.

1. Drone Entrepreneurs:

They are characterized by a refusal to adopt any change even at cost of severely reduction of profit

Some Other Types of Entrepreneurs: i) Solopreneurs

These are the entrepreneurs who essentially work alone and if needed at all employ a few employees. In the beginning most of the entrepreneurs start their enterprises like them.

The 'one man band' – An individual who operates alone in an enterprise and manages all aspects of the business themselves. Increasingly possible and prevalent with the advent of the internet, email, VOIP, etc. and the consequent ability to perform multiple tasks, coupled with the ease of outsourcing to other freelancers through the ready supply available through websites.

ii) Active Partners

Active partners are those entrepreneurs who start or carry on an enterprise as a joint venture. It is important that all of them actively participate in the operations of the business.

1. Innovators

Such entrepreneurs with their competence and creativity innovate new products. Their basic interest lies in research and innovative activities.

1. Buyers’ Entrepreneurs

These are the entrepreneurs who do not like to bear much risk. They do not take the risk of production but take the risk of marketing a product i.e. wholesaler and retailer.

1. Life Timers

These entrepreneurs believe business as an integral part of their life. These entrepreneurs actually inherit their family business i.e. goldsmith, potter etc.

1. Challengers

These are the entrepreneurs who initiate business because of the challenges it presents. They believe that ‘No risk, No gain’. When one challenge seems to be met, they begin to look for new challenges.

1. Serial Entrepreneurs

Serial entrepreneurs set up businesses, and bring them to a stage of development where they can move on either by selling according to a pre-determined exit strategy, or place the enterprise in the hands of a successor or group of successors whilst retaining some degree of investment and/or strategic input, whilst they start their next venture, with a view to repeating the process again.

1. Lifestyle Entrepreneurs

Lifestyle entrepreneurs choose businesses that reflect their passions and they are more focused on doing something they love than on the pure profit motive for starting a business. This includes making deliberate choices to fit a business around a way of living, for example preserving time with children and family, for a hobby or interest, a sport, or some other element of their life which they wish to retain a place of importance.

INDIVIDUAL CHARACTERISTICS OF ENTREPRENEURS

1. Self-motivated

Successful entrepreneurs do not need someone who holds them accountable or forces them to be efficient and productive. Unfortunately, without a manager, many people cannot take their business past the planning stages. It takes hard work to create your own business; most people need someone who forces them to keep working. Moreover, when people do not have someone to hold them accountable, they may let their work’s quality suffer. For example, many freelance writers set their own hours and choose their workload. However, for this same reason, many freelance writers do not work how they ought to work.

1. Creative

When creating a business idea, many entrepreneurs have to be very creative. There is a good chance that someone else has already established himself as the authority for the niche that a new entrepreneur chooses. However, with a little creative twist, new entrepreneurs can take old ideas or business models and revolutionize them, making them attractive to potential clients or customers.

1. Intuitive

Entrepreneurs do not become successful due to luck. Every successful entrepreneur created his own path with his intelligence, creativity and intuition. Business models are constantly changing. Consequently, the way business owners market and grow their business constantly changes. The most successful entrepreneurs understand how fast current trends change. More importantly, however, they know how to keep up with the changes.

1. Authoritative

If you were to open your own business, you would learn very quickly that there are many people with whom you need to network. However, not everyone has your best interest in mind. You may encounter naysayers, manipulators and scammers. Therefore, you must not allow yourself to be easily influenced; you must be authoritative. Though there is nothing wrong with taking advice or opinions, in the end, you must make decisions that you strongly believe will better your company.

1. Strong-willed

Successful entrepreneurs started their business with a vision - a dream. They acted on their dream by taking small steps towards accomplishing their goals. With every step, entrepreneurs get closer to attaining their ultimate goal or vision. However, not all steps are easy to take.

Unfortunately, nothing worth fighting for is easy to attain. Successful entrepreneurs only made it past the difficult times by being strong-willed. They never let pessimism, difficulty or any other problems stand in their way

1. The Dreamer

The Dreamer is the least understood out of the four dimensions. Many think dreaming is the same as daydreaming; because of course every entrepreneur has a dream. But The Dreamer must have a much larger vision in place. His dream has purpose, that same purpose that lives within the entrepreneur's heart. It's not as simple as the desire to live elsewhere or to have a bigger house and to make more money, but The Dreamer stands on the mountaintop of imagination and creates dreams where there are none at all.

1. The Thinker

The Thinker is The Dreamer's most important companion. The Dreamer represents the "what" and The Thinker represents the methodical "how." He compliments The Dreamer by knowing the special role he plays in the manifestation of The Dreamer's vision. He is the one who asks the questions essential to formulate the business plan.

1. The Storyteller

The Storyteller invokes excitement in others when conveying the dream. He knows that without encouragement and excitement no dream has a chance to become reality. He begins to "speak" the dream or to "sing" the song. The Storyteller in essence represents life and is where The Dreamer and The Thinker find voice.

1. The Leader

The Leader is who assumes the responsibility to move the dream forward. He takes the pieces of the puzzle—that of The Dreamer, Thinker and Storyteller—and puts them together. The execution of the dream rests on his shoulders. He sees where the dream is going, how it's going to get there, when it's going to get there and what it will look like when all is said and done. The Leader realizes that the big picture is a product of all the small things done very, very well.

1. Determination

There are millions of opportunities around us but what are usually lacking are people who take initiative to transform these opportunities into profitable business ventures. Opportunity seekers do not sit around and wait to be told or forced by events to act. Seek opportunities.

Every entrepreneur will face obstacles, ranging from lack of finance, lack of belief by customers to comments of “you are going to fail like others before did.” The successful entrepreneur is determined in the face of serious challenges and obstacles. Be determined.

1. Risk Takers

Entrepreneurs take risks but they have to be calculated. Entrepreneurship is not like gambling where everything is left to chance. A calculated risk is when you use your knowledge and experience to minimize the chance of losing money and increase the chance to take profits.

Entrepreneurs take calculated risks.

1. Goal Oriented

Perhaps the most important trait is that of setting goals. Entrepreneurs have clear picture on how they would want their businesses to be in three or five year’s time. They work with the goals they have set for their businesses. Entrepreneurs set both short and long term goals for their enterprises. As an entrepreneur you must get into the habit of seeking information. Do not depend on 13. Plan in advance

Successful entrepreneurs are systematic planners. They decide what they are going to do in an orderly and logical way. You have to get used to breaking large tasks into sub tasks with clear time frames. Keep financial records and use them to make decisions. Engage in systematic planning. 14. Persuasive

Successful entrepreneurs have to be persuasive with customers, financiers and employees. It is important to build and maintain a network of business contacts. In business “technical know who” is vital. Be persuasive and build networks.

15. Confidence

Finally, the successful entrepreneur does not walk with drooping shoulders and shuffling feet, no. Successful entrepreneurs are self-confident whether they are faced with a difficult task or challenge. The successful entrepreneur must believe in his or her ability to succeed. Be self-confident.

SOURCES OF BUSINESS IDEAS

There are millions of entrepreneurs throughout the world and their testimonies suggest that there are many potential sources of business ideas. Some of the more useful ones are outlined below:

1. Hobbies/Interests: A hobby is a favorite leisure-time activity or occupation. Many people, in pursuit of their hobbies or interests, have founded businesses. If, for example, you enjoy playing with computers, cooking, music, traveling, sport or performing, to name but a few, you may be able to develop it into a business. To illustrate this, if you enjoy traveling, performing and/or hospitality, you may consider going into tourism – which is one of the biggest industries in the world.
2. Personal Skills and Experience: Over half of the ideas for successful businesses come from experiences in the work place, e.g. a mechanic with experience in working for a large garage who eventually sets up his/her own car repair or a used car business. Thus, the background of potential entrepreneurs plays a crucial role in the decision to go into business as well as the type of venture to be created. Your skills and experience are probably your most important resource, not only in generating ideas but also in capitalizing on them.

1. Franchises: A franchise is an arrangement whereby the manufacturer or sole distributor of a trademark, 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. Franchising may take several forms, but the one of interest is the type that offers a name, image, method of doing business and operating procedures.

1. Mass Media: The mass media is a great source of information, ideas and often opportunity. Newspapers, magazines, television, and nowadays the Internet are all examples of mass media. Take a careful look, for example, at the commercial advertisements in newspaper or magazine and you may well find businesses for sale. Well, one way to become an entrepreneur is to respond to such an offer.

Articles in the printed press or on the Internet or documentaries on television may report on changes in fashions or consumer needs. For example, you may read or hear that people are now increasingly interested in healthy eating or physical fitness.

You may also find advertisements calling for the provision of certain services based on skills, for example accounting, catering or security. Or you may discover a new concept for which investors are required, such as a franchise.

1. Exhibitions: Another way to find the ideas for a business is to attend exhibitions and trade fairs. These are usually advertised on the radio or in newspapers; by visiting such events regularly, you will not only discover new products and services, but you will also meet sales representatives, manufacturers, wholesalers, distributors and franchisers. These are often excellent sources of business ideas, information and help in getting started. Some of them may also be looking for someone just like you.

1. Surveys: The focal point for a new business idea should be the customer. The needs and wants of the customer, which provide the rational for a product or service, can be ascertained through a survey. Such a survey might be conducted informally or formally by talking to people – usually using a questionnaire or through interviews – and/or through observation.

You may start by talking to your family and friends to find out what they think is needed or wanted that is not available. Or, for example, whether they are dissatisfied with an existing product or service and what improvements or changes they would like to see.

You can then move on and talk to people who are part of the distribution chain that is manufacturers, wholesalers, distributors, agents and retailers. It would be useful to prepare beforehand a set of questions which might be put on a questionnaire or used in an interview. Given their close contact with customers, channel members have a good sense of what is required and what will not sell. Finally, you should talk to as many customers as possible – both existing and potential customers. The more information you can get from them, the better.

Besides talking to people, you could also get information through observation. For example, in deciding whether to open a shop on a particular street, you can observe and count the number of people going past on given days and besides talking to people, you can also get information through observation. For example, in deciding whether to open a shop on a particular street, you can observe and count the number of people going past on given days and compare these to other sites.

Or, if you are interested in an area frequented by tourists, you may be able to set up or market products from a craft business. Or you may have noticed that there is no decent restaurant or hotel on a tourist route or in a given town.

One way of ensuring that you are not negligent in this area is to be alert at all times to needs and opportunities to do business. One entrepreneur apparently went round at every cocktail party asking if anyone was using a product that did not adequately fulfill its intended purpose. Another monitored the toys of a relative’s children looking for ideas for a market niche

1. Complaints: Complaints and frustrations on the part of customers have led to many a new product or service. Whenever consumers complain bitterly about a product or service, or when you hear someone say ‘I wish there was … “or “If only there were a product/service that could … “, you have the potential for a business idea. The idea could be to set up a rival firm offering a better product or service, or it might be a new product or service which could be sold to the firm in question and/or to others.

1. Brainstorming: Brainstorming is a technique or creative problem-solving as well as for generating ideas. The object is to come up with as many ideas as possible. It usually starts with a question or problem statement. For example, you may ask “What are the products and services needed in the home today which are not available?” Each idea leads to one or more additional ideas, resulting in a good number.

When using this method, you need to follow these four rules:

* + Don’t criticize or judge the ideas of others
  + Freewheeling is encouraged – ideas that seem to be wild or crazy are welcome
  + Quantity is desirable – the greater the number of ideas, the better
  + Combine and improve upon the ideas of others

Reasons for Generating Business Ideas:

* + Business idea generation is a sine-qua-non (inevitable) for business.
  + Ideas are generated to respond to market needs
  + Ideas are also generated to respond to changing fashions and requirements.
  + In order to stay ahead of competition
  + To be in tune with latest technology so as to do things better.
  + In response to product life cycle
  + In order to spread risk and allow for failure.

SOURCES OF FINANCE FOR A START-UP BUSINESS

Often the hardest part of starting a business is raising the money to get going. The entrepreneur might have a great idea and clear idea of how to turn it into a successful business. However, if sufficient finance can’t be raised, it is unlikely that the business will get off the ground.

Raising finance for start-up requires careful planning. The entrepreneur needs to decide:

1. How much finance is required?
2. When and how long the finance is needed for? iii. What security (if any) can be provided? iv. Whether the entrepreneur is prepared to give up some control (ownership) of the start-up in return for investment?

The finance needs of a start-up should take account of these key areas:

i. Set-up costs (the costs that are incurred before the business starts to trade) ii. Starting investment in capacity (the fixed assets that the business needs before it can begin to trade)

1. Working capital (the stocks needed by the business –e.g. r raw materials + allowance for amounts that will be owed by customers once sales begin)
2. Growth and development (e.g. extra investment in capacity)

One way of categorizing the sources of finance for a start-up is to divide them into sources which are from within the business (internal) and from outside providers (external).

1). Internal Sources

The main internal sources of finance for a start-up are as follows:

1. *Personal sources:* These are the most important sources of finance for a start-up, and we deal with them in more detail in a later section.
2. *Retained profits:* This is the cash that is generated by the business when it trades profitably – another important source of finance for any business, large or small.

Note that retained profits can generate cash the moment trading has begun. For example, a start-up sells the first batch of stock for Kshs.5, 000 cash which it had bought for Kshs.2, 000. That means that retained profits are Kshs.3, 000 which can be used to finance further expansion or to pay for other trading costs and expenses.

1. *Share capital* – invested by the founder: The founding entrepreneur (/s) may decide to invest in the share capital of a company, founded for the purpose of forming the startup. This is a common method of financing a start-up. The founder provides all the share capital of the company, retaining 100% control over the business.

A start-up company can also raise finance by selling shares to external investors – this is covered further below.

2) External sources

1. Loan Capital: This can take several forms, but the most common are a bank loan or bank overdraft.

1. A bank loan provides a longer-term kind of finance for a start-up, with the bank stating the fixed period over which the loan is provided (e.g. 5 years), the rate of interest and the timing and amount of repayments. The bank will usually require that the start-up provide some security for the loan, although this security normally comes in the form of personal guarantees provided by the entrepreneur. Bank loans are good for financing investment in fixed assets and are generally at a lower rate of interest that a bank overdraft. However, they don’t provide much flexibility.

1. A bank overdraft is a more short-term kind of finance which is also widely used by startups and small businesses. An overdraft is really a loan facility – the bank lets the business “owe it money” when the bank balance goes below zero, in return for charging a high rate of interest. As a result, an overdraft is a flexible source of finance, in the sense that it is only used when needed. Bank overdrafts are excellent for helping a business handle seasonal fluctuations in cash flow or when the business runs into short-term cash flow problems (e.g. a major customer fails to pay on time).

Further loan-related sources of finance are worth knowing about:

1. Share Capital – Outside Investors:

For a start-up, the main source of outside (external) investor in the share capital of a company is friends and family of the entrepreneur. Opinions differ on whether friends and family should be encouraged to invest in a start-up company. They may be prepared to invest substantial amounts for a longer period of time; they may not want to get too involved in the day-to-day operation of the business. Both of these are positives for the entrepreneur. However, there are pitfalls. Almost inevitably, tensions develop with family and friends as fellow shareholders.

1. Business Angels: Business angels are the other main kind of external investor in a start-up company. Business angels are professional investors greats amount of money in businesses. They prefer to invest in businesses with high growth prospects. Angels tend to have made their money by setting up and selling their own business – in other words they have proven entrepreneurial expertise. In addition to their money, Angels often make their own skills, experience and contacts available to the company. Getting the backing of an Angel can be a significant advantage to a start-up, although the entrepreneur needs to accept a loss of control over the business.
2. Venture Capital: You need to be careful here. Venture capital is a specific kind of share investment that is made by funds managed by professional investors. Venture capitalists rarely invest in genuine start-ups or small businesses (their minimum investment is usually over Kshs.1million and more,). They prefer to invest in businesses which have established themselves. Another term you may here is “private equity” – this is just another term for venture capital.

A start-up is much more likely to receive investment from a business angel than a venture capitalist.

