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DEPARTMENT OF ENTREPRENEURSHIP EDUCATION

ENTREPRENEURSHIP EDUCATION LECTURE NOTES

Topic	**Sub – Topic**
1)Introduction to Entrepreneurship	• Meaning of terms • Difference between self-employment and salaried employment • Contribution of entrepreneurship to national development • Requirement for entry into Self Employment
2)Evolution of Entrepreneurship	• History of Entrepreneurship • Myths associated with entrepreneurship in Kenya • Theories of entrepreneurship • Importance of entrepreneurship theories • Factors affecting entrepreneurship development
3)The Entrepreneur	• Types of Entrepreneurs • Qualities of an entrepreneur • Roles of an entrepreneur in an enterprise

4)Creativity and Innovation	• Meaning of creativity and innovation • Process of creativity and innovation • Importance of creativity and innovation • Barriers to creativity and innovation • Managing creativity and innovation
5)Entrepreneurial Culture	• Concept of entrepreneurial culture • Habits that promote entrepreneurial development • Factors inhibiting entrepreneurial development • Ways of managing factors that inhibit development of entrepreneurial culture

Topic	**Sub – Topic**
6)Entrepreneurial Opportunities	• Meaning of entrepreneurial opportunities • Ways of generating business ideas • Evaluation of business opportunities
7)Entrepreneurial Motivation	• Definition of entrepreneurial motivation • Entrepreneurial motivation factors
8)Entrepreneurial competence	• Definition of entrepreneurial competence • Key entrepreneurial competence
9)Starting a small business	• Procedure of starting a small enterprise • Factors to consider when starting a small enterprise • Legal forms of business ownership • Challenges faced when starting a small enterprise • Business life cycle • Regulations affecting business • Business support services available for a small business

10) Business enterprise Management	• Definition of terms • Functions of management in an enterprise • Inventory management • Managing enterprise resources
11) Financial Management	• Meaning of financial Management • Importance of financial management • Sources of business finance • Types of business records • Recording business transactions in the books of accounts • Preparation of financial statement • Interpretation of financial statements
Topic	**Sub – Topic**
	Importance of budgeting to a business
12) Marketing	• Definition of terms • Components of marketing • Process of marketing
13) Enterprise Social Responsibility and Business Ethics	• Definition of terms • Enterprise social responsibility • Types of enterprise social responsibility • Importance of enterprise social responsibility • Ethical behavior in an enterprise
14)Introduction to business Plan	• Definition of business plan • Components of a business plan • Uses of a business plan • Preparation of a business plan

15) ICT in enterprise Management	• Definition of terms • Benefits of ICT • Uses of ICT Equipment
16) Emerging trends and issues in entrepreneurship	• Emerging issues and trends • Challenges posed by emerging issues and trends • Ways of managing challenges posed by emerging issues and trends.

INTRODUCTION TO ENTREPRENEURSHIP

Definition of Terms

Definition of an entrepreneur

- ✓ An entrepreneur is a person who identifies a business opportunity, harnesses and obtains the resources necessary to initiate a successful business activity.
- ✓ The entrepreneur implements the idea
- ✓ Undertakes to operate the business
- ✓ An entrepreneur is therefore a central key individual in the society who makes things happens for economic development.

Entrepreneurship meaning

- ✓ In the broader sense entrepreneurship refers to the means of stimulating innovative and creative undertakings for a better business community or world.
- ✓ The act or process of identifying business opportunities and gathering the necessary resources to initiate a successful business activity.
- ✓ Entrepreneurship is a French word meaning to undertake and focuses on a business enterprise
- ✓ Entrepreneurship can exist in any situation – therefore it is the creation of values through establishing a business enterprise.
- ✓ Entrepreneurship means having an idea of one's own and trying to implement the idea to create values on it.
- ✓ Entrepreneurship is a term which encompasses what entrepreneurs do i.e
    - Identifying a business opportunity of a particular demand
    - Look at the opportunity as a process of creating, something that did not exist.
    - Constantly searching/ harnessing ones environment and resources to implement the activities.
    - Creating a totally new product and using it in as new.
- ✓ Entrepreneurship there is the practice of starting a new business or revitalizing existing businesses in response to identifying opportunities.

Self-Employment

- ✓ Working independently and earning a living from it.
- ✓ This is a concept that arises when the entrepreneur relies on revenues from his business as a source of income
- ✓ What is Unemployment? Advantages and disadvantages of Self Employment?
- ✓ What is Salaried Employment? Advantages and Disadvantages of Salaried employment? Enterprise
- ✓ A business undertaking by an individual for the purpose of making a profit.

Factors impeding the growth of Entrepreneurship

- ✓ High Taxation Levels
- ✓ Corruption and Official Harassment
- ✓ Unregulated competition from outside countries
- ✓ Decline in personal incomes
- ✓ The high cost of finance
- ✓ Lack of entrepreneurial culture
- ✓ Poor transport and communication networks
- ✓ Lack of skills and knowledge
- ✓ Explain the distinctions between an Entrepreneur and a Manager

Contribution of Entrepreneurship to National Development

- ✦ The economic growth, the improved quality of life, the equitable distribution of resources and the capacity of the economy to deal with economic, social and environmental development.
- ✦ Main objectives of national development include:
    - Provide basic needs to every citizen:- food, shelter, health, security, education, clothing
    - Elimination / Reduction of poverty: reduce rural-urban migration Provision of opportunities for employment and personal advancement
    - Trying to narrow the income differences between the rich and the poor.

i) Employment Creation:

ii) Promotion of National Productivity: This is through production of goods and services within the country and therefore they contribute to the Gross Domestic Product (GDP)

iii) Raising Standards of Living: It's measured by the capacity of people of a country to buy goods and services. Entrepreneurs contribute by employing people and giving them salaries or wages to buy their necessities.

iv) Conservation of foreign Exchange: Entrepreneurs produce goods and services that are needed by people and reduction in importing those goods and hence the government saves foreign exchange.

v) Export Promotion: Entrepreneurs who produce goods and services for export earn vi)Conservation Agent: Entrepreneurs can contribute to conservation and utilization of resources e.g. manufacturing a Jiko that uses sawdust instead of wood charcoal

vii) Rural development which in effect.

- ✓ Promotes change to the formal sector from informal sector ✓Equitable development
- ✓ Reduced rural-urban migrations.

viii) Development of technology through
- ✓ establishment of research institutions ii) education systems

ix) Government revenue
- ✓ Through taxes. From domestic borrowing (TBs)

x) Facilitating community development through
- ✓ Establishment of small businesses ii) Participation in community dev. Projects xi)Providing a positive role model and facilitating.
- ✓ Competition between domestic entrepreneurship and imported ✓Stimulating dev. Of entrepreneurship.

xii) Reducing dependence on imported goods and services.

xiii) Stimulates competition through
- ✓ Quality production methods are adopted
- ✓ Quality products are produced
- ✓ Variety goods and services are produced.

xiv) Facilitated development of the financial sector through which;
- ✓ Capital accumulation is possible through savings
- ✓ Loaning is facilitated
- ✓ Development of the capital market.

Entrepreneurship

i) Entrepreneurship looks at particular individuals in a business set-up. It operates in large business or organization which is business minded to make profit.

ii) Entrepreneurs operate autonomously for the welfare of the organization.

iii) The term Intra – refers to within – therefore Entrepreneurship is a process whereby an individual or group within a large organization creates something new or different to maximize on the available opportunities to that organization. iv)Intra can therefore be equated to entra within the context of a large organization where the workers are a leeway to be creative or innovative on their own.

v)They become competitive, socially and economically the idea is to allow individuals within the organization to act and think independently.

Entrepreneurial Behavior

- ✦ Several theories have been developed to explain why entrepreneurs behave the way they do.
- ✦ There has been debate on whether entrepreneurs are born or made
- ✦ Born-hereditary, made-entrepreneurs are environmental influenced by where they are born.
- ✦ These are;

i) Economic

- ✓ The theory explains entrepreneurial behavior as influenced by economic factors through which.

a) It is possible to introduce new methods
b) It is possible to find new sources of materials
c) It is possible to open new markets

- ✓ The economic prospective is important since they create enabling environment for the entrepreneur to combine the factors of production.

ii) Psychological factors

- ✓ The theory states that entrepreneurs have unique values, attitudes and needs within which drive them.
- ✓ It is mostly concerned with personality traits as the main determinants of entrepreneurial behavior
- ✓ People are likely to become entrepreneurs because of high liking of say.

a) Independence
b) Attitude
c) Need to satisfy certain needs.

iii) Sociological factors

- ✓ Maintains that environmental factors such as beliefs, culture, social structures determine entrepreneurial behavior.

iv) Management factors

- ✓ Emphasizes on the organization of resources in a specific way to attain profits
- ✓ Leadership impacts on behavior and facilitates pioneership, achieving of goals and provides vision.

