ENTREPRENEURSHIP AND COMMUNICATION SKILLS

PART I

CPA SECTION 1

CICT SECTION 1

CIFA SECTION 1

CCP SECTION 1

STUDY TEXT

GENERAL OBJECTIVES
This paper is intended to equip the candidate with knowledge, skills and attitudes that will enable him/her to apply entrepreneurial and communication skills in business and other environments

LEARNING OUTCOMES
A candidate who passes this paper should be able to:

- Identify and screen viable business opportunities
- Develop a business plan
- Demonstrate entrepreneurial orientation
- Communicate effectively in a business environment
- Apply entrepreneurship competencies in response to the emerging trends in the business environment

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TOPIC 1

INTRODUCTION TO ENTREPRENEURSHIP

DEFINITION OF ENTREPRENEURSHIP

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

Who is an Entrepreneur?

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

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

What is an Enterprise?

The term “enterprise” has two common meanings:

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

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

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

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

Someone who shows enterprise is an “entrepreneur”.

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

Employed (Paid Employment)

i. Under control of another person (employer)
ii. Supply your labor only
iii. Cannot subcontract the work
iv. Mutuality of obligation to offer work and perform work
v. Do not supply equipment/materials for the job
vi. Receive fixed hourly/weekly/monthly wages
vii. Entitled to sick pay/holiday pay etc.
viii. Employer provides insurance cover
ix. Work set number of hours per week
x. Employer deducts tax from wages under PAYE

Self-employed

i. Own your own business
ii. Are exposed to financial risk
iii. Can subcontract the work
iv. No mutuality of obligation
v. Supply necessary equipment for the job
vi. Cost and agree a price for the job
vii. Not entitled to paid leave
viii. Provide your own insurance cover
ix. Control your own hours in fulfilling job
x. You are registered for Self-Assessment and are required to file your own returns

Advantages of Self-Employment

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

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

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

Disadvantages of Self-Employment

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

Paid Employment

Advantages

i. Job Security
ii. Income stability
iii. Predictable work life

Disadvantages

i. You are only paid for your efforts and unlike the entrepreneur; your brilliant ideas only receive commendation and little or no real monetary rewards.
ii. You will simply be helping another man create wealth for himself while you make do with your wages which might be meager
iii. Think of it as a case of not having your cake and eating it.
iv. Paid employment is like Financial Bankruptcy.
v. It cages your mind from soaring to the sky financially.

ENTREPRENEURIAL DECISION PROCESS

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

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

1. Identification of strengths

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

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

2. Assess his Surrounding

Once the entrepreneur has assessed his abilities, he needs to look back at what is surrounding him. This entails learning the economic trends of his surrounding and trying to project the outcome of certain events. The entrepreneur needs to study the economy very well. This is important since the result of his study will act as a personal bench mark for him to know how far he can go in an attempt to bring in something new. The study of the economy can be achieved by reading journals and articles written by experts, studying current economic events both in his country and the world at large. For a comprehensive analysis, the entrepreneur will need to go far back, may be five years. This of course, will depend on the nature of the economy and the growth rate. Certain events may have short term implications and some may have long term implications, so the entrepreneur needs to look at all these in perspective. The entrepreneur will need to relate the various economic events to each other and identify a connection, if any. The world economic climate has an effect on the local economy and this will need to be studied in detail by the entrepreneur. As part of his surrounding, the current political and social situation will also impact on the identification of a business opportunity. These form the foundation of a stable society that will support his business in future. The entrepreneur should also assess his potential competitors. This involves analyzing the latest technologies that are in use in most businesses that he may find lucrative to engage in. He also needs to find out the availability of supplies for his business and whether these are likely to be reliable and if not, what other options exist.

3. Identification of Gaps

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

4. Selection of Gaps to be filled

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

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

5. Identification of Risks and Constraints

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

6. Lay out an execution Plan

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

ENTREPRENEURIAL DEVELOPMENT

What is an enterprise?