1. Personal Sources: As mentioned earlier, most start-ups make use of the personal financial arrangements of the founder. This can be personal savings or other cash balances that have been accumulated. It can be personal debt facilities which are made available to the business. It can also simply be the found working for nothing! The following notes explain these in a little more detail.
2. Savings and Other “Nest-Eggs”: An entrepreneur will often invest personal cash balances into a start-up. This is a cheap form of finance and it is readily available. Often the decision to start a business is prompted by a change in the personal circumstances of the entrepreneur – e.g. redundancy or an inheritance. Investing personal savings maximizes the control the entrepreneur keeps over the business. It is also a strong signal of commitment to outside investors or providers of finance.
3. Re-mortgaging is the most popular way of raising loan-related capital for a start-up. The way this works is simple. The entrepreneur takes out a second or larger mortgage on a private property and then invests some or all of this money into the business. The use of mortgaging like this provides access to relatively low-cost finance, although the risk is that, if the business fails, then the property will be lost too. .
4. Borrowing from friends and family: This is also common. Friends and family who are supportive of the business idea provide money either directly to the entrepreneur or into the business. This can be quicker and cheaper to arrange (certainly compared with a standard bank loan) and the interest and repayment terms may be more flexible than a bank loan. However, borrowing in this way can add to the stress faced by an entrepreneur, particularly if the business gets into difficulties.
5. Credit cards: This is a surprisingly popular way of financing a start-up. In fact, the use of credit cards is the most common source of finance amongst small businesses. It works like this. Each month, the entrepreneur pays for various business-related expenses on a credit card. 15 days later the credit card statement is sent in the post and the balance is paid by the business within the credit-free period. The effect is that the business gets access to a free credit period of aroudn30-45 days!

Lesson Title: **BUSINESS OPPORTUNITY**

**Expected Learning Outcomes:**

By the end of this lesson, you should be able to:

1. Define a business Opportunity
2. Discuss the key characteristics of a good Business Opportunity
3. Explain the various ways of identifying various Business Opportunities

**Introduction**

A business opportunity is a viable business potential to create something new by engaging new technologies in the industry. Entrepreneurship is a thought process. Once the entrepreneur has established in his mind what direction he wants to take for his venture, he will necessarily need to identify a specific gap that has not previously been tapped in the industry he has chosen. This requires that the entrepreneur brainstorms on the areas he is best suited. This does not disregard the fact that what he may be good at is not available for him to capitalize on at that particular moment. In this case, he will therefore consider also what is out there and can be used.

Remember we mentioned earlier that entrepreneurship entails coming up with a new process that has not previously been devised, that will enable the production of goods and services in a manner that adds value to all concerned, and not just the entrepreneur himself. A **business opportunity**, also involves the sale or lease of any product, service, equipment, etc. that will enable the purchaser-licensee to begin a business. This involves no effort on the part of the buyer to come up with a new idea, product or process. The inventor here is the licensor/seller. The seller of a business opportunity declares that he will assist the buyer in finding a suitable location or provide the product to the purchaser-licensee. This is different from the sale of an independent business, in which there is no continued relationship required by the seller From the above, we can define a business opportunity as a gap that is available in the current economic set up, for the entrepreneur to utilize in an attempt to execute an idea borne out of extensive brainstorming and after a lot of thought.

**CHARACTERISTICS OF A GOOD BUSINESS OPPORTUNITY**

* Less costly; a good business opportunity should be less expensive may it be an original idea or a franchise.

* Reduced risks of failure; a good business opportunity should have well executed research into the risks involved, personal strengths and any weaknesses the entrepreneur may deal with.
* Ready market; the market needs to be prepared for the product yet to be established
* High level of competence; a lot of time may be required to gather the necessary knowledge to prosper in any given business opportunity.
* Better financing options; a business opportunity may require stable cash flows and thus need to identify secure source of finance form investors.
* Professional advertising and promotion of the products to ensure there is competitive advantage.

**Types of Business Opportunity**

Contrary to popular opinion, business opportunities are abound in all kinds of economies; you just have to know where to look for it. And sometimes, you should consider creating business opportunities instead of waiting for them to come knocking at your door. There are various types of Business Opportunity ventures: There are all sorts of business opportunities to explore which are already present in the market, but not all of them will make a perfect match for an entrepreneur. Careful choice of an opportunity is important. Taking advantage of the wrong business opportunity can only cause the entrepreneur more financial burden

**Self - Discovery**

This entails creating a product for an unsatisfied need – There are a lot of unsatisfied needs in all types of markets and although taking advantage of these business opportunities promises a lot of rewards, the entrepreneur should keep in mind that they also represent greater risk. Also, he should be sure that the product or service satisfy needs and not wants because the former is for keeps while the latter simply come and go.

**Re - invention**

If the entrepreneur notices a particular product or service that is obviously unable to fully satisfy its target market, that situation can be immediately transformed into a business opportunity if he has an idea on how to improve it, that is. These business opportunities represent lower risks and consequently lower rewards as well compared to those associated with creating a completely new product.

**Use an Existing Product for an Untapped Market** – Sometimes, business opportunities are discovered not by creativity but rather because of resourcefulness. These business opportunities definitely exist, but the process of discovering them is almost akin to creating a new product to satisfy an unwanted need. The rewards, however, are just as great. One good example for this is how a Philippine company was able to make use of coconut husks – which was once the least useful of all parts of the coconut tree – by grinding and turning them into a concrete mixing compound. It soon became not only a more affordable alternative but a more environmentally friendly one as well!

**Joint Venture**

As they always say, two brains work better than one. And in the world of business, there are twice as many business opportunities available just as long as the entrepreneur opens his mind with others of like thinking.

**Distributorship**

This refers to an independent agent that has entered into an agreement to offer and sell the product of another but is not entitled to use the manufacturer's trade name as part of its trade name. Depending on the agreement, the distributor may be limited to selling only that company's goods or it may have the freedom to market several different product lines or services from various firms

This involves the selling of another company's products through a distribution system of racks in a variety of stores that are serviced by the rack jobber. Typically, the agent or buyer enters into an agreement with the parent company to market their goods to various stores by means of strategically located store racks. The parent company obtains a number of locations in which the racks are placed on a consignment basis. It's up to the agent to maintain the inventory, move the merchandise around to attract the customer, and do the bookkeeping. The agent presents the store manager with a copy of the inventory control sheet which indicates how much merchandise was sold, and then the distributor is paid by the store or location which has the rack-less the store's commission.

**Vending machine routes**

The investment is usually greater for this type of business opportunity venture since the entrepreneur must buy the machines as well as the merchandise being vended, but here the situation is reversed in terms of the pay procedure. The vending machine operator must pay the location owner a percentage based on sales. The big secret to any route deal is to get locations in high-foot-traffic areas, and of course, as close to one another as possible. If the locations are spread far apart, you waste time and traveling expenses servicing them. In addition to the types of business opportunities listed above, there are four other categories we should be aware of:

**Dealer**

This is quite similar to a distributor but while a distributor may sell to a number of dealers, a dealer will usually sell only to a retailer or the consumer.

**Trademark/product licenses**

Under this type of arrangement, the licensee obtains the right to use the seller's trade name as well as specific methods, equipment, technology or products. Use of the trade name is purely optional.

**Network marketing**

This is a generic term that covers the realm of direct sales and multilevel marketing. As a network marketing agent, the entrepreneur will sell products through his own network of friends, neighbors, co-workers and so on. In some instances, he may gain additional commissions by recruiting other agents.

**Cooperatives**

This business is similar to a licensee arrangement in which an existing business, such as a hotel or hardware store, can affiliate with a larger network of similar businesses, often for the sole purpose of advertising and promoting through a common identity.

**Franchise Vs Business Opportunity ventures**

A franchise is a venture where a sponsor identifies someone with an idea or a proposal and decides to fund his project and give it the financial boost it needs to start off. This takes the headache away from the sponsor as he is working with a venture that has already been thought of, such that his main role is fund provision and following up on the progress being made. The person sponsoring the franchise is called the franchisor and the one being sponsored is called the franchisee. The franchisor and franchisee could even be separate entities. As a rule of thumb, apart from financial support, a franchisee receives more support from the parent company; he gets to use the trademark name, and is more stringently controlled by the franchisor. Business opportunity ventures, on the other hand, don't receive as much support from the parent company, generally aren't offered the use of a trademarked name, and are independent of the parent company's operational guidelines. As we've previously noted, there are numerous forms of business opportunity ventures. Some are even turnkey operations similar to a lot of package format franchises. These business opportunities provide everything one could possibly need to start a business. They help the entrepreneur select a location, they provide training, they offer support for the licensee's marketing efforts, and they supply a complete start-up inventory.

Unlike a package-format franchise, however, these types of business opportunity ventures aren't trademarked outlets for the parent company. The company's name, logo and how it's legally operated are left solely to the licensee. Many times the only binding requirement between the seller and the buyer is that inventory be purchased solely through the parent company. Of course, all these stipulations are outlined in the disclosure statement and contract.

**Buying a Franchise**

A potential investor could simply buy off a company that he sees has potential for growth instead of opening a new one to rival it. This takes away from him the headache of establishing a new business opportunity all together. He only needs to have a good bargaining power to establish himself as a potential buyer. He may have the funds to see the business through but lacking in ideas. In this case the idea of acquiring the franchise makes up for the lack of innovation that may be crippling him.

**How to identify a viable business opportunity**

In the preceding section, we outlined numerous things an entrepreneur should do to ensure that he/she chooses a venture that will be appropriate for him/her personally, and will represent a sound investment. It's quite important to cover all bases before signing a contract with the seller. The following are some strategies entrepreneurs should use to protect themselves from making wrong decisions on business opportunity ventures.

**Guidelines for choosing a good business Opportunity**

First is to make sure the business opportunity of choice complies with all business opportunity statutes. These vary from state to state. Next is to find out if the business opportunity of interest is open to buyers. When choosing a business opportunity, an entrepreneur should keep in mind that if he buys an opportunity from a company with a sizable number of outlets that's been in business for at least three years, he'll pay more for this established concept than he would for a newer one. If he is considering a more recently established business opportunity, he should check out the parent company's history to evaluate its success and longevity in its particular field of operation. An entrepreneur could evaluate the 'right' business opportunity using the following guidelines. These guidelines cover situations where the business opportunity is the entrepreneur's own idea and where it is an idea from a parent company under a franchise/ franchisee arrangement.

1. **Making an honest evaluation of one's self and abilities.**

Here, the entrepreneur will assess his areas of interests and make a decision as to what exactly he would want to do with his talents. What drives him to want to go into business is something he will want to examine more keenly and make the first decision.

1. **Running the business enthusiastically.**

If the entrepreneur is introducing something new into the market that is unknown to the general public, he should muster all his efforts to enthusiastically convince his potential customers of the need for the product or service he is bringing into the market. He should be able to generate excitement for the item through advertisement or other means.

1. **Having complete knowledge of the product or service**

The entrepreneur should carry out a thorough research into the product or service he wishes to introduce. This will enable him convince his customers and potential investors. If the arrangement is a franchise, he should consider whether the parent company will give him little or no training in technical or management know-how, in which case he should be wary of the business opportunity. If the licensor-seller has organized all the operating knowledge into a standard operating manual, he should look with favor upon this business opportunity.

1. **Making a market evaluation of the product or service to be offered.**

The entrepreneur should find out whether the time is right to introduce the product to the public. He should consider whether there is a need for this type of item, and what is its potential in relation to competition.

1. **Finding out how many entrepreneurs have been in the business successfully for a respectable period of time.**

A legitimate kind of business opportunity will attract many entrepreneurs who feel they can be successful. The entrepreneur should carry out a research to see how many successful businessmen have made it in that line of business he has decided to undertake and how many have failed for various reasons. If it is a franchise arrangement, the parent company should provide him with phone numbers of other buyers, so that he can verify that they're generally satisfied with the opportunity and that the seller is capable of fulfilling his or her promises.

**6. Checking the training and experience required to run the business properly.**

If running a particular line of business requires training, the entrepreneur should consider attending a course that will enable him have the relevant skills required for the business he has chosen. Questions he should ask himself include; is there a suitable curriculum of training? What is the scope of training? Does my background fit its requirements? **7. Financial strength and strong credit behind the business opportunity**

Where the entrepreneur is running the business under a parent company, he should find out whether the licensor-seller will provide an escrow agreement to deliver a building, equipment, leasehold improvements, inventory, etc., as the unit is made ready for use. He should check out the bank references given by the licensor-seller and discuss the company's financial strength with the appropriate managers.

1. **Visit the headquarters of the licensor-seller.**

The entrepreneur should talk to the personnel and the training director of the parent company. He should visit the original prototype of the business being sold and evaluate other outlets. He should expose himself to the other outlets' products and services to determine the quality dispensed.

1. **Have legal representation.**

Where the entrepreneur is buying a license, he should make sure his lawyer is present. The lawyer will assist him when he is negotiating with the licensor-seller. At the very least, the lawyer should go over the contract to purchase the business opportunity and advise the entrepreneur as to whether or not he should sign it in its present condition. He or she should explain what each aspect of the contract means so that the entrepreneur understands what he is signing. **10. Return on investment.** The entrepreneur should find out what the company's profit ratio to sales is. He should relate this to time and service requirements and to the financial leverage requirements. In other words he should consider whether he can make more in another type of business. He should find out whether he can invest the same amount in another business opportunity yet operate a larger operation and get a better return on investment. **11. Research the parent company's history.** If the entrepreneur is taking on a franchise, he should find out whether the parent company is a new firm with little expertise and experience or whether it is an older firm whose regular products have satisfied customers for years.

**Benefits of a well- structured Business Opportunity**

**1. Less Costly.**

A well thought out business opportunity, be it the entrepreneur's own brilliant idea, a franchise or a license to operate under a parent company's name will prove less costly as the foundation will have been laid and room for backing out will be available before the entrepreneur commits himself entirely. Any hidden costs will be made known in the process of laying out the overall plan.

**2. Reduced Risks of failure**

A well thought out business opportunity provides the entrepreneur with a firm foundation on which to establish his enterprise. This follows a thoroughly executed research into the requirements of running the business, risks involved, personal strengths and weaknesses that the entrepreneur may have to deal with

1. **Ready Market**

Part of the ground work involves preparing the public for the product or service that is yet to be introduced into the market. The entrepreneur will be marketing himself following preliminary studies into the customer pattern; their likes and dislikes regarding the product.

1. **High level of competence**

In any new business, a lot of time and money are consumed during the learning period. In a well prepared business opportunity, the entrepreneur will have taken steps to arm himself with the relevant knowledge for his line of business hence enhancing his competence.

1. **Better financing options.**

A business plan will be the basis for a lucrative business opportunity. The entrepreneur will have prepared a business plan which he will use to secure funds from investors. In a situation where he is dealing with a parent company, he is assured of financial support in one way or another, inform of low interest loan, for instance.

**6. Professional advertising and promotion.**

Most small businesspeople don't spend sufficient money on advertising. When they do, their efforts are often poorly conceived and inconsistent. A proper way of promoting the products of a business is through advertising carried out extensively following a market analysis into the trends and consumer patterns. The entrepreneur will have this as his main strength as he attempts to make his product known

**7. Purchasing power.**

Many times, the parent company's tremendous buying power and special buying techniques can bring products, equipment and outside services to the licensee at a much lower cost than an independent could ever get.

**Consequences of a poorly structured Business Opportunity**

There will be consequences where the entrepreneur does not take his time in selecting a good business opportunity. He may come up with a brilliant idea but unless this good idea is effected through a worthy investment, it will remain a good idea. Some of the effects of not having a well structured plan include;

1. **Lack of will power**

If the entrepreneur is not convinced that his idea will sell, then no one will make the idea sell. He is the inventor who can make the business opportunity take off into a strong business

1. **Mismanagement**

A sponsor of a business opportunity under a franchiser/franchisee arrangement may make huge losses if he doesn't do a thorough ground work into the people he is entrusting his investments to

**3. Lack of financial support.**

A business opportunity without a business plan is bound t fail for lack of financial support. The entrepreneur will convince banks and other lenders of funds to support his business if he has a well prepared business plan. Otherwise, he stands to miss out on all the finances from, investors.

1. **Exclusivity clauses.**

The entrepreneur may be restricted to selling only the manufacturer's merchandise. If this is the case and he deviates for any reason whatsoever, he runs the risk of the licensor canceling the agreement. If he does buy from other sources, it will be very hard to hide. Most parent companies will require books to be opened for examination at pre-designated periods of time. Any irregularities will be spotted at these times. Most smart buyers of business opportunities will negotiate the point in the agreement stipulating sources of supply in case product quality is inconsistent.

1. **Parent-company bankruptcy.**

Another pitfall is the possibility of the parent company overextending itself and going bankrupt.