The Functions of an Entrepreneur

i) The bearing of uncertainty is the primary function of the entrepreneur i.e losses or profits.

ii) The management of the business enterprise ie can delegate iii) Provision of risk capital and invention.

iv) Identifying gaps in the market and turning such gaps to business opportunities i.e to initiate a business.

v) Financing the businesses, through raising and mobilizing the necessary resources to exploit opportunity.

vi) Searching for business opportunities through environmental scans. vii) Mobilization of resources needed to start and run a business e.g. from

a) Personal savings
b) Friends & relatives
c) Financial institutions e.t.c

viii) Evaluation of business opportunities to access viability and any other benefits that might accrue to the business.

ix) Provide the necessary leadership for the business and those working in it.

Advantages of Entrepreneurship

i.) Financial gains
ii.) Self-employment which leads to job satisfaction and flexibility
iii.) Provide job opportunities to the unemployed or those seeking better jobs.
iv.) A means of opening up new industries especially in the rural areas - facilitating globalization
v.) A source of generating income and increased economic growth.
vi.) Facilitates competition encouraging high quality products
vii.) Facilitates production of more goods and services
viii.) Leads to the development of newer markets
ix.) Promotes use of modern technology in especially small- scale manufacturing to enhance higher productivity

Drawbacks of entrepreneurship

a) **Challenges of a being an entrepreneur**
   - long working hours
   - poor pay
   - unclear future
   - fear of losing all that has been invested
   - bankruptcies and closure

b) **Other challenges**
   - Fear of delegating
   - the problem do it yourself and know it all
   - competition by established business
   - lack of funds especially before break even
   - Mis- management by employees

Promotion of Entrepreneurship

- ✓ Integrating entrepreneurship into the education system
- ✓ Registration to encourage risk taking
- ✓ National companies to promote entrepreneurship
- ✓ Support of entrepreneurs through friendly loans at the appropriate time.

2. EVOLUTION OF ENTREPRENEURSHIP

The Evolution of Entrepreneurship in Kenya

- ✓ Interest in the development of entrepreneurship and small enterprise in Kenya gained momentum as a possible remedy to the stagnation of economic development and the escalating unemployment problem between the early 1960 and 1970s
- ✓ Although there were attempts by the government to develop entrepreneurship, the main impetus came from the international labor organization (ILO) report.
- ✓ The report centered on the potential of the informal sector and suggested that the bulk of Kenya's urban workers were self –employed in small enterprises.
- ✓ The report proposed that the development of this sector could;

i.Promote employment ii.Facilitate development iii.Facilitate equitable distribution of resources.

- ✓ Based on this report the government responded with a seasonal paper in 1973 – which recognized the role of entrepreneurship in employment creation not just in the informal sector but also in the formal sector.
- ✓ Subsequent development plans have devoted time to the development of strategies and to promote small-scale enterprises and entrepreneurs which include. ○The industrial estate programme ○Establishment of development agents e.g ICDC and KIE ○Policy and institutional framework to promote entrepreneurs. ○Promoting indigenous Kenyan enterprises.

Economic, Social and Political Factors Affecting Entrepreneurial Development

a)High taxation levels. For business and personal incomes

- ✓ Which in effect reduce profits earned making it un-attractive to engage in business ✓Taxation of raw materials and other inputs raise production costs.

b) Corruption and official harassment

- ✓ Occurs where entrepreneurs are forced to bribe officials in various government departments to allow operation or start up.
- ✓ Raids under one pretext or another which tends to be very harassing.

c) Unregulated competition from the outside world due.

- ✓ Liberalization which opened importation competing locally produced goods.

d) Declining personal incomes of people due to

- ✓ Over-increasing cost of living
- ✓ Arise in unemployment

e) The high cost of finance

- ✓ The cost of borrowing is high
- ✓ Business collapses because they lack ability to repay loans.

f) Lack of necessary skills and knowledge due to

- ✓ lack of training opportunities
- ✓ high education costs

g) Poor transport and communication network

- ✓ making business difficult
- ✓ Inconveniencing consumers
- ✓ High energy costs
- ✓ Lack of entrepreneurial culture

Myths Associated with Entrepreneurship

1) Entrepreneurs are doers not thinkers: Although it is true entrepreneurs tend towards action, they are also thinkers.
2) Entrepreneurs are born not made: The idea that the characteristics of entrepreneurs cannot be taught or learned, that they have innate trait, has long been prevalent. Today, however, the recognition of entrepreneurship as a discipline is helping to dispel the myth.

3) Entrepreneurs are always inventors: entrepreneurship covers more than just invention. It requires a complete understanding of innovative behavior in all forms.

4) Entrepreneurs are academic and social misfits. The belief that entrepreneurs are academically and socially ineffective is as a result of some business owners having started successful enterprise after dropping out of school or quitting a job. Today the entrepreneur is considered a hero socially, economically and academically and no longer misfit.

5) Entrepreneurs must fit the profile many books and articles have presented checklist of characteristics of a successful entrepreneur. Today we realize that a standard entrepreneurial profile

6) All entrepreneurs need to run a business successful is money: Many business fail because of managerial incompetence, lack of financial understanding, poor planning etc. To many entrepreneurs money is a source but not an end in itself.

7) All entrepreneurs need is luck. Being at "the right place at the right time" is always an advantage. But luck happens when preparation meets opportunity as an equally appropriate advantage. Prepared entrepreneurs who seize the opportunity when it arises often seem "Lucky" they are in fact simply better prepared to deal with situations and turn them into success. What appears to be luck really is preparation, determination, desire, knowledge and innovativeness?

8) Entrepreneurs must fail; in fact failure can teach many lessons to those willing to learn and often leads to future successes.

9) Entrepreneurs are extremely risk takers (Gamblers). Entrepreneur is usually working on a moderate or calculated risk.

10) It takes a lot of money to start a business. This is false because it is all about using the little resources to make the most out of it.

11) Those who make it are those with rich backups. You can start from scratch with no special favors or advantages and succeed

12) Some people go about thinking that banks do not lend to those who wish to start up businesses.

13) Those who start business, do so in very attractive industries

14) All entrepreneurs are rich and have financial success

15) Starting a business is easy. It is difficult and getting it running takes a lot.

Theories of entrepreneurship

The theories that explains entrepreneurship include:

a) Psychological Theory
b) Motivational Theory
c) Sociological Theory
d) Economic Theory
e) The Resource Based Theory
f) Competence Based Theory

g) Heterogeneous Demand Theory

Psychological theory

- The focus is that entrepreneurs have unique values, attitudes and need which drive them.
- People's behavior results from their attempts to satisfy their unique needs and values.
- The psychological school focuses on personality factors believing that entrepreneurs have unique values and attitudes towards work and life.
- Among the most frequent traits of entrepreneurs include the Need for achievement, Locus of Control and Risk taking propensity.

Motivational Theory

- Motivation is that which causes you to behave in the way you behave i.e. the why of behavior
- Entrepreneurial motivation is those factors and forces or events that energizes an individual, his desires and the needs to go into and sustain a business venture.
- Types of motivation; i) Internal Motivation Factors ii) External Motivation Factors
- Internal Motivations and Drives
    - ✓Refers to those personal traits and desires that induce a person to become an entrepreneur. Such motivations are;
        i. Employment Creation Need.
        ii. Need for independence or self-Reliance: iii.Need for Power:
        iv.Need for Recognition:
        v.Need for Security:
        vi.Self-actualization need:

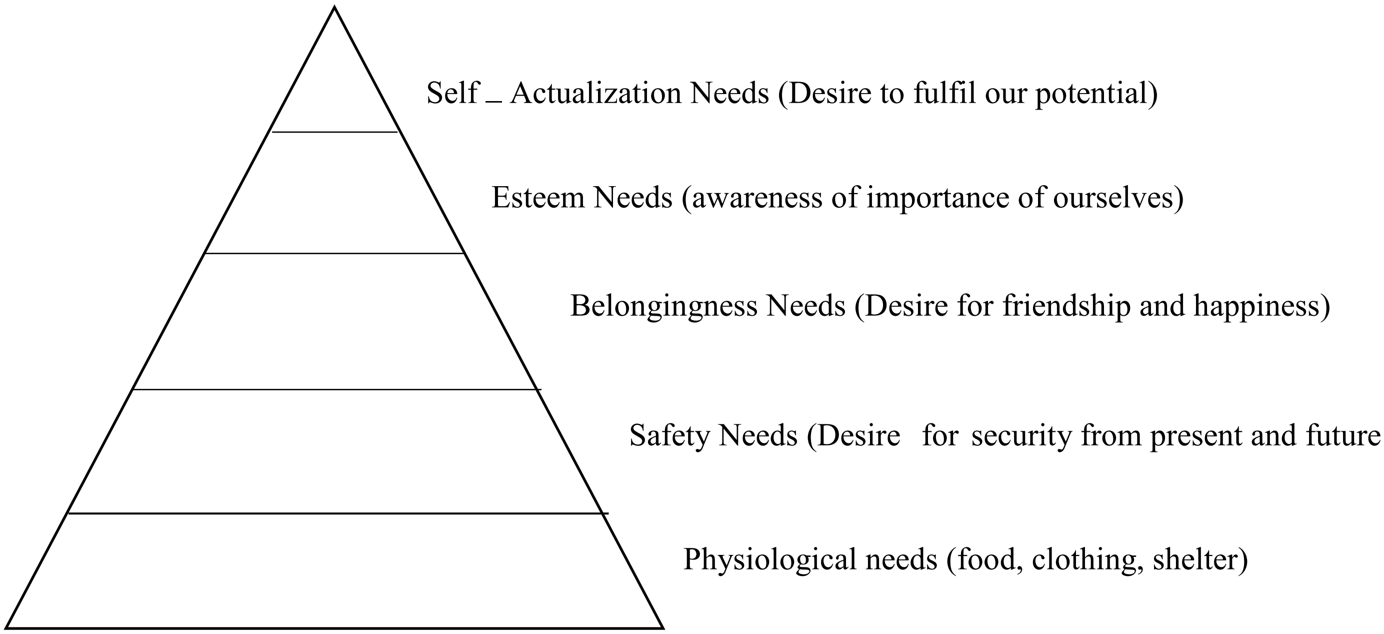
External Motivations and Drives

i. Infrastructure:.
ii. Credit Facilities: iii.Information Support iv.Pricing Policy v.Tax Policy vi.Legal Control vii.Political Climate viii.Technical Technology Assistance ix.Training Consultancy Assistance x.Friends Motivation

