Management II

2021

Longenecker et. al. (2008). A. Sardiya (2019)

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

DEPARTMENT OF HUMAN RESOURCE AND ORGANISATIONAL DEVELOPMENT

Management II

COURSE DESCRIPTION & OBJECTIVES

Management II is an introductory course which exposes students to practical and compelling contexts, processes and approaches adopted in entrepreneurship and small business management.

This course has been designed following the calls to link academia with industry and the need to harness job-creation cum self-employment thinking among graduates.

The main focus of the course is to expose students to the realities of being an entrepreneur. The course aims to provide an understanding of how small businesses organizations can be managed more effectively while at the same time helping students connect with their entrepreneurial traits.

COURSE CONTENT

Understanding small business and entrepreneurship;

- Small business in the economy
- Entrepreneurship, the entrepreneur and the owner-manager

Creating the entrepreneurial small business

- Business planning
- Successful small business strategies
- Start-ups and franchises
- Buying an existing business
- Starting a business in Ghana
- Family Business

Course content

Managing the entrepreneurial small business

- Managing people and resources
- E-business

Recommended Text

- Stokes, D., Wilson, N., & Wilson, N. (2010). *Small business management and entrepreneurship*. Cengage Learning EMEA.
- Burns, P. (2014). *New Venture Creation: A Framework for Entrepreneurial Start-Ups*. Palgrave Macmillan.

COURSE STRUCTURE

Mode of instruction is a two hour face-to-face lecture per week.

Real life case studies will be discussed in class from time to time.

Assessment

Attendance	5%
Mini-project	15%
Mid-semester exams	10%
End-of Semester exams	70%

APPOINTMENT TIME

- Students can always contact me via e-mail through alimatusardiya@yahoo.com

I would respond to emails as quickly as practical.

LESSON ONE

SMALL BUSINESS AND THE ECONOMY

Longenecker et. al. (2008). A. Sardiya (2019)

LESSON OBJECTIVES

By the end of this lecture, students should be able to;

> Critically analyse the changing commercial environment and how it impacts on entrepreneurship;

> Explain how the approach entrepreneurs take to management in a risky, uncertain environment differs from 'traditional' management.

> Explain why entrepreneurs and small firms are so important to the economies of modern countries.

SMALL BUSINESS IN THE ECONOMY

Introduction

So far the 21st century has seen enormous turbulence and disruption.

The old world order has changed and continues to change. Economic power is moving east from the USA and Europe to China and India.

If the most startling evidence of this was the financial crisis of 2008 that plunged the mature Western economies into recession, the seeds of change were sown much earlier.

Introduction

More specifically, in the business world, corporate integrity has come to be questioned following what some spectacular corporate failures, like the most recent Carillion collapse in the UK.

In Ghana, the DKM scam, the more recent Menzgold saga and the abrupt liquidation of UT and Capital banks among other who appeared to be doing well are evidences of the changes sweeping through global business environment.

Introduction

Underpinning the volatility is the development of global connectivity – an increasingly complex world full of interconnections formed by a truly global marketplace facilitated by exciting technologies that allow instant communication from almost anywhere.

Small changes tend to be amplified in highly connected systems. Actions in one part of a market can have unexpected and rapid consequences in another part of it in a market in a different country or even continent. And nobody, not even sovereign states, seem able to control this.

Introduction

In the midst of these changes, commercial opportunities remain but competition is now as much about survival as growth. And, as global competition continues to increase, sources of competitive advantage are proving increasingly difficult to sustain over any period of time.

So much so that it is the ability to create new sources of competitive advantage quickly, again and again, that is proving to be the only sustainable source of real competitive advantage.

Longenecker et. al. (2008). A. Sardiya (2019)

Introduction

In the face of these changes, firms must also respond to changes in consumer needs quickly, just as they must react quickly to the actions of competitors.

But for entrepreneurs change presents opportunities – and these changes have meant small entrepreneurial firms have flourished. For entrepreneurs such seeming turbulent disturbances present opportunity to be both ethical and to improve competiveness by differentiating themselves from competitors.

Longenecker et. al. (2008). A. Sardiya (2019)

Factors that have promoted the growth in entrepreneurship and SMEs

In addition to the changing nature of "Change" Other factors have accelerated the trend towards smaller, more entrepreneurial firms.

- Technology
- The move from industrial economy to knowledge economy
- Changing social trends

Technology

Technology has played a major role by influencing the trend is three ways.

- Firstly, the new technologies that swept the late-20th-century business world have been pioneered by new, rapidly growing firms. Small firms have pioneered innovation in computers, the internet and mobile technologies, creating new markets for these innovations.
- Small firms have been at the forefront of developing mobile applications, or apps, because the costs of doing so are low but the gains from selling to a global market can be enormous

Technology

Secondly, these technologies have actually facilitated the growth of self-employment and small business by easing communication, encouraging working from home and allowing smaller and smaller market segments to be serviced.

Indeed, information has become a product in its own right and one that can be generated anywhere around the world and transported at the touch of a button.

Longenecker et. al. (2008). A. Sardiya (2019)

Technology

- Thirdly, technology has significantly reduced the fixed cost of doing business so that production can be profitable in smaller, more flexible units.

They have also simplified the routes to market so that small firms can sell to larger firms or direct to customers around the world, without the expense of putting in place a distribution network.

And as large firms increasingly outsource non-core activities, the beneficiaries are often small firms.

Longenecker et. al. (2008). A. Sardiya (2019)

Move from Industrial Economy to Knowledge Economy

In a knowledge economy, value is increasingly being created, not from physical assets, but from knowledge

and the virtual assets it creates – a shift from assets that must be purchased and then restrict flexibility to ones that can be built up over time and used in many different ways.

This move means that economies of scale (with costs declining as volumes increase) have become less important as a form of competitive advantage making it possible for small businesses to compete with larger ones.

Longenecker et. al. (2008). A. Sardiya (2019)

Changing Social Trends

Social trends have also accelerated the growth of small firms. People want to control their own destiny more by pursuing freedom .

After periods of high unemployment, they see self-employment as more attractive and more secure than employment.

Redundancy has pushed many people into self-employment at the same time as the new 'enterprise culture' gave it political and social respectability.

And finally the role of entrepreneur has become respectable and admired.

Longenecker et. al. (2008). A. Sardiya (2019)

SMEs’ Contribution to the Economy

- **India**

30 million operators

Contribute 20 per cent to GDP

45 per cent of industrial output

40 per cent of exports

Employ 60 million people

Create 1.3 million jobs every year

Longenecker et. al. (2008). A. Sardiya (2019)

SMEs' Contribution to the Economy

Europe(2003)
19 million SMEs
140 million jobs
SMEs percentage of total businesses is 99.73%

USA
21.2 million SMEs
49 million jobs
99.72 % of businesses are SMEs

Longenecker et. al. (2008). A. Sardiya (2019)

SMEs’ Contribution to the Economy

Ghana

92 per cent of registered companies are SMEs.

SMEs provide 85 per cent of manufacturing employment.

Contribute about 70 per cent to Ghana’s GDP.

Longenecker et. al. (2008). A. Sardiya (2019)

Management in Entrepreneurial Firms and SMEs

While large firms have increasingly found difficulty in dealing with this new order, start-ups and smaller ventures seem to find opportunities that these larger, more established firms find threatening.

Even in this age of uncertainty and austerity SMEs and entrepreneurs thrive, despite facing increasingly fierce competition.

Longenecker et. al. (2008). A. Sardiya (2019)

Management in Entrepreneurial Firms and SMEs

McMillan (2004) characterized what she called the 'traditional, classical, mechanistic' view of change as abnormal, potentially calamitous, an incremental linear event that is disruptive that can be controlled.

She contrasted this to what she called the 'new, modern dynamic' view that change is normal, continuous, turbulent, both revolutionary and incremental, uncontrollable and non-linear but full of opportunities.

Management in Entrepreneurial Firms and SMEs

Table 1.1 Traditional vs modern views of change

Traditional, classical, mechanistic view of change		New, modern, dynamic view of change
Abnormal	vs	Normal
Incremental	vs	Both revolutionary and incremental
Linear	vs	Non-linear
Disruptive	vs	Turbulent
Potentially calamitous	vs	Full of opportunity
Cause and effect	vs	About learning and creativity
An event	vs	Continuous
Controllable	vs	Uncontrollable

Longenecker et. al. (2008). A. Sardiya (2019)

Management in Entrepreneurial Firms and SMEs

"Sometimes people imagine that going into business is a smooth trajectory from struggling start-up to fully-fledged global brand. But that's never really the case. Growing a company is all about overcoming endless challenges, big and small. This is also what makes starting a business the most exciting adventure anyone can go on."

Richard Branson, founder,
Virgin Group, The Sunday
Times, 7 December 2014

Management in Entrepreneurial Firms and SMEs

"We stand on the threshold of a new age – the age of revolution. In our minds, we know the new age has already arrived: in our bellies, we're not sure we like it.

For we know it is going to be an age of upheaval, of tumult, of fortunes made and unmade at headsnapping speed. For change has changed. No longer is it additive. No longer does it move in a straight line. In the twenty first century, change is discontinuous, abrupt, seditious."

Gary Hamel, 2000, Leading the Revolution, Boston: Harvard Business School Press

Case for the Day

"Case Insight -Instagram" Burns (2016)

LESSON TWO

ENTREPRENEURSHIP, THE ENTREPRENEUR AND THE OWNER-MANAGER

Longenecker et. al. (2008). A. Sardiya (2019)

Lesson Objectives

By the end of this lesson, students are expected to;

- Define entrepreneurship understand the various forms that entrepreneurship might take
- Define SMEs and Understand characteristics of SMEs
- Understand the management approach(es) of the owner manager.