While this is not as serious in a business opportunity as it would be in a franchise, the entrepreneur still runs the risk of losing the business because his property contracts may have been financed through the parent company. The entrepreneur should carefully investigate any business opportunity he is considering. He should get a list of operators from the parent company and call them. He should have a lawyer look over any agreement drafted by the parent company and make sure he receives a disclosure statement. He should then carefully evaluate the licensor. He should not be hurried to sign the deal. The idea is to ensure a responsible company backs the business opportunity.

**FEASIBILITY STUDY**

**Feasibility study** is an assessment of the practicality of a proposed project.

**Overview**

A feasibility study aims to objectively and rationally uncover the strengths and weaknesses of an existing business or proposed venture, opportunities and threats present in the environment, the resources required to carry through, and ultimately the prospects for success. In its simplest terms, the two criteria to judge feasibility are cost required and value to be attained.

A well-designed feasibility study should provide a historical background of the business or project, a description of the product or service, accounting statements, details of the operations and management, marketing research and policies, financial data, legal requirements and tax obligations. Generally, feasibility studies precede technical development and project implementation.

A feasibility study evaluates the project's potential for success; therefore, perceived objectivity is an important factor in the credibility of the study for potential investors and lending institutions. It must therefore be conducted with an objective, unbiased approach to provide information upon which decisions can be based.

**Common factors**

The acronym TELOS refers to the five areas of feasibility - Technical, Economic, Legal, Operational, and Scheduling.

**Technical feasibility**

This assessment is based on an outline design of system requirements, to determine whether the company has the technical expertise to handle completion of the project. When writing a feasibility report, the following should be taken to consideration:

* A brief description of the business to assess more possible factors which could affect the study
* The part of the business being examined
* The human and economic factor
* The possible solutions to the problem

At this level, the concern is whether the proposal is both *technically* and *legally* feasible (assuming moderate cost).

The technical feasibility assessment is focused on gaining an understanding of the present technical resources of the organization and their applicability to the expected needs of the proposed system. It is an evaluation of the hardware and software and how it meets the need of the proposed system

**Economic feasibility**

The purpose of the economic feasibility assessment is to determine the positive economic benefits to the organization that the proposed system will provide. It includes quantification and identification of all the benefits expected. This assessment typically involves a cost/ benefits analysis.

**Legal feasibility**

Determines whether the proposed system conflicts with legal requirements, e.g. a data processing system must comply with the local data protection regulations.

**Operational feasibility**

Operational feasibility is a measure of how well a proposed system solves the problems, and takes advantage of the opportunities identified during scope definition and how it satisfies the requirements identified in the requirements analysis phase of system development.

The operational feasibility assessment focuses on the degree to which the proposed development projects fits in with the existing business environment and objectives with regard to development schedule, delivery date, corporate culture, and existing business processes.

To ensure success, desired operational outcomes must be imparted during design and development. These include such design-dependent parameters such as reliability, maintainability, supportability, usability, producibility, disposability, sustainability, affordability and others. These parameters are required to be considered at the early stages of design if desired operational behaviors are to be realized. A system design and development requires appropriate and timely application of engineering and management efforts to meet the previously mentioned parameters. A system may serve its intended purpose most effectively when its technical and operating characteristics are engineered into the design. Therefore, operational feasibility is a critical aspect of systems engineering that needs to be an integral part of the early design phases.

**Schedule feasibility**

A project will fail if it takes too long to be completed before it is useful. Typically this means estimating how long the system will take to develop, and if it can be completed in a given time period using some methods like payback period. Schedule feasibility is a measure of how reasonable the project timetable is. Given our technical expertise, are the project deadlines reasonable? Some projects are initiated with specific deadlines. It is necessary to determine whether the deadlines are mandatory or desirable.

**Other feasibility factors**

**Market and real estate feasibility**

Market feasibility studies typically involve testing geographic locations for a real estate development project, and usually involve parcels of real estate land. Developers often conduct market studies to determine the best location within a jurisdiction, and to test alternative land uses for given parcels. Jurisdictions often require developers to complete feasibility studies before they will approve a permit application for retail, commercial, industrial, manufacturing, housing, office or mixed-use project. Market Feasibility takes into account the importance of the business in the selected area.

**Resource feasibility**

This involves questions such as how much time is available to build the new system, when it can be built, whether it interferes with normal business operations, type and amount of resources required, dependencies, and developmental procedures with company revenue prospectus.

**Financial feasibility**

In case of a new project, financial viability can be judged on the following parameters:

* Total estimated cost of the project
* Financing of the project in terms of its capital structure, debt to equity ratio and promoter's share of total cost
* Existing investment by the promoter in any other business
* Projected cash flow and profitability

The financial viability of a project should provide the following information:

* Full details of the assets to be financed and how liquid those assets are.
* Rate of conversion to cash-liquidity (i.e. how easily can the various assets be converted to cash?).
* Project's funding potential and repayment terms.
* Sensitivity in the repayments capability to the following factors:
* Time delays.
* Mild slowing of sales.
* Acute reduction/slowing of sales.
* Small increase in cost.
* Large increase in cost.
* Adverse economic conditions.

**Market research study**

This is one of the most important sections of the feasibility study as it examines the marketability of the product or services and convinces readers that there is a potential market for the product or services. If a significant market for the product or services cannot be established, then there is no project.

Typically, market studies will assess the potential sales of the product, absorption and market capture rates and the project's timing.

The feasibility study outputs the *feasibility study report*, a report detailing the evaluation criteria, the study findings, and the recommendations.

**BUSINESS INCUBATIONS**

"Business incubation is a unique and highly flexible combination of business development processes, infrastructure and people designed to nurture new and small businesses by helping them to survive and grow through the difficult and vulnerable early stages of development."

Business incubation is the process designed to accelerate the successful development of entrepreneurial companies through an array of business support resources and services, developed and orchestrated by incubator management

**Types of business incubators**

1. **Mixed portfolio business incubators**-This targets high growth firms in a range of sectors and exists environments with little entrepreneurial activities.
2. **Technology business incubators**-Targets high growth technology firms.lt requires strc^0 technology and human capital infrastructure.
3. **Business incubators with university relationships**-Academic institutions have a role as a founder and is a source of resources such as research, expertise, space and or funds.
4. **Agri-business incubators** Uses entrepreneurship and innovation as a mechanism for social impact. This focuses on socially valuable products and services.

Incubators may also fall into two general categories

1. **Technology** - focusing on commercializing of new technology and technology transfer.
2. **Mixed use** - servicing a wide range of clients.

**Considerations to weigh when choosing an incubator**

* Is it a True Incubator?—some office building owners falsely advertise themselves as incubators in order to lure tenants. Entrepreneurs need to study the details of each offer to determine whether such claims are legitimate.
* Length of Operation—"Incubators take time," some may go beyond their stipulated periods.
* Incubator Leadership—many analysts contend that entrepreneurs can learn a great deal about the fundamental quality of an incubator program simply by studying the program's leadership. Is the incubator managed by people with backgrounds in business, or by general college or agency administrators? Can the managers provide long-term business plans that show how they intend to guide the incubator to financial independence?
* Location—does the incubators’ setting adequately address your fledgling company's needs in terms of target market, transportation, competition, and future growth plans?
* Financing—is the incubators, financial base a reliable one, or is it on shaky ground?

**Lesson Title: BUSINESS FINANCING**

**Expected Learning Outcomes:**

By the end of this lesson, you should be able to:

1. Discuss the Role of Finance in a Business entity
2. Discuss the sources from where Entrepreneurs can source Funds for running a Business Entity
3. Explain the various ways of owning a businesses

**Introduction**

Finance is the elixir that assists in the formation of new businesses, and allows businesses to take advantage of opportunities to grow, employ local workers and international and in turn support other businesses and local, state and federal government through the remittance of income taxes. The strategic use of financial instruments, such as loans and investments, is key to the success of every business. Financial trends also define the state of the economy on a global level, so central banks can plan appropriate monetary policies.

The role of **finance** in **business** is also to make sure there are enough **funds** to operate and that you're spending and investing wisely. The **importance** of **business finance** lies in its capacity to keep a **business** operating smoothly without running out of cash while also securing **funds** for longer-term investments.

**Importance of finance in business organizations**

Finance is one of the very subtle sectors of a business that can make or break entrepreneurs. Ideally, all companies need finances for daily operations, and this is what makes the concept of finance very important as an area for all organizations to cover. In South Africa especially, there is an underlying need to keep a business well financed and managed, in alignment with the economic development goals of the country. Below are some of the reasons finance matters to business organizations:

**Profit creation**

A popular phrase, ‘money is for making money,’ explains why finance management in business organizations requires the utmost attention. For a business to keep running successfully, the amounts of profits coming in must keep increasing. This means that the initial capital investment must be well managed, with a thin line between debt and equity financing. The profit planning for the finance team should look a lot like determining the profitability of individual products and services that the business offers while weeding out the losers and promoting the winners.

**Operational expenses**

Meeting the operational needs of an organization is what keeps a business going. Finance for most companies, including [African businesses](https://dealstream.com/africa-businesses-for-sale), entails some operational costs such as remunerative payments for staff members, raw materials, inventory, interest payments, to mention a few. A proper financial plan provides a form of stability in managing the profits that are coming into the organization, in relation to the operational expenses that need to be met frequently.

**Asset creation**

The primary long-term agenda for company owners is to scale up production by increasing the assets of the business. The finance sector allows companies to have a solid saving plan that is not dependent on short-term finances to meet this need. Investing in items such as land, equipment, and machinery will definitely boost the production scale, but will only happen with intelligent financial management. For the most part, the matter of asset creation goes as far and wide as keeping up with technological advancements that will mean well for the success of the business.

**New products and markets**

The chase for new products and markets is vivid for all businesses. For example, you can engage in [mystery shopping](https://www.seelevelhx.com/how-does-mystery-shopping-work/) so that you find out what commodities are available in the market, and what customers are interested in. Without a proper financial structure, you may not have the financial muscle to get into new spaces and approach a different market with newer solutions or products.

**Cash Flow Management**

Any business big or small anticipates a large sum of cash flowing in and out of the company. These money transactions are necessary to keep a business going. But without a proper system in place, they can be a great source of problems, particularly legal issues. A business organization needs a strong financial team to handle the cash flow of the company, with existing records as a testament to the different transactions. This helps to check out that all necessary expenses are met, including taxations to the government. Ideally, the whole point of cash flow management is to sustain enough liquidity to meet most operational expenses.

**Financial goals**

Among other necessary goals for a business set-up, every organization has a set of financial goals. While most involve hitting a certain profit margin over a specified period, financial goals go as far as catering for the overall economic demands and requirements of the nation.

**Management of unavoidable risks**

Running any company is all about taking risks. Even so, it is not enough to think of your business set up as a risk. Natural phenomena along with human errors can by far be the leading reasons you suffer significant loss in your business. Before that time comes, your financial management techniques will help pull out a contingency plan that will prepare your company to manage unavoidable risk.

**SOURCES OF FINANCE FOR A START-UP BUSINESS**

Often the hardest part of starting a business is raising the money to get going. The entrepreneur might have a great idea and clear idea of how to turn it into a successful business. However, if sufficient finance can’t be raised, it is unlikely that the business will get off the ground.

Raising finance for start-up requires careful planning. The entrepreneur needs to decide:

1. How much finance is required?
2. When and how long the finance is needed for? iii. What security (if any) can be provided? iv. Whether the entrepreneur is prepared to give up some control (ownership) of the start-up in return for investment?

The finance needs of a start-up should take account of these key areas:

i. Set-up costs (the costs that are incurred before the business starts to trade) ii. Starting investment in capacity (the fixed assets that the business needs before it can begin to trade)

1. Working capital (the stocks needed by the business –e.g. r raw materials + allowance for amounts that will be owed by customers once sales begin)
2. Growth and development (e.g. extra investment in capacity)

One way of categorizing the sources of finance for a start-up is to divide them into sources which are from within the business (internal) and from outside providers (external).

**1). Internal Sources**

The main internal sources of finance for a start-up are as follows:

1. ***Personal sources:*** These are the most important sources of finance for a start-up, and we deal with them in more detail in a later section.
2. ***Retained profits:*** This is the cash that is generated by the business when it trades profitably – another important source of finance for any business, large or small.

Note that retained profits can generate cash the moment trading has begun. For example, a start-up sells the first batch of stock for Kshs.5, 000 cash which it had bought for Kshs.2, 000. That means that retained profits are Kshs.3, 000 which can be used to finance further expansion or to pay for other trading costs and expenses.

1. ***Share capital*** – invested by the founder: The founding entrepreneur (/s) may decide to invest in the share capital of a company, founded for the purpose of forming the startup. This is a common method of financing a start-up. The founder provides all the share capital of the company, retaining 100% control over the business.

A start-up company can also raise finance by selling shares to external investors – this is covered further below.

**2) External sources**

**1. Loan Capital:** This can take several forms, but the most common are a bank loan or bank overdraft.

1. **A bank loan** provides a longer-term kind of finance for a start-up, with the bank stating the fixed period over which the loan is provided (e.g. 5 years), the rate of interest and the timing and amount of repayments. The bank will usually require that the start-up provide some security for the loan, although this security normally comes in the form of personal guarantees provided by the entrepreneur. Bank loans are good for financing investment in fixed assets and are generally at a lower rate of interest that a bank overdraft. However, they don’t provide much flexibility.

1. **A bank overdraft** is a more short-term kind of finance which is also widely used by startups and small businesses. An overdraft is really a loan facility – the bank lets the business “owe it money” when the bank balance goes below zero, in return for charging a high rate of interest. As a result, an overdraft is a flexible source of finance, in the sense that it is only used when needed. Bank overdrafts are excellent for helping a business handle seasonal fluctuations in cash flow or when the business runs into short-term cash flow problems (e.g. a major customer fails to pay on time).

Further loan-related sources of finance are worth knowing about:

**1. Share Capital – Outside Investors:**

For a start-up, the main source of outside (external) investor in the share capital of a company is friends and family of the entrepreneur. Opinions differ on whether friends and family should be encouraged to invest in a start-up company. They may be prepared to invest substantial amounts for a longer period of time; they may not want to get too involved in the day-to-day operation of the business. Both of these are positives for the entrepreneur. However, there are pitfalls. Almost inevitably, tensions develop with family and friends as fellow shareholders.

1. **Business Angels:** Business angels are the other main kind of external investor in a start-up company. Business angels are professional investors greats amount of money in businesses. They prefer to invest in businesses with high growth prospects. Angels tend to have made their money by setting up and selling their own business – in other words they have proven entrepreneurial expertise. In addition to their money, Angels often make their own skills, experience and contacts available to the company. Getting the backing of an Angel can be a significant advantage to a start-up, although the entrepreneur needs to accept a loss of control over the business.
2. **Venture Capital**: You need to be careful here. Venture capital is a specific kind of share investment that is made by funds managed by professional investors. Venture capitalists rarely invest in genuine start-ups or small businesses (their minimum investment is usually over Kshs.1million and more,). They prefer to invest in businesses which have established themselves. Another term you may here is “private equity” – this is just another term for venture capital.

A start-up is much more likely to receive investment from a business angel than a venture capitalist.

1. **Personal Sources:** As mentioned earlier, most start-ups make use of the personal financial arrangements of the founder. This can be personal savings or other cash balances that have been accumulated. It can be personal debt facilities which are made available to the business. It can also simply be the found working for nothing! The following notes explain these in a little more detail.
2. **Savings and Other “Nest-Eggs”:** An entrepreneur will often invest personal cash balances into a start-up. This is a cheap form of finance and it is readily available. Often the decision to start a business is prompted by a change in the personal circumstances of the entrepreneur – e.g. redundancy or an inheritance. Investing personal savings maximizes the control the entrepreneur keeps over the business. It is also a strong signal of commitment to outside investors or providers of finance.
3. **Re-mortgaging** is the most popular way of raising loan-related capital for a start-up. The way this works is simple. The entrepreneur takes out a second or larger mortgage on a private property and then invests some or all of this money into the business. The use of mortgaging like this provides access to relatively low-cost finance, although the risk is that, if the business fails, then the property will be lost too. .
4. **Borrowing from friends and family:** This is also common. Friends and family who are supportive of the business idea provide money either directly to the entrepreneur or into the business. This can be quicker and cheaper to arrange (certainly compared with a standard bank loan) and the interest and repayment terms may be more flexible than a bank loan. However, borrowing in this way can add to the stress faced by an entrepreneur, particularly if the business gets into difficulties.
5. **Credit cards:** This is a surprisingly popular way of financing a start-up. In fact, the use of credit cards is the most common source of finance amongst small businesses. It works like this. Each month, the entrepreneur pays for various business-related expenses on a credit card. 15 days later the credit card statement is sent in the post and the balance is paid by the business within the credit-free period. The effect is that the business gets access to a free credit period of aroudn30-45 days!