Maslow's Need Theory

Theory of human needs is identified with the psychologist Abraham Maslow. This theory is based on three specific assumptions:

1. The human beings are never satisfied. Their wants are determined by what they have. When people are hungry or thirsty, the quest for food or water influences how they behave. However if food and water is acquired, the same person will want something else, perhaps a safe place to live in or a social status.
2. A satisfied need does not cause behavior. Once people satisfy their need for safety, they are motivated by yet unsatisfied needs, not the ones – that are satisfied,
3. Human needs are arranged in hierarchy of importance. These needs range from low level biological (physiological) needs to such high level needs as self-actualization.



Discus Impetus for entrepreneurship. Discus factors that propel people to self-employment.

Factors Affecting Entrepreneurial Development

Political Factors

- ✓ Political environment is concerned with the policies pursued by the government. Components of political environment include; ○The political stability ○Political system e.g.
    i. Capitalism: whereby the means of production are owned by individuals. A capitalist is a wealthy merchant who uses his/her money to invest in trade for profit.
    ii. Socialist: means of production are owned by government iii.Market economy: whereby means of production are owned by government and individuals.

  ○Political climate being favorable ○Policies

  pursued by the government: e.g.
    - Changes in monetary and fiscal policy
    - Policies concerning price and wage control
    - Policies concerning nationalization
- ✓ Economic Factors: Concerned with factors that affect consumers purchasing power and spending patterns:
    - o Inflation: increase in prices of goods and services without a corresponding increase in output.

- Money supply: Quantity of money in circulation which is supplied by Central Bank
- Interest Rates: rate charged by commercial banks on the money that it lends
- Exchange rates and controls
- Taxes and subsidies(Incentives given to encourage production of good or service)
- Income levels

✓ Social Cultural Factors

- Is made up of institutions and other forces that affect a society's basic values, perceptions, preferences and behaviors. People grow up in a particular society that shapes their basic beliefs and values.
- Social factors e.g. family, religion, social roles and status, reference groups
- Cultural factors like values, beliefs, customs and lifestyle.

✓ Technological Factors. Ways and means of production

THE ENTREPRENEUR

Types of Entrepreneurs

a)**Craft entrepreneurs**

✓ Exploits and utilizes personal skills to start a business without thinking of its growth or the expansion objectives

✓ Often times than not in this type of entrepreneurship;

i.There is no expanding even after a long time ii.It is not business expansion oriented. iii.The skills can be technical skills, professional skill e.t.c

b) **Opportunistic entrepreneurs**

✓ This is a person who starts a business, acts as a manager and with a view to expand the business to maximum.

✓ He might not have the skill or profession but he has the opportunity to start and direct others.

✓ He sees beyond and has abilities to initiate and venture into business that will expand and grow.

✓ He is innovative i.e. somebody able to delegate activities to others, ready and able to see, scan the environment.

c) **Social entrepreneur**

✓ Recognizes a social problem and uses entrepreneurial principles to organize, create and manage a venture to achieve social change.

d) **Political entrepreneur**

✓ Is a business person who utilizes political systems or seeks support from political bodies in order to promote, expand and profit from their own commercial ventures.

✓ Apolitical player who seeks to gain certain political and social benefits in return for providing the common goods that can be shared by an organized general public. **e)High Tech:**

- ✓ New technological developments have created opportunities for those with the right technical expertise

f)Concept Multipliers

- ✓ Someone who identifies a successful concept that can be duplicated by others eg

g)Acquirer :

- ✓ Those who take over a business started by others and use their own ideas to make it successful

h) Buy/Sell artists: those who buy a company for the purpose of improving it before selling it for a profit.

i) Economy of Scale exploiters: Those who benefit from large volume of sales by offering discount prices and operating with low overheads.

j) Inventors: Those with particular inventive abilities who design a better product and then create companies to develop, produce and sell the item.

k) Self-employed: individuals who perform all the work and keep all the profit.

l) Speculator/Value: Those individuals who buy property at a low price with the anticipation that prices will go up and sell at a higher price.

m) Conglomerate: an entrepreneur who builds up a portfolio of ownership in small businesses, sometimes using shares or assets of one company to provide the financial base to acquire another.

n) Matriarch or patriarch: The head of family owned business who often employs several members of the family.

Characteristic/Traits of a Potential Entrepreneur

a)**Initiative and risks taken by;**

- ✓ Doing things before being asked or forced by events
- ✓ Acts to extend business in to new areas products etc
- ✓ Sees and acts on opportunities
- ✓ Looks for and takes action on opportunities.
- ✓ Sees and acts on new business opportunities

b) **Persistence and patience through**

- ✓ Taking repeated action to overcome obstacles
- ✓ Taking action to overcome obstacles
- ✓ Taking action in the face of significant obstacles.

c) **Information and property seeking**

- ✓ Takes action on his own to get information to help reach business objectives
- ✓ Does personal research on how to provide a product or service
- ✓ Consultation of experts on business and technical advice
- ✓ Asks questions to clarify information
- ✓ Undertakes market research analysis and investigation.

d) **Concern for high quality work by**

- ✓ Acting to do things that meet or beat existing standards
- ✓ A desire to produce and sell top and better quality products or services ✓Compares own work favorable to other.

e) **Commitment to work contract by**

- ✓ Placing the highest priority on getting the job completed.
- ✓ Accepts full responsibility for problems that may arise in getting the job done ✓Expresses concern on customers satisfaction.

f) **Efficiency orientation by;**

- ✓ Finding ways of doing things faster and cost effectively ✓Uses information to improve efficiently.
- ✓ Express concern on costs improvements change etc.

g) **Systematic planning;**

- ✓ by developing and using logical plans to meet goals
- ✓ breaking tasks down to sub-tasks
- ✓ developing plans which anticipate obstacles
- ✓ evaluates alternatives
- ✓ takes logical and systematic approach to activities
- ✓ identifies new and potential unique ideas to reach goals ✓Switches to alternative strategies to reach goals.

h) **Self –confidence;**

- ✓ has a strong belief in self and own abilities
- ✓ expresses confidence in own ability to complete task or meet challenges
- ✓ Sticks with own judgment in the face of opposition or early lack of success ✓confronts problems and issues directly ✓Tells others what they have to do.

i) **Persuasion;**

- ✓ convinces people to buy the products or service
- ✓ convinces people on providing funds
- ✓ Asserts own competence reliability and the company product.

j) **Uses strategic influence and networking;**

- ✓ To develop business contact
- ✓ Uses influential people as agent to accomplish objectives **Role of an entrepreneur in an enterprise;**
- ✓ Risk taker, Mobilizer, Marketer, Financier, Shareholder, Director, Initiator

Factors to consider in starting a business

a)Personal Factors

i.Personal abilities

One must have personality traits that will enable him/her to start, continue and succeed in business. One must have entrepreneurial traits and be motivated and determined to succeed in business. E.g. one must be willing to work hard and pursue his/her goals persistently he/she must be innovative, creative and optimistic. ii.Skills: One needs to have the training and experience necessary in the proposed line of business. He/she must have adequate knowledge about product or service and the necessary managerial skills for the business to succeed.

iii. Interests / hobbies: As an entrepreneur, how much interests does one have in line of his/her business? Ann interest or hobby can be a basis for a business.

iv. Family: Small businesses and family are inseparable, one affects the other. You need to consider possible effects of the business on the family and how the family could affect the business.

v. Health: Running a business successfully calls for a lot of hard work. It involves a lot of physical and mental energies. If an entrepreneur has failing health, it is advisable to engage in less strenuous activities.

b)Resource Factors

i.) Financial Resources: These include money saved by the entrepreneur and money that may be borrowed from individuals and institutions like banks, building societies, cooperatives, etc to start and run a business.

ii.) Labor Resources: The availability and suitability of labour should be assessed.

iii.) Equipment/Machinery: Tools of the trade that are essential in any business. They may include furniture, office equipment, machine for a specific job, etc.

iv.) Raw Materials: These are items that are to be converted to states that can be readily used by consumers. These include timber if one is furniture business, clothe materials if in dress making business.

