Unit-5 The Entrepreneurship and Small Business

In this Unit, one will learn about:

- ✓ The Entrepreneurship
- ✓ The Entrepreneurial Process
- ✓ The Barriers of Entrepreneurship
- ✓ The Enterprise
- ✓ Benefits and Limitations of Entrepreneurship
- ✓ Small Business – Process
- ✓ Advantages and Disadvantages of Small Business
- ✓ Ownership
- ✓ Types of Enterprises, Companies.
- ✓ Planning, Organising and Managing Enterprise

What is an Enterprise?

Enterprise is another word for a for-profit business or company, but it is most often associated with entrepreneurial ventures. People who have entrepreneurial success are often referred to as “enterprising.”

There are many forms of legal enterprises

Sole proprietorship – A company run by a single individual, typically for their benefit, with unlimited liability for any damages that occur as a result of the business’ operations.

Partnership – A business run by two or more individuals or entities who share ownership – not necessarily equal ownership, however.

Corporation – A for-profit entity created to shield the owner(s) from liability should the enterprise become subject to a lawsuit. There are different forms of corporations, depending on how many owners there are.

Limited Liability Company (LLC) – An LLC offers the legal protection of a corporation and the tax treatment of a partnership.

Professional Company/Professional Limited Liability Company (PC/PLLC) – PCs and PLLCs are for licensed professional firms, such as accountants, architects, engineers, doctors, and lawyers, and provide liability protection similar to a corporation.

Intrapreneurs

Someone in an existing organization who turns new ideas into profitable realities.

Intrapreneurs notice opportunities and take initiative to mobilize resources; however they work in large companies and contribute to the innovation of the firm.

Not every employee has the ability to become a successful Intrapreneur. It takes well-developed strategic action, teamwork and communication abilities.

An intrepreneur(also intrapreneur) is a person who possesses such skill but is working within a company or organization.

Intrepreneurs are usually encourages to develop their ideas into a workable product by the companies they work for.

Like an entrepreneur, an intrepreneur is motivated, creative, and able to think outside of the box.

Features of Intrapreneurship:

Entrepreneurship involves innovation, the ability to take risk and creativity. An entrepreneur will be able to look at things in novel ways.

He will have the capacity to take calculated risk and to accept failure as a learning point.

An intrapreneur thinks like an entrepreneur looking out for opportunities, which profit the organization.

Intrapreneurship is a novel way of making organizations more profitable where imaginative employees entertain entrepreneurial thoughts. It is in the interest of an organization to encourage intrapreneurs. Intrapreneurship is a significant method for companies to reinvent themselves and improve performance.

Difference between Entrepreneurs and Intrapreneurs

	Entrepreneurs	**Intrapreneurs**
1.Dependency	Independent in his operation	Dependent on the entrepreneurs
2.Raising of funds	Himself raises funds required for the organization	Does not raise fund for the organization
3.Risk	Bears the risk involved in the business	Does not fully bear the risk involved in the organization
4.Operations	Operates from outside	Operates from inside
	Convert the ideas into viable opportunities	Takes the responsibility of creating innovation
	Takes the profit of the business	Provided Varity of perquisite for his innovation

Entrepreneurship

"Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the communicate and management skills to mobilize human, financial and material resources necessary to bring a project to fruition"

Entrepreneurship is the process of designing, launching and running a new business, which is often initially a small business, and the people who create these businesses are called entrepreneurs.