**FORMS OF BUSINESS ORGANISATION**

Almost every country consists of two business sectors, the private sector and the public sector. Private sector businesses are operated and run by individuals, while public sector businesses are operated by the government. The types of businesses present in a sector can vary, so let’s take a look at them.

**1. Private Sector**

**a) Sole Traders/Sole-Proprietorship**

Sole traders are the most common form of business in the world, and take up as much as 90% of all businesses in a country. The business is owned and run by one person only. Even though he can employ people, he is still the sole proprietor of the business. These businesses are so common since there are so little legal requirements to set up:

1. The owner must register with and send annual accounts to the government Tax Office.
2. They must register their business names with the Registrar of Business Names. iii. They must obey all basic laws for trading and commerce.

There are advantages and disadvantages of sole-proprietorship.

**Advantages**

i. There are so few legal formalities are required to operate the business. ii. The owner is his own boss, and has total control over the business. iii. The owner gets 100% of profits. iv. Motivation because he gets all the profits.

1. The owner has freedom to change working hours or whom to employ, etc.
2. He has personal contact with customers.
3. He does not have to share information with anyone but the tax office, thus he enjoys complete secrecy.

**Disadvantages**

1. Nobody to discuss problems with.
2. Unlimited liability. iii. Limited finance/capital, business will remain small. iv. The owner normally spends long hours working.
3. Some parts of the business can be inefficient because of lack of specialists.
4. Does not benefit from economies of scale.
5. No continuity, no legal identity.

Sole traders are recommended for people who:

1. Are setting up a new business.
2. Do not require a lot of capital for their business. iii. Require direct contact for customer service.

**b)Partnership**

A partnership is a group consisting of 2 to 20 people who run and own a business together. They require a Deed of Partnership or Partnership Agreement, which is a document that states that all partners agree to work with each other, and issues such as who put the most capital into the business or who are entitled to the most profit. Other legal regulations are similar to that of a sole trader.

**Advantages**

1. More capital than a sole trader.
2. Responsibilities are split. iii. Any losses are shared between partners.

**Disadvantages**

1. Unlimited liability.
2. No continuity, no legal identity. iii. Partners can disagree on decisions, slowing down decision making iv. If one partner is inefficient or dishonest, everybody loses.

v. Limited capital, there is a limit of 20 people for any partnership.

Recommended to people who:

i. Want to make a bigger business but does not want legal complications. ii. Professionals, such as doctors or lawyers, cannot form a company, and can only form a partnership.

iii. Family, when they want a simple means of getting everybody into a business (Warning: Nepotism is usually not recommended).

1. **Private Limited Companies**

Private Limited Companies have separate legal identities to their owners, and thus their owners have limited liability. The company has continuity, and can sell shares to friends or family, although with the consent of all shareholders. This business can now make legal contracts. Abbreviated as Ltd (UK), or Proprietary Limited, (Pty) Ltd.

**Advantages**

* 1. The sales of shares make raising finance a lot easier. ii. Shareholders have limited liability, therefore it is safer for people to invest but creditors must be cautious because if the business fails they will not get their money back.

iii. Original owners are still able to keep control of the business by restricting share distribution.

**Disadvantages**

* 1. Owners need to deal with many legal formalities before forming a private limited company:
  2. The Articles of Association: This contains the rules on how the company will be managed. It states the rights and duties of directors, the rules on the election of directors and holding an official meeting, as well as the issuing of shares.
  3. The Memorandum of Association: This contains very important information about the company and directors. The official name and addresses of the registered offices of the company must be stated. The objectives of the company must be given and also the

amount of share capital the owners intend to raise. The number of shares to be bought b each of the directors must also be made clear. iv. Certificate of Incorporation: the document issued by the Registrar of Companies that will allow the Company to start trading.

* 1. Shares cannot be freely sold without the consent of all shareholders.
  2. The accounts of the company are less secret than that of sole traders and partnerships.

Public information must be provided to the Registrar of Companies.

* 1. Capital is still limited as the company cannot sell shares to the public.

1. **Public Limited Companies**

Public limited companies are similar to private limited companies, but they are able to sell shares to the public. A private limited company can be converted into a public limited company by:

* 1. A statement in the Memorandum of Association must be made so that it says this company is a public limited company.
  2. All accounts must be made public. iii. The company has to apply for a listing in the Stock Exchange. iv. A prospectus must be issued to advertise to customers to buy shares, and it has to state how the capital raised from shares will be spent.

**Advantages**

* 1. Limited liability.
  2. Continuity. iii. Potential to raise limitless capital. iv. No restrictions on transfer of shares.

v. High status will attract investors and customers.

**Disadvantages**

i. Many legal formalities required to form the business. ii. Many rules and regulations to protect shareholders, including the publishing of annual accounts.

* 1. Selling shares is expensive, because of the commission paid to banks to aid in selling shares and costs of printing the prospectus.
  2. Difficult to control since it is so large.
  3. Owners lose control, when the original owners hold less than 51% of shares. vi. Control and ownership in a public limited company:

The Annual General Meeting (AGM) is held every year and all shareholders are invited to attend so that they can elect their Board of Directors. Normally, Directors are majority shareholders who have the power to do whatever they want. However, this is not the case for public limited companies since there can be millions of shareholders. Anyway, when directors are elected, they have to power to make important decisions. However, they must hire managers to attend to day to day decisions. Therefore:

* 1. Shareholders own the company
  2. Directors and managers control the company

This is called the divorce between ownership and control.

Because shareholders invested in the company, they expect dividends. The directors could do things other than give shareholders dividends, such as trying to expand the company. However, they might loose their status in the next AGM if shareholders are not happy with what they are doing. All in all, both directors and shareholders have their own objectives. **e) Co-operatives**

Cooperatives are a group of people who agree to work together and pool their money together to buy "bulk". Their features are:

i. All members have equal rights, no matter how much capital they invested. ii. All workload and decision making is equally shared, a manager maybe appointed for bigger cooperatives

iii. Profits are shared equally.

The most common cooperatives are:

* 1. Producer co-operatives: just like any other business, but run by workers.
  2. Retail co-operatives: provides members with high quality goods or services for a reasonable price.

**f)Franchising**

The franchisor is a business with a successful brand name that recruits franchisees (individual businesses) to sell for them. (e.g. McDonald, Burger King)

**Advantages**

* 1. The franchisee has to pay to use the brand name.
  2. Expansion is much faster because the franchisor does not have to finance all new outlets.
  3. The franchisee manages outlets iv. All products sold must be bought from the franchisor.

**Disadvantages**

i. The failure of one franchise could lead to a bad reputation of the whole business. ii. The franchisee keeps the profits.

Advantages to the Franchisee:

* 1. The chance of failure is much reduced due to the well know brand image.
  2. The franchisor pays for advertising. iii. All supplies can be obtained from the franchisor.
  3. Many business decisions will be made by the franchisor (prices, store layout, products).
  4. Training for staff and management is provide by the franchisor. vi. Banks are more willing to lend to franchisees because of lower risks.

Disadvantages to the Franchisee

i. Less independence ii. May be unable to make decisions that would suit the local area. iii. License fee must be paid annually and a percentage of the turnover must be paid.

**2) Public Sector**

**a)Public corporations:** A business owned by the government and run by Directors appointed by the government. These businesses usually include the water supply, electricity supply, etc. The government gives the directors a set of objectives that they will have to follow:

1. To keep prices low so everybody can afford the service.
2. To keep people employed. iii. To offer a service to the public everywhere.

These objectives are expensive to follow, and are paid for by government subsidies. However, at one point the government would realize they cannot keep doing this, so they will set different objectives:

1. To reduce costs, even if it means making a few people redundant.
2. To increase efficiency like a private company.
3. To close loss-making services, even if this mean some consumers are no longer provided with the service.

**Advantages**

1. Some businesses are considered too important to be owned by an individual.
   1. (Electricity, water, airline)
2. Other businesses, considered natural monopolies, are controlled by the government. (Electricity, water) Reduces waste in an industry. (e.g. two railway lines in one city)
3. Rescue important businesses when they are failing.
4. Provide essential services to the people (e.g. the BBC)

**Disadvantages**

1. Motivation might not be as high because profit is not an objective.
2. Subsidies lead to inefficiency. It is also considered unfair for private businesses.
3. There is normally no competition to public corporations, so there is no incentive to improve.
4. Businesses could be run for government popularity.

**CAUSES OF BUSINESS FAILURE**

**i) No marketing strategies**

The one thing that any new business should concentrate on is market penetration…how do we convince customers to buy our goods and services? How do we gain market share? What is your long term and short term goal? Since the main goal is market penetration at this point of a business then strategies should be geared towards this end….unfortunately most businesses in Kenya concentrate on one end of a business that is production and for sake the other that is sales

**ii) No innovative products**

If you are entering a line of business that is already flooded then what additional value are you giving consumers? if you are offering the same product the same way at the same price, why would consumers purchase your products….unfortunately though many businesses go to business without having this in mind and consequently fail.

1. **Insufficient market research**

Most new business do not do research regarding the market….they do not try to understand customer behavior and consumption patterns and therefore cannot meet effectively customer needs.

1. **Lack of professionalism**

Most new businesses do not aim at developing their employees knowledge through continuous training and development….they are also quick to shy away from highly qualified staff as a measure of reducing costs all at the businesses risk of failure

**v) Lack effective controls** most new businesses do not have elaborate control mechanism of preventing fraud, safeguarding assets and maintaining an accurate record of accounts…this by effect means that businesses will bleed from fraud and theft instituted by employees and other parties

**vi) Lack of clear goals and objectives**

Most new businesses either do not have clearly set goals and objectives or do not communicate continuously to employees the various objectives and goals….with clear goals employees can work towards the companies’ objectives.

**vii) Lack of division of labor** in most new businesses in Kenya there is no division of labor and specialization….everyone can do everything….this kind of disorganization means that businesses don’t enjoy the benefits of specialization that are characterized by increased output…

**viii) No bench-marking**

Most new businesses do not benchmark their performance against various indicators such a previous performance, industry average or budgeted performance….this means that business is conducted haphazardly without direction hence increasing the chances of failure

**ix) Dumping of goods** in Kenya just like other developing country’s there is massive dumping of cheap low quality goods from country’s such as china and India….this dumping increases unfair completion that is against Kenya businesses

**x) High cost of entry and business**

In Kenya before conducting businesses you have to have trading licenses, certificates of registration/ incorporation, local government licenses, etc….in addition the cost of establishment may be quiet high thus straining the finances of a new business

**xi) Lack of an entrepreneurial spirit** most Kenyan entrepreneurs give up months down the line because things don’t happen as fast or as good as they may have expected….they may be making loses in the beginning or have a very small turnover…making loses or low sales is normal for any business start-up but most entrepreneurs simply give up along the way before things start looking up..

**xii) Lack of sufficient government support**

Most of the problems that start-up businesses face can be avoided by simple government policies such as reduced bureaucratic procedures of registration, tax grace periods when start-up businesses are exempted, subsidies, etc.

**INTELLECTUAL PROPERTY**

**Intellectual property** (**IP**) is a term referring to creations of the intellect for which a monopoly is assigned to designated owners by law Some common types of intellectual property rights (IPR) are trademarks, copyright, patents, industrial design rights, and in some jurisdictions trade secrets: all these cover music, literature, and other artistic works; discoveries and inventions; and words, phrases, symbols, and designs.

While intellectual property law has evolved over centuries, it was not until the 19th century that the term *intellectual property* began to be used, and not until the late 20th century that it became commonplace in the majority of the world.

**COPYRIGHT**

**Copyright** is a legal right created by the law of a country that grants the creator of an original work exclusive rights for its use and distribution. This is usually only for a limited time. The exclusive rights are not absolute but limited by limitations and exceptions to copyright law, including fair use.

Copyright is a form of intellectual property, applicable to certain forms of creative work. Under US copyright law, legal protection attaches only to *fixed* representations in a tangible medium. It is often shared among multiple authors, each of whom holds a set of rights to use or license the work, and who are commonly referred to as rightsholders. These rights frequently include reproduction, control over derivative works, distribution, public performance, and "moral rights" such as attribution.

Copyrights are considered *territorial* rights, which means that they do not extend beyond the territory of a specific jurisdiction. While many aspects of national copyright laws have been standardized through international copyright agreements, copyright laws vary by country.

Typically, the *duration* of a copyright spans the author's life plus 50 to 100 years (that is, copyright typically expires 50 to 100 years after the author dies, depending on the jurisdiction). Some countries require certain copyright formalities to establishing copyright, but most recognize copyright in any completed work, without formal registration. Generally, copyright is enforced as a civil matter, though some jurisdictions do apply criminal sanctions.

Most jurisdictions recognize copyright limitations, allowing "fair" exceptions to the creator's exclusivity of copyright and giving users certain rights. The development of digital media and computer network technologies have prompted reinterpretation of these exceptions, introduced new difficulties in enforcing copyright, and inspired additional challenges to copyright law's philosophic basis. Simultaneously, businesses with great economic dependence upon copyright, such as those in the music business, have advocated the extension and expansion of copyright and sought additional legal and technological enforcement.

**TRADEMARKS**

A trademark can be a name, word, slogan, design, symbol or other unique device that identifies a product or organisation.

Trademarks are registered at a national or territory level with an appointed government body and may take anywhere between 6 and 18 months to be processed.

**Function of a trademark**

1. **Distinguish one's goods from those of another**

Allow consumers to distinguish my goods from another's by affixing a trademark to the goods

1. **Indicate the origin**

Inform consumers that products with the same trademark originate from the same source

1. **Guarantee quality**

Guarantee consumers that all products with the same trademark have the same quality

1. **Advertising**

Remind consumers of the goods associated with a trademark as a promotional method in commercial transactions

**PATENTS**

Patents apply to industrial processes and inventions, and protect against the unauthorised implementation of the invention.

Patents are grants made by national governments that give the creator of an invention an exclusive right to use, sell or manufacture the invention. Like trademarks, patents are registered at a national or territory level with an appointed government body. Patents typically take 2 to 3 years to be granted.

**BUSINESS PLANNING/DEVELOPING A BUSINESS PLAN**

**Expected Learning Outcomes:**

By the end of this lesson, you should be able to:

1. Discuss importance of a business plan
2. Explain the various components of a business plan
3. Develop a feasible Business Plan.

**Introduction**

**What is business planning?**

This is a systematic development of actions aimed at reaching business objectives. It involves analyzing, evaluating, and selecting opportunities.

A business plan is a detailed account of the conversion of the entrepreneur‘s ideas and vision into a real, functioning business. It is a document that sets out how the entrepreneur intends to execute the ideas he has thought of for his business. It‘s a written document that describes all the steps that the entrepreneur plans to carry out in opening and operating a successful business. A business plan identifies the product or service the entrepreneur will produce how he will produce it and who will buy it. It is also in the business plan that the entrepreneur identifies who he will be working with. He needs a team that will assist him win customers from competitors, increase and maintain the market share for his product. Once all this has been written, the entrepreneur will also need to come up with a convincing financial plan, that is, a budget of how the business intends to use the funds and most importantly how the investment will yield returns

**IMPORTANCE OF A BUSINESS PLAN**

**Better understanding of the business**

A business plan helps the entrepreneur appreciate the business needs of his venture beforehand. Through a well prepared business plan, the entrepreneur will be able to see clearly the problems he had not thought of earlier, so he becomes well prepared psychologically to deal with them. The business plan will help in strategy and policy formulation. Without a business plan, it becomes difficult for the entrepreneur to have a clear sense of direction. This is important because he will need to convince many people that the venture will in fact work. In addition to the well laid out strategies, the entrepreneur will also highlight the means he has prepared to achieve these objectives. The plan could be short term or long term. In summary, the process of putting a business plan together forces the entrepreneur to look at the business in an objective and critical manner.