c)Environmental factors

i.) Location: Factors such as community profile, communication, road, water, safety, source of raw materials and competition should be considered when locating a business. This enables easy accessibility of the business by customers.

ii.) Government Policies / regulations: Policies such as taxation, pricing, licensing, loans and policy documents affect small enterprises. Information on the above is available from district Information Offices, Trade Organizations, Kenya Chamber of Commerce and Government Printers. iii.)Infrastructure: Availability of roads, power, water and telephone services are very important in some types of business.

iv.) The economy of the society: The average income and employment trends determine the demand for goods and services within the community to sell products or services at reduced profits, a strong economy creates ample demand and good profits.

v.) Competition: An entrepreneur should try to assess the number of competitors in his or her environment in order to compete with them successful.

vi.) Market: A market for the product or services is very important to the entrepreneur. One has to assess whether there's a steady market.

vii.) Community and Culture: The entrepreneur has to consider:

a) General Customs of the region eg customs about mode of dressing
b) The mix of politics
c) Taboos / beliefs eg Muslims cannot operate any business dealing with pork products
d) Traditions peculiar to his / her community

CREATIVITY AND INNOVATION

Definition

- ✓ Creativity refers to the process of devising a new idea, or thing that result in the improved efficiency or effectiveness of a system.
- ✓ Innovation means improving an existing idea or thing. Commercializing of an idea or turning idea into an opportunity.
- ✓ Innovation builds on creativity when something new, tangible and value-creating is developed from the ideas.
- ✓ Innovation turns new concepts into realities, creating wealth and power.
- ✓ Creative destruction occurs when innovations make long-standing arrangement obsolete and frees resources to be employed else where leading to greater economic efficiency. E.g. computerization.

Reasons for Opposing Innovation

i) The entrepreneurs tend to have a practical concern that unforeseen innovation may cause a disaster e.g. side effects e.g. of a drug.

ii) Fear of losing profits in the event innovation does not translate to the expectations.

iii) Where the entrepreneur held a monopoly position in the market, there is fear of losing authority and control.

iv) Fear of upsetting the moral and social value of demand for the product. v) Desire to preserve the existing market confidence vi)Fear of upsetting tradition in production management and market scope.

vii)Fear of opening a loophole to competition hence loss of business grip.

Reasons for Innovation

- ✓ Innovation is essential for the entrepreneur in solving the inefficiency problems.
- ✓ As a means of cost reduction and imposing significance social and market grip.
- ✓ Profit improvements are looked at from the innovation point of view though newer technology in management and production.
- ✓ To encounter competition by already established businesses.
- ✓ To facilitate opening up of new markets both locally and internationally.
- ✓ To facilitate diversification of products risks and losses.✓To protect current position of monopoly or success.

1.2.4 Requirements of Innovation

i.) Economic demand

- ✓ People engage in innovation out of belief that the economic returns will be greater than its costs.

ii.) Surplus capital

- ✓ provides the necessary time and startup costs for implementing a new idea. iii.) Ability to assemble and invest capital.

iv.) Mobile capital which is stable.

✓Capital cannot serve unless it can move to potential innovator unless it can move to allow the various types of wealth to be created e.g. title deeds – stability is provided by a rule of law.

v.) Availability of growth- fostering social institutions which facilitate the speed of technological advancement. vi.)Ability and willingness to think and act creativity (Entrepreneurs) I.e. the philosophical and psychological requirements.

vii.) Geographical and other circumstantial causes such as ethical issues.

✓Societies in which innovation is seen as a sinful or people are punished or are shunned to think differently than others are unlikely to experience innovation.

viii.) The size of the firm.

- ✓ Large firms have the advantage of introducing innovation since they can afford it. ✓They tend to attract more talents employees to advice on new ideas.

THE ENTREPRENEURSHIP CULTURE

Culture Definition

- ✓ Culture is defined as a set of values, perceptions wants and behavior learned by a member of a society from family and other institutions
- ✓ **Weber** argues that "Protestantism encourages a culture which emphasizes individualism, achievement motivation, legislation of entrepreneurial vocations, rationality and self – reliance.
- ✓ **Hosted** – defines culture as a collective programming of the mind which distinguishes the member of one group or category of people from another.

Entrepreneurial Culture

Refers to the way of embracing the concept of finding new opportunities in business and gathering the necessary resources to fill the opportunity.

- ✓ Many governments around the world want to promote entrepreneurship because they have recognized the importance of entrepreneurship.
- ✓ In other words entrepreneurial culture is a way of people embarrassing life by participating in activities that enable them create new business enterprises.
- ✓ A country can develop the entrepreneurial culture by forming policies that constitute the following ;
    - Integration of entrepreneurship training in the overall education system to tap on youths
    - Exposure of entrepreneurship to those who look potential to actual business practices and activities through the networks and business contacts of rule models.
    - Creation of a conducive and enabling environment that permits new business to immerge and flourish.
- ✓ The creation of entrepreneurial culture has to come from deep social convictions based on strong values and systems of the locals
- ✓ It should be created in a way that it welcomes entrepreneurship and respects the investor and also reflecting the core values

Importance of Entrepreneurship Culture

i.Enhances economic growth and building of social capital. ii.Enhances job creation iii.Acts as a primary source of innovation iv.Helps in the devolution of government power for policy implementation. v.Direct influence development in tech. H/R capital formation e.t.c.

The cultural habits that promote entrepreneurial development

a)Money orientation

- ✓ Money oriented people know the value of money and has the intention of making it.
- ✓ The money oriented people use the need of money as a motivating factor pushing then to being entrepreneurs.

b) Future orientation

- ✓ A society that has foresight to know about the future business environment is likely to have more entrepreneurs.
- ✓ This is because they are likely to visualize key changes that are likely to create opportunity.

c) Time consciousness

- ✓ Knowledge that time exists and its importance
- ✓ Knowing the right time to start an entrepreneurial activity.
- ✓ Utilization of time
- ✓ The correct timing of the market conditions

d) Trust and honesty

- ✓ Through trust consumer demand is gained on the products and services available.
- ✓ Entrepreneurs should reciprocate this by ensuring honesty by providing the expected standards.

e) Hard work i.e

- ✓ Willingness to work hard distinguishes between successful and unsuccessful persons.

The cultural factors inhibiting entrepreneurial development.

a) Religion – religious believes may deter entrepreneurial investments in items such as night clubs and pubs.

b) Language – establishing businesses in areas where language barrier may allow poor communication or fear of invasion.

c) Personal relationship – Married people may avoid getting involved in business activities since no time is spared for the family.

d) Attitude towards innovation

- ✓ Especially in cultures which oppose innovation due to fear of change

e) Networks – poor networking and ability to meet people limit new

- ✓ Opportunities
- ✓ New knowledge
- ✓ New information.

f) Technology – lack of technical skills and knowledge may slow growth and dev. Of entrepreneurial

Lock one out of being competitive.

ENTREPRENEURIAL OPPORTUNITIES

Procedures of Starting a Business

- ✓ Identification of a business idea
- ✓ Development of a business plan
- ✓ Location of a business demand evaluation
- ✓ Registration of the business
- ✓ Choice of the business organization
- ✓ Business name
- ✓ Trading licences / permit
- ✓ Start-up and management of the business.
- ✓ All entrepreneurs are business people – though not all business people are entrepreneurs.
- ✓ Entrepreneurs tend to be more innovative than ordinary business people and end up developing a business plans.

Means of Generating a Business Idea

a) identifying a need
b) brainstorming
c) building on ones skill, hobbies or interests
d) spotting a market niche
e) listening to what people say
f) attribute listening
g) gaining from waste
h) look to see and listen to hear
i) research
j) importing an idea
k) day dreaming
l) Spin off from employment. **Identifying a Need**

- ✓ A need can be an opportunity and indeed a consumer buys to satisfy need. Abraham Maslow in his humanistic hierarchy of needs, physical needs to very high personalized needs.
- ✓ Therefore identifying an unidentified or unserved need is a sure way of generating business ideas. **Brain Storming**
- ✓ This is a process of detaching analysis of an idea from the actual ideas.
- ✓ The idea may or may not be related to a given product. In brainstorming even silly and stupid ideas may be generated.

Building on One's Skill, Hobbies or Interests

- ✓ Business ideas can be generated through
  a. personal interests and hobbies
  b. Copying or improving somebody's ideas. (skills)

Sporting a Market Niche

- ✓ Entrepreneurs usually look for gaps in the growing markets, identifying market sections which are not being utilized.

Listening to what People say.

- ✓ These are people who simply say or speak their needs e.g if these good bus services **Attribute listening**
- ✓ This method of generating business ideas is based on changing the way one looks at something in order to find a new use for it.
- ✓ It attempts to answer the question – what do we do with this product.

Gaining from Waste

- ✓ What would appear waste can be used- say recycles to create a new opportunity. **Others By** soliciting ideas by interview, reading, observations, listening

The Process of Screening a Business Idea.