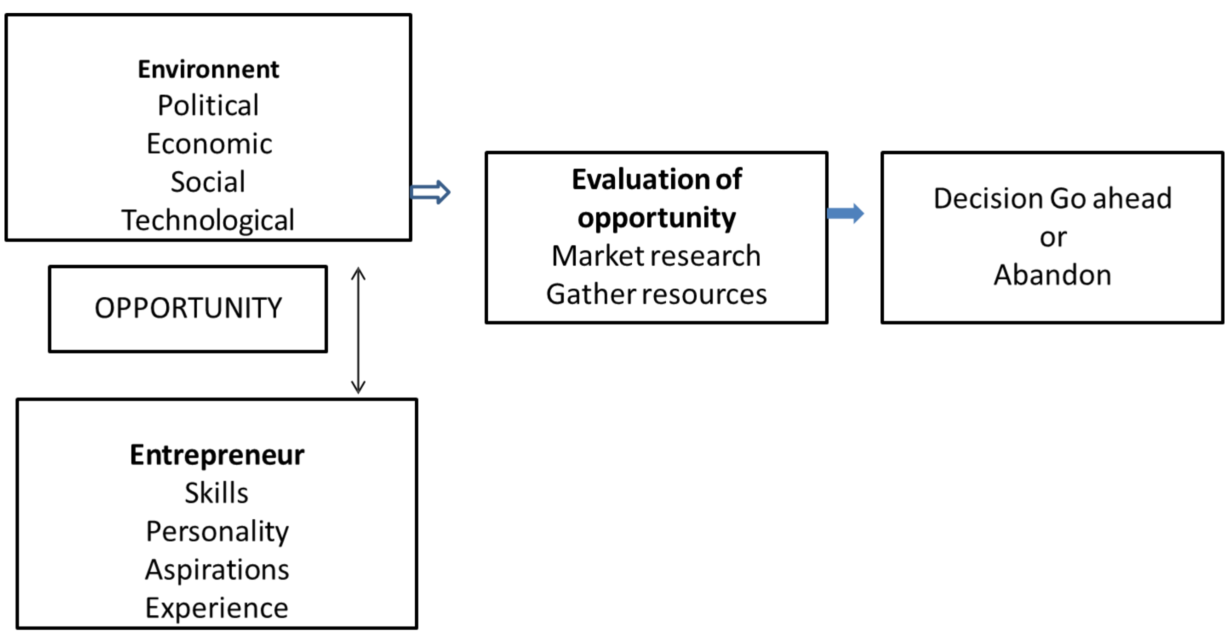
The essential ingredients required for creating an entrepreneurship are

- The willingness to take calculated risks—in terms of time, equity, or career.
- The ability to formulate an effective venture team; the creative skill to marshal needed resources.
- The fundamental skills of building a solid business plan.
- The vision to recognize opportunity where others see chaos, contradiction, and confusion.

Relationship between Entrepreneur and Entrepreneurship

Entrepreneur	Entrepreneurship
Person	Process
Organizer	Organization
Innovator	Innovation
Risk-bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Visualizes	Vision
Leader	Leading
Imitator	Imitation

Entrepreneurial process



At its simplest what entrepreneurs do, can be viewed as a six-stage procedure:

- They see opportunities where others don't.
- They have a 'vision', a clear understanding of the concept and of what they're trying to do.
- They persuade others of their vision; they can communicate the concept effectively.
- They gather resources to make their vision become a reality (money, people, and things).
- They organize these resources to create a new venture, product or market (leadership, teams).
- They constantly change/adapt themselves according to the changing demands of the market.

How to avoid failure in an Entrepreneurial business?

- Know your business in depth.
- Develop a good, effective and solid Business Plan.
- Manage your financial resources effectively.
- Have a thorough and complete financial statement.
- Learn hire and manage people effectively.
- Keep physically fit.

INNOVATION

Innovation is the specific function of entrepreneurship. It is the means by which the entrepreneur either creates new wealth-producing resources, or endows existing resources with enhanced potential for creating wealth.

- "Innovation is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth"
- Process of doing something new.
- Innovation is the ability to apply creative solutions to those problems and opportunities to enrich people's lives.

Characteristics of innovation

Two types of Innovation

- **Radical innovation**
- **Incremental innovation**

Incremental

- Uniform improvements
- Uses existing technologies and processes
- Quick to implement

Radical

- Novel improvements
- Uses new technologies and processes

- ❖ Extended periods of piloting
- ❖ Also exploits new markets

Innovation can occur through

- Introduction of new product in the market.
- Use of new method of production, which is not yet tested.
- Opening of new market.
- Discovery of new source of raw materials.
- Bringing out of new form of organization.