"The mind-set that in a huge global economy the multinationals dominate world business couldn't have been more wrong. The bigger and more open the world economy becomes, the more small and middle-sized companies will dominate."

John Naisbitt, 1994, Global Paradox: The Bigger the World Economy, the More Powerful Its Smaller Players, London: BCA

Introduction

Today, some 40 percent of adults say they would like to launch their own company, to call their own shots—and many are doing just that. According to the Small Business Administration, 600,000 businesses are started each year in the

United States alone. That's more than one new company launched every minute! If you dream of owning your own business one day, the time to start preparing is now.

An entrepreneurial fever is also sweeping the nation's campuses, as students take classes to learn how to launch, finance, and run their own companies.

Introduction

John Fernandes, president and CEO of AACSB International (the organization that accredits business schools around the world), puts it this way, “Entrepreneurship will continue to grow and mature into a distinct management discipline. . . . Elements of entrepreneurship will emerge as essential to any business education.” In other words, in today’s world your business courses, whatever your particular specialty or major, had best include the study of entrepreneurship. Business students, along with engineers, teachers, artists, pharmacists, lawyers, nurses, and many others, are hearing the call to own their own businesses.

You are living in a world of entrepreneurial opportunity, one that is an immensely more hospitable place for entrepreneurs than it was 20 years ago!

Longenecker et. al. (2008). A. Sardiya (2019)

Defining Entrepreneurs

The Oxford English Dictionary defines an entrepreneur as ‘a person who attempts to profit by risk and initiative’. But this definition, while emphasizing risk and initiative, could cover a wide range of professions, including that of a paid assassin.

The difference is more than just one of legality.

The question to ask is, how do they make profit? The notion of entrepreneur has been crafted over many centuries, starting with Cantillon (1755), and has seen many different emphases.

Longenecker et. al. (2008). A. Sardiya (2019)

Defining Entrepreneurs

Over 200 years ago **Jean-Baptiste Say**, the French economist, said: ‘entrepreneurs shift economic resources from an area of lower productivity into an area of higher productivity and greater yield’ (1803).

The perception of entrepreneurs promoting efficiency by shifting resources have been attributed to writers who attempt to explain how entrepreneurial opportunities are created –

- **The Schumpeterian view and**
- **The Kirznerian view**

Longenecker et. al. (2008). A. Sardiya (2019)

Schumpeterian view

In the Schumpeterian view, opportunities emerge out of the entrepreneurs' **internal disposition** to initiate or create change. They are the **innovators** who 'shock' and disturb the economic equilibrium during times of uncertainty, change and technological upheaval. With Schumpeter the emphasis is on independent firm formation by entrepreneurs leading to this 'creative destruction'.

Longenecker et. al. (2008). A. Sardiya (2019)

Kirznerian view

The Kirznerian view emphasizes opportunity recognition and implies that entrepreneurial profits are secured on the basis of knowledge and information gaps that arise between people in the market – called **information asymmetry** – all based within the general equilibrium or neoclassical model of economics, originally derived from Marshall (1890).

In this view, entrepreneurs are **alert, discovering opportunities** by acting as an **arbitrageur or a price adjuster** in the marketplace.

Kirzner's work is based on that of Knight, who discussed entrepreneurship's role in wealth creation with an emphasis on the ability to cope with risk and uncertainty.

Defining Entrepreneurs

In reality, both Schumpeter and Kirzner may be right. Because entrepreneurs spot and create opportunities.

An entrepreneur creates and/or exploits change for profit by innovating, accepting risk and moving resources to areas of higher return.***(Burns, 2016****)*

How will we place Facebook and Whatsapp? Were the two products as a results of creating opportunity or spotting opportunity?

Defining Entrepreneurs

Entrepreneurs provide an essential source of new ideas and experimentation that would otherwise remain untapped in the economy (Acs and Audretsch,2005).

We call this process **innovation** and this is an essential tool for entrepreneurs and one that creates wealth for an economy.

Entrepreneurs may also create new demand or find new ways of exploiting existing markets. They identify a commercial opportunity and then exploit it. They are agents of change. In essence, an entrepreneur is best defined by his/her actions.

Longenecker et. al. (2008). A. Sardiya (2019)

Forms of Entrepreneurship

- Entrepreneurs create new demand or find new ways of exploiting existing markets. They identify a commercial opportunity and then exploit it.

- Intrapreneurs: Entrepreneurs could undertake their activities for established, larger firms while remaining in salaried employment, content for the profits (and risks) of their work to go to their employers.

Forms of Entrepreneurship

- Owner-managers: They own the business they manage. Sole traders are owner-managers. Managers of companies owning over 50% of the share capital, and thereby controlling the business, are owner-managers. The term is also used loosely when a small group of managers own and control the business. However, **not** all owner-managers are entrepreneurs.

Forms of Entrepreneurship

- Social entrepreneurs usually operate as entrepreneurs within organizations whose primary purpose is social rather than economic – called social enterprises. Sometimes they create these organizations themselves but sometimes, like an intrapreneur.
- Serial entrepreneurs usually start a new business, go on to sell off the businesses when they become successful businesses and move on to grow another, capitalizing on their ability to start a new venture and creating personal wealth from their sale rather than from its operation.

Forms of Entrepreneurship

- Entrepreneurship that emphasizes joint economic and ecological value creation only has been called **environmental entrepreneurship, eco-entrepreneurship and eco-preneurship.**
- Another approach to this issue in recent years has been the emergence of what has become known as **sustainable entrepreneurship** – where issues of CSR(Corporate social responsibility), sustainability, ethics and good corporate governance are at the core of a 'for-profit' commercial enterprise.

Longenecker et. al. (2008). A. Sardiya (2019)

Forms of Entrepreneurship

As you can appreciate, entrepreneurs and the small firms they (most of them) manage are not homogeneous.

Some entrepreneurs are successful and some are not. Each small firm is different and every small firm is

organic – it will change over time and in different circumstances.

What defines the entrepreneur is their willingness to act upon an idea.

Longenecker et. al. (2008). A. Sardiya (2019)

What do entrepreneurs do?

- Profit is not always the prime motivation for creating a new venture. For some entrepreneurs, it is simply a badge of success and the attraction of being an entrepreneur lies in being your own boss, doing what you want to do rather than what you are told to do.
- Some people spot a business opportunity – a product or a service that they do not see offered in the market or a way of doing something better or cheaper.
- Some people might be frustrated by characteristics of current products or services being offered that does not meet their needs.

What do entrepreneurs do?

- Some people, just a few, have a genuine ‘eureka’ moment when they come up with a new invention or have an idea that can revolutionize an industry.
- Whatever the source of their business idea, they feel motivated to do something about it – perhaps wanting to make a lot of money on the way. What defines the entrepreneur is their willingness to act upon the idea.

What do entrepreneurs do?

It is important to note that at any given time, many potentially profitable business opportunities exist. But these opportunities must be recognized and grasped by individuals with abilities and desire strong enough to assure success.

Many individuals achieve success on a very modest level in business endeavors far different from those described here. Others fail, but a failure in business is not a failure in life. Many learn from

the experience and go on to start a successful business.

Longenecker et. al. (2008). A. Sardiya (2019)

Defining SMEs

As with the other terms in humanity, there is no uniformly acceptable definition of SME.

Back in 1971, the Bolton Report (Bolton, 1971), which is usually held to be a definitive report on the state of small business in Britain at the time, made heavy weather of providing a statistical definition. Recognizing that one definition would not cover industries as divergent as manufacturing and service, it used **eight definitions** for various industry groups.

Longenecker et. al. (2008). A. Sardiya (2019)

Defining SMEs

The European Commission coined the now widely used term ‘small and medium-sized enterprise’ (SME) and in 1996 defined it as an organization employing fewer than 250 people – a criterion that continues to be used for most statistical purposes. It defines these further categories:

Number of employees

Micro 0–9

Small 10–49

Medium 50–249

Large 250 or more

Longenecker et. al. (2008). A. Sardiya (2019)

Defining SMEs

The EU goes further to define the SME as having a turnover of less than 50 million and an annual balance sheet total of Euros 43 million Euros.

In the United States, the Small Business Administration sets small business criteria based on industry, ownership structure, revenue and number of employees.

Longenecker et. al. (2008). A. Sardiya (2019)

Defining SMEs

National Board for Small Scale Industries (Ghana)

Less than ten workers and fixed assets not exceeding 10,000 Ghana Cedis

Ministry of Trade and Industry (Ghana)

- Micro: Not more than 5 employees and fixed assets not exceeding $10,000
- Small: Employs from 6-9 and fixed assets of $100,000
- Medium: Between 10-99 workers and fixed assets of $1,000,000

Longenecker et. al. (2008). A. Sardiya (2019)

Defining SMEs

Getting a universal definition to cover all the characteristics of SMEs is as difficult as it is impossible.

However, certain characteristics may apply to most (but not all) SMEs:

- Uncertainty arising from constant structural and market changes.
- Fewer employees.
- Geographically localised.
- Few financiers.

Longenecker et. al. (2008). A. Sardiya (2019)

Entrepreneurial Management

Entrepreneurial management is characterized as being a social activity that has a different approach to dealing with risk and uncertainty.

Successful entrepreneurs generate strong relationships with stakeholders that allow them to mitigate risk and maintain flexibility of action.

They develop strategy differently, creating strategic intent but maintaining a loose, flexible strategy and continuously strategizing and creating as many strategic options as possible.

Longenecker et. al. (2008). A. Sardiya (2019)

Entrepreneurial Management

Successful entrepreneurs are good at developing relationships with customers, staff, suppliers and all the stakeholders in the business. They are able to form loyal relationships with customers.

They tend to manage their staff by developing strong personal relationships rather than relying on formal structures and hierarchies.