**Financing from financial institutions**

An entrepreneur will need to secure funds for his business. Most lenders will require that he comes up with a business plan before they can consider him for financing. This has become the main reasons why most business prepare business plan. It comes as later requirement when the business needs additional cash to continue its operations. Without a business plan, an entrepreneur will find it very hard to acquire business loans.

**A tool for management**

As we have seen, it is in the business plan that the entrepreneur sets out the objectives for the business. He lays out in writing what his vision for the business is. The strategies will be both short term and long term. They need to be achievable as unachievable targets may make the business plan lose credibility. Subsequently, from time to time, the entrepreneur will be referring to the business plan to check whether the growth of the business is in line with the plan he had envisaged earlier on. If not, then he will have sufficient basis to manage the growth of the business to direct it towards the right direction

**A tool for planning and guidance**

A business plan in itself is a planning tool. The big plans are laid out and the small ones that make up the major plans are also followed up closely. The entrepreneur has set out what he needs to achieve within a give time frame so he will set out all these in the business plan. It may happen that the people he works with are unclear about the main objectives of the business. A business plan will act as a learning tool for them. They can thus contribute to the success of the business along with the entrepreneur. The business plan thus also acts as a source of guidance where the way forwards seems unclear. Planning is very important if a business is to survive. By taking an objective look at the business the entrepreneur can identify areas of weakness and strength. He will realize needs that may have been overlooked, spot problems and nip them before they escalate, and establish plans to meet his business goals. The business plan is only useful if used well. Ninety percent of new businesses fail in the first two years. Failure is often attributed to a lack of planning. To enhance success, the plan should we well utilized. A comprehensive, well constructed business plan can prevent a business from a downward spiral as *failure to plan can mean plan to fail*

**Highlight risks involved**

The risks involved in the business are perhaps something that the entrepreneur may not want to dwell upon too much. However, for the plan to gain more credibility, the entrepreneur will have to incorporate what risks his type of business is likely to encounter. These could be financial, operational or control risks. The entrepreneur should also highlight the measures he has in place to manage the risks that he fore sees. Once an informed reader looks at the plan with all these risks highlighted, he may find it a more realistic proposal and be willing to invest.

**Communication tool**

A business plan is a strong communication tool for the business. It defines the purpose, the competition, management and personnel. It clearly identifies the vision and mission of the business to all the stake holders. The roles and responsibilities of the operational and management staff will also be clearly defined. The process of constructing a business plan can be a strong reality check if the pertinent details are not well articulated.

**Reference Tool**

A well prepared business plan offers a benchmark against which actual performance can be measured and reviewed. As has been mentioned, a business plan will tell the entrepreneur when the trend in performance tends to deviate from the laid out plan. The plan provides an ideal setup. It may need to be changed, especially when changes in the economy or in the industry warrant it. At all times the entrepreneur should keep his business at par with his targets as well as with what the competitors are aiming at and even further.

Even after preparing a business plan, the entrepreneur may find that it is necessary to review it from time to time due to changing circumstances that come to light with time. This enhances the planning process and improves the business plan. Some aspects of the business plan may become obsolete with time and may thus require updating. This may be done even once the business is up and running

**COMPONENTS OF A BUSINESS PLAN**

There is no standard approach in preparing a business plan. There are many variations on the theme of what exactly goes into a successful business plan. All the variations however have the same basic elements. These are;

1. A brief description of the business background and purpose
2. Objectives; These should be both long term and short term
3. Products and services that will be offered
4. Competition

Market analysis and marketing strategy Development and production plan/ Operations Management and staffing Financial Plan; This includes current and projected financial statements Other aspects of a business plan that may be necessary for a successful write up are;

1. **Executive Summary**
2. **Attachments/ Supporting documentation**

Following is a detailed description of each element that goes into making a business plan;

**History and Background**

The entrepreneur must have had a ‗moment of inspiration‘ that led him to start the business. An idea must have been triggered by the need to fill a gap that he had identified. In this section, the entrepreneur should communicate to the readers of the business plan how the idea was born. This will also give a first impression to the investors or lenders who can then either give it thumbs up or tread cautiously. The business plan should clearly explain how the idea will be translated into profits. This is what will give the investors a clearer understanding of the overall picture of the proposed business. If the entrepreneur succeeds in winning the attention of the investor at this stage, he stands a high chance of getting the funds he urgently needs. If this section flops, then no matter how well written the other sections of the plan are, chances are high the reader will not be motivated to read ahead.

**Objective**

The entrepreneur needs to be specific as to what exactly he targets to achieve through the business plan. Most of the times, a business plan will be used to raise start up capital. At times, the plan may be prepared to get additional finance. The objective has to be very clear to whoever is intended to be the final reader. Annual plans are used to manage a business. Business plans are used to attract capital. But there are exceptions, and often the difference between annual plans and business plans becomes muddled. Banks and other lenders or investors may require a copy of each year‘s annual plan. And management may use the start-up business plan as a basis for operating the business. The most important thing for the entrepreneur to bear in mind is keeping the primary objective of and the primary audience for the plan clear. As a rule of thumb, if the plan will be used to attract investors or lenders, this is the primary objective and outsiders are the primary audience. If the plan will help manage the business, this is the primary objective and insiders are the primary audience.

**The Product or Service**

It is important for the reader of the business plan to thoroughly understand the product or the service that is going to be provided. However, it is important to explain this section in layman's terms to avoid confusion. The entrepreneur should not overwhelm the reader with technical explanations or industry jargon that he or she will not be familiar with. It is important to discuss the competitive advantage the product or service has over the competition. If the product is new, the entrepreneur should explain what new thing it is going to add to the present market If appropriate, the entrepreneur should discuss any patents, copyrights and trademarks the business currently owns or has recently applied for and discuss any confidential and non-disclosure protection the business has secured. Any barriers that that the entrepreneur has faced in bringing the product to market, such as government regulations, competing products, high product development costs, the need for manufacturing materials, etc. should be discussed Areas that should be covered in this section include:

* Is the product or service already on the market or is it still in the research and development stage?
* If still being developed, when is the expected date of the launch?
* What makes the product or service unique? What competitive advantage does the product or service have over its competition?
* Can the product or service be priced competitively and still maintain a healthy profit margin?

**The Competition**

To the entrepreneur, understanding his competition's strengths and weaknesses is critical for establishing his product's or services competitive advantage. If he finds a competitor is struggling, he needs to know why, so he doesn‘t make the same mistake. If his competitors are highly successful, he‘ll want to identify why. He will also want to assess the need for another competitor offering the same product or service in the market. Specific areas to address in this section are:

1. Identify the closest competitors. Where are they located? What are their revenues? How long have they been in business?
2. Define their target market.
3. What percentage of the market do they currently have?
4. How do the entrepreneur‘s operations differ from his competition? What do they do well? Where is there room for improvement?
5. In what ways is the business superior to the competition?
6. How is their business doing? Is it growing? Is it scaling back?
7. How are their operations similar to his and how do they differ?
8. Are there certain areas of the business where the competition surpasses him? If so, what are those areas and how do you plan on compensating?

Analyzing competitors should be an ongoing practice. Knowing the competition will allow the entrepreneur to become more motivated to succeed, efficient and effective in the marketplace. The entrepreneur will also need to do a competitive analysis. In this section he will need to do an in-depth analysis of the competitive advantages and weaknesses of his firm. When exploring weaknesses he should include information that will help allay any concerns that may arise as to their ability to significantly hinder his success. This section is important, especially if the company is a start-up, because the entrepreneur will, typically, be competing with established companies that have inherent advantages such as financial strength, name recognition, and established distribution channels. Through this competitive analysis, the entrepreneur will be better prepared to counter competitor moves or strengthen his own position in the market.

**The Market**

Investors look for management teams with a thorough knowledge of their target market. If a new product is being launched, the entrepreneur should include his marketing research data. If he has existing customers, he should provide an analysis of who his customers are, their purchasing habits, their buying cycle. This section of the plan is extremely important, because if there is no need or desire for the product or service there won't be any customers. If a business has no customers, there is no business. This section of the plan should include:

* A general description of the market
* The function that the entrepreneur is planning to capitalizing on and why  The size of the niche market. Include supporting documentation.
* A statement and supporting documentation as to why the entrepreneur believes there is a need for the product or service in the market.
* A projection of the percentage of the market that will be captured.
* What is the growth potential of the market? Include supporting documentation  Will the firm‘s share of the market increase or decrease as the market grows?
* How will the growth of the market be satisfied?
* How will the goods or services be priced in the growing competitive market?

**The Marketing Strategy**

Once the entrepreneur has identified who his market is, he'll need to explain his strategy for reaching the market and distributing his product or service. Potential investors will look at this section carefully to make sure there is a viable method to reach the target market identified at a price point that makes sense. The entrepreneur should analyze his competitors' marketing strategies to learn how they reach the market. If their strategy is working, he should consider adopting a similar plan. If there is room for improvement he should work on creating an innovative plan that will ensure his product or service leaves a mark in the minds of his potential customers. The most effective marketing strategies typically integrate multiple mediums or promotional strategies to reach the market.

**Advertising and promotion**

The entrepreneur should give a break-out of what methods and media he intends to use and why. If he has developed an advertising slogan or unique selling proposition he may mention it, but it isn‘t strictly necessary. He should outline the proposed mix of his advertising media, use of publicity, and/or other promotional programs. The entrepreneur should explain how his choice of marketing vehicles will allow him to reach his target market. He should also explain how they will enable him to best convey his product features and benefits. He should be sure that his advertising, publicity, and promotional programs sound realistic, based upon his proposed marketing budget. Effective advertising, generally, relies on message repetition in order to motivate consumers to make a purchase. If he is on a limited budget, it is better to reach fewer, more likely prospects, more often, than too many people occasionally.

**Sales**

His sales strategy needs to be in harmony with his business strategy, marketing strategy, and his company‘s strengths and weaknesses. For example, if his start-up company is planning on selling products to other businesses in a highly competitive marketplace, his market entry will be easier if he relies on wholesalers or commissioned sales representatives who already have an established presence and reputation in the marketplace. If his business will be selling high-tech products with a range of customized options, his sales force needs to be extremely knowledgeable and personable. The following are some promotional media options to consider:

* TV
* Radio
* Print
* Web
* Direct mail
* Trade shows
* Public relations
* Promotional materials
* Telephone sales
* One-on-one sales  Strategic alliances.

Developing an innovative marketing plan is critical to his company's success. Investors look favorably upon creative strategies that will put the product or service in front of potential customers. Once the entrepreneur has identified how he will reach the market, he should discuss in detail his strategy for distributing the product or service to his customers. Will he use mail order, do personal delivery, hire sales reps, contract with distributors or resellers, etc.?

**Production Plan / Operations**

Once the entrepreneur has had an opportunity to really sell his idea and get the attention of potential investors, the next question on his mind should be how he will implement the idea. What resources and processes are necessary to get the product to market? This section of the plan should describe the manufacturing, research and development, purchasing, staffing, equipment and facilities required for his business. The entrepreneur will want to provide a roll out strategy as to when these requirements need to be purchased and implemented. His financials should reflect his roll out plan. In addition, he should describe the vendors he will need to build the business. Does he have current relationships or does he need to establish new ones? Who will you choose and why? Operations is a catch-all term used to describe any important aspects of the business not described elsewhere. If the start-up is a manufacturing concern for instance, the entrepreneur should discuss critical elements of the manufacturing process. For retail businesses, discuss store operations. Wholesalers should discuss warehouse operations. In addition to discussing areas that are critical to operations, the entrepreneur should briefly summarize how major business functions will be carried out, and how certain functions may run more effectively than those of his competitors. He should not get into long descriptions of any business or operation practices that will not sell his business plan to financiers.

**Management and staffing**

For most investors the experience and quality of the management team is the most important aspect they evaluate when investing in a company. Investors must feel confident that the management team knows its market, product and has the ability to implement the plan. In essence, the entrepreneur‘s plan must communicate management's capabilities in obtaining the objectives outlined in the plan. If this area is lacking, his chances for obtaining financing are bleak. If his team lacks in a critical area, he should identify how he plans on compensating for the void. Whether it is additional training required or additional management staff needed, he should show that he knows the problem exists, and provide his options for solutions. When preparing this section of the business plan he should address the following five areas:

1. **Personal history of the principals:** 
   1. Business background of the principals
   2. Past experience -- tracking successes, responsibilities and capabilities
   3. Educational background (formal and informal)
   4. Personal data: age, current address, past addresses, interests, education, special abilities, reasons for entering into a business
   5. Personal financial statement with supporting documentation

1. **Work experience:** 
   1. Direct operational and managerial experience in this type of business
   2. Indirect managerial experiences

1. **Duties and responsibilities:** 
   1. Who will do what and why
   2. Organizational chart with chain of command and listing of duties
   3. Who is responsible for the final decisions?

1. **Salaries and benefits:** 
   * 1. A simple statement of what management will be paid by position
     2. Listing of bonuses in realistic terms
     3. Benefits (medical, life insurance, disability...)

1. **Resources available to his business:** 
   1. Insurance broker(s)
   2. Lawyer
   3. Accountant
   4. Consulting group(s)
   5. Small Business Association
   6. Local business information centers
   7. Chambers of Commerce
   8. Local colleges and universities
   9. Board of Directors
   10. World Wide Web (various search engines)
   11. Banker

The success of a business can often be measured by its employees. Seventy percent of consumers will go elsewhere if they don't receive prompt and courteous service. The entrepreneur must therefore, carefully consider the following questions in completing this section of the business plan:

* 1. What are his current personnel needs (full or part-time)? How many employees does the firm envisions in the near future and then in the next three to five years?
  2. What skills must employees have? What will their job descriptions be?
  3. Are the people needed readily available and how will he attract them?
  4. Will they be paid salaries or hourly wages?
  5. Will there be benefits? If so, what will they be and at what cost?
  6. Will he pay overtime?

**Financial Data**

At the heart of any business operation is the accounting system. It is important to have a certified public accountant establish accounting system before the start of business. At times there is a tendency for the entrepreneur to do it himself. An incredible number of businesses fail due to managerial inefficiencies. Leave it to the trained professional to help in the area of accounting and legal matters. If the business can't afford a public accountant to establish the books, then it is undercapitalized. The entrepreneur needs to secure additional resources before starting. One of the first steps to having a profitable business is to establish a bookkeeping system which provides data in the following four areas:

* + Balance Sheet/ Statement of Financial Position - indicates what the owner's equity is at a given point (the balance sheet will show assets, liabilities and retained earnings).
  + Income Statement/ Statement of Comprehensive Income - also called the profit and loss statement is used to indicate how well the company is managing its cash, by subtracting disbursements from receipts.
  + Statement of Cash Flows - this projects all cash receipts and disbursements. Cash flow is critical to the survival of any business.
  + Break-Even Analysis - is based on the income statement and cash flow. All businesses should perform this analysis without exceptions. A break-even analysis shows the volume of revenue from sales that are needed to balance the fixed and variable expenses.

If the goal of the business plan is to obtain financing, the entrepreneur will be required to generate financial forecasts. The forecasts demonstrate the need for funds and the future value of equity investment or debt repayments. This exercise is critical in obtaining capital for the business. To obtain capital from lending institutions he must demonstrate the need for the funding and his ability to repay the loan.

The forecast generated should cover a three to five-year period. This is a period in which realistic goals can be established and attained without much speculation. Forecasts should be broken down in monthly increments.

Projections and forecasts are an integral part of the financial portfolio. The entrepreneur should carefully and accurately state his assumptions. Honesty is the best policy! Over-optimism and over-inflation can lead to failure.

**Other relevant Information : Executive Summary**

Executive summaries should be short and concise—one page is ideal. It should cover the following points:

1. **Strategy overview.** The entrepreneur should start with a brief overview of his business strategy. If his business will be based, at least initially, on a particular product or service, he should describe this in the introductory paragraph.
2. **Strategy logic.** In the next paragraph or two, he should explain why his strategy makes sense or why his product or service has promise. Is he entering a fast- growing market or providing a unique product or service that distinguishes his business from existing businesses?
3. **Business development.** Next, he should describe the stage his business is in.
   * Is it already generating sales?
   * Has he done test marketing?
   * Is a prototype developed?
   * Has market research been performed?
4. **Staffing.** The entrepreneur should name the key people in his organization and describe, briefly, what special talents, expertise, or connections they will bring to the business.
5. **Financial objectives.** If his plan is being developed to raise capital, he should be clear about the amount of capital he is seeking and how he plans to use investor or lender funding.
6. **Business organization**. He should describe the form of business organization he will take and where the company will be located.