Benefits of Entrepreneurship

- ❖ Opportunity of gain control over your own destiny
- ❖ Opportunity to reach your full potential
- ❖ Opportunity to reap unlimited profits
- ❖ Opportunity to contribute to society & be recognized for your effort
- ❖ Opportunity to do what you enjoy

The above can be summarized as follows:

- ✓ You can follow and realize your dreams, to seek opportunities that match who you are, what you want to be, and how and where you want to live. To me entrepreneurship is your road to freedom.
- ✓ You will be your own boss. You do not have to report to anybody. Nobody can fire you. You get to make decisions, choose who you

want to work with, when you want to work with them and for what amount you work for.

- ✓ You are the master of your own time. Having control over your work schedule means that you can choose when to take time off and work the schedule that suits you best. Now, most people who work in 9 to 5 jobs always get exhausted at the end of the day and they dread the morning of the next day. Especially, after the weekends. Some call them “Monday Morning Blues”. You determine when you work, and when you take time off. You can take a vacation any time you need one.
- ✓ You direct your destiny. You get to create your own destiny as well as have control over it. You control your day. You control what you do.
- ✓ You have independence. Entrepreneurs are able to make all of the decisions relating to their company themselves; they have complete control. This allows for a huge degree of independence and a chance to shape one’s own life.
- ✓ Your earning is unlimited. Often people do not feel fully compensated for the work they do. Becoming an entrepreneur means you can reap the benefits of all your hard work. There is no cap to the amount to money you can earn. Entrepreneurship is the only way you can get paid what you’re truly worth. You can

create a multiple sources of income, and no longer work a job where you are worth an hourly wage.

- ✓ You love your work. For a true entrepreneur, work is not a means to an end. It is an end in itself. The process is as rewarding to him as is the end product. Because an entrepreneur is consumed by his passion, he gets to do what he loves.
- ✓ You make the difference. It is truly a great privilege to be given an opportunity to help others. As an Entrepreneur you get to touch and change the lives of others for the better.
- ✓ You are fulfilled. Entrepreneurship can offer levels of fulfillment and achievement that are hard matched by any other type of employment. An entrepreneur accepts the challenges, works hard to overcome them and when victory results, he savours the moment. The feeling of satisfaction of achievement is simply wonderful.

Limitations of Entrepreneurship

- Uncertainty of income.
- Risk.
- Financial risk
- Family and social risk
- Long hours & hard work.
- Lower quality of life until the business gets established.
- High level of stress.

SMALL BUSINESS

Size of the Business

Size refers to the scale of operations. Size may be measured in the following ways :

- Total capital investment
- The value of total assets or fixed assets.
- Total investment in plant and machinery
- The total number of persons employed
- Volume/value of production
- Volume/value of sales turnover
- A combination of above

Small Business

– A company that is independently owned and operated, is not dominant in its field, and employs fewer than 500 people (although this number varies by industry)

Fewer than 100 employees, independently owned and operated, not dominant in its field, and not characterized by many innovative practices

Characteristics of Small Businesses

- Most small firms have a narrow focus.
- Small businesses have to get by with limited resources.
- Small businesses often have more freedom to innovate.
- It easier to make decisions quickly and react to changes in the marketplace.
- One or two owners often family
- Financed by owners, relatives and friends
- Limited and uncertain markets Low levels of new profit
- Inability to influence prices
- Uncertain entrepreneurial aspirations and motives (lifestyle firm or growth firm)
- One location

The above can summarized as

Ownership: They have a single owner. So it is also known as a sole proprietorship.

Management: All the management works are controlled by the owner.

Limited Reach: They have restricted area of operation. So they may be a local shop or an industry located in one area.

Labor Intensive: Their dependency on technology is very little because they are dependent on labours and manpower.

Flexibility: Because they are small, they are open and flexible to sudden changes, unlike, large industries.

Resources: They utilize local and immediately available resources. They do better utilization of natural resources and limited wastage.