Longenecker et. al. (2008). A. Sardiya (2019)

Entrepreneurial Management

Small firms typically approach decision-making differently than larger firms. They tend to adopt an incremental approach that is often seen as short-term.

Entrepreneurs tend to keep capital investment and fixed costs as low as possible, often by subcontracting activities.

Also, entrepreneurs are adept at compartmentalizing risk, for example by separating out business ventures into separate legal entities, so that the failure of one does not endanger the survival of the others.

Some myths and misconceptions in entrepreneurship

- Entrepreneurs are high risk takers: the reality is that entrepreneurs are not gamblers. They take calculated risk.
- Entrepreneurs are born and never made: the reality is that every one can be an entrepreneur.
- Entrepreneurship should start in mid-life (from 40 years): you can start a business at any age.
- Entrepreneurs have more control over their schedule than salaried workers : this thinking is false.

Longenecker et. al. (2008). A. Sardiya (2019)

Some myths and misconceptions in entrepreneurship

One of the most enduring myths in American business is that of the lone entrepreneur who defies the odds by taking a creative business idea and turning it into reality by sheer force of will and personality. It makes a great story, but is that how it usually happens?

Most modern businesses' success depended on collaboration. In many cases, collaboration begins almost from the start, when two or more individuals come together as a team to launch a new enterprise.

Kenichi Ohmae (2005)

- "It is not possible to draw a picture of the universe, but we know it and how fast it is moving and developing. It is like describing the shape of a large cloud in the sky, blown off by a strong wind. Yet we know its shape and where it is because we sense it. Although it is not entirely possible to describe it in a static way, a world-class entrepreneur can describe it and even capture a large chunk of it, converting it into raindrops of profit."

Video case

A from the Dragon Pitching Show

Lesson Three

PLANNING A BUSINESS

Longenecker et. al. (2008). A. Sardiya (2019)

Lesson Objectives

By the end of this lesson, students are expected to;

- Understand the factors which influence the initiation of a business plan
- Assess the different needs of investors in reviewing the business plan
- Recognize the key factors for writing a good business plan

Introduction

In reality, the process of drafting a business plan and strategy are inseparable. It is therefore important to emphasise at the outset that where as written business plan represents a tangible output of the planning process, it should also be seen as an integral tool for SME management, very much part of an iterative and on-going process.

Introduction

To this extent, the business plan serves to articulate the strategic vision of the entrepreneurial team and should not be seen as a goal of and in itself.

Where this happens, there is the potential danger of investing too much credibility in the detail of the plan, especially the figures contained in the financial section.

This can have consequences for the SME owner or entrepreneur.

Thus the business plan should be seen as a 'means' to an 'end'.

The Purpose of A Business Plan

Most entrepreneurs and SME owners consider the business plan is a document primarily used to generate external funding or to attract investors.

This thinking is informed by certain reasons including;

- Lack of understanding of the process and/or benefits of business planning.
- The pressure on doing rather than thinking or gathering information , in small business environment.
- The belief that strategic planning is for larger firms with big business resources.

Longenecker et. al. (2008). A. Sardiya (2019)

The Purpose of A Business Plan

The question of whether an entrepreneur will consider planning as a first step in the start-up process, has been attributed to some culturally entrenched organisational values including;

Stability; The desire to maintain the status-quo may discourage entrepreneurs from long-term strategic planning.

Compartmentalization; Employees in large firms are compartmentalized to ensure strategic coordination. SME however , tend to have flat and fraternalistic structures.

Longenecker et. al. (2008). A. Sardiya (2019)

The Purpose of A Business Plan

- **Short-term cost orientation**; A preconceived view as to the effectiveness of cost-cutting as an overall strategy in management's mind negates the need for any strategic planning.
- **Internal-orientation**; A firm that is characterised by internal orientation generally holds the view that all company problems are to be found through intra-company analysis. External analysis therefore becomes no longer legitimate.

The Purpose of A Business Plan

Reactiveness; While reactiveness is a very important part of the business decision-making process, some managers may consider reactive decisions more appropriate than proactive ones.

Longenecker et. al. (2008). A. Sardiya (2019)

When to Draw a Business Plan

There are events that may necessitate the need for a business plan.

Start-up; After conceiving a business idea and conducting a feasibility study, a new business may require a detailed planning stage to come out with business plan.

Business Purchase; Buying a new business does not negate the need for a business plan. A business plan which tests the sensitivity of changes to key business variables(such as drop in sales or increase in demand) helps the new buyer understand the potential risk and returns.

When to Draw a Business Plan

On-going review; To have lasting benefits, a business plan should not be a one-off document but the live, strategic and tactical planning focus of either a start-up or an existing business.

Major decisions; Even if planning is not done regularly, it is usually prompted in times major changes such as seeking external funding or when considering a merger.

Who Can Benefit From The Business Plan?

Three people are likely to benefit from the business plan;

Managers; Managers may be the producers of the business ideas. The owner-manager or an employed manager both require a business plan to provide strategic focus and direction.

Owners; A plan may be intended for prospective equity partners, either a sleeping partner looking for an investment or an active partner looking for a small business to join. Owners may also be lenders, who take a equity stake in return for providing loans.

Longenecker et. al. (2008). A. Sardiya (2019)

Who Can Benefit From The Business Plan?

Lenders/investors; The minimum document required by lenders and banks is the business plan.

Research indicates that different investors look for different things in a business plan. Thus the entrepreneur must develop a business looking to satisfy the particular needs of the concerned stakeholders.

Longenecker et. al. (2008). A. Sardiya (2019)

The Significance Of A Business Plan

Owners, managers and investors are interested in the business plan for the following reasons;

Assessing the feasibility and viability of the business.

Setting objectives and budgets.

Calculating how much money is needed.

The Significance Of A Business Plan

For the manager, the business plan helps;

Clarify ideas

In information-gathering

In building a team.

The Format Of A Business Plan

Three key question are addressed in a business plan. These are;

Where are we now?

Where do we intend going?

How do we get there?

The Format Of A Business Plan

Where are we now?

An analysis of the current situation of the marketplace, the competition, the business concept and the people involved is a necessary first step. It will include any historical background relevant to the position to date.

The Format Of A Business Plan

Where do we intend going?

The decision that is intended for the business should be clear and precise, if others are to share in its vision for the future. Also required is the qualitative expression of the objectives and quantifiable targets which will clarify and measure progress towards intended goals. Identification of likely changes to business environment will build on the opportunities outlined, and assess possible threats.

The Format Of A Business Plan

How do we get there?

Although planning is vital to have a clear sense of the chosen destination, it is also important for the entrepreneur to stay flexible and alert to opportunity. Knowing when to stay on the chosen path, when to stay flexible and alert to opportunity. Knowing when to stay on the chosen path, and when to stray off it, is perhaps a key entrepreneurial characteristic.

The Format Of A Business Plan

The precise format of a business plan depends on the particular business and the intended audience of the plan. It is therefore not possible to suggest subject headings for a plan which would have universal application.

Whatever the format adopted, it is essential that the separate sections of the plan integrate together into a cohesive whole.

Critical to a successful business plan is the presentation of appropriate evidence to demonstrate to the reader that the entrepreneurial team has critically thought through the business idea and have a clear understanding of its success and risks.

“I am often asked what it is to be an entrepreneur and there is no simple answer. It is clear that successful entrepreneurs are vital for a healthy, vibrant and competitive economy.

If you look around you, most of the largest companies have their foundations in one or two individuals who have the determination to turn a vision into reality.

Richard Branson, from
Anderson (1995), Local Heroes,
Glasgow: Scottish Enterprise.

Lesson Four

Successful SME Strategies

Longenecker et. al. (2008). A. Sardiya (2019)

Lesson Objectives

By the end of the lesson, students are expected to ;

- Understand why Strategic management in SMEs and entrepreneurial firms is different.
- Know the different types of strategies that are applied in SMEs and entrepreneurial firms.
- Understand the sources of start-up ideas.

"The guiding principles in a traditional corporate culture are: follow the instructions given; do not make any mistakes; do not fail; do not take initiatives but wait for instructions; stay within your turf; and protect your backside. The restrictive environment is of course not conducive to creativity, flexibility, independence, and risk taking."

Hisrich and Peters, 1992, Entrepreneurship: Starting, Developing and Managing a New Enterprise, Homewood, IL: Irwin

Introduction

Although strategy is a word more commonly used with large organisations, strategic decisions have been found to be just as significant to the success of SMEs.

Strategic management process in SMEs and entrepreneurial firms is different because SMEs are unique.

Longenecker et. al. (2008). A. Sardiya (2019)

Introduction

Small firms differ from large ones in a number of key respects. These include;

- The centrality of the owner-manager
- The formality of structure
- The level of resource constraints
- Vulnerability to external context and change
- Limited product range and market focus

These and other factors inevitably have a seminal bearing on the strategic management process for SMEs.

Longenecker et. al. (2008). A. Sardiya (2019)

Introduction

Entrepreneurship requires specific management behaviors that are all about *doing, enacting and realising* (of ideas), rather than about simply planning and controlling.

For the entrepreneur, there is clearly the tension of between being alert to opportunities and holding a vision both of what is to be achieved and how this will be accomplished.

Types of strategy

For the entrepreneurial firm or SME, strategies can be as a result of a deliberate, consciously intended course of action. They can also emerge as a pattern without prior deliberation.

Deliberate strategy; Strategies may be formulated as a deliberate plan of stated, or unstated, intentions. Some entrepreneurs produce a business plan before start-up, which sets out its intended course of action. Others do not formally document a plan, but intentions are thought through in advance in a deliberate and purposeful way.

Longenecker et. al. (2008). A. Sardiya (2019)

Types of strategy

Emergent strategy; Some strategies are not conceived in advance but emerge as a consistent pattern during the course of events. Examples of strategies that emerge as patterns, before conversion to deliberate strategies, include; marketing approaches and human resource management strategies.