The entrepreneur should ensure to keep his summary short and easy to understand. He should avoid technical jargon and details. He should not try to summarize all of the different major elements of his plan. He should focus on the key elements that he think will be of most interest to his audience.

**Supporting Documentation**

The entrepreneur must include any documents that lend support to statements made in the body of his company's business plan. The following is a list of some items for his consideration. Note that this list is not complete and may vary depending on the stage of development of his business.

1. Resumes
2. Credit information
3. Quotes or Estimates
4. Letters of Intent from prospective customers
5. Letters of Support from credible people who know you
6. Leases or Buy/Sell Agreements
7. Legal Documents relevant to the business
8. Census/Demographic data

SUMMARY OF THE KEY COMPONENTS OF A BUSINESS PLAN

**Cover sheet/Page**

* Name of the business
* Name of the owner
* Address and telephone number of the owner/ business or where owner can contacted
* Date presented

**Page Two (Roman numbered)**

* Statement of purpose
* Name of business and address
* Amount of financing needed
* Purpose of financing
* Statement of profit potential

**Section One: Description of the Business**

1. Describe the business and the products or services to be sold
2. Discuss the history of the business, if any
3. Discuss the work experiences
4. Discuss the growth possibilities for the business and provide reasons for believing the business will be successful.

**Section Two: Marketing**

1. Describe potential customers and how the business plans to attract and hold them
2. Describe the competition, how their businesses are currently faring, and how the business will be superior to each competitor
3. Describe sales promotion plans, selling methods, purchasing plan. Identify suppliers and what they will offer to the business
4. Describe the business location, its features, what factors influenced its choice, floor layout, and how all location factors influence marketing. Tell what equipment will be needed.

**Section Three Organization and Management**

1. Describe the key management personnel, what each manager will do, their qualifications for the job, and their salaries for the first three years.
2. Discuss any consultant or specialist services required and the types of assistance each will provide
3. Identify the employees needed, their duties and how they will be employed, paid, trained and supervised.
4. Describe the legal structure and why it is appropriate for the business. Identify company officers, if any and present an organization chart.
5. Describe your plan for managing finances and record keeping after the business gets going.
6. Discuss any licenses, permits or regulations that affect the business.

**Section Four: Financial**

The following financial reports should be included:

1. Sources and application of financing (shows how much money will be needed and proposes where to obtain it)
2. Capital equipment list (list all equipment of value owned by the business that could be used as security for a loan)
3. Beginning balance sheet, (shows the financial condition of the business as of the date stated. Assets, liabilities, and net worth)
4. Break even analysis (identifies the level of sales needed for the company to break-even and cover expenses each month).
5. Annual projected income statement and explanatory notes (shows sales, cost of goods sold, gross profit, expenses, and net profit for each of the first three years).
6. Monthly projected income statements (indicates estimated income for the first year by month and for the second and third years by quarter)

Monthly and quarterly cash flow projections and explanatory notes (indicates the anticipated movement of cash within the business.

**ECONOMICS OF SMALL BUSINESS**

**Type of small Businesses**

In Kenya small scale enterprises include many self-employed artisans and traders in the informal sector commonly termed as ‘Jua kali’. The enterprises also cover on the upper limit, the manufacturing and trading businesses in the formal sector, employing up to 50 people and having up to Kshl5 million in total investment. The enterprises include many productive activities consisting of trade, commerce, distribution, transport, construction, agro-business, manufacturing, maintenance and repair services.   
There are various ways of classifying small businesses. However, most small businesses could be in the following types of business:

**a) Manufacturing Firms**Since the initial capital investment of manufacturing firms is high due to use of expensive machines and equipment, and their operating costs and risks are high, few of such firms are small. However, many small firms mostly provide parts and components to large companies. Few small manufacturing firms are coming up utilizing the cheap and local machines and equipments e.g., oil press machine from aprotech.   
**b) Construction Firms**   
In this sector, few small businesses operate autonomously due to high investment costs. However, many small firms are sub-contractors providing specialized services like electricians, plumbers, fixing of doors, painting etc.   
**c) Wholesalers**There are relatively many small enterprises in this sector. Small firms basically act as middlemen distributing products of large firms.   
**d) Retailers**There are many small enterprises in retailing mostly acting as outlets/intermediaries of large firms.   
**e) Service Business**Service sector is large and many small firms perform essential specialized arid often technical services to other businesses, institutions and the general public. Such services are mostly for those customers that are unable to provide technical services like management consulting, accounting, repairs etc.

**Characteristics of Small Business**There are various distinctive characteristics of small enterprises. Among the most common ones are:   
Small initial capital investment.

* Mostly privately owned and organized as sole proprietorship.
* Labor intensive with tendency of utilizing labor more than machinery.
* Proprietor and their family members form the biggest share of the workforce.
* Most of the money come from entrepreneurs savings.
* Weak financial discipline - rules and regulations of financial management not strictly adhered to.
* Organization and management are poor and negligible in many cases.
* Short gestation period - short time between initial investment and generation of returns.
* Flexibility to adapt rapidly to changing demands and conditions.
* Exploitation of human resources - mostly offer poor pay, poor working conditions, few or no fringe benefits etc.
* Use of cheap and easy technology.
* Short term planning.
* Poor book keeping practices.
* High rates of corruption, cheating etc - especially in financial presentations.
* High incident of infant mortality rate - few survive the teething problems.

**Role of Small Business in Economic Development**Small business has constituted the backbone of some economies and has remained the vital link between various levels of economic activity in some. The small firm has been associated with economic development for several reasons:

* Contributes significantly to the country’s GDP through production of goods and services, taxation etc.
* Ability to utilize resources that are under-utilized by the large businesses due to their ability to penetrate small market segments.
* Creation of job opportunities through starting firms and employing assistants.
* Contributes to creativity and innovation by coming up with new ways to counter competition.
* Training opportunities for entrepreneurs who start small firms and gradually grow into large firms.
* Solving the problem of capital scarcity by utilizing the available small resources.
* Distributing of economic power to low income class and minority groups.
* Curbing rural-urban migration as they start firms even in the remote rural areas.
* Providing goods and services to big firms through subcontracting, parts and   
  components etc.

**MANAGEMENT**

**Definition**

1. Management can be defined as the subsystem of an organization that is entrusted with the responsibility, accountability and authority for ensuring the achievement of objectives and goals!
2. It is the control and operation of a business or organization
3. The people who control and operate a business or organization
4. The process of controlling or managing something e.g stress management

Every management level involves delegation. Delegation involves assigning responsibility to other persons in the organization instead of doing everything by oneself.

Delegation is basically the art of getting things done through other people.

**Who is a Manager?**

A manager is someone whose job is to organize and control the work of a business or organization or a part of it.

**Management Consultant**

Someone whose job is to advise managers on how to control and operate their companies more effectively

**Who is a Managing Director?**

The person with the most senior position in a company and with the responsibility for managing all of it

Every Manager performs the following functions *Planning, Organizing, Staffing, Directing and Controlling* in order to achieve the organizational goals.

Operations functions include: **Production, Marketing, Financing, Personnel,** etc. They are also known as the functional areas of the business. Operative functions differ according to the nature and size of business. For instance there is no production in a retail store. On the other hand managerial functions are essential in all organizations irrespective of their nature and size.

Every operative or technical function of business requires *Planning, Organizing, Staffing, Directing and Controlling.*

*Planning*

Planning is the most basic or primary function of management. It precedes other functions because a manager plans before he acts. Planning involves determining the objectives and selecting a course of action to achieve them.

It implies looking ahead and deciding in advance what is to be done, when and where it is to be done, how and by whom it is to be done. Planning is a mental process requiring the use of intellectual faculties, foresight, Imagination and sound judgment. It consists of forecasting, decision making and problem solving.

A plan is a predetermined future course of action. It is today’s design for tomorrow and an outline of steps to be taken in future.

The process of planning consists of:

* Determination of objectives
* Forecasting and choice of a course of action
* Formulation of policies, programs, budgets, schedules, etc. to achieve the objectives.
* Laying down of procedures and standards of performance. Planning may be long term or short term. Planning is pervasive function and managers at all levels have to prepare plans. Planning is also a continuous or on-going process. Planning enables us to do things in an orderly and efficient manner. It is helpful in more effective achievement of goals. Planning enables an organization to face uncertainty and change.

*Organizing*

Once plans are formulated, the next step is that of organizing. Organizing is the process of establishing harmonious authority-responsibility relationships among the members of the enterprise.

It is the function of creating a structure of duties and responsibilities. The network of authority-responsibility relationships is known as organization structure. Organizing is an important element of management because it is through organizing that a manager brings together the material and human resources required for achievement of desired goals. According to Fayol “to organize a business is to provide it with everything useful to its functioning: raw materials, tools, capital and personnel. A sound organization helps to avoid duplication of work and overlapping of effort.

The process of organizing consists of the following steps:

1. Determining and defining the activities required for the achievement of planned goals.
2. Grouping the activities into logical and convenient units.
3. Assigning the duties and activities to specific positions and people.
4. Delegating authority to these positions and people.
5. Defining and fixing responsibility for performance and
6. Establishing horizontal and vertical authority relationships throughout the organization.

*Staffing*

Staffing is the process of filling all departments in an organization with adequate and qualified personnel. It consists of manpower planning, recruitment, selection, training, compensation, integration and maintenance of employees. According to Koontz and O’Donnell, “The managerial function of staffing involves manning the organizational structure through proper and effective selection, appraisal and development of personnel to fit the roles designed into the structure”. Staffing function has become important with growing size of organization, technological advancements and recognition of the human factor in industry. Lawrence Appley remarked, “The managers would be more skilled and more competent if they were carefully selected, specifically trained, continually kept up to date in their field of activity, guided in their development for the assumption of greater responsibility and adequately rewarded.

*Directing*

Directing is the managerial function of guiding, supervising, motivating and leading people towards the attainment of planned targets of performance. In the process of directing his subordinates, a manager takes active steps to ensure that the employees accomplish their tasks according to the established plans. Directing is the executive function of management because it is concerned with the execution of plans and policies. Directing initiates organized action and sets the whole organizational machinery into action. It is, therefore, the life spark of an organization. Directing function of management embraces the following activities:

1. Issuing orders and instructions
2. Supervising (overseeing) people at work
3. Motivation, i.e. creating the willingness to work for certain objectives
4. Communication. i.e. establishing understanding with employees regarding plans and implementation (understanding – putting acquired information/ facts into their right order)
5. Leadership or influencing the behavior of employees. (Influencing others to perform willingly beyond the actions dictated by formal authority).

*Controlling*

Controlling is the process of ensuring that the organization is moving in the desired direction and that progress is being made towards the achievement of goals. The process of controlling involves the following steps

1. Establishing standards for measuring work performance
2. Measurement of actual performance and comparing it with the standard
3. Finding variances between the two and the reason thereof and

Taking corrective action for correcting deviations so as to ensure attainment of objectives

**Managing workers in a business**Human Resource Management is managing employees. This involves planning, directing, controlling and organizing their activities for efficiency and productivity in the business.   
Employees help the owner/manager to:

* Achieve his goals , Accomplish his daily tasks, Build the image of his business
* Succeed in business.

**The responsibility of the owner/manager in human resource management is to: -**

* Hiring resources and placing new workers , Training workers to be productive
* Compensating workers for their efforts , Helping workers to maintain and improve their performance , Evaluating workers’ performance, Building workers relationship.

**Hiring/recruiting employees for a business**

**This involves Job Analysis:**

1. Finding a productive employee requires that you study the job, determine what it consists of, and conclude what kind of person it takes to successfully carry out the responsibility.
2. Determine the job description — this includes: - place in your organization structure, principal duties minimum education, personality and physical characteristics.
3. Finding and attracting those people who have the qualifications for the position.
4. Screening the candidates to identify the most promising and then hiring them.

* **Sources of job applicants (Determine advantages and disadvantages of each source)**Sources of job applicants may include:
* Business friends and acquaintances;
* Suppliers and customers;
* Employment agencies (Reliable ones);
* Universities and Technical Institutions
* Friends and relations;
* Personal file,
* Self-help clubs, youth groups etc.

**Policies for your business**

Once recruited, make sure the employee understands your business policies, these include: -   
• Image of the business. • Working hours.

• Pay policies: pay days, overtime pays, salaries etc. • Holidays. • Vacations. • Leaves of absence. • Sick leaves. • Benefits — retirements, Insurance etc. • Termination of employment — Disciplinary lay off, discharge, resignation.

**Employee motivation**

Employee motivation can improve the image of the business, when satisfied employee share their positive feelings with the customer. Some methods of motivation:

* Listening to them for ideas; Involve them in decision making; Organize a get together/party occasionally; Take them for a training or in-house training.
* Treat them as persons — understand their SWOT; Appreciate their efforts — small tokens; Pay them as agreed in your pay policy; Pay increases as agreed in your salary policy; Promotions; Communicate effectively; Job security

**Delegation of responsibilities**

Delegation involves assigning responsibility to other persons in the organization, instead of doing everything by oneself. It is basically the art of getting things done through other people.   
**Importance of Delegation**

1. Reduces backlog of unsolved problems.
2. Helps develop business successors.
3. Gives owner/managers time to attend to other matters
4. Creates time for making important business decisions.
5. Reduces overworking
6. Gives time to think of expansion or diversification

**RECORD KEEPING**

**Importance of maintaining book-keeping records**

* Help the businessman to keep in touch with the day-to-day, week-to-week, month-to-month operations of the business.
* Increase chances of success and reduce possibility of failure in business.
* Help spot the business trend, such as high and low points in sales, operation costs, inventory levels and credit totals.
* Help know how much money is coming into the business and going out of the business (sales).
* Help to know how much is being owed by the outsiders to the business (debtors)
* Help to know how the money has been spent (sales)
* Help know how much profit/loss the business is making
* Help identify losses, such as theft.
* Help in decision making
* To enable solicit for funds from financiers

**Why some business people do not keep records**The following are some of the reasons traders give of failure to keep records.   
• Laziness on the part of traders.   
• Lack of commitment and appreciation of the value to keep records.   
• Lack of knowledge and know-how.   
• Dislike for desk work.   
• For the sake of keeping business facts as secret.   
• Fear of income-tax.   
• Lack of time due to operating many businesses.

**Qualities of a good system of record keeping**

* Easy to be understood and operated
* Not costly
* Confidential and compact
* Capable of expanding to accommodate new information

**HUMAN RESOURCE MANAGEMENT IN SMALL BUSINESSES**

**Definition of HRM**

It is the management perspective of managing employees within an organization. It involves the process of planning, hiring/recruiting, training, motivating and rewarding employees with a view of getting maximum contribution from each organization. Human resource is the total knowledge, skills, abilities, talents and amplitude of the employees of an organization

**Entrepreneurs’ responsibilities in Human Resource Management:**I. Hiring and placing new employees to their respective jobs.   
2. Training workers to be more productive.   
3. Compensating/rewarding workers for their efforts. -   
4. Evaluating workers performance   
5 Motivating — helping workers to maintain and improve their performance.   
6. Building workers relationships.

**MARKETING MANAGEMENT FOR SMALL BUSINESS**

- Every business is based in selling of goods/services that satisfy your customer needs than cam a profit.- It’s the role of the entrepreneurs therefore to make sure that goods/services are able to reach their customers.   
- The market should be adequate enough to accommodate your goods and those of competitors.   
- Marketing is the process of planning and executing the development, pricing, promotion and distribution of goods and services which satisfy both customer and sellers objectives, i.e., marketing mix / the 4 Ps of marketing.

• Product— Good, service or idea that satisfy customer needs.   
• Price — Appropriate price fitting firms profit object and customer purchasing object.   
• Promotion — Appropriate technique to create awareness and sell product to customers.   
• Place (distribution) — Getting product from seller to buyer and choice of sales outlets.

Market — it is all the people within a specific geographical area who need a product / service and are willing and able to buy it.

**Marketing management**

It is the analysis, planning, implementing and control of programs designed to create, build and maintain beneficial exchange and relationships with target markets for the purpose of achieving organizational objectives.