Economic Roles of Small Business

- They provide jobs
- They introduce new products
- They meet the needs of larger organizations
- They inject a considerable amount of money into the economy.
- GDP
- SMEs can play a role in mitigating the problem of imbalance in the balance of payment accounts through its export promotion.
- It can help to release scarce capital towards productive use

Importance of small business

Small business is intended

- To increase employment.
- To prevent unequal distribution of income.
- To develop capital investment.
- Determining a country's competitiveness and productivity

The Benefits of Owning a Small Business

- ✓ Opportunity to Gain Control over Your Own Destiny
- ✓ Opportunity to Make a Difference
- ✓ Opportunity to Reach Your Full Potential
- ✓ Opportunity to Reap Impressive Profits
- ✓ Opportunity to Contribute to Society and Be Recognized for your efforts
- ✓ Opportunity to Do What You Enjoy Doing

Disadvantages of a Small Business

- ✓ Lower guaranteed pay
- ✓ Fewer benefits
- ✓ Expected to have many skills
- ✓ Too much cohesion
- ✓ Hard to move to a big company
- ✓ Risk of Losing Your Entire Invested Capital
- ✓ Long Hours and Hard Work

COMMON REASONS FOR SMALL BUSINESS FAILURE

- Not keeping adequate records
- Not having enough start-up money
- Lack of management experience
- Lack of experience with the type of business
- Not controlling operating expenses
- Poor location for the business
- Failure to manage credit offered to customers

The above points can be summarized as

Lack of Capital

Of the vast number of small businesses that fail each year, nearly half of the entrepreneurs state a lack of funding or working capital is to blame. In most instances, a business owner is intimately aware of how much money is needed to keep operations running on a day-to-day basis, including funding payroll, paying fixed and varied overhead expenses such as rent and utilities, and ensuring outside vendors are paid on time. However, owners of failing companies are less in tune with how much revenue is generated by sales of products or services. This disconnects leads to funding shortfalls that quickly put a small business out of operation.

Inadequate Management

Another common reason small businesses fail involves the lack of business acumen held by a management team or business owner. In some instances, a business owner is the only senior-level personnel within a company, especially when a business is in its first year or two of operation. While a business owner may have the skills necessary to create and sell a viable product or service, he is often lacking the attributes of a strong manager and the time required to successfully manage other employees. Without a dedicated management team, a business owner has greater potential to mismanage certain aspects of the business, whether it is finances, hiring, or marketing.

Ineffective Business Planning

Small businesses often overlook the importance of effective business planning prior to opening their doors. A sound business plan should include, at a minimum, a clear description of the business; current and future employee and management needs; opportunities and threats within the broader market; capital needs including projected cash flow and various budgets; marketing initiatives; and competitor analysis. Business owners who fail to address the needs of the business within a well laid-out plan before operations begin are setting their companies up for serious challenges. Similarly, a business that does not regularly review an initial business plan, or one that is not prepared to adapt to changes in the market or industry, meets potentially insurmountable obstacles throughout the course of its lifetime.

Marketing Mishaps

Business owners often fail to prepare for the marketing needs of a company in terms of capital required, prospect reach, and accurate conversion ratio projections. When companies underestimate the total cost of early marketing campaigns, it is often difficult to secure financing or redirect capital from other business departments to make up for the shortfall. Because marketing is a crucial aspect of any early-stage business, it is necessary for companies to ensure they have established realistic budgets for current and future marketing needs. Similarly, having realistic projections in terms of target audience reach and sales conversion ratios is critical to marketing campaign success. Businesses that do not understand these aspects of sound marketing strategies are more likely to fail than companies that take the time necessary to create and implement cost-effective, successful campaigns.

Business plan

A document that summarizes a proposed business venture, goals, and plans for achieving those goals

Entrepreneurship Skill-Sets

Technical Skills - which are those skills necessary to produce the business's product or service.

Managerial Skills, which are essential to the day-to-day management and administration of the company

Entrepreneurial Skills - which involve recognizing economic opportunities and acting effectively on them

Personal Maturity Skills - which include self- awareness, accountability, emotional skills, and creative skills.

Choosing a form of ownership

- There's no best form of ownership.
- The best form of ownership depends on the entrepreneurs situation.
- Evaluation of the characteristics weighing pros and cons.
- Deciding which form suits you as an owner.

Factors to consider for choosing form of ownership

- ❖ Control of business
- ❖ Managerial ability
- ❖ Cost of formation
- ❖ Liability exposure
- ❖ Tax consideration

The forms of ownership are:

a) Sole Proprietorship

b) Partnership

c) Companies (Public and Private)

d) Corporate Corporations

Sole Proprietorship

A sole proprietorship is both the simplest and the most prevalent form of business organization.

An important reason for this is that it is the least regulated of all types of business structures.