Realised Strategy; In practice, even the most well carefully planned strategy is not fully implemented; there will be emergent aspect to it. Emergent strategies, once spotted often become subject to some planning. Strategies they are realised, or implemented are a mixture of deliberate and emergent strategies. Longenecker et. al. (2008). A. Sardiya (2019)

Types of Startup Ideas.

Many startups develop from what we will call **Type A ideas**—those concerned with providing customers with a product or service that does not exist in a particular market but that exists somewhere else. Many small businesses are built on this platform.

Types of Startup Ideas.

Some startups are based on **Type B ideas**, which involve new or relatively new technology. This type of startup can be high risk because there is usually no model of success to follow, but it can also have tremendous potential.

In 1998, Richard Mayer and Malcolm Currie launched Currie Technologies, a Van Nuys, California, venture that produces electric bicycles and scooters. Within five years, the company was employing 40 people and had revenues of $10 million, but that was only the beginning. With the spike in fuel prices and escalating concerns about global warming, the company's products make more sense than ever. Perhaps one of Currie's executives best captured the essence of the business: "Clean, green and no gasoline!"

Types of Startup Ideas.

Type C ideas, those based on offering customers benefits from new and improved ways of performing old functions, probably account for the largest number of startups.

In fact, most new ventures, especially in the service industry, are founded on "me, too" strategies—

they set themselves apart through features such as superior service or lower prices.

Source Of Start-up Ideas

There are a number of sources you can turn to for inspiration or ideas to start your own business. And if one source fails to lead you to the idea of your dreams, keep looking! Inspiration can come from many different places.

Source Of Start-up Ideas

PERSONAL EXPERIENCE; The primary source of startup ideas is personal experience, either at work or at home. Knowledge gleaned from a present or former job often allows a person to see possibilities for modifying an existing product, improving a service, or duplicating a business concept in a different location. Or personal contacts may open up conversations with suppliers who are interested in working with you or customers who have needs that are not currently being met. These insights may lead you to an opportunity with tremendous potential.

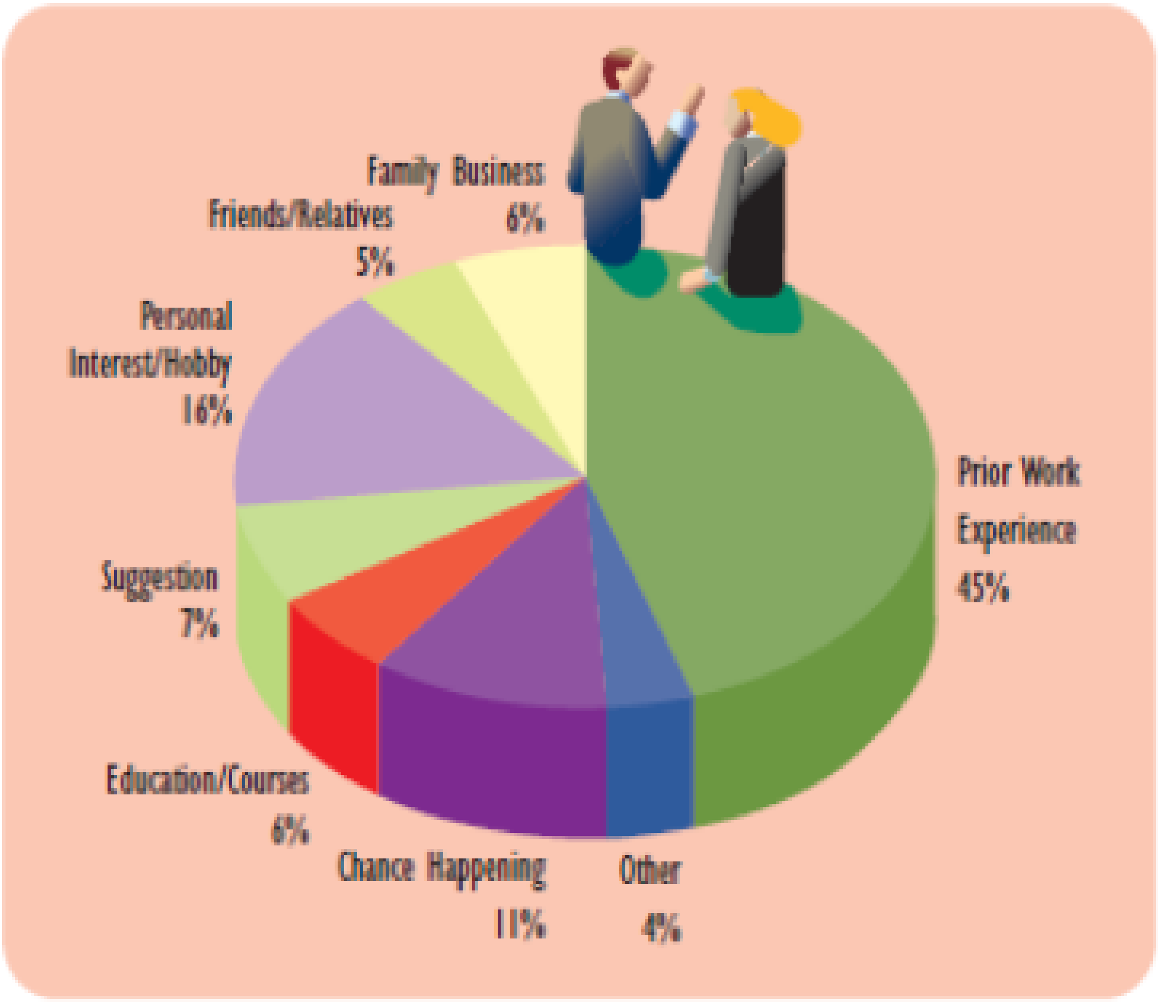
Source Of Start-up Ideas

HOBBIES AND PERSONAL INTERESTS ; Sometimes hobbies grow beyond being leisure activities to become businesses. For instance, people who love books might explore concepts that lead to new bookstore businesses.

Hobbies and personal interests certainly add passion to the startup process.

ACCIDENTAL DISCOVERY ; Another source of new startup ideas—accidental discovery— involves something called serendipity, or a gift for making desirable discoveries by accident.

Sources of Startup Ideas



Source: Data developed and provided by the National Federation of Independent Business and sponsored by the American Express Travel Related Services Company, Inc.

Longenecker et. al. (2008). A. Sardiya (2019)

Lesson Five

Start-ups and Franchises

Longenecker et. al. (2008). A. Sardiya (2019)

Lesson Objectives

By the end of this class, students are expected to be able to;

Know how to assess a start-up idea.

Appreciate the reasons why some entrepreneurs may prefer start-ups to existing businesses.

Identify the major pros and cons of franchising.

Explain various franchising options.

Introduction

Perhaps you already have a business idea in mind that you would like to pursue. With good planning and the right strategy, you may soon be well on your way to becoming a successful entrepreneur.

On the other hand, maybe you have a passionate desire to start your own company but are not sure you have come up with the right business idea to get you there. Or maybe you have an idea in mind but are not sure if it is a good business opportunity.

Identifying Start-up Ideas

The identification of potential new products or services that may lead to promising businesses is so central to the entrepreneurial process that it has its own name: **Opportunity recognition.**

It is critical to determine whether an idea for a new business actually represents a good opportunity. Many people have ideas about new products or services that seem like winners—but just because something is a good idea does not mean it is a good opportunity.

Identifying Start-up Ideas

In fact, those who become infatuated with an idea sometimes underestimate the difficulty of tapping into market interest in that idea or building the company required to capture it. This presents a real challenge for start-ups than existing businesses.

Many popular frameworks highlight important factors to consider when deciding whether a new business idea can lead to a promising business opportunity.

Some of the more important features of these approaches follow.

Identifying Start-up Ideas

Market factors.

The product or service must meet a clearly defined market need; furthermore, the timing must be right. Even when the concept is good, success requires a window of opportunity that remains open long enough for an entrepreneur to take advantage of it.

If the window closes before the enterprise can get established, it is unlikely to survive for long.

Identifying Start-up Ideas

Competitive advantage.

In practical terms, a competitive advantage exists when a firm offers a product or service that customers perceive to be superior to those offered by competitors. It follows that the business must be able to achieve an edge that can withstand challenges from rival businesses. Many startups fail because entrepreneurs do not understand the nature and importance of a competitive advantage.

Identifying Start-up Ideas

Management capability.

The fit between entrepreneur and opportunity must be good.

In other words, a business idea is an opportunity only for the entrepreneur who has the appropriate experience, skills, and access to the resources necessary for the venture's launch and growth.

Identifying Start-up Ideas

Fatal flaws.

There must be no fatal flaw in the venture—that is, no circumstance or development that could, in and of itself, make the business unsuccessful.

John Osher, serial innovator and entrepreneur, estimates that nine out of ten entrepreneurs fail because their business concept is deficient.

It is important to look (honestly) for potential weaknesses in your own startup ideas.

Reasons To Start From Scratch

Several motivations may lead you to start a business from scratch rather than pursuing other alternatives, such as buying a franchise or an existing business or joining a family business. They include the following:

1. Having a personal desire to develop the commercial market for a recently invented or newly developed product or service.

Longenecker et. al. (2008). A. Sardiya (2019)

Reasons To Start From Scratch

2. Hoping to tap into unique resources that are available, such as an ideal location, new equipment technologies, or exceptional employees, suppliers, and bankers.

3. Avoiding undesirable features of existing companies, including unfavorable cultures, policies, procedures, and legal commitments.

4. Wanting the challenge of succeeding (or failing) on your own.

Franchising

Franchising is a marketing system involving a legal agreement, whereby the franchisee conducts business according to terms specified by the franchisor.