Marketing management has the task of influencing the level, timing, and composition of demand in a way that will help the organization achieve its objectives simply put. *Marketing management is demand management.* Every business is based on selling of goods and services that satisfy customers’ needs and wants. It is the duty of entrepreneurs to make sure that goods and services reach their customers in the right form, at the right place and time. Entrepreneur should ensure that there is adequate market. Marketing management is based on the so called 4Ps, although with the growing need and demand for better services, 3 more Ps have been added to make 7Ps and possibility of pushing them to 10Ps is in the hoping.

**The 4 basic Ps**

*Product:* goods, services or ideas that satisfy customer needs and wants.

*Price:* appropriate price fitting firms profit objectives and target customers’ purchasing power

*Promotion:* appropriate technique to create awareness and sell product to customers.

*Place (distribution):* getting product from seller to the final consumer and choice of sales outlets.

**Marketing Strategies**

**What Opportunities are there to increase customers?**

There are three types of opportunities to increase customers:

1. selling more of your current products to customers in your current market because:

Either customer’s cannot get enough of the products locally

Or your products are obviously better than products of competitors.

1. start to sell your current products to customers in a new market because:

Either customer’s cannot get enough of the products in the new market Or your products are obviously better than products of competitors in the new market.

1. selling an improved or new product to customers in your current market because:

Either nobody else sells it or customers cannot get enough of the products locally.Or your improved or new product will be obviously better than the products of competitors.

1. ***Selling more of your current product in your current market***
2. If customers cannot buy enough of your products locally. Are there any of your current products which customers cannot buy enough of locally?
3. If your products are better than competitor’s products: Are there any of your current products obviously better than the products of competitors in your current market?
4. ***Starting to sell your current products in a new market.***

A new market includes: Selling in a marketplace where you do not sell to currently and Selling to new types of customers i.e. who you do not sell to currently, for example, if you only sell to individuals now, then schools and hospitals would be new types of customers and therefore a new market to you.

1. If customers cannot buy enough product in the new market: Are there any of your current products which customers in the new marketplace or new types of customers in your current market cannot buy enough of? If customers cannot buy enough of your products locally.
2. If your products are better than competitors products, are there any of your current products which are either obviously better than products of competitors in a new market place? Or obviously better than products of competitors which new types of customers to your business buy?
3. ***Selling an improved or new product in your current market***
4. If customers cannot buy enough of the products, are there any new products that you can add to your range which either customers cannot buy in your current market or which they cannot buy enough of?
5. If the improved/new product is better, can you improve a current product or introduce a new product which is obviously better than products of competitors in your current market?

***Choosing your marketing strategy***

What marketing strategies are there? For each of the opportunities identified above there is an appropriate marketing strategy for each. A strategy is the way or method by which you will take advantage of the opportunity and so increase your customers and sales. There are three marketing strategies that a business can follow.

*Market Share Strategy:* This is increasing your sales by selling more of your current products to your current market. It means getting a bigger share of all the customers in your market.

*New Market Strategy:* This is increasing your sales by selling your current products to customers in new market places or to new types of customers that you do not sell to now.

*Product development strategy:* This is increasing your sales by either improving your current product or by introducing a new product to your current market.

The marketing strategy that you should follow depends on what is your best opportunity.

**Good management tips in business**1. You will have products and services that meet your customer& need.   
2. Your business will be located in the right position to satisfy your customers and keep costs to a minimum. -   
3. Your marketing and advertising will be effective by telling customers about your products and services and making sure that you meet the needs of those customers about your products and services and making sure that you meet the needs of those customers.   
4. Your business organization provides an effective and efficient unit. Your staff know that they have to do, who can make decision and who take responsibilities for activities.   
5. Overall, you know that management means providing customers with the best and most efficient service possible in Kenya.

## ENTREPRENEURSHIP AND TECHNOLOGY

**Expected Learning Outcomes**

**By the end of the lesson, learners should be able to;**

i). Discuss the Impact of Technology on the performance of Business

ii). Explain the various Technological applications used in modern business world

iii). Explain the concept of globalization and its influence on Business entities.

**Introduction**

**E – Commerce**

E – Commerce also known as Electronic Commerce consists of the buying and selling of products or services over electronic systems such as the Internet and other computer networks. The amount of trade conducted electronically has grown extraordinarily with widespread Internet usage. The use of the internet in conducting trade in this manner is spurring and drawing on innovations in electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems. Modern electronic commerce typically uses the World Wide Web at least at some point in the transaction's lifecycle, although it can encompass a wider range of technologies such as e-mail as well.

The entrepreneur, in considering whether this is the path he wants to take, should arm himself with all the pertinent facts about E-Commerce. He should carry out extensive research into the trends in external markets and assess how this pattern is taking effect in the local economy.

E - Commerce has grown tremendously in the last few years, with retailers offering on line shopping tripling in 1998 alone. The Internet has offered merchants a method of reaching new markets and new customers, and customers have found E - Commerce an effective way of researching and purchasing goods without the hassles of crowds, parking and checkout lines. One fact that cannot be argued against is that things are *constantly* changing and will continue to do so into the foreseeable future. Change has become the one constant rule in E - Commerce and probably will be for some time to come.

A large percentage of electronic commerce is conducted entirely electronically for virtual items, i.e. products that do not have a physical aspect attached to them, such as shares in the stock market. However, most electronic commerce involves the transportation of physical items in some way. Online retailers are sometimes known as e-tailers and online retail is sometimes known as e-tail. Almost all big retailers have electronic commerce presence on the World Wide Web.

Electronic commerce that is conducted between businesses is referred to as business-to-business or B2B. B2B can be open to all interested parties (e.g.. commodity exchange) or limited to specific, pre-qualified participants (private electronic market). Electronic commerce that is conducted between businesses and consumers, on the other hand, is referred to as business-toconsumer or B2C. This is the type of electronic commerce conducted by companies such as Amazon.com. This model could be useful to an entrepreneur who wants to open an on line bookshop.

Electronic commerce is generally considered to be the sales aspect of e-business. It also consists of the exchange of data to facilitate the financing and payment aspects of the business transactions.

**E-Commerce Features**

E-commerce software ranges from affordable, off the shelf packages designed for small business owners, to fully customizable software for larger firms. E-commerce software typically offers user design tools, integrated with other utilities such as inventory control, accounting, sales and purchasing, web-based reporting and robust security features to ensure secure financial transactions and customer privacy Off the shelf software seem to work for the small business owner or entrepreneur. This software provides an affordable way to open an on line sales channel. Web-based user design tools, shopping cart templates and built-in support for secure transactions make it possible to get a business up and running in a matter of days. Why should an entrepreneur be concerned about E-Commerce? The following section examines the benefits he is likely to receive;

* **More exposure, more profit.**

Marketing a product or a service via the Internet provides direct company exposure 24 hours a day, 365 days a year all over the world. This gives the company a better chance to earn more profit by providing the means to reach more customers.

* **Reduces company expenses**

Setting up and maintaining an e-commerce web site is more economical than setting up a retail outlet or maintaining a large office. The company no longer needs to spend so much on promotional materials or installation of expensive equipment to be used for customer service, nor does it need to hire more personnel to do the inventory duties. An online database keeps the purchasing history of the company and the customers. A single person can retrieve the database to check purchasing histories easily. It can also reduce operations cost, as the employees can electronically share and access data, preventing the need for multiple printings.

* **Information sharing between business Partners and other businesses**

E-commerce provides an effective way to exchange business information with partners, as it is Internet-based. E-commerce also allows companies to buy the goods and services presented by other online companies (suppliers) - known as business-to-business (B2B). An entrepreneur's customers are also likely to benefit from E-Commerce in the following ways;

* **Convenient and time-saving shopping**

The e-market is open 24 hours, every day. There is no need for the customers to travel, wait in long lines or even carry an item back home. A click on the product and your credit card information (for Electronic Fund Transfer) are all it takes to purchase an item and have it delivered. Aside from credit cards, customers can also choose from a variety of convenient payment.

* **Better choices.**

Aside from the opportunity to visit a wide variety of on-line shops, e-commerce allows customers to check complete information about a certain product. In addition to that, there are no sales persons pressuring the customer into buying a product.

* **Cheaper prices.**
* Going on-line reduces company expenses. As a result, customers can buy items from many online companies at lower prices than offered by traditional stores.
* **Customer satisfaction.**

The Internet provides real-time, interactive communication. The company utilizes these features of the Internet to quickly respond to customer queries, thus providing better customer service and greater customer satisfaction.

**The Entrepreneur’s interest**

The entrepreneur thinking about trading through E – Commerce should carry out a feasibility study to see whether the project can generate a return on investment. It is important that the entrepreneur is not carried away with the hype of technology. The need for this technology should translate into positive returns after a while.

The entrepreneur is likely to increase sales as he will be running parallel systems for a while before going full scale into e-commerce, should he decide to do this. He will need to get an Internet Service Provider (ISP) to host the e-commerce site. The ISP will facilitate the creation of an Internet presence of the business. This may be one of the set up costs the entrepreneur should be prepared to incur. The entrepreneur should also bear in mind the security issues as he goes into e-commerce. E-Commerce exposes the business to the Internet where all sorts of data traverse. Some of this data may pose a threat to the business in the sense that confidential information may be picked up by a third party and used maliciously for personal gain.

**THE ENTERPRISE WEBSITE**

A connected group of pages on the World Wide Web regarded as a single entity. Each Web site contains a home page, which is the first document users see when they enter the site. The site might also contain additional documents and files. Each site is owned and managed by an individual, company or organization.

**Benefits that could accrue to an entrepreneur-from-a-well-designed customer o dented website.**

* **Reaching a wider Audience**

The first and perhaps most obvious advantage of a business website is the potential for reaching a wider audience-. The internet is used by literally millions of people

Building a website for your business will mean you could potentially reach these otherwise unreachable customers..Your business might be local, but you might have the potential to sell your products or services to a wider market, whether it is people in the next town, the nation as a whole or even the international market. Data shows that internet shopping is still on the rise, so taking your business online will potentially allow you to take advantage of the growth and expand your business. Even if you have no intention of using a business website to sell, you still might want to let customers know about your business. People commonly research businesses online before actually visiting the business location. So having a well-designed website will help encourage them to come and visit you or be able to find your business in the first place.

* **Anyone, Anywhere & Anytime**

An advantage of having a website is your business information and details about your products and services can be accessed by anyone, no matter where they are on the planet or what time of day it is. The internet is online 24 hours a day, 7 days a week. So even if your business isn’t open your website will be.

If you have a contact form or another way for people to be able to contact you even if it is as simple as your e-mail address on your website, then people can potentially get in contact with you, whether you’re in front of a computer or not

In the modern age, people are using their mobile phones more and more to browse the internet, find out about businesses and even buy products and services. So even if your website is just a short description of your business it might help customers find your location while they are on the move. This is especially important for restaurants, pubs and other eateries, but is also a relevant consideration for most other businesses.

* **Easy Access to Business Information**

With a website, customers can easily access information about your business. They can see what products or services you sell, your prices, your location and much more. Whatever you decide to tell them, they can find it with a few clicks of a mouse

* **Keeping It Fresh**

Once a website is designed, you can keep it up-to-date to be relevant to your business and encourage more visitors (and potential sales). More and more people are using a blog to promote their business. In fact, research shows that businesses that "blog get more traffic onto their website. So using a blog to keep content fresh and attract attention could mean a big difference to your business.

* **Publicity & Advertising**

You may think of the advantages of a website in terms of advertising and publicity for your business. The costs of having a business website are actually quite low. The ongoing costs are minimal, but the potential return on investment could be quite significant. Think of the business website in terms of advertising for your business and you’ll be more likely to see die value.

* **Links From others & Viral Marketing**

With a website and the current use of social media and marketing, it is quite possible for a good idea, clever product or business service to go “viral”. Word spreads like wildfire across the internet and even the smallest business can get worldwide recognition without any effort on their own part. Viral marketing is a boom in recent years.

If your business is good, people will link to it, people will talk about it and they will share their thoughts. Recognition of your business and. your brand will grow.

**Securing your brand online**

Having a website for your business is not just an advantage; it’s an essential way to protect your business brand online. There is a risk that if you don’t have a business website and secure a domain name relevant to your business then someone else will do it for you. The act of cyber squatting is now less prevalent since the introduction new laws to combat it, but there is still a. risk of someone innocently taking your preferred domain name. Others with a gripe against your business might use a website or social media accounts to damage your business reputation. Getting there first will allow you to protect and secure your business brand online.

* **Offer convenience**

It is far more convenient for a person to research a product on the Internet than it is to get in a car drive somewhere and look for pr ask someone for information on a product. Also a potential customer won’t have to judge a call centre agent to determine whether he/she has: their best interests in mind, or just wants to make a sale. The potential customer can visit your website whenever they like in their own privacy and comfort, without the stresses and distractions that exist in the real world

* **Improve credibility**

A website gives you the opportunity to tell potential customers what you are about and why you deserve trust and confidence. In fact, many people use the internet for pre-purchase research so that they can determine for themselves whether a particular supplier or brand' is worthy of their patronage, and won’t take them for a ride.

**Diversify Revenue Streams**

A website is not just a medium for representation of your company, it is a form of media from which everybody can acquire information. You can use this media to sell advertising space to other businesses. A recent trend has risen where businesses feature their very own directory of complimentary services, where the visitor can search for information on a business that will enhance the use of your service. The business sells complimentary businesses a listing in their directory. A good example is a catering company featuring a directory with businesses such as event co-coordination, electronic equipment rental companies, etc

**GLOBALIZATION**

Globalization refers to the process by which local, regional or national phenomena become integrated on a global scale. The term ‗Globalization‘ is often used to refer to economic integration of countries. In this, national economies are unified into the international economy through trade, foreign investments, capital flows, migration, and the spread of technology. This process is usually recognized as being driven by a combination of economic, technological, socio

- cultural, political and biological factors. The term can also refer to the transnational dissemination of ideas, languages, or popular culture.

A United Nations organ, ESCWA has written that globalization "is a widely-used term that can be defined in a number of different ways. When used in an economic context, it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour...although considerable barriers remain to the flow of labour...Globalization is not a new phenomenon. It began in the late nineteenth century, but its spread slowed during the period from the start of the First World War until the third quarter of the twentieth century. This slowdown can be attributed to the inward looking policies pursued by a number of countries in order to protect their respective industries.. However, the pace of globalization picked up rapidly during the fourth quarter of the twentieth century

The entrepreneur can use this emerging trend to his benefit and for the future profitability of the business. By analyzing what other businesses are doing and how they are managing the effects of economic cycles in various countries, he can put himself in context and see to what extent the world economic reality is impacting on his business operation.

After the Second World War, nations realized the need to unite in the major areas that affect economic growth. These were countries in Europe that had seen the adverse effects of the World War. The consequences of disagreements among nations can lead to very catastrophic financial distressed as witnessed after the war. This could have been avoided had there been mechanisms to address differences in economic realities in the affected countries. As a means towards unification, several institutions were established to manage and control the flow of economic goods between countries. These institutions include the International Bank for Reconstruction and Development (the World Bank), and the International Monetary Fund.

Globalization has also since been facilitated by advances in technology which have reduced the costs of trade, and trade negotiation rounds, originally under the auspices of the General Agreement on Tariffs and Trade (GATT), which led to a series of agreements to remove restrictions on free trade.

Since World War II, barriers to international trade have been considerably lowered through international agreements - GATT. Particular initiatives carried out as a result of GATT and the World Trade Organization (WTO), for which GATT is the foundation were aimed at promoting free trade and include:

* Elimination of tariffs; creation of free trade zones with small or no tariffs •• Reduced transportation costs, especially resulting from development of containerization for ocean shipping.
* Reduction or elimination of capital controls
* Reduction, elimination, or harmonization of subsidies for local businesses
* Creation of subsidies for global corporations
* Harmonization of intellectual property laws across the majority of states, with more restrictions
* International recognition of intellectual property restrictions (e.g. patents granted by China would be recognized in the United States)

Cultural globalization, driven by communication technology and the worldwide marketing of Western cultural industries, was understood at first as a process of homogenization, as the global domination of American culture at the expense of traditional diversity. However, a contrasting trend soon became evident in the emergence of movements protesting against globalization and giving new momentum to the defense of local uniqueness, individuality, and identity, but largely without success

**Measuring globalization**

Economic globalization can be measured in different ways. These ways center on the four main economic flows that characterize globalization:

* Goods and services, e.g. exports plus imports as a proportion of national income or per capita of population
* Labor/people, e.g. net migration rates; inward or outward migration flows, weighted by population
* Capital, e.g. inward or outward direct investment as a proportion of national income or per head of population
* Technology, e.g. international research & development flows; proportion of populations (and rates of change thereof) using particular inventions (especially 'factor-neutral' technological advances such as the telephone, motorcar, broadband)

As globalization is not only an economic phenomenon, a multivariate approach to measuring globalization is the recent performance index . The index measures the three main dimensions of globalization: economic, social, and political. In addition to three indices measuring these dimensions, an overall index of globalization and sub-indices referring to actual economic flows, economic restrictions, data on personal contact, data on information flows, and data on cultural proximity is calculated. Information on these studies can help the entrepreneur better understand his customers and predict their consumer patterns. The entrepreneur can use the indices to project how globalization will impact on sales given that what happens in other countries have an indirect impact on his business.