Technically, the sole proprietorship is the traditional unincorporated one-person business. For legal and tax purposes, the business is the owner. It has no existence outside the owner. The liabilities of the business are personal to the owner and the business ends when the owner dies.

On the other hand, all of the profits are also personal to the owner and the sole owner has full control of the business.

Advantages

Following are the advantages of sole proprietorship form of business:

1. Total Control of the Owner: The most appealing advantage of the sole proprietorship as a business structure is the total control the owner has over the business. Subject only to economic considerations and certain legal restrictions, there is total freedom to operate the business however one chooses. Many people feel that this factor alone is enough to overcome the inherent disadvantages in this form of business.
2. Simplicity of Organisation: Related to this is the simplicity of organization of the sole proprietorship. Other than maintenance of sufficient records for tax purposes, there are no legal requirements on how the business is operated.
3. Least Regulated of all Business: As was mentioned earlier, the sole proprietorship is the least regulated of all businesses.
4. Various Tax Benefits: A final and important advantage to the sole proprietorship is the various tax benefits available to an individual. The losses or profits of the sole proprietorship are considered personal to the owner. The losses are directly deductible against any other income the owner may have and the profits are taxed only once at the marginal

rate of the owner. In many instances, this may have distinct advantages over the method by which partnerships are taxed or the double taxation of corporations, particularly in the early stages of the business.

Disadvantages

Following are the disadvantages of sole proprietorship form of business:

1. Risk to the Assets of Sole Owner: Perhaps the most important factor to consider before choosing this type of business structure is that all of the personal and business assets of the sole owner are at risk in the sole proprietorship.
2. Potential Difficulty in Obtaining Loans: A second major disadvantage to the sole proprietorship as a form of business structure is the potential difficulty in obtaining business loans.
3. Lack of Continuity: A further disadvantage to a sole proprietorship is the lack of continuity that is inherent in the business form. If the owner dies, the business ceases to exist. Of course, the assets and liabilities of the business will pass to the heirs of the owner, but the expertise and knowledge of how the business was successfully carried on will often die with the owner. Small sole proprietorships are seldom carried on profitably after the death of the owner.

Selecting a Business Entity: Joint Partnership

A partnership is a relationship existing between two or more persons who join together to carry on a trade or business. Each partner contributes money, property, labor, and/or skill to the partnership and, in return, expects to share in the profits or losses of the business. A partnership is usually based on a partnership agreement of some type, although the agreement need not be a formal document. It may even simply be an oral understanding between the partners, although this is not recommended. A simple joint undertaking to share expenses is not considered a partnership, nor is a mere co-ownership of property that is maintained and leased or rented. To be considered a partnership for legal and tax purposes, the following factors are usually considered:

- The partners' conduct in carrying out provisions of the partnership agreement,
- The relationship of the parties,
- The abilities and contributions of each party to the partnership, and
- The control each partner has over the partnership income and the purposes for which the income is used.

Types of partnerships

General partnership: A partnership in which all partners have unlimited personal liability and take full responsibility for the management of the business.

Limited partnership: A partnership in which the partners' liability is limited to their investment.

Joint venture: A partnership in which two companies join to complete a specific project. The partnership ends after a specified period of time.

Strategic alliance: A partnership in which two businesses work together for mutual benefit

Advantages

Following are the advantages of joint partnership form of business:

1. Greater Opportunity for Business: A partnership, by virtue of combining the credit potential of the various partners, has an inherently greater opportunity for business credit than is generally available to a sole proprietorship.

2. Tax Advantages: As with the sole proprietorship, there may be certain tax advantages to operation of a business as a partnership, as opposed to a corporation. The profits generated by a partnership may be distributed directly to the partners without incurring any double tax liability, as is the case with the distribution of corporate profits in the form of dividends to the shareholders. Income from a partnership is

taxed at personal income tax rates. Note, however, that depending on the individual tax situation of each partner, this aspect could prove to be a disadvantage.

Disadvantages

Following are the disadvantages of joint partnership form of business:

1. Potential for Conflict between Partners: The disadvantages of the partnership form of business begin with the potential for conflict between partners. Of all forms of business organization, the partnership has spawned more disagreements than any other. This is generally traceable to the lack of a decisive initial partnership agreement that clearly outlines the rights and duties of the partners.