A Franchisee: is an entrepreneur whose power is limited by a contractual relationship with a Franchisor.

Franchisor: The party in a franchise contract that specifies the methods to be followed and the terms to be met by the other party.

Longenecker et. al. (2008). A. Sardiya (2019)

Franchising

Arrangement where one party (the franchiser) grants another party (the franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or service according to certain specifications.

The franchisee usually pays a one-time franchise fee plus a percentage of sales revenue as royalty, and gains (1) immediate name recognition, (2) tried and tested products, (3) standard building design and décor, (4) detailed techniques in running and promoting the business, (5) training of employees, and (6) ongoing help in promoting and upgrading of the products.

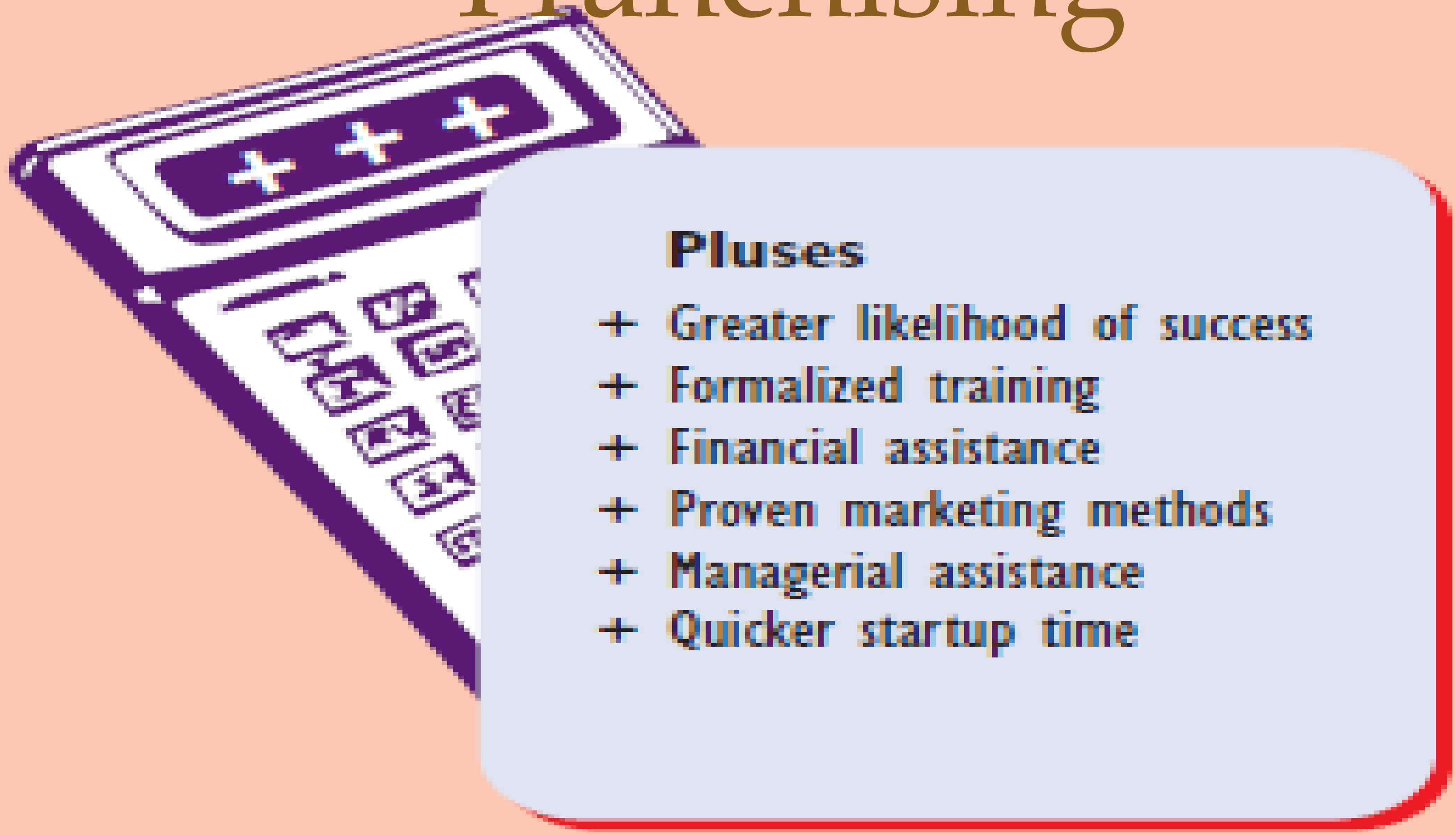
Longenecker et. al. (2008). A. Sardiya (2019)

The Pros and Cons of Franchising

"Look before you leap" is an old adage that should be heeded by entrepreneurs considering franchising.

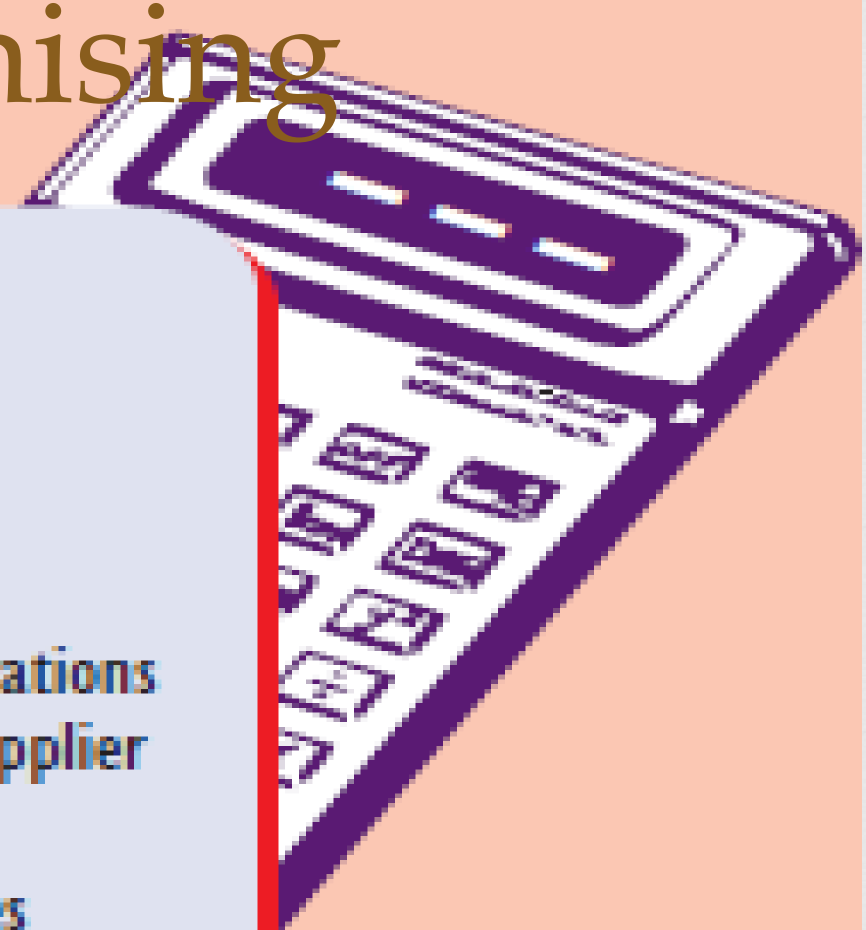
Entrepreneurs should not let their enthusiasm blind them to the realities of franchising, both good and bad. Weighing the purchase of a franchise against alternative paths to starting a business is an important task, which requires careful consideration of many factors.

The Pros and Cons of Franchising



Longenecker et. al. (2008). A. Sardiya (2019)

The Pros and Cons of Franchising



Minuses

- Franchise fees
- Royalties
- Restrictions on growth
- Less independence in operations
- Franchisor may be sole supplier of some supplies
- Termination/renewal clauses

Longenecker et. al. (2008). A. Sardiya (2019)

FRANCHISING COSTS

Generally speaking, higher costs characterize the better known and more successful franchises. Franchise costs have several components, all of which need to be recognized and considered.

1. Initial franchise fee. The total cost of a franchise begins with an initial franchise fee, which may range from several hundred to many thousands of dollars. The initial fee for McDonald's is $45,000.

FRANCHISING COSTS

2. Investment costs; Significant costs may be involved in renting or building an outlet and stocking it with inventory and other equipment. Also, certain insurance premiums, legal fees, and other startup expenses must be paid. It is often recommended that funds be available to cover personal expenses and emergencies for at least six months.

FRANCHISING COSTS

3. Royalty payments. A common practice is for the franchisor to receive continuing royalty payments, calculated as a percentage of the franchisee's gross income.

McDonald's currently charges a "service fee" of 4 percent of monthly sales plus the greater of (a) a monthly base rent or (b) a percentage rent based on monthly sales.

FRANCHISING COSTS

KFC (2014)

Franchise fee: $40,000 per restaurant

Royalty fee: 4% of gross sales

Advertising fee: 4% of gross sales

Average sales per unit in 2013:$1.5 million

Longenecker et. al. (2008). A. Sardiya (2019)

Franchising Options

The potential value of any franchising arrangement is defined by the rights contained in a legal agreement known as the **franchise contract**; the rights it conveys are called the **franchise**.

The extent and importance of these rights may be quite varied.

When the main benefit the franchisee receives is the privilege of using a widely recognized product name, the arrangement between the franchisor (supplier) and the franchisee (buyer) is called **product and trade name franchising**.EG. TCCBCL

Franchising Options

Alternatively, entrepreneurs who receive an entire marketing and management system are participating in a broader type of arrangement referred to as **business format franchising.**

A **master licensee** is a firm or individual having a continuing contractual relationship with a franchisor to sell its franchises. This independent company or businessperson is a

type of middleman or sales agent. Master licensees are responsible for finding new franchisees within a specified territory. Sometimes, they even provide support services such as training and warehousing, which are more traditionally provided by the franchisor.