**Effects of globalization**

Globalization has various aspects which affect the world in several different ways such as:

* ***Industrial -*** emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies. Particularly movement of material and goods between and within national boundaries. This acts to expand the entrepreneur's scale of trade accross the boundary.
* ***Financial -*** emergence of worldwide financial markets and better access to external financing for borrowers. As these worldwide structures grew more quickly than any transnational regulatory regime, the instability of the global financial infrastructure dramatically increased, as evidenced by the financial crises of late 2008. An entrepreneur running a multinational company would have been worst hit by this phenomenon.
* ***Economic -*** realization of a global common market, based on the freedom of exchange of goods and capital. The interconnectedness of these markets, however means that an economic collapse in any one given country could not be contained.
* ***Political -*** some use "globalization" to mean the creation of a world government which regulates the relationships among governments and guarantees the rights arising from social and economic globalization. Politically, the United States has enjoyed a position of power among the world powers; in part because of its strong and wealthy economy. With the influence of globalization and with the help of The United States‘ own economy, the People's Republic of China has experienced some tremendous growth within the past decade. If China continues to grow at the rate projected by the trends, then it is very likely that in the next twenty years, there will be a major reallocation of power among the world leaders. China will have enough wealth, industry, and technology to rival the United States for the position of leading world power. A lot of supplies from China will prove cheaper for a local entrepreneur and this trend may be of interest to him/her.
* ***Informational*** - increase in information flows between geographically remote locations. Arguably this is a technological change with the advent of fiber optic communications, satellites, and increased availability of telephone and Internet.
* ***Language -*** the most popular language is English.
  + About 35% of the world's mail, telexes, and cables are in English. Approximately 40% of the world's radio programs are in English.
  + About 50% of all Internet traffic uses English.
* ***Competition*** - Survival in the new global business market calls for improved productivity and increased competition. Due to the market becoming worldwide, companies in various industries have to upgrade their products and use technology skillfully in order to face increased competition.
* ***Ecological*** - the advent of global environmental challenges that might be solved with international cooperation, such as climate change, cross-boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species. Since many factories are

built in developing countries with less environmental regulation, globalism and free trade may increase pollution. On the other hand, economic development historically required a "dirty" industrial stage, and it is argued that developing countries should not, via regulation, be prohibited from increasing their standard of living.

* ***Cultural -*** growth of cross-cultural contacts; advent of new categories of consciousness and identities which embodies cultural diffusion, the desire to increase one's standard of living and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture". Some bemoan the resulting consumerism and loss of languages.
* Spreading of multiculturalism, and better individual access to cultural diversity (e.g. through the export of Hollywood and Bollywood movies). Some consider such "imported" culture a danger, since it may supplant the local culture, causing reduction in diversity or even assimilation. Others consider multiculturalism to promote peace and understanding between peoples.
* Greater international travel and tourism. WHO estimates that up to 500,000 people are on planes at any time.]
* Greater immigration, including illegal immigration
* Spread of local consumer products (e.g. food) to other countries (often adapted to their culture).
* Worldwide fads and pop culture such as Pokémon, Sudoku, Numa Numa, Origami,

Idol series, YouTube, Orkut, Facebook, and MySpace. Accessible to those who have Internet or Television, leaving out a substantial segment of the Earth's population.

* Worldwide sporting events such as FIFA World Cup and the Olympic Games.
* Incorporation of multinational corporations in to new media. As the sponsors of the All-Blacks rugby team, Adidas had created a parallel website with a downloadable interactive rugby game for its fans to play and compete.
* Social - development of the system of non-governmental organizations as main agents of global public policy, including humanitarian aid and developmental efforts.
* Technical
* Development of a global telecommunications infrastructure and greater trans border data flow, using such technologies as the Internet§, communication satellites, submarine fiber optic cable, and wireless telephones
* Increase in the number of standards applied globally; e.g.. Copyright laws, patents and world trade agreements.
* Legal/Ethical
* The creation of the international criminal court and international justice movements.
* Crime importation and raising awareness of global crime-fighting efforts and cooperation.
* The emergence of Global administrative law.

**Negative effects**

It is too easy to look at the positive aspects of Globalization and the great benefits that are apparent everywhere, without acknowledging several negative aspects. They are often the result of globalized corporations and the delocalization of economies that were once self-sustaining.

Globalization has indeed played an important role in creating an enabling environment for growing businesses. The increasing pace at which international economies are being integrated over the last couple of years has given rise to a lot of optimism for upcoming entrepreneurs. Countries such as China and India which were very poor not more than 20 years ago have benefited a lot from Globalization

However, pundits are not so quick to give this phenomenon a green bill of health without looking at the adverse effects that globalization has had in certain areas. These are among the focus of their arguments;

**Sidelining of local industries**

Agriculture and industries in developed and even developing countries have been sidelined in the interest of keeping a breast with what is happening elsewhere. Competitive advantage no longer plays a major role in deciding what an economy should focus on. This has affected areas such as the Midwest United States

**Sweatshops**

It can be said that globalization is the door that opens up an otherwise resource poor country to the international market. Where a country or nation has little material or physical product harvested or mined from its own soil, an opportunity is seen by large corporations to take advantage of the ―export povertyǁ of such a nation. Where the majority of the earliest occurrences of economic globalization are recorded as being the expansion of businesses and corporate growth, in many poorer nations globalization is actually the result of the foreign businesses investing in the country to take advantage of the lower wage rate: even though investing, by increasing the capital stock of the country, increases their wage rate. An example of this is the oil exploration activities that have been taking place in Kenya.

**Cultural effects**

The internet breaks down cultural boundaries across the world by enabling easy, nearinstantaneous communication between people anywhere in a variety of digital forms and media. The Internet is associated with the process of cultural globalization because it allows interaction and communication between people with very different lifestyles and from very different cultures. Photo sharing websites allow interaction even where language would otherwise be a barrier. The internet has however brought with it a wave of new culture that has not gone very well with the more conservative communities. Through the internet, young people have adopted a lifestyle that likens to that of their peers in the western countries, jeopardizing the importance given to traditional / cultural values. This clash has led pundits to discourage the use of the internet beyond what they consider necessary.

**Unbalanced Exchange**

Globalization has been seen to favor the western countries more than their counterparts in developing countries. The opening up of markets abroad has seen an inflow and outflow of economic, political and cultural values between nations. However, developing countries have found themselves on the receiving ends of most of these values, somehow creating a demand for more. The end analysis is that most developing countries have taken it upon themselves to solve most of their problems by copying what is done outside and in most cases this has had a financial implication

**BUSINESS OUTSOURCING**

Outsourcing is one of the emerging business opportunities that have arisen in the recent past. It involves an organization taking out of its hands functions and processes that are not core to its mainstream activities or reason for existence and entrusting these tasks and operations to an entity that has the capabilities and expertise to carry them out more efficiently.

Outsourcing can also be defined at the process of subcontracting a process, such as product design or manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering cost or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labor, capital, (information) technology and resources.

Business process outsourcing (BPO) is a form of outsourcing that involves the contracting of the operations and responsibilities of a specific non – core business functions (or processes) to a third-party service provider. The main motive for Business Process Outsourcing is to allow the company to invest more time, money and human resources into core activities and building strategies, which fuel company growth.

The entrepreneur, in fact, doesn‘t need to justify outsourcing. They might even have to justify work done internally, that could easily be outsourced. The global market today is highly competitive and ever-changing. A business must focus on improving productivity and yet, cut down costs. Therefore, a lot of tasks that use up precious time, resources and energy, are being outsourced. BPOs, or the units to which work is being outsourced, often are flexible, quicker, cheaper and very efficient.

Business Process Outsourcing helps free up a firm‘s capital and reduce costs. The functions or processes being outsourced range from manufacturing to customer service to software development and much more

BPO is typically categorized into back office outsourcing - which includes internal business functions such as human resources or finance and accounting, and front office outsourcing - which includes customer-related services such as contact center services.

BPO that is contracted outside a company's country is called offshore outsourcing. BPO that is contracted to a company's neighboring (or nearby) country is called nearshore outsourcing**.**

**TECHPRENEUR**

**Definition of Techpreneur**

An entrepreneur who starts and manages their own technology business

Examples of some of these entrepreneurs who have show already use of small data include:

* **M-Farm:** M-Farm through their online platform is able to provide up to date wholesale pricing information and the trends of wholesale prices of agricultural commodities hence helping farmers, suppliers and buyers to stay informed and have a variety of options to buy from

* **Eneza Education:** previously known as MPrep, provide teachers, students and parents with meaningful data and tips from their SMS application to ensure quality education for all. Through their online dashboard, they aggregate reports; graphics and student responses that could help teachers and parents know strength of their students and identify ways to help them improve on their weaknesses.

* **Kopokopo:** Have partnered with Safaricom to provide M-PESA Buy Goods service to small and medium businesses throughout Kenya and, today, they serve hundreds of businesses from salons to restaurants to office supply stores. Using their dashboard they are able to track intelligent payments, purchases and customers reports, which they can provide as useful to the merchants to be able to make better-informed decisions about their businesses.

**Electronic funds transfer**

**Electronic funds transfer** (**EFT**) is the electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, through computer-based systems and without the direct intervention of bank staff. EFTs are known by a number of names. In the United States, they may be referred to as electronic checks or e-checks.

The term covers a number of different payment systems, for example: cardholder-initiated transactions, using a payment card such as a credit or debit card direct deposit payment initiated by the payer direct debit payments for which a business debits the consumer's bank accounts for payment for goods or services wire transfer via an international banking network such as SWIFT electronic bill payment in online banking, which may be delivered by EFT or paper check transactions involving stored value of electronic money, possibly in a private currency.

**E-Money**

Simply put, electronic money or e-money is the electronic alternative to cash. It is monetary value that is stored electronically on receipt of funds, and which is used for making payment transactions. E-Money can be held on cards, devices, or on a server. Examples include pre-paid cards, electronic purses, such as M-PESA in Kenya, or web-based services, such as PayPal. As such, e-money can serve an umbrella term for a number of more specific electronic value products and services.

The European Union (EU) has been involved in defining terms related to e-money since 2000, which is much longer than many other countries or regions. The following definitions are included in the most recent proposed directive from the EU.

Electronic Money Institution**.** A legal person that has been granted authorization to issue electronic money.

Hybrid Issuers**.** Service providers who issue e-money as an accessory activity to their core business, ie mobile phone companies, public transport companies, etc.

**Mobile Financial Services**

Mobile Financial Services or MFS is another broad term that refers to a range of financial services that can be offered across the mobile phone. Three of the leading forms of MFS are mobile money transfer, mobile pay

***Mobile Money Transfer (MMT).*** Services whereby customers use their mobile device to [send and receive monetary value](http://psdblog.worldbank.org/files/gsm-mmt-recommendations.pdf) - or more simply put, to transfer money electronically from one person to another using a mobile phone. Both domestic transfers as well as international, or cross-border, remittances are money transfer services.

Mobile Payments. While MMT addresses person-to-person money transfers, mobile payments refer to person-to-business payments that are made with a mobile phone. Mobile proximity payments involve a mobile phone being used to make payments at a point-of-sale (POS) terminal. In these cases, the mobile phone may communicate with the POS through contactless technologies, such as Near Field Communication (NCR). Mobile remote payments involve using the phone as a mechanism to purchase mobile-related services, such as ring tones, or as an alternate payment channel for goods sold online. Mobile bill payments tend to require interconnection with the bank account of the receiving business, and hence are considered part of mobile banking.

**Mobile Banking.** The connection between a mobile phone and a personnel or business bank account. Mobile banking allows customers to use their mobile phone as another channel for their banking services, such as deposits, withdrawals, account transfer, bill payment, and balance inquiry. Most mobile banking applications are additive in that they provide a new delivery channel to existing bank customers. Transformative models integrate unbanked populations into the formal financial sector.

**BUSINESS NETWORKING**

A business network is a type of business social network whose reason for existing is business networking activity (or connecting with other business people in order to further each other's business interests - forming mutually beneficial business relationships). There are several prominent business networking organizations that create models of business networking activity that, when followed, allow the business person to build new business relationships and generate business opportunities at the same time. A professional network service is an implementation of information technology in support of business networking.

Many business people contend business networking is a more cost-effective method of generating new business than advertising or public relations efforts. This is because business networking is a low-cost activity that involves more personal commitment than company money. Country-specific examples of informal networking are [guanxi](https://en.wikipedia.org/wiki/Guanxi) in China, blat in Russia, good ol' boy network in America, and old boy network in the UK.

In the case of a formal business network, its members may agree to meet weekly or monthly with the purpose of exchanging business leads and referrals with fellow members. To complement this business activity, members often meet outside this circle, on their own time, and build their own one-to-one business relationship with the fellow member.

Business networking can be conducted in a local business community, or on a larger scale via the Internet. Business networking websites have grown over recent years due to the Internet's ability to connect business people from all over the world. Internet businesses often set up business leads for sale to bigger corporations and businesses looking for data sources for business.

Business networking can have a meaning also in the ICT domain, i.e. the provision of operating support to businesses and organizations, and related value chains and value networks.

**General business networking**

Before online business networking, there existed face-to-face networking for business. This was achieved through a number of techniques such as trade show marketing and loyalty programs. Though these techniques have been proven to still be an effective source of income, many companies now focus more on online marketing due to the ability to track every detail of a campaign and justify the spend involved in setting up one of these campaigns.

"Schmoozing" or "rubbing elbows" are expressions used among professional business professionals for introducing and meeting one another in a business context, and establishing business rapport.

**Networked business**

Many business use networking as a key factor in their marketing plan. It helps to develop a strong feeling of trust between those involved and play a big part in raising the profile and takings of a company. Suppliers and businesses can be seen as networked businesses, and will tend to source the business and their suppliers through their existing relationships and those of the companies they work closely with. Networked businesses tend to be open, random, and supportive, whereas those relying on hierarchical, traditional managed approaches are closed, selective, and controlling. These phrases were first used by Thomas Power, businessman and chairman of Ecademy, an online business network, in 2009

**CROWD FUNDING**

**Crowd funding** is the practice of funding a project or venture by raising monetary contributions from a large number of people, today often performed via internet-mediated registries, but the concept can also be executed through mail-order subscriptions, benefit events, and other methods. Crowd funding is a form of alternative finance, which has emerged outside of the traditional financial system. The crowd funding model is based on three types of actors: the project initiator who proposes the idea and/or project to be funded; individuals or groups who support the idea; and a moderating organization (the "platform") that brings the parties together to launch the idea

Types of crowd funding

The Crowd funding Centre's May 2014 report identified two primary types of crowd funding:

1. Rewards Crowd funding: entrepreneurs pre-sell a product or service to launch a business concept without incurring debt or sacrificing equity/shares.
2. Equity Crowd funding: the backer receives shares of a company, usually in its early stages, in exchange for the money pledged.

**CROWD SOURCING**

Crowd sourcing is the process of getting work or funding, usually online, from a crowd of people. The word is a combination of the words 'crowd' and 'outsourcing'. The idea is to take work and outsource it to a crowd of workers.

Famous Example: Wikipedia. Instead of Wikipedia creating an encyclopedia on their own, hiring writers and editors, they gave a crowd the ability to create the information on their own. The result? The most comprehensive encyclopedia this world has ever seen.

Crowd sourcing & Quality: The principle of crowd sourcing is that more heads are better than one. By canvassing a large crowd of people for ideas, skills, or participation, the quality of content and idea generation will be superior.