2. Unlimited Personal Liability: A further disadvantage to the partnership structure is that each partner is subject to unlimited personal liability for the debts of the partnership.

3. Legal Liability: Related to the business risks of personal financial liability is the potential personal legal liability for the negligence of another partner. In addition, each partner may even be liable for the negligence of an employee of the partnership if such negligence takes place during the usual course of business of the partnership. Again, the attendant risks are broadened by the potential for liability based on the acts of other persons. Of course, general liability insurance can

counteract this drawback to some extent to protect the personal and partnership assets of each partner.

4. Lack of Continuity: Again, as with the sole proprietorship, the partnership lacks the advantage of continuity. A partnership is usually automatically terminated upon the death of any partner. A final accounting and a division of assets and liabilities is generally necessary in such an instance unless specific methods under which the partnership may be continued have been outlined in the partnership agreement

Selecting a Business Entity: Corporations

A corporation is a creation of law. It is governed by the laws of the state where it was incorporated and of the state or states in which it does business. In recent years it has become the business structure of choice for many small businesses. Corporations are generally, a more complex form of business operation than either a sole proprietorship or partnership. Corporations are also subject to far more state regulations regarding both their formation and operation. The following discussion is provided in order to allow the potential business owner an understanding of this type of business operation.

The corporation is an artificial entity. It is created by filing Articles of Incorporation with the proper state authorities. This gives the corporation its legal existence and the right to carry on business. The

Articles of Incorporation act as a public record of certain formalities of corporate existence. Adoption of corporate bylaws, or internal rules of operation, is often the first business.

Advantages

Following are the various advantages of corporation form of business:

1. One of the most important advantages to the corporate form of business structure is the potential limited liability of the founders of and investors in the corporation. The liability for corporate debts is limited, in general, to the amount of money each owner has contributed to the corporation. Unless the corporation is essentially a shell for a one person business or unless the corporation is grossly under-capitalized or under-insured, the personal assets of the owners are not at risk if the corporation fails. The shareholders stand to lose only what they invested. This factor is very important in attracting investors as the business grows.
2. A corporation can have a perpetual existence. Theoretically, corporations can last forever. This may be a great advantage if there are potential future changes in ownership of the business in the offing. Changes that would cause a partnership to be dissolved or terminated will often not affect the corporation. This continuity can be an important factor in establishing a stable business image and a permanent relationship with others in the industry.

Disadvantages

Following are the various disadvantages of corporation form of business:

1. Loss of Individual Control: Due to the nature of the organizational structure in a corporation, a certain degree of individual control is necessarily lost by incorporation. The officers, as appointees of the board of directors, are answerable to the board of management decisions.

2. Technical Formalities: The technical formalities of corporation formation and operation must be strictly observed in order for a business to reap the benefits of corporate existence. Corporate meetings, both at the shareholder and director levels, are more formal and more frequent. In addition, the actual formation of the corporation is more expensive than the formation of either a sole proprietorship or partnership. The initial state fees that must be paid for registration of a corporation with a state can run as high as $900.00 for a minimally capitalized corporation. Corporations are also subject to a greater level of governmental regulation than any other type of business entity. These complications have the potential to overburden a small business struggling to survive.

Why Is Planning So Important to Small Business?

Planning, Organizing and Managing a Small Business

Planning

The process of setting objectives and devising actions to achieve those objectives. • Planning is one of the most difficult activity but you have to do it. Yet it is essential that you do it because, before taking action, you must know where you are going and how to get there.

Outsiders who invest or lend money need to know your chances of success. Plans provide courses of action, information to others, bases for change and a means of delegating work.

Well-Developed Planning…..

- Attract investors to your business
- Guide the owner and managers in operating the business
- Gives direction to and motivate employees
- Provide an environment to attract customers and prospective employees

How Planning Relates to Other Managerial Activities

Why Small Business Owners Neglect planning although planning is so important?

It is one of the most difficult managerial activities to perform. Many small business owners neglect planning because:

- Day to day activities leave them little or no time for planning
- They fear the problems and weaknesses planning may reveal
- The lack of knowledge of how to plan
- They feel that future changes cannot be planned for Planning requires original thinking takes time and is difficult to do, but it does help one prepare to take advantage of promising opportunities and cope with unexpected problems.