Longenecker et. al. (2008), A. Sandiya (2019)

Franchising Options

Also gaining widespread usage is **multiple-unit ownership**, in which a single franchisee owns more than one unit of the franchised business. Some of these franchisees are **area developers**—individuals or firms that obtain the legal right to open several outlets in a given area.

Piggyback franchising refers to the operation of a retail franchise within the physical facilities of a host store.

Lesson Six

Buying An Existing Business

Longenecker et. al. (2008). A. Sardiya (2019)

Lesson Objectives

By the end of this class, students are expected to;

- Understand the reasons for buying an existing business
- Describe the process of evaluating a business for purchase

Introduction

For would-be entrepreneurs, one alternative to starting from scratch or buying a franchise is to buy an established business. The decision to purchase an existing business should be made only after careful consideration of the advantages and disadvantages.

Reasons For Buying An Existing Business

The reasons for buying an existing business can be condensed into the following four general categories:

1. To reduce some of the uncertainties and unknowns that must be faced in starting a business from the ground up.

2. To acquire a business with ongoing operations and established relationships with customers and suppliers.

3. To obtain an established business at a price below what it would cost to start a new business or to buy a franchise.

4. To begin a business more quickly than by starting from scratch.

Longenecker et. al. (2008). A. Sardiya (2019)

Reduction Of Uncertainties

A successful business has already demonstrated its ability to attract customers, manage costs, and make a profit. Although future operations may be different, the firm's past record shows what it can do under actual market conditions. Although traffic counts are useful in assessing the value of a potential location, the acid test comes when a business opens its doors at that location. This test has already been met in the case of an existing fi rm. The results are available in the form of sales and profit data. Noncompete agreements are needed, however, to discourage the seller from starting a new company that will compete directly with the one being sold.

Acquisition Of Ongoing Operations And Relationships

The buyer of an existing business typically acquires its personnel, inventories, physical facilities, established banking connections, and ongoing relationships with trade suppliers and customers.

Extensive time and effort would be required to build these elements from scratch. Of course, the advantage derived from buying an established firm's assets depends on the nature of the assets.

The physical facilities must not be obsolete, and the firm's relationships with banks, suppliers, and customers must be healthy. In any case, new agreements will probably have to be negotiated with current vendors and leaseholders.

A Bargain Price

If the seller is more eager to sell than the buyer is to buy, an existing business may be available at what seems to be a low price. Whether it is actually a good buy, however, must be determined by the prospective new owner.

Several factors could make a “bargain price” anything but a bargain. For example, the business may be losing money, the neighborhood location may be deteriorating, or the seller may intend to open a competing business nearby. On the other hand, if research indicates that the business indeed is a bargain, purchasing it is likely to turn out to be a wise investment.

A Quick Start

Most entrepreneurs are eager to "get going" in their new business and may not be comfortable waiting the months and years sometimes required to launch a business from scratch. Buying an existing business may be an excellent way to begin operations much more quickly.

Finding A Business To Buy

Sometimes, in the course of day-to-day living and working, a would-be buyer comes across an opportunity to buy an existing business. For example, a sales representative for a manufacturer or a wholesaler may be offered an opportunity to buy a customer’s retail business. In other cases, the prospective buyer needs to search for a business to buy.

Sources of leads about businesses available for purchase include suppliers, distributors, trade associations, and even bankers.

Investigating and Evaluating Available Businesses

Regardless of the source of the lead, a business opportunity requires careful evaluation— what some call due diligence. As a preliminary step, the buyer needs to acquire background information about the business, some of which can be obtained through personal observation or discussion with the seller.

Talking with other informed parties, such as suppliers, bankers, employees, and customers of the business, is also important.

Investigating and Evaluating Available Businesses

RELYING ON PROFESSIONALS

Although some aspects of due diligence require personal checking, a buyer can also seek the help of outside experts. The two most valuable sources of outside assistance are accountants and lawyers. It is also wise to seek out others who have acquired a business, in order to learn from their experience. Their perspective will be different from that of a consultant, and it will bring some balance to the counsel received.

Investigating and Evaluating Available Businesses

FINDING OUT WHY THE BUSINESS IS FOR SALE

The seller's real reasons for selling may or may not be the stated ones. When a business is for sale, always question the owner's reasons for selling.

There is a real possibility that the firm is not doing well or that underlying problems exist that will affect its future performance. The buyer must be wary, therefore, of taking the seller's explanations at face value.

Investigating and Evaluating Available Businesses

Here are some of the most common reasons that owners offer their businesses for sale:

- Old age or illness
- Desire to relocate to a different part of the country
- Decision to accept a position with another company
- Unprofitability of the business
- Loss of an exclusive sales franchise
- Maturing of the industry and lack of growth potential

Investigating and Evaluating Available Businesses

EXAMINING THE FINANCIAL DATA

The first stage in evaluating the financial health of a firm is to review the financial statements and tax returns for the past five years or for as many years as they are available. (If these statements are not available, think twice before buying the business.)

To determine the history of the business and the direction in which it is moving, the buyer must examine financial data pertaining to the company's operation.

If financial statements are available for the past five years, the buyer can use these to get some idea of trends for the business.

Investigating and Evaluating Available Businesses

Valuing the Business

Once the initial investigation and evaluation have been completed, the buyer must arrive at a fair value for the fi rm. Valuing a business is not easy or exact, even in the best of circumstances. Despite the fact that buyers prefer audited financial statements, many firms operate without them.

In valuing such firms, the buyer will have to rely on tax returns and sales tax statements. It may also be helpful to scrutinize invoices and receipts—of both customers and suppliers—as well as the firm's bank statements.

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Investigating and Evaluating Available Businesses

Although numerous techniques are used for valuing a company, they are typically derivations of three basic approaches:

(1) asset-based valuation, (2) market-comparable valuation, and (3) cash flow–based valuation

There are also some non-quantitative factors that can be used in valuing a business.

Investigating and Evaluating Available Businesses

Non-quantitative Factors in Valuing a Business

Competition. The prospective buyer should look into the extent, intensity, and location of competing businesses. In particular, the buyer should check to see whether the business in question is gaining or losing in its race with competitors.

Additionally, new competitors to the marketplace may dramatically change an existing firm's likelihood of success. Past performance is no guarantee of future performance.

Investigating and Evaluating Available Businesses

Non-quantitative Factors in Valuing a Business

Market. The ability of the market to support all competing business units, including the one to be purchased, should be determined. This requires marketing research, study of census data, and personal, on-the-spot observation at each competitor's place of business.

Investigating and Evaluating Available Businesses

Non-quantitative Factors in Valuing a Business

Future community development. Examples of future developments in the community that could have an indirect impact on a business include a change in zoning ordinances already enacted but not yet in effect, a change from a two-way traffic flow to a one-way traffic flow, and the widening of a road or construction of an overpass.

Product prices. The prospective owner should compare the prices of the seller's products with those listed in manufacturers' or wholesalers' catalogs and also with the prices of competing products in the locality.

Investigating and Evaluating Available Businesses

Non-quantitative Factors in Valuing a Business

Legal commitments. Legal commitments may include contingent liabilities, unsettled lawsuits, delinquent tax payments, missed payrolls, overdue rent or installment payments.

Buildings. The quality of the buildings housing the business should be checked, with particular attention paid to any fire hazards. In addition, the buyer should determine whether there are any restrictions on access to the buildings.

Lesson Seven

Family Business

Lesson Objectives

By the end of this lesson, participants should be able to

- Define family business and understand its characteristics
- Understand and appreciate the relative advantages and disadvantages of family business

Definition & Nature of family business

A family business can be defined as a business that is ran and/or managed by more than one member of the same family.

Family businesses vary from one another.

Factors that define the nature of family business include;

Ownership structure

The nature of relationship between the members involved

The number of generations involved

The vision of the founder(s) etc.

Longenecker et. al. (2008). A. Sardiya (2019)

Making a case for family business

Family businesses ran differently from other SMEs and entrepreneurial firms. Family businesses also tend not be very public with the matters of their organizations.

However, it is known that family businesses tend to have a positive work culture and may probably have a higher rate of not only succeeding, but growing too.

Making a case for family business

The USA Scenario

- Family businesses account for about 50% of USA's GDP
- About 35% of Fortune 500 companies
- 60 % of jobs and 78% of new jobs

Longenecker et. al. (2008). A. Sardiya (2019)

Advantages

- Family businesses are mostly characterized by entrepreneurial spirit, flexibility and opportunism.
- Family businesses are resilient because the key members have common goals, shared values, and a commitment to brand building.
- Multiple members of the same family creates a strong support system that promotes solidarity and teamwork
- Decision making is quicker because the firms are less bureaucratic and have flexible structures.
- Younger members of the family gain exposure to entrepreneurship

Longenecker et. al. (2008). A. Sardiya (2019)

Disadvantages

- Family businesses sometimes have difficulty changing their structure and traditions.
- The possibility of family feuds, disagreements etc. affecting the business and vice-versa
- By the third or fourth generation, the ownership strategy gets complicated and strategic control is difficult to capture due to increasing family size.
- Employees who are family members may interfere with company systems, policies and procedures.
- Possibility of succession challenges, managerial in competence, difficulty separating family from business etc.