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

Importance of enterprise development

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

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

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

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

Business Life cycles and How to Manage Growth

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

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

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

Ease of entry

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

Less competition

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

High level of innovation

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

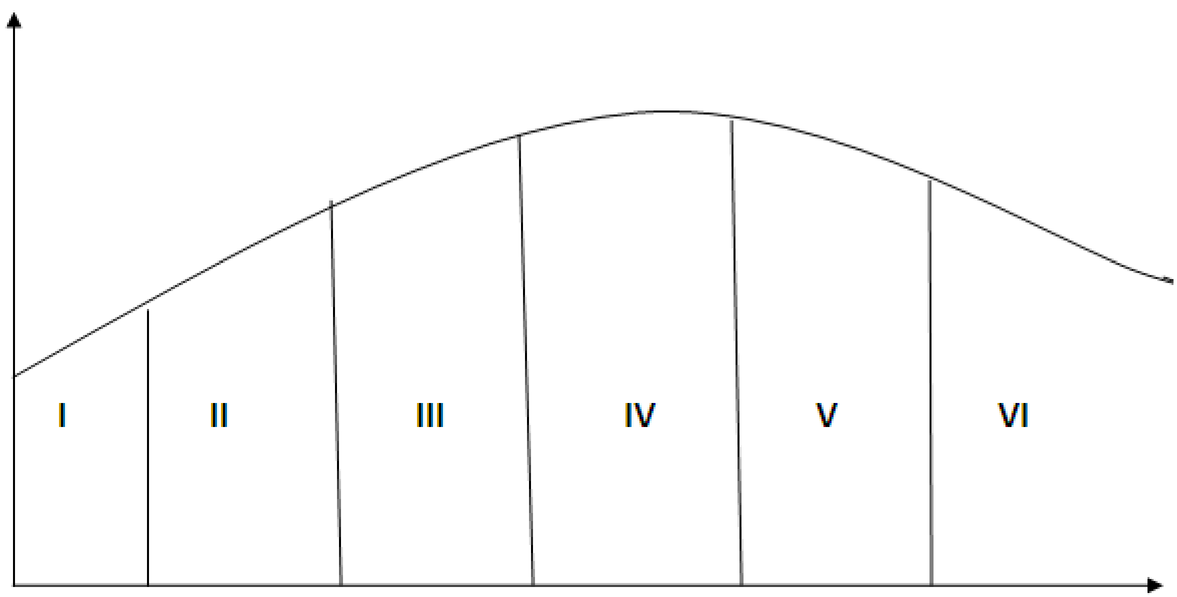
THE PHASES IN THE GROWTH OF A FIRM

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

Business life cycle

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

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



I. Idea Generation stage

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

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

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

II. Start - up stage

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

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

III. Growth stage

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

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

IV. Stabilization Stage

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

- There is also market saturation by similar ("look like") products

- Consumers’ indifference to the-product
- Sales may decline and consequently profit may decline.

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

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

V. Innovation Stage

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

Among innovative attempts include:

- ***Change of management***
  The aim is to bring new-and better ideas that will ensure the firm is back to the growth path.
- ***Re- package the product/ service***
  This would ensure the market gets the impression of a new product that is modified and. Better than the former. It is also a strategy of winning customers back from competitors.
- **Change the technology**
  The aim of new technology is to ensure efficiency in production and enhance customer service. It is important that the entrepreneur chooses a technology that matches the type of business he is doing
- **New distribution methods** .
  The firm may also design new distribution methods. Changing the distribution strategy would ensure customers access their products at the convenient places especially providing personalized distributions to customers or even ensuring 24 hour service to customers
- **Advertise and promote differently**
  The firm may decide go to different regions and promote its product or services.

VI. Decline Stage

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

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

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

- Inability to meet bills/ debts as they fall due
  This arises from persistent low income or losses against increased expenditure.

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

MANAGING GROWTH

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

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

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

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

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

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

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

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

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

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

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

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

Product/ Service diversification
This strategy will mitigate against the risk of losing market share when the product reaches the final stage of its life cycle. As we saw earlier, the lifecycle of a business will necessarily follow that of the product if there is no backup plan. Through product diversification, the entrepreneur will ensure that even though the product is squeezed out of the market as a result of fierce competition, others will still come up to replace it in terms of market share.
The entrepreneur should be careful not to diversify into unrelated products or services. He should choose a product or a service that can be used instead of the mainstream product or service. At the end of it all, he should not do away with the original product all together

LIMITATIONS OF ENTERPRISE DEVELOPMENT

Unfavorable legal and regulatory framework

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

Undeveloped infrastructure

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

Poor business development services

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

Poor entrepreneurial Culture

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

Lack of Skills and competence

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

THE GOVERNMENT'S ROLE IN ENTERPRISE DEVELOPMENT

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

Policy Formulation

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

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

Establishing Linkages/ Networks
Networks are so important for the entrepreneur who is just starting out. He needs all the support he can get from other entrepreneurs and strategic investors looking for franchises. The business linkages are also critical because networking is crucial in the business world. This is clearly demonstrated by the chain of supply of goods and services between firms in an industry and even between industries. The government can establish organs that will specialize in bringing entrepreneurs with good proposals and strategic investors together in a common forum.
Entrepreneurs also benefit through access to information on financial assistance, materials and suppliers, pricing, training, workshops sub-contracting opportunities and potential joint venture.

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

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

SOURCES OF FINANCE

Businesses can acquire finances from various sources. These include;

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

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

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

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

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

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

Leasing
With leasing a business has the use of an asset, but pays a monthly fee for its use and will never own it. Think, of, someone setting up business as a Parcel Delivery Service, he could lease the van he needs from a leasing company. He will have to pay a monthly leasing fee, say Kshs.50,000, which is very useful if he does not wish to spend Ksh.800,000 on buying a van. This will free up capital, which can now be used for other purposes. A business looking to purchase equipment may decide to lease if it wishes to improve its immediate cash flow. In the

example above, if the van had been purchased, the flow of cash out of the business would have been Ksh 800,000, but by leasing the flow out of the business over the first year would be Ksh 600,000, leaving a possible Ksh 200,000 for other assets and investment in the business. Leasing also allows equipment to be updated on a regular basis, but it does cost more than outright purchase in the long run

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

LEGAL FORMS OF OWNERSHIP

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

Sole Proprietorship

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

Partnership

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

Contents of partnership agreement

- Name(s) and address(s) of both the firm and the partners
- Capital to be contributed by each partner
- The profit sharing ratios that may be expressed as a fraction or as a percentage.