The Role of Strategic Planning Strategic planning

Provides comprehensive long-term direction to help a business accomplish its mission.

The following are some examples of strategic planning:

• Selecting the type of business to enter

• Formulating the mission of the company

• Start a new business, purchase an existing one or a franchise
• Choosing the product or service to sell
• Choosing the type of organization to use
• Determining financial needs
• Selecting the location for the business

SWOT Analysis

A SWOT analysis is one tool that strategic planners use to scan the business environments and base objectives. It allows the owner to identify new markets and to prepare for perceived down-turns or competitions. It is a useful tool to aid the process of strategic planners and can be organized into the form of a matrix.

A Study is made of the opportunities and threats in the EXTERNAL ENVIRONMENT and strengths and weaknesses in the INTERNAL ENVIRONMENT.

The key is to be able to eliminate weaknesses and threats and capitalize on the strengths and opportunities.

SWOT Analysis 2

The format allows you to reach a basic understanding of your business and the business environment in which you operates.

Mission and Objectives Mission (What is the basic purpose)

• A business's mission statement defines the present business scope and broadly describes the organization's present capabilities, focus and activities. It is concerned with broad concepts such as the firm's image, with the basic services the firm plans to perform (e.g. "entertainment" instead of "movies") and with long-term financial success.

• Once made, missions are rarely revised.

• A clear definition of your mission enables you to design result-oriented objectives and strategies. A good mission statement defines exactly the identity of your business and allows all of your planning to flow from it.

• Frequently when small business owners are closely tied to their business, the mission becomes very personal.

Objectives

• Objectives are the goals that give shorter-term direction to the business and serve as benchmarks for measuring performance. Examples of objectives might include "increasing total sales by 8 percent a year" and "to introduce within the next two years a new product aimed at the middle-class consumer".

• Objectives are used to achieve the mission.

• Objectives are more specific than mission and are revised more frequently.

The mission and objectives are set based on

• The business external environment

• Internal resources that make a competitive edge

Strategic Umbrella

The external Environment

• Many consultants and other advisors are pushing small companies to give more emphasis to their external environment.

• In a study of 100 companies, it was revealed that "managers who spend more time evaluating external factors such as their competitors, the U.S. market climate and emerging technology can better manage and forecast business than those who focus on internal factors". This practice was found to improve their strategic plans.

• Some other external environmental factors to consider include clients, the economy, legal and political factors, changing demographics, foreign competition, and many other influences.

• Changes caused by the introduction of videotapes, computer hardware and software, lasers, and population aging, for example have been a blessing to some companies and a death warrant to others (SWOT).

Internal Resources and Competitive Edge

The internal resources of a company are:

• Human Resources: Include management and non-management people. Also key operating people like production supervisors, sales personnel, financial analysts, and engineers. To keep the company competitive, these people must be motivated, imaginative, qualified and dedicated.

• Physical Resources: Include buildings, tools and equipment, and service and distribution facilities. For the company to be competitive, these resources must be strategically located, be productive, be low in operating costs, be effective distributors, and make the proper product.

• Financial Resources: Include Cash flow, debt capacity, and equity available to run the business. To make the company competitive, company finances must be adequate to maintain current levels of activities and to take advantage of future opportunities. Many accountants suggest that aspiring entrepreneurs get their financial house in order before starting. This includes sitting aside funds for taxes and Social Security and a protection against financial reversals.

• If a firm has exceptionally good resources and they are effectively used, it can have Competitive Edge over the rivals. Therefore, a proper evaluation of available resources may permit you to focus on your customers and provide them with a little some-thing extra, which gives you a competitive edge. Thus, a small business must align its mission, objectives and resources with its environment if it is to be effective. The proper evaluation of its competitive edge can make a small firm's planning more realistic and lead to greater profitability.

Operational Planning

The Role of Operational Planning

• Why do so many small businesses fail?

• The underlying reason in most cases is lack of proper strategic and operational planning.

• Plans are so important because help avoid costly blunders, save time and result in a more polished final product.