Longenecker et. al. (2008). A. Sardiya (2019)

Case

Aquaspace

The Puma and Adidas Rivalry read article from link below

https://www.businessinsider.com/how-puma-and-adidas-rivalry-divided-their-founding-town-for-70-years-2018-10?r=US&IR=T#the-dispute-between-the-dassler-brothers-didnt-just-affect-their-employees-it-affected-the-whole-town-3

Lesson Eight

FINANCING ENTREPRENEURIAL BUSINESSES

With Bygrave and Zacharakis (2010)

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Lesson Objectives

By the end of this lesson, participants should be able to;

- Understand the challenges of financing entrepreneurial firms.
- Know the potential sources of funding for entrepreneurs.
- Explain the benefits and challenges of the various sources of entrepreneurial funding.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Introduction

According to David S. Waddell, an investment strategist in Memphis, a new business searching for capital has no track record to present to potential investors and lenders. All it has is a plan—sometimes written, sometimes not, that projects its future performance. This means that it is very difficult to raise debt financing from conventional banks because they require as many as three years of actual, not projected financial statements and assets that adequately cover the loan.

Longenecker et. al. (2008). A. Sardiya (2019)

Introduction

Even established entrepreneurs are now finding that their longtime deposit relationships aren't proving as useful, as many lenders restrict loan and credit terms to keep more cash on hand.

Hence, almost every new business raises its initial money from the founders themselves and what we call informal investors: family, friends, neighbors, work colleagues, and strangers; a few raise it from lending

institutions, primarily banks; and a miniscule number raise it from venture capitalists, who are sometimes called formal investors.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Amount of capital needed to start a business

According to the Global Entrepreneurship Monitor, the amount of money needed to start a business is dependent on several factors;

The type of business (service/products)

The ambitions of the entrepreneur

The gender

The location

The country

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Entrepreneurial Financing in Developing Countries

Conventional banking is based on the principle that the more you have, the more you can borrow. It relies on collateral, which means that a bank loan must be adequately covered by assets of the business or its owner—or in many cases, both. But half the world's population is very poor, so about 5 billion people are shut out of banks.

For example, fewer than 10% of adults in many African countries have bank accounts. Entrepreneurs in these environments mostly rely on informal financing.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Microfinancing

In 1976, in the village of Jobra, Bangladesh, Muhammad Yunus, an economist, started what today is the Grameen Bank. This was the beginning of the microfinance concept, which is best known for its application in rural areas of Bangladesh but which has now spread throughout the world. Yunus believes that access to credit is a human right. According to him, ‘‘one that does not possess anything gets the highest priority in getting a loan”.

Even beggars can get loans from the Grameen Bank. They are not required to give up begging but are encouraged to take up an additional income-generating activity, such as selling popular consumer items door to door or at the place of begging.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Microfinancing

The Grameen Bank now provides microenterprise loans to fast-moving members. The average microenterprise loan is $360 and the largest was around $24,000.

Grameen Bank has been operating in Ghana since 2009, it has been in Burkina Faso from 1993, Nigeria and Mali, 2016 .

The recovery rate of loans is 97% which is impressive because is operates on trust, not collateral.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Micro Credit

Another popular way of financing entrepreneurial firms is micro credit.

Micro credits target entrepreneurs from very poor backgrounds and assists them with micro loans to establish or grow their businesses.

Micro crediting and microfinancing are popular in Ghana.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Informal Investors

The commonest sources of informal investors are founders, family, friends and investors.

Financing from informal investors is a common way of entrepreneurial support.

There are benefits and shortfalls to using any of these options

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Informal Investors

According to the Global Entrepreneurship Monitor (GEM), entrepreneurs around the globe generally generate 65.8% of their start-up capital. The remaining is provided by other informal investors; close family and relatives (49.4%), friends and neighbors (26.4%), other relatives (9.7%), work colleagues(7.9%) and strangers also called business angels (6.9%).

For greater success, entrepreneurs looking for funding should target established entrepreneurs among their family, friends and neighbors.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Informal Financing

Mostly, investment from family and friends tend to yield low or negative returns. However, investment from business angels are likely to yield positive returns with tighter pay-back arrangements.

Founders are more optimistic about returns from investments they themselves make in their business with most of them expecting a pay-back in two years.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Venture Capital

Venture capital is the most uncommon source of entrepreneurship funding.

Businesses that start-up with venture capital is very rare, less than 1 in every 10,000 in the USA.

Venture capitalists usually prefer to invest in established businesses.

Venture capitalists tend to be more interested in knowledge-based business which have the potential to be disruptive and profitable. Eg Intel, Apple, Twitter, Google, Amazon, Ebay…..

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Venture Capital

For every 10 businesses that receive venture capital, two become big successes, another two are outright failures, three are walking-wounded (they need another boost of investment to succeed), and three are living dead(maybe viable but have no growth potential).

Venture capitalists harvest successful businesses mostly through mergers and acquisitions.

Longenecker et. al. (2008); Bygrave & Zacharakis(2010); A. Sardiya (2021)

Case

Venture Capital in the American Economy; The Google example

Lesson Nine

Doing Business in Ghana

Longenecker et. al. (2008). A. Sardiya (2019)

Lesson Objectives

By the end of this class, students should be able to;

- Understand the challenges of doing business in Ghana.
- Know the types of business entities that can operate in Ghana.
- Know how the business registration process in Ghana.

Longenecker et. al. (2008). A. Sardiya (2019)

Introduction

Ghana is a developing country in West-Africa. It has a population of about 26 million with a total workforce of about 11 million people.

Ghana has been touted as having a favorable climate for business among her sister countries in the sub-region. This has been generally attributed to the relatively stable political climate the nation enjoys and the friendly nature of Ghanaians as a people.

Longenecker et. al. (2008). A. Sardiya (2019)

Challenges to Doing Business in Ghana

Several factors have been identified as challenges to doing business in Ghana including.

Bureaucracy

Access to funding

Inadequate supply of skilled and talented human resources

Socio-cultural challenges etc.

Types of Businesses

Three general types of businesses are recognized under Ghana laws.

Sole-proprietorship

Partnership

Incorporated Company

Sole Proprietorship

A sole proprietorship is an unincorporated business usually run by one individual.

The liability of a sole proprietor is unlimited. A sole proprietor shall not carry out business in the finance, banking or communications sectors. An individual may carry out business in his/her legal name or under a trade name. A sole proprietor who adopts a trade name must register the name with the Registrar- General's Department and renew the registration.

The Sole Proprietor business is the most common form of SME in Ghana. (World Bank Report, 2014).

Advantages /Disadvantages of Sole Proprietorship

Advantages

Ease of set-up.

Owner has total control over business.

Fewer legal issues involved.

Owner enjoys all profit.

Disadvantages

Unlimited liability

Owner can not raise funds through equity

Business usually dies with owner

Partnership

Partnerships are an association of two or more (up to a maximum of 20) individuals carrying out business jointly for the purpose of making profits.

They are a relatively simple and inexpensive way of conducting business. The members of a partnership are "partners" and the terms and conditions of their relationship must be documented in a partnership agreement.

Longenecker et. al. (2008). A. Sardiya (2019)

Partnership

Once a partnership is formally entered into, there is a legal presumption that each partner has the authority to transact the partnership's authorized business as an agent of the partnership and, for this reason, partnerships are generally bound by any actions taken or decisions made by a partner in the name of the partnership during the usual course of business. A partnership must be registered with the Registrar General's Department (World Bank Report, 2014).

Advantages of Partnership

Advantages

- Business is easier to establish and start-up costs are lower than establishing a company.
- More capital is available for the business than in sole-proprietorship.
- Partnerships have greater borrowing capacity than sole-proprietorships.

Longenecker et. al. (2008). A. Sardiya (2019)

Disadvantages of Partnership

- Each partner is 'jointly and severally' liable for the partnership's debts and liabilities; that is, each partner is liable for their share of the partnership debts as well as being liable for all the debts.
- There is a risk of disagreements and friction among partners and management.
- Each partner is an agent of the entire partnership and is therefore liable for the actions of other partners.
- If partners join or leave, you will probably have to value all the partnership assets and re-define the partnership.

Incorporated Companies

Incorporating a company means establishing a legal identity for the company that is separate from the legal identity of its directors or shareholders.

Incorporation allows a company to contract in its own name;

Limits the liability of the company's directors and shareholders; and

Ensures continuity of the company in the event of the death or bankruptcy of a shareholder.

Longenecker et. al. (2008). A. Sardiya (2019)

Incorporated Companies

The three types of companies that may be incorporated in Ghana are:

Company limited by shares.

Company limited by guarantee.

External company.

Longenecker et. al. (2008). A. Sardiya (2019)

Company Limited by Shares.

To incorporate a private company limited by shares, you must:

1. Decide who will act as the company's first directors. A company incorporated and registered in Ghana must have a minimum of two directors, both natural persons over 21 years, one of whom must be a permanent resident of Ghana.

The directors appoint the company secretary, who may be a natural person or a corporate body.

The directors also appoint the first auditor of the company who, is required, by law, to be a member of the Institute of Chartered Accountants. The auditor must not be an officer or employee of the company.

Company Limited by Shares.

2. Register with the Ghana Revenue Authority (GRA). The company must obtain a tax identification number (TIN) for itself and personal TINs for its intended directors and the intended secretary, if they don't have them already

3. Choose a business name. The company must check with the Registrar General's Department whether their preferred business name is usable. LTD. Should be added to business name.

Company Limited by Shares.

4. The next step is to prepare the Regulations of the Company. The regulations must state:

• the name of the company; • the company's objects or authorized business;

• that the company is able to enter into legally binding agreements (i.e. has full capacity), unless it is restricted from doing so by its regulations; • the names of the first directors of the company;

• that the powers of the directors are limited in accordance with the law;

Company Limited by Shares.

- the number of shares with which the company is registered;
- the number of shares each subscriber will own on incorporation and the amount payable for the share(s); and
- a declaration that the liability of members is limited.