- Salaries to be paid to any partners who will be involved in the active management of the business
- Any interest to be charged on drawings made by the partners.
- Interests to be given to the partners on their capital balances.
- Procedures to be taken on the retirement or admission of a partner

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

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

Reasons for partnership

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

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

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

(i) Limited Liability
The debts of the corporation are its own and a member of manager of the corporation cannot be sued on order to recover the debts. If a corporation such as a registered company is unable to pay its debts it may be wound-up and during the winding-up its members will be asked to 'contribute' what is required to pay the debts but a member cannot be asked to pay more than the amount, if

any, that is unpaid on the shares held by him (or the amount he guaranteed if it is a company limited by guarantee).

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

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

(iv) Suing or being sued
Because of the legal separation between a corporation and its members, it follows that a wrong to, or by, the corporation is not a wrong to, or by, its members.

Formation of Corporations
A corporation may be brought into existence by

a) Registration
b) Statute
c) Charter

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

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

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

(ii) The Permanent Secretary to the Treasury of Kenya.

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

(b) Corporation Aggregate

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

(b) Statutory Corporation

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

(c) Chartered Corporation

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

Business contracts and tendering procedures

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

THE TENDERING PROCESS

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

Step 1: Identifying the need for the service
The need for the service will be triggered by one of the employees of the firm or by the entrepreneur himself. The justification should follow due process to avoid wastage of resources for services that are not needed.

Step 2: Short listing of possible service providers
Based on the need, the purchasing office or the entrepreneur will identify the possible third party firms that can provide these services and get their quotations

Step 3: Selection
Based on pricing and other considerations such as efficiency of service, terms of payment, quality of products e.t.c, the entrepreneur will select the quote from successful supplier and communicate to him that he has been selected to supply the services or good.

Step 4: Communication with unsuccessful applicants
It is good practice for the entrepreneur to communicate with the unsuccessful applicants the fact of their non selection and the reasons for the same.

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

- Merger
- Acquisition
- Take over
- Franchise.

These are explained briefly as follows;

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

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

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

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

CONTRIBUTION TO ECONOMIC DEVELOPMENT

What is the Role of an Entrepreneur in Economic Development?

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

(1) Promotes Capital Formation: Entrepreneurs promote capital formation by mobilizing the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises. Such type of entrepreneurial activities leads to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

(2) Creates Large-Scale Employment Opportunities: Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.

(3) Promotes Balanced Regional Development: Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries leads to more development of backward regions and thereby promotes balanced regional development.

(4) Reduces Concentration of Economic Power: Economic power is the natural outcome of industrial and business activity. Industrial development normally leads to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

(5) Wealth Creation and Distribution: It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

(6) Increasing Gross National Product and Per Capita Income: Entrepreneurs are always on the look out for opportunities. They explore and exploit opportunities, encourage effective resource mobilization of capital and skill, bring in new products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

(7) Improvement in the Standard of Living: Increase in the standard of living of the people is a characteristic feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

(8) Promotes Country's Export Trade: Entrepreneurs help in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development.

(8) Induces Backward and Forward Linkages: Entrepreneurs like to work in an environment of change and try to maximize profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country.

(9) Facilitates Overall Development: Entrepreneurs act as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialization is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

TOPIC 2

ENTREPRENEURSHIP ORIENTATION

FUNCTIONS OF ENTREPRENEURS

An entrepreneur performs a series of functions necessary right from the genesis of an idea up to the establishment and effective operation of an enterprise. He carries out the whole set of activities of the business for its success. He recognizes the commercial potential of a product or a service, formulates operating policies for production, product design, marketing and organizational structure. He is thus a nucleus of high growth of the enterprise.

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

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

1. Risk-bearing Function:

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

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

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

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

2. Organizational Function:

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

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

3. Innovative Function:

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

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

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

4. Managerial Function:

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

5. Decision Making Function:

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

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

The Roles of the Entrepreneur

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

1. **Entrepreneur as Risk-Taker**

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

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

2. **Entrepreneur as Business Manager**

Frank Knight established a boundary between management and entrepreneurship. He sees entrepreneurs in the strict sense as producers; while the great mass of population furnish them with productive services, placing their persons and property at the disposal of entrepreneurs who guarantee to them a fixed remuneration. Entrepreneurial profit depends on whether an entrepreneur can make productive services yield more than the price fixed upon them by those who furnish productive services think they can make them yield. Therefore, its magnitude is based on a margin of error in calculation by entrepreneurs and non-entrepreneurs who do not