- ✓ After generating business ideas- it is important that some evaluation through a screening process be made.
- ✓ The screening process is a systematic evaluation ideas in order to select the best idea which would suit one.
- ✓ The screening process must be done carefully, objectively, soberly and without any emotions.
- ✓ The business idea screening is required even when there is only one idea to consider. This is because this is a stage of starting a business that may be not be profitable or may be difficult to run
- ✓ The screening process must therefore evaluate the following

a)**Personal Evaluation**

- the objective for going to business
- personal interests
- The degree of commitment to the business or others e.g. family.

b)**Personal Skills**

- The self SWOT analysis – this aims at analyzing ones

a. Strengths
b. Weaknesses
c. Opportunities
d. Treats

- "Strengths" and "Weaknesses" should focus on the internal environment (management, product/service), whilst "Opportunities" and "Threats" should focus on the external environment (economy, market and competitors).
- Clearly, it is important that your business idea has significant strengths (or can develop them) and a plan to counter to any weaknesses. Your business idea should be developed to take advantage of any opportunities and thought should be given to how you would respond to threats.
- A SWOT analysis should provide proof to you, your investors and funders etc., of the likelihood of your business succeeding or failing. If your analysis suggests it will fail you need to reconsider your idea.

The screening process or evaluation helps identify;

- Strengths: E.g. Distinctive competence, Adequate finances, Access to economies of scale, Good innovation ability, proven management

- Weakness: E.g. Lack of key skill , Internal operations problems , Low morale , Poor track records , Weak internal image
- Opportunities: E.g. Potential customers , Potential goodwill , A favorable social environment
- Threats: Strong competitions , Adverse government policies, Political instability, mismanaged economy , Unfavorable legislation

d) **Market evaluations**
- The aim is to create assurance of adequate market
- The main components include

i.) Consumer demand analysis
ii.) Product price and placements
iii.) No. of competitors in markets.

e) **An analysis of availability of raw materials in terms of**
i) Adequacy ii) Reliability iii) Price

f) **Analysis of providing technology in terms of**
i) Appropriateness ii) Affordability

g) An analysis of skills available

h) Analysis of the government policies.

Characteristics of a Good Business idea.

i) Easy to manage and involve minimal risk. ii) Does not require excessive capital investments iii) Offers a good returns on capital iv) The idea has scope for growth, expansion and diversification v) Comparative with owner's goal and interest vi) Not against expectation of the society v) Has a short gestation period vi) Has a readily available market vii) Easy to exit when necessary.

The sources of new ideas

✓ Some of the more frequently used sources of business ideas for entrepreneurs include.
i.)Consumers
Potential entrepreneurs not only pay attention to potential customers but also monitor their potential needs through allowing the customers to express their opinions.

ii.) Existing products and services
Through monitoring and evaluating competitive products and services.

iii.) Distribution channels
Contact with members of the distribution channels since they are familiar with the needs of the market and give suggestions of new products and consumer needs.

iv.) Government
Can be a source of a business idea through
a) The patent office which contains numerous product possibilities.
b) Official government magazines
c) Government regulatory bodies e.g KBS
d) Government shows and exhibitions

v.) Research and development
a.Is the largest source of new ideas to the entrepreneur.

vi.) Education – i.e picking a given line of study e.g construction, Vocational training programmes and experience.

vii.) Personal hobbies especially for craft entrepreneurs.
viii.) Personal contacts and observations through.
Interactions, Newspapers and magazines.
ix.) Conducting surveys and interviews of the people around.

Definition of a Business Opportunity

- ✓ A business opportunity may be defined as an attractive project idea Which an entrepreneur accepts for investment on the basis of what is known about the possible success for the project
- ✓ A real business opportunity can by distinguish from a mere possibility through the following two ingredients.
  i. A good market scope
  ii. An attractive return on investment (profit) **Qualities (Characteristics) of a Good Business Opportunity:**

The following are qualities of a good business opportunity.

aDemand – there should exist a good market scope bReturns on investment – i.e the business should be sufficiently profitable.
cAvailability of raw materials
dEnough skilled people.

Evaluation of Business Opportunities (objectives of a pre-feasibility study)

- ✓ Once a business opportunity has been identified one needs to confirm that it is viable through a pre-feasibility study.
- ✓ The main objective of a feasibility study is to determine whether.

athe investment opportunity is promising enough bThe project is viable from the marketing manufacturing and other points of view.
cAny aspect of the project that may be crucial to call for indepth analysis.

The Purpose of Pre-feasibility Study (Market Research)

i.) To verify that the investment opportunity is promising enough to make a firm decision.
ii.) To confirm that the project is viable from the
a. Marketing
b. Manufacturing and
c. Other points of view iii.)To identify any aspects of the project that is critical or crucial enough to call for in depth analysis
iv.) To acquire comprehensive technical, economic and commercial data for the final investment decision.
v.) To enable an in-depth study of aspects such as
Market potential, Technical requirements, Managerial ability, financial projections and analysis, Risks evaluation, Business environmental analysis. vi.) To enable sourcing reliable information such as
a. Authorized publications
b. Consultant's openings.
vii.)To establish the final outcome of whether or not to proceed with the business.

Business Incubation

- ✓ Business incubation is the process of nurturing small and start – up initiatives or business to relative maturity to become self-sustaining business, healthy and wealth-generating entities.
- ✓ The failure rate of any start-up business stands at 90% globally.
- ✓ The main causes of business failure;

i) Insufficient capital for start-up. ii) Insufficient knowledge of business and industry. iii) Lack of Entrepreneurial and business skills. iv) Lack of Managerial skills. v) Inadequate Training. vi) Lack of credit facilities. vii) Lack of markets. viii) Insufficient knowledge of markets. Inadequate infrastructure.

ii) Non-Empowering political environment.

- ✓ For these reasons, many businesses which are ill-equipped do not survive. A business incubator is important for precisely those reasons above to provide these support services.
- ✓ Statistics show that the success rate for incubated businesses initiatives is very high (over 80%) are bound to succeed.

The Incubation Process

- ✓ The business incubation programmes are designed to accelerate successful development of entrepreneurial companies through an a vary of support resources and services.
- ✓ Incubators vary in the way they deliver their services in their organizational structure and in the types of clients they serve.
- ✓ Business incubators differ from research and technology in their dedication to start-up and early stage businesses.
- ✓ Research and Technology institutes tend to be large scale projects that house everything from corporate government or university labs to very small companies.
- ✓ The research institutions do not offer business assistance services which are the main objective of business incubation.
- ✓ Unlike many business assistance programmes business incubators do not serve any and all companies.
- ✓ Entrepreneurs who may wish to enter a business incubation program must apply for admission.
- ✓ Acceptance criteria vary from program to program but in general only those with feasible business ideas and workable business plan are admitted.
- ✓ The time a company spends in an incubation programme vary widely depending on a number of factors, including the type of business and the Entrepreneur’s level of business Expertise.

The Benefits of Incubation.

- ✓ Creating jobs and wealth
- ✓ Fosters a community’s Entrepreneurial climate - Technology commercialization. ✓Diversification of Local Resource.
- ✓ Acceleration of local development.
- ✓ Facilitation of Business creation and growth.
- ✓ Encouraging entrepreneurship especially women.
- ✓ Revitalization of the community as a whole.
- ✓ Growth of Private Sector Investment.
- ✓ Increased Tax Revenue.
- ✓ Equitable Development.

Government Roles in Promoting Incubation

i.) Creation of an enabling environment through;

i. Purchasing consumer products.

ii. Support programmes financially of the incubation process.

ii.) Government policy to buy from incubators. iii.) Give small scale businesses loans and grants. iv.) Launch campaign to sensitize the private sector to work with business incubation initiative.

v.) Take a lead role in the incubation process.

vi.) Assist in the coordination, encouraging and streamling the efforts of incubation at National level.

vii.) Lobby and Rally with Kenyans in Diaspora together with developing partners to support business Incubation. viii.) To encourage coordination of independent efforts country-wide for better synergy and a more effective Natural impact

ix.) To rally universities and other research institutions behind the concept to facilitate research and development in order to enrich business incubation

x.) To provide support to business incubation initiative by providing morale support through Media Initiatives.

Protections of Business ideas & maintaining Secrecy

- ✓ Most entrepreneurs will not be inventors, at least not in the classic sense but all entrepreneurs are concerned with protecting their business ideas, especially when those ideas are related to; oUn usual production oUnique designs et.c
- ✓ And for this to be done understand the " patent law" becomes but simply paramount
- ✓ When entrepreneurs want to protect unusual brand name, products business ideas or simply establishing ownership, then understanding trademarks and copyrights if vital as a way of protecting a business idea.
- ✓ The government law pertaining to; o Patents o Trademarks o Copyrights – are not complicated
- ✓ Many entrepreneurs file their own patent claims or prepare documentation for trademark or copyright protection without professional help from the Attorney or patent agents.
- ✓ However it is always wise to have professional assistance though the laws are simple. **Ways of Protecting Business ideas a) A patent**
- ✓ A patent is a grant of property right by the government to an inventor. It is issued thought the commissioner of patent rights, and the most common type of patent is called a utility patent. All patent however, have the distinction of being assets with a commercial value because they provide exclusive rights of ownership the patent holders.
- ✓ Patents are exclusive property rights that can be sold, transferred, or used as collateral much alike other valuable assets.
- ✓ The patent law stipulates broad categories of what can and cannot be patented and in the words of the statute any person who " invents or discovers any new and useful process, machine manufacture, or composition of matter, or ay new and useful improvements thereof may obtain a patent"
- ✓ Anything that is patentable must be new and useful (must have some demonstrated function) **Trademarks**
- ✓ Trademarks include any word, name, symbol or distinguishing device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others.
- ✓ Trade-marks can be names used in commerce such as KCA it can be a symbol or any distinguishing device artistic in nature.
- ✓ An important qualification for a trademark is that mark, name etc. must be used commercially.