5. If the Registrar is satisfied that the information contained in the application and the supporting documents is accurate, a **Certificate of Incorporation** and the **Certificate to Commerce Business** will be issued. (World Bank Report, 2014),

Company Limited by Guarantee

This is an incorporated company without share capital.

It is a not for profit entity and, as such, its objects must not include the generation of profit.

The company has an executive council instead of a board of directors and its members are often referred to as 'guarantors'.

Typically, this type of company is used to protect its officers and members from personal liability in excess of what they

consented to contribute towards the company's assets in the event of the company's liquidation.

Company Limited by Guarantee

The process of incorporating a company limited by guarantee is broadly similar to the process of incorporating a company limited by shares.

The regulations of a company limited by guarantee must state the following;

The regulations of the company must state that:

• each member's personal liability is limited;

• the income and property of the company shall be applied exclusively for the promotion of its objects;

• the company's assets shall not be given to any member, except as payment provided for in the company's regulations;

• no salaries or fees may be paid to any director, except with the approval of the Registrar of Companies;

Longenecker et. al. (2008). A. Sardiya (2019)

Company Limited by Guarantee

- In the event of the company's liquidation, each member will contribute to the assets of the company a sum up to the limit prescribed by the company's regulations;
- Upon liquidation of the company, the guarantors shall agree on how the remaining company property is to be distributed. The remaining property may be given to another company limited by guarantee with similar objects or applied to a charitable purpose. It must not be distributed to the guarantors on liquidation.

Providing the information given to the Registrar General's Department is accurate, a certificate of incorporation and a certificate to commerce business are issued.

Longenecker et. al. (2008). A. Sardiya (2019)

External Company

As the external company is incorporated outside Ghana is merely being registered in Ghana, that is, no subsidiary has been created, there is no requirement to appoint directors and shareholders or to take any other action normally associated with the incorporation of a new company.

Registration of an external company must be completed within a month of the date of establishment of its place of business in Ghana.

External Company

The company must authorise at least one person resident in Ghana to manage the business of the company (a 'local manager'). The company must also have an agent in Ghana who is authorized to accept service of documents on behalf of the company ('process agent'), which may be a corporate entity.

(World Bank Repot, 2014)

Registering a Business in Ghana

Business Registration Steps

The World Bank has identified the following eight business registration steps in Ghana.

1. Check for availability of company name and submit company documents to obtain an incorporation certificate. (1 day)

2. A Commissioner of Oaths authenticates forms required for the certificate to commence business. (1 day)

3. Obtain from the Registrar-General's Department the certificate to commence business. (2 days)

Registering a Business in Ghana

4. The following documents must be presented to deposit paid-in capital in a bank account: copy of company regulations, certificate of incorporation, certificate to commence business, and signatures of the authorized company representatives (1 day)

5. Apply for business license at the Metropolitan Authority. (7 days)

6. Obtain inspection of work premises from the Metropolitan Authority. (1 day)

7. Apply for social security. (1 day)

8. Obtain an environmental certificate the Environmental Protection Agency (EPA). (25 days)

Longenecker et. al. (2008). A. Sardiya (2019)

Lesson Ten

Managing Human Resources

Lesson Objectives

By the end of this class, students are expected to;

Explain the importance of employee recruitment and list some sources that can be useful in finding suitable applicants.

Identify some common job selection tools

Discuss some major issues in the Labour Act

Introduction

"Our people make the difference!" has probably become a cliché in business circles. It is certainly true that good businesses require good people, but is this the way most companies think about their employees or is it just a time-worn, feel-good cliché?

Any entrepreneur who wants to build a competitive business needs to think carefully about how to find and hire the best people available and then consider how to hold onto them. Honest, competent, motivated employees are a critical resource for any business; therefore, it is vital that entrepreneurs manage employees competently and efficiently.

Longenecker et. al. (2008). A. Sardiya (2019)

Introduction

Research has shown that, compared to large firms, small businesses are much less likely to use professional HRM practices related to recruitment, training, performance assessment, and other processes. This regrettable state of affairs may be the result of a lack of knowledge an expertise on the part of some entrepreneurs.

Longenecker et. al. (2008). A. Sardiya (2019)

Recruiting Personnel

Recruitment brings applicants to a business; the goal is to obtain a pool of applicants large enough to contain a number of talented prospects. In a subsequent stage of the selection process, management decides which applicants are "keepers."

Once applicants successfully submit the necessary information to the hiring firm, the recruitment process ends.

Longenecker et. al. (2008). A. Sardiya (2019)

Sources of Recruitment

For traditional firms sources of recruitment are;

Internal and external sources.

SMEs however tend to draw applicant mostly from external sources. These may include;

Help-wanted advertising

Walk-ins

Schools

Private employment agencies

Employee referrals

Temporary help agencies

Longenecker et. al. (2008). A. Sardiya (2019)

Diversity in the Workforce

Over time, the composition of the workforce has changed with respect to race, ethnicity, gender, and age.

The challenge for human resource management is to adapt to a more diverse pool of potential employees. To remain fully competitive, business owners need to step up recruitment of women and minorities and be open to innovative ways to access the available pool of applicants.

Adapting to diversity is important not only because the workforce is becoming more diverse but also because diversity in itself can be a good thing, through the innovation it introduces to the workplace and the positive effect it has on problem solving.

Longenecker et. al. (2008). A. Sardiya (2019)

Job analysis

To ensure that you get qualified people apply for a role, you first need to conduct a thorough job analysis. The job analysis will help generate an **appropriate job description** and a **job specification** . This will help the firm get more qualified people applying and at the same time discourage unqualified people from applying.

Evaluating Prospects and Selection

Recruitment activities identify prospects for employment. Additional steps are needed to evaluate these candidates and to extend job offers. The evaluative steps used to select a preferred candidate from the pool of applicants is known as selection.

Some commonly used selection tools are;

Application forms.

Interviewing the applicant

Checking references and other Background information

Selection tests etc.

Longenecker et. al. (2008). A. Sardiya (2019)

Orientation for New Personnel

Orientation usually begins with an individual's first two or three days on the job. It is at this point that the new employee tends to feel lost and confused, confronted with a new physical layout, a different job title, unknown fellow employees, a different type of supervision, changed hours or work schedule, and/or a unique set of personnel policies and procedures.

Orientation for New Personnel

Any events that conflict with the newcomer's expectations are interpreted in light of his or her previous work experience, and these interpretations can either foster a strong commitment to the new employer or lead to feelings of alienation.

Recognizing the new employee's sensitivity at this point, the employer can contribute to a positive outcome through proper orientation. Taking steps to help the newcomer adjust will minimize her or his uneasiness in the new setting.

Employment Relations. (Some Legal Issues)

The main document that regulates employment relations in Ghana is the Labour Act 2003(Act 651).

It cover the major employment issues and serves as the benchmark for all employment laws in the country. The following aspects of the Labour act will be highlighted;

- Right and responsibilities of the employer and the employee
- Employment of women

Right And Responsibilities Of The Employer

Subject to the Act and any other enactment, the rights of an employer include the right to

(a) employ a worker, discipline, transfer, promote and terminate the employment of the worker.

(b) formulate policies, execute plans and programmes to set targets.

(c) modify, extend or cease operations; and

(d) determine the type of products to make or sell and the prices of its goods and services.

Longenecker et. al. (2008). A. Sardiya (2019)

Right And Responsibilities Of The Employer

The duties of an employer include the duty to

(a) provide work and appropriate raw materials, machinery, equipment and tools.

(b) pay the agreed remuneration at the time and place agreed on in the contact of employment or collective bargaining agreement or by law or agreed between the employer and the worker.

(c) take all practicable steps to ensure that the worker is free from risk of personal injury or damage to his or her health during and in the course of the worker's employment or while lawfully on the employer's premises.

Longenecker et. al. (2008). A. Sardiya (2019)

Rights and Duties of a Worker

The rights of a worker include the right to

(a) work under satisfactory, safe and healthy conditions.

(b) receive equal pay for equal work without distinction of any kind.

(c) have rest, leisure and reasonable limitation of working hours and period of holidays with pay as well as remuneration for public holidays;

(d) form or join a trade union;

(e) be trained and retained for the development of his or her skills; and

(f) receive information relevant to his or her work.

Longenecker et. al. (2008). A. Sardiya (2019)

Rights and Duties of a Worker

The duties of a worker in any contract of employment or collective agreement, include the duty to;

(A) work conscientiously in the lawfully chosen occupation;

(B) report for work regularly and punctually;

(C) enhance productivity;

(D) exercise due care in the execution of assigned work;

(E) obey lawful instructions regarding the organisation and execution of his or her work;

(F) take all reasonable care for the safety and health of fellow

Workers;

Rights and Duties of a Worker

Maximum hours of work

The hours of work of a worker shall be a maximum of eight hours a day or forty hours a week except in cases expressly provided for in this Act.

Leave entitlement

In any undertaking every worker is entitled to not less than fifteen working days leave with full pay in any calendar year of continuous service.

The expression "full pay" means the worker's normal remuneration, without overtime payment, including the cash equivalent of any remuneration in kind.

Any agreement to relinquish the entitlement to annual leave or to forgo such leave is void.

Employment of Women

Unless with her consent, an employer shall not

(a) assign or employ a pregnant woman worker to do any night work between the hours of ten O'clock in the evening and seven O'clock in the morning;

(b) engage for overtime a pregnant woman worker or a mother of a child of less than eight months old.

Employment of Women

Maternity, annual and sick leave

(1) A woman worker, is entitled to a period of maternity leave of at least twelve weeks in addition to any period of annual leave she is entitled after her period of confinement.

(2) A woman worker on maternity leave is entitled to be paid her full remuneration and other benefits to which she is otherwise entitled.

(3) The period of maternity leave may be extended for at least two additional weeks where the confinement is abnormal or where in the course of the same confinement two or more babies are born.