Policies, Methods, Procedures and Budget

• Operational planning starts with setting policies, methods and procedures, and budgets which together form the basis for the other part of operational methods and planning.

• Policies guide action. They exist so that managers can delegate work and employees will make decisions based on the thinking and wishes of the business owner.

Policies, Methods, Procedures and Budget...

• Methods and Procedures provide employees with standing instructions for performing their jobs. They comprise detailed explanation of how to do the work properly, and in what order it should be done.

• Budgets set the requirements needed to follow the strategies and accomplish the objectives. For example, a cash budget shows the amount and dates of cash income and outgo. It helps the manager determine when and how much to borrow.

Planning to Operate the Business

Second part of the operational planning (planning to operate the business) includes:

• Choosing your location

• Planning operations and physical facilities

• Developing sources of supply for goods and materials

• Planning your human resource requirements

• Setting up the legal and organizational structure

• Determining your approach to the market

• Establishing an efficient record system

• Setting up a time schedule

• The type of business influences most of your location decisions, as they relate to access to customers, suppliers, employees, utilities, and transportation, as well as compliance with zoning regulations and other laws. The mission of business is also a basic consideration in seeking the right location.

• For example, landlords across the United States are seeking nonretail occupants for filling department store spaces. Those taking advantage there include telemarketers, warehouses, dining establishments, and office space.

Planning Operations and Physical Facilities

• Good selection and efficient arrangement of physical facilities are very important for producing the planned amount.

• Too much production capacity increases costs

• Too less capacity will not satisfy the market needs

• A balance is required through proper planning

• The sales should be estimated first and then the production

• Next, to buy the machines or to lease them • E.g. Photocopier Machine

Planning Human Resource Requirement

This is the most frustrating task for small businesses (Can't hire Specialized people)

• If you can't give more time to your business, you should hire capable employees who need less supervision

• Another problem is employees easily leave small business jobs. They should be motivated to remain with you for a long time.

• Good Employees? How many workers you need? Where will they be obtained? How much I must I pay them?

• You can now select your work-force.

Establishing an Efficient Records System For example, a business may need to record the following information:

• The date each employee is hired, the number hours each one works, and the wages and benefits paid

• Inventories, accounts receivable, and accounts payable • Taxes paid and owed

• Units of each product sold many records are needed to help make the small business operate successfully. Management information system should be selected and designed to aid management in this respect.

Setting Up a Time Schedule

• After getting enough information about the business, you should establish a time schedule to provide an orderly and coordinated program.

• The sequence of the activities is determined.

• The schedule should probably include the prior planning steps.

• Many of these steps can be and often are performed simultaneously.

The Role of Financial Planning

Financial planning can be quite simple or very complex, but it should involve at least the following:

- Estimating Income and Expenses
- Estimating Initial Investment Required
- Locating Sources of Funds Required

Estimating Income and Expenses

Here, you should estimate expected income, expenses and then net profit from your operations.

- Income from sales can be estimated by studying the market
- Expenses can be estimated form past experience and other sources, such as knowledgeable people, a library, or a trade association.
- By totaling income and expenses, you can estimate your profit or loss for your FIRST year,

Analysis

- Three levels of production and sales estimates are given.
- With higher production, business is able to earn high profit
- The main reason is the fixed cost that does not increase with increase in production. • Here comes the need for plan

Variable Expenses,

Those which vary with sales volume (material, electricity etc)

Fixed Expenses, that don't vary with changes in sales volume (rent etc)

Estimating Initial Investment

You can provide personal money or/and bank credit for initial investment. Money is needed for building, equipment, materials, personnel, inventory, machines, and sales promotion. Some expenses are repeated during while others are paid just once (Starting Cost) like license and permit, decorating, starting inventory, legal and professional fees, advertising and promotion for opening

Locating Sources of Funds

After finding the initial amount of fund, you need to find the sources of fund. Some small business owners prefer to invest only their personal funds and not borrow to start or operate the business. So this is possible if you have enough money. There are other sources of funds too if you are interested to decrease your risk. But even then you must invest more than all other investors' combine contribution to have control on decision making.

Locating Sources of Funds..

You can motivate other investors to take part in the business but with the rule given before. Lenders can provide you fund with fixed interest Both of these sources need a strong business plan to present at the time of convincing them.