Service mark Is similar to a trademark and can be registered in the same way with the sale protection A service market can be a name, wording used in advertising symbols or artistic figures that create a distinctive service concept.

2.4.10Copyrights

- ✓ Are similar to patents in establishing ownership and protection for creative ideas but they pertain to the intellectual property.
- ✓ The copyright is distinct from patents and trademarks in that intellectual property is protected for the life of the originator plus a further 50 years.
- ✓ This protection affords an extraordinary property right and substantial estates. It extends protection to author, composers and artists.

2.4.12 Trade Secrets

- Are proprietary information used in the course of business to gain an advantage in manufacturing or commercialization of products or services. ✓Trade secrets i)formulas ii)patterns iii)list of customers iv)data bases v)chemical compounds vi)combinations of ingredients for commercial products vii)process of manufacturing viii)Complied information.
- Every organization must keep their secrets because oModern communications systems contain so much information which if not guarded, the business may collapse. o Employees leaving may disseminate information to competitors. o In any business to maintain a market Niche, then desire to protect their product.

2.4.13 Trade Secrets

In certain instances the entrepreneur may prefer to maintain an idea or process as confidential, and eventually sell or license it as a trade secret.

- ✓ The trade secret will have a life as long as the idea or process remains secret.
- ✓ A trade secret in not covered by any law but is recognized under a governing body.
- ✓ Employees involved in working with an idea or process may be asked to first sign a confidential information agreement that will protect against their giving out the trade secret either while as employees or when leaving the organization – this is called trade secret non -disclosure agreement.
- ✓ Most entrepreneurs have limited resources so they choose not to find means of protecting their ideas or products or services.

2.4.15 Licensing

- ✓ Licensing may be defined as an agreement between two parties, where one party has proprietary rights over some information, process or technology protected by a patent, trademark or copyright.
- ✓ This arrangement specified in a contract requires the licence to pay royalty or some other specified sum to the holder of the proprietary rights in return for permission to copy the patent trade mark or copyright.
- ✓ Licensing has significance as a marketing strategy to holders of patents, trademarks or copyrights to grow their business in a new market when they lack resources or experiences in such markets.
- ✓ It is also an important marketing strategy for entrepreneurs who wish to start a new venture but need permission to a copy or incorporate the patent trademark or copyright with the ideas.

2.5 Product Safety and Liability

- ✓ It is very important for the entrepreneur to assess whether any product that is to be marketed in the new venture is subject to any regulations under the consumer product.
- ✓ In addition to setting standards for products the commission also has a great deal of responsibility and power to identify what to consider being a substantial hazard and barring any products that may be considered unsafe.
- ✓ Any products introduced by entrepreneurs must obtain clearance from the Kenya bureau of standards under the consumer's protection Act.

ENTREPRENEURIAL MOTIVATION

- Entrepreneur motivation is the drives, the desires, the need to achieve or fulfil certain entrepreneurial needs.
- Motivation is that which causes you to behave in the way you behave i.e. the why of behavior
- Entrepreneurial motivation are those factors and forces or events that energizes an individual, his desires and the needs to go into and sustain a business venture.
- Types of motivation;
    - a) Internal Motivation Factors
    - b) External Motivation Factors
- Internal Motivations and Drives
    - ✓Refers to those personal traits and desires that induce a person to become an entrepreneur. Such motivations are;
        - i. Employment Creation Need.
        - ii. Need for independence or self-Reliance: one may want to be one's own boss especially if one doesn't like taking orders from others. You may also want to be in control of your own destiny (internal locus of control) making your own business decisions, using your time maximally.
        - iii. Need for Power: Need to exercise power over others and need to control others. People with a high need for power have a greater concern for exercising influence and control.
        - iv. Need for Recognition: We normally strive to get recognition about our achievement in life, by our peers, family and society. If you aspire to be recognized, then this could be an important drive for you to go into selfemployment
        - v. Need for Security: All men thrive to be free from anxiety;
            - Anxiety about our very survival
            - Survival of our near dearest
            - Anxiety about the future, both for ourselves as well as for our families

        It is for this reason that we all strive to maximize our returns, wage employment may not meet this anxiety especially if we are not pensionable.

        vi.Self-actualization need;

        Refers to the need to accomplish that which you as a person is capable of achieving, the need to be unique. Through entrepreneurial activities and with dedication and commitment, you can realize this need, a need that is very difficult to realize by all or most individuals in the formal employment.

- External Motivations and Drives
  - ✓ Unlike internal motivations which are in your inner being, the external motivations refer to those that are provided by others, especially the legal authorities and society in general.
  - ✓ These provide an enabling environment for entrepreneurship. Some of them are;

i. Infrastructure: To operate efficiently, any business requires the provision of certain basic facilities such as power, water, electricity, communication and accessibility.

ii. Credit Facilities: Refers to provision of money through loans to be used in starting as well as expanding a business. It is usually very rare for a person to have adequate finance to start or expand his own business. Some of the external sources include;

- Government agencies
- Banks and non-bank financial institutions
- Non-governmental organizations iii.Information Support

Entrepreneurs need information related to the market for their products since they may not have resources to carryout significant marketing research, yet the success of business depends on how well they understand the market. It is therefore necessary for such information to be made easily accessible to entrepreneurs.

iv. Pricing Policy

Pricing policy of the government should be an incentive to an entrepreneur. It should motivate more and more people to venture into such entrepreneurial activities. When venturing into a particular business, you will first have to understand the pricing policy applied in such an industry and assess how that policy will affect your earnings and the survival of your business.

v. Tax Policy

It is important that the tax policy act as a motivator to entrepreneurship, all too often, the authorities in their endeavor to raise revenue resort to increasing indirect taxes such as value added tax and customs duty.

vi. Legal Control

Legal controls and the attendant bureaucracy should be minimized as much as possible so as to attract entrepreneurs. The legal control can be manifested in the licensing requirements for establishing various types of businesses.

vii. Political Climate

The prevailing political climate should be conducive to smooth operation of business. This climate should be that there is no discrimination and conducive law and order, no tribal barrier.

viii. Technical Technology Assistance

This covers giving advice on production aspects of the business and the projection studies for lending institutions.

ix. Training Consultancy Assistance

The government offers vocational training courses for entrepreneurs. It also provides counseling to help entrepreneurs solve their problems. Eg of government agencies is Kenya Institute of Business Training (KIBT)

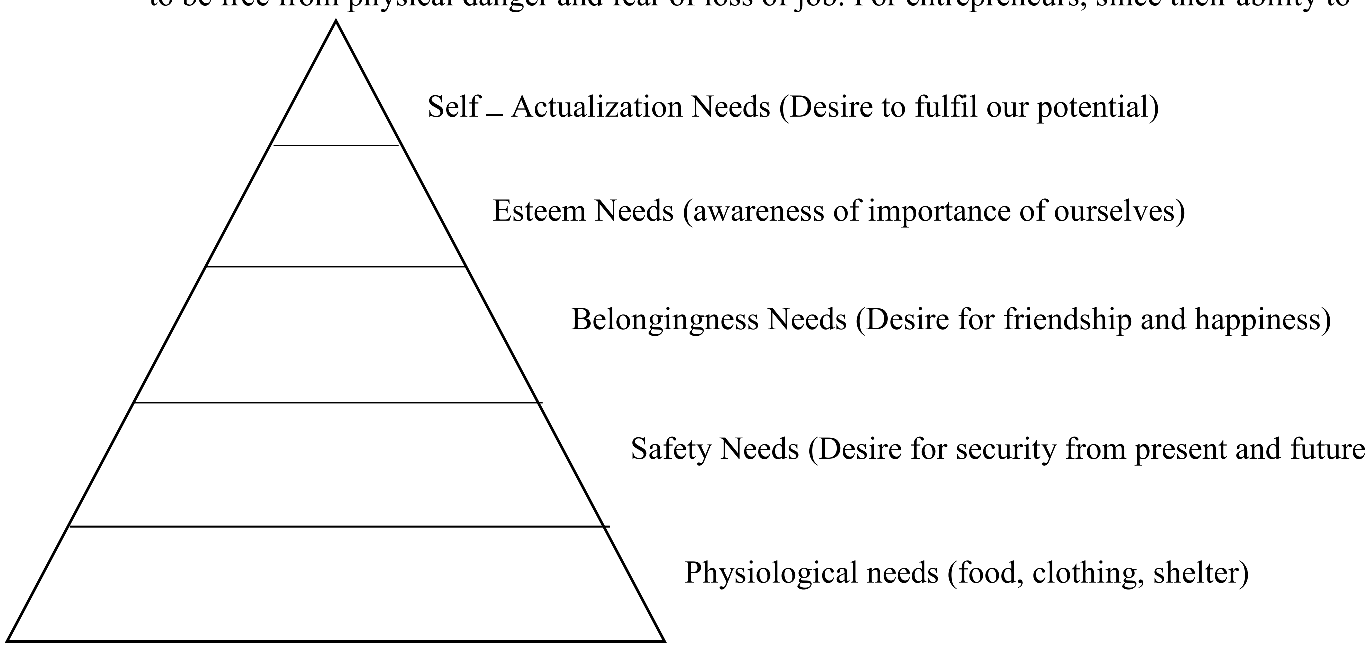
Maslow's Need Theory

Theory of human needs is identified with the psychologist Abraham Maslow. This theory is based on three specific assumptions:

1. That human beings are never satisfied. Their wants are determined by what they have. When people are hungry or thirsty, the quest for food or water influences how they behave. However if food and water is acquired, the same person will want something else, perhaps a safe place to live in or a social status.
2. A satisfied need does not cause behavior. Once people satisfy their need for safety, they are motivated by yet unsatisfied needs, not the ones – that are satisfied,
3. Human needs are arranged in hierarchy of importance. These needs range from low level biological (physiological) needs to such high level needs as self-actualization.

Physiological Needs: The need for Food, Clothing Shelter. They are required for survival. We require money to satisfy these basic needs. If we do not have any source of income and cannot get wage employment, we may be motivated to entrepreneurship.

Safety or security needs: Once or basic needs are satisfied, our behavior is no longer motivated by them. At this point we begin to worry about the security or safety of our families ie the need to be free from physical danger and fear of loss of job. For entrepreneurs, since their ability to



cater for these needs depend on how hard they work, these needs will motivate their behavior. They save money to use in the case of illness, purchase of insurance policies.

Belongingness Need (Affiliation or acceptance needs): Once safety needs are satisfied, they no longer motivate us to work harder. Since we are social beings, we need to belong, to be accepted by others like family, work groups, mentors.

Esteem needs: They are more abstract than physiological, safety and belonging needs. This kind of needs produces such satisfaction as; Power, Prestige, Status, self-confidence.

Self-Actualization Needs: Means making the most of what we have to maximize our potential. They want to achieve the best and believe that no one is better than them. They aspire for a standard of excellence.

What demotivate people to Entrepreneurship?

- Lack of proper information
- Fear of competition. Fear of taking risk
- Inhibiting government laws
- Lack of adequate start-up capital
- Lack of knowledge and skills
- Wrong attitudes towards employment

State how Maslow's Hierarchy of needs theory is relate to Motivation in entrepreneurship.

ENTREPRENEURIAL COMPETENCIES

LEADERSHIP

- ✓ Leadership is the ability to inspire, influence, persuade others to give maximum effort and cooperation willingly and voluntarily towards the attainment of the unplanned goals.

- ✓ Good leadership is a necessity in any business organization. It is important your portray appropriate leadership qualities such as leadership behavior, leading and motivating others, leadership responsibilities, leaders influence and activities;

Leadership Behavior

- ✓ As a leader, your should have the following qualities:
  a) Vision and foresight: you should look into the future when making plans, you need vision in order to be able to determine how you want your business to develop

b) Strong desire to influence others: You can influence your staff if they have confidence and trust in you.

c) Ability to learn from past errors and build on past experience ie experience is the best teacher, you should be able to improve your business through learning from experience and avoiding past mistakes

d) High ambition: Should always aim high and for the best in your undertakings and expectations.

e) Imagination: as a leader you should see beyond the horizon

f) Creativity: You should be as original as possible in ideas and activities. You should have the daring to try new methods of operation.

g) Initiative as a leader, you have the role of getting things started. You should also find new and better ways of doing things you are the agent of change.

h) Good human relations: as a leader you should sell good image of your business.

Leading and Motivating Others

As an entrepreneur success depends on how you motivate your employees. The following techniques should be employed:

i. Built Workers self-esteem- By praising the good work done by your employees, you are building confidence in selves. Appreciate what they have done.

ii. Inform employees- Tell your staff what you are trying to accomplish.

iii. Delegation of authority and responsibility:- Good delegation will allow you as a leader to devote more time to important and crucial issues within your business.

iv. Maintain contact: know your staff well enough by maintaining personal contact.

v. Apply reinforcement principal:- you should reward behaviours that you consider desirable because people tend to repeat rewarded behavior. Don’t reward undesirable behavior as people tend not to repeat unrewarded behavior.

vi. Be an active listener: By active listening you will be an effective communicator which is an important quality of a leader. Your employees will take it that you appreciate them and have concern in them.

vii. Set specific goals: set specific clearly understood measurable goals and continuously review them.

viii. Take collective action- When you must deal with some negative aspects of a workers performance you should talk to that worker in private, never criticize a worker in public.

<u>Leadership Styles</u>

Leadership styles are divided into three classification;

a) Autocratic Style:

- The oldest and most traditional form of leadership style. In this style, the manager draws a very firm discipline line.

- o Everybody knows what he/she can or cannot do. oMany like this form of leadership because it gives a sense of purpose and security.
- o They know what is expected of them and they know that they must leave upto certain standards

b) Laissez Faire / Free-Reign oA very permissive type of style, employees are left alone to reach their own potential.

- o Some people are responsive to these style and do not abuse their freedom, others take advantage of the climate and do not leave up to their potential.

c) Democratic Style oThis style depends upon the organization, its objectives and the personalities of its people.

- o In democratic climate a manager builds a sense of union and common interest among his/her workers.
- o It is at times even hard to recognize who the manager is.
- o Leaders set discipline lines against which nobody seems to object.

Most leaders use a combination of styles, depending on the group and the situations.

<u>Theory X and Theory Y</u>

- ✓ According to Mc Gregory each manager will manage his employees according to his own attitudes and ideas about people, their needs and their motivations.
- ✓ If an appointed a manager believes that individuals are naturally lazy, then he or she will treat subordinate employees in a certain way, such as issuing precise orders and exercising tight control over their work.
- ✓ For purposes of comparison he stated that the extremes in contrasting attitudes among managers could be classified as Theory X and Theory Y

Theory X	Theory Y
1.Inert, lazy, prodded	Naturally active, striving
2.Work for threat of hunger, loss of job	Work to achieve goals, find satisfaction, build good life
3.Pay is almost the only motive	Many motives, achievement, recognition, service
4.Dependent, must be directed, push, needs leader to inspire	Independent capable of self-directing, setting own goal
5.Irresponsible, immature, must be closely supervised and carefully checked	Mature, responsible, capable of self-correction
6.Conformists-needs prescribed routine and resist change	Inventive, adaptive, creative needs to device new ways
7.Satisfied with good pay	Seeks broader meaning in work life
8.Not to be trusted	Usually trusted

9.Individualistic, selfish	Social, naturally concerned with affiliation and cooperation

Sources of influence in Leadership

a) Legitimate Authority:- A person may gain compliance from sub-ordinates because of the authority which is associated with the office the person holds. The power of the office is often derived from the person's responsibilities as a manager, administrator or politician. Owners of business enterprises enjoy the power to reward, reprimand or punish their subordinates.

b) Economic Power:- the clout that comes with economic might sometimes referred to as reward power. So a person who is in a position to administer economic rewards, could influence the behavior of subordinates through appointments or denial of such rewards.

c) Coercive Power: a person who is in a position to get other people to do things by the use of force or threats and intimidation is said to posses coercive involuntary action where the subordinates submit their consent only because they fear the repercussions of punishment or violence.

d) Persuasion; There are times when persons in positions of responsibility need to use wit and sweet words in order to get things done through others.

e) Referent power: Is based on the subordinate's identification with the leader. The leader exercises influence because of perceived attractiveness, personal character, reputation or what is called "charisma". E.g. doctors, athletes, academicians, wealthy people. This respect could be turned into a source of influence for those who admire a particular person.

f) Expert Power.

Theories of Leadership

a)Trait Theory

- ✓ Assumes that leaders are born not made.
- ✓ Leadership consists of certain inherited characteristics or personality traits which distinguish leaders from followers. E.g. need for achievement, focus, assertiveness, etc b)Situational Theory
- ✓ Leadership is considered to be a function of the situation which a leader emerges and works. It is based on assumption that leadership is basically situational.
- ✓ The person who becomes the leader of the work group is thought to be the person who knows best what to do and seen by the group as the most suitable leader in the particular situation

c)Behavioral Theory

- ✓ It is based on the assumption that leadership effectiveness depends upon what the leader does. The leadership behavior is the product of the leader and the followers.
- ✓ A leader uses his skills to exercise influence and modify behavior of his subordinates. Qualities of a leader: Should have energy, perseverance, education-up-to-date, intelligent, personality, creative, innovative, optimistic, balanced, objective, enthusiastic

DECISION MAKING

✓This is selection from among alternatives of a course of action.

✓Is a process of choosing from among various alternatives?

Categories of business problems

i. Inadequacy of resources such as raw materials to produce products, skilled manpower, capital etc.
ii. Organizational problems such as poor delegation of duties, undefined rules etc
iii. Environmental problems such as poor business locations, poor or unsafe working conditions etc.

How to identify a problem in a business.

i. Past Experience: where you have experienced a similar problem ii.
 Conducting a survey to find out if activities are carried out according to plan
iii. Hiring consultancy services
iv. Employing work study methods

Methods of Decision Making

These are several methods you can use to make business decisions, among them we have;

i. Rule of Thumb: A decision is made based on existing established procedures e.g. based on laws, customs, religion, etc. You can't change
ii. Committee Approach/ Team work: Its where using a selected number of people from the main group to make a decision which will be accepted by all.
iii. Critical Path Analysis: This is making decision stage by stage until the final decision is reached.
iv. Brainstorming: This is where all members of a group develop ideas for a solution
v. Problem solving Chart
vi. Solution Evaluation Form

Steps of the Decision Making process

1) Identify the major problem e.g. low productivity
2) Determine major causes of the problem e.g. low salaries, poor working conditions
3) Determine potential solutions – how to solve
4) Evaluate potential solutions
5) Select the best solution 6)Implement the solution 7)Verify the solution. Problem Solving Chart
 - ✓ You can use a problem solving chart as one way of organizing possible solutions to the problems.
 - ✓ After completing it you will be able to analyze alternative solutions in terms of potential advantages disadvantages and consequences. A space is provided on the chart for four possible solutions.

- ✓ If there are more than four possible solutions, it may be difficult for you to analyze the information adequately.
- ✓ Listing potential advantage will indicate how each potential disadvantage will illustrate how the potential solution will adversely affect you
- ✓ In some instances, an advantage or disadvantage may be the same for two or more alternative solutions.
- ✓ Potential consequences you identify in the last column will be the results of analyzing the potential advantages and disadvantages.
- ✓ They should equal the potential net result of implementing a particular solution.
- ✓ The problem solving chart can help you to analyse and solve major problems which would otherwise have an adverse effect on your business.

Alternative Solution	**Potential Advantage**	**Potential Disadvantage**	**Potential consequences**
1.Salary Increment	High productivity	Reduced profits	High production costs
2.Improve working conditions			
3.Buying new computers			
4.			

<u>Solution Evaluation Form</u>

- ✓ Another procedure for analyzing potential solutions is to identify reasons for and reasons against each potential solution.
- ✓ To use the solution evaluation form to the best advantage, you should: 1.Write a brief description of the problem at the top of the form

   2. Write a brief description of the proposed solution.
   3. In the reasons for column, list important factors which would favuor implementing the proposed solution.
   4. In the reasons against column list important factors for not implementing the proposed solutions.
   5. Rate each factor by its importance to you. The numerical ratings might be 1, 2, 3, 4, 5 where a low rating of 1 indicates that the factor affects the problem only slightly and a high rating of 5 indicates that the factor is extremely important in making your decision. Each factor in the reason for column and each factor in the reason against column would receive a numerical rating
   6. Add the ratings in each of the two rating columns, the column with a higher total will give you some indication of the potential for a particular solution. If there is a big difference between the two totals (in favor of reasons for the solution) you may feel more secure in the use of this technique to make a decision. If there is little difference in totals for both columns, it might indicate that you need additional information about the problem.

Problem Description: Low Morale Problem Solution:			
Numerical Rating	Reasons for	Reasons against	Numerical Rating

The Use of Group Participation

✓Are Many advantages of involving the members of a workgroup in a decision

✓Some positive aspects of group decision making are;

1. The sum total of the groups knowledge is greater
2. The group generally develops a much wider range of alternatives in the decision process.
3. Participation increases the acceptability of the decision to the group
4. Group members better understand why a decision was made ✓Negative aspects of group decisions:
    1. It takes more time
    2. One individual may dominate and control the group
    3. Social pressures to confirm may inhibit group members
    4. Competition can become overly intense among the group members
    5. Groups have a tendency to accept the first potentially positive alternative 6.The decision is often a compromise that is likely to be unsatisfactory Assignment:

1. Women entrepreneurs have unique problems which hinder the development of their enterprises. Explain this problems
2. Entrepreneurs are born not made discuss!

TIME MANAGEMENT

- ✓ Time is a measure of life.
- ✓ A unique resource, shared equally, cannot be stored, cannot be replaced once it is lost.
- ✓ Time is an entrepreneurs scarcest resource & unless it's managed, nothing else can be managed
- ✓ Time Management is the management of the activities we engage in during our time to achieve a goal.
- ✓ Some of the factors that contribute to time wasting in a business include;

i. Failure to delegate duties:- an entrepreneur should not do all the work by him / herself but delegate it to others.

ii. Poor mailing process:- This is where a mail is taken to a wrong person who might hold it, therefore urgent matter might not be attended to.

iii. Unnecessary interruptions by friends or relatives iv.Poorly conducted meetings, whereby people talk much and not sensible matters

v. Poor scheduling of events- avoid postponing of activities when they are supposed to be attended to.

vi. Excessive paper work. Indecisiveness- unable to decide ✓To avoid this pitfalls, you should do the following:

i.Keep a business dairy ii.Select your priorities, whether to attend a wedding or attend to your customers iii.Avoid unnecessary interruptions i.e. meeting your relatives and friends iv.Reduce paperwork, by delegating some to your subordinates/ support staff or introducing ICT facilities.

v.Avoid postponing activities – do them when they are required vi.Keep to schedule- do activities according to the way you have arranged them, don't change

vii. Keep clearing your desks in-trays- have a clean and organized working place viii.Be time conscious and use time carefully.

✓ To Manage your Time

- Draw – up and action plan – ie "things to do list"
- Set out priorities based on what is urgent and important
- Schedule your time realistically
- Delegate as much as you can and monitor progress realized.
- Attempt to perform as much/many tasks as possible during the early part of the day. "use 20% of your time to accomplish 50% of task"
- Let workers work within their limits
- If any new tasks arises during the working time, advert the risks and allocate the priority rate and control interruption. Always try to allow time during the day and keep in touch with your workers. Allow time to think about tomorrow.
- Try to have competent personnel –skilled personnel. Improve your communication skills.

Tools of Time Management: Time tables, Schedules, Programmes

Question: What are the benefits of effective time management in your business?

CHANGE

✓Change is the need to make or become different, to replace or improve, to reform or reorganize to fit to the current situation which results in higher productivity or performance. ✓Is a systematic planned effort to improve effectiveness of the business. Change is risky, uncertain ✓As an entrepreneur you play a key role of managing change in your business.

Need for Change

a) There is need to adopt / adapt
b) To remain viable (economically)
c) We want growth (sales + profit), employees, customers (increase market share), diversify
d) Enhance chances of survival (Change before Change changes you).

Reasons for change

a) People change because they are dissatisfied with the status quo.
b) Interdepartmental conflicts – conflicts in departments
c) The need to cut costs
d) To need to improve efficiency
e) Need for company or personal security
f) Existence of a new demand in the market
g) Tough international and national competition
h) Change in technology etc

These conditions create threats and present opportunities in an organization

Factors that influence change in your business

a) Economic activities: e.g. changes in the prices of some input
b) Competition: The competitors activities; be watchful on competition to respong in good time e.g. by aggressive advertising, reducing the price
c) The government and political environment: New policies, regulations relating to taxation and remuneration policies
d) Technology: For adaptability and business growth. Go for the new technology
e) Educational and social factors: e.g your customers changes in education status, taste, family size, status, age, sex, population distribution,

The above call for change in terms of quality, price, promptness in delivery, packaging, labelling of your product etc.

<u>Types of change:</u>

a) Change of Product: e.g you change your products labelling, size, packaging, color, taste, quality, smell
b) Change of service: change in terms of promptness (quick/fastness) and quality service
c) Change of technology: e.g. Tools and equipment, material, technical skills, procedures, production methods
d) Change of policy:. Change of objectives, goals and policies to follow to meet government policies.

<u>Why People Resist Change</u>

1. Fear of the unknown (don't know what next)
2. Misinformation (false information), no information at all, no communication

3. Threat to status quo
4. Threat to power base – Most want to retain their normal ways of life. Fear of no one recognizing business in foreign places, location/town
5. Miss-trust or distrust of change agents. Eg some people don't take change because of the people who bring about or initiate that particular change.
6. Fear of possible failure:- either social or economic failures
7. No perceived tangible benefits – people want immediate returns / gains

Managing Change

5 basic steps in the process of change management / implementation

1. Precise definition of the operational changes needed
2. Define how the new working methods will affect particular people and groups
3. Identification of attitudes and perspectives currently held by employees and how this support current practice
4. Outline statement of attitudes and perspectives necessary to enable people too adapt successfully to new environments and new working methods
5. Implementation of measure designed to change existing attitudes.

COPING WITH COMPETITION

Competition is the act to vie for customers or market.

Direct competitors – Services / Products which are similar to the same already in the market.

Indirect competitor –offering different kinds of goods/ services to the same market/customers.

Identification

Identify and list out names, location and activities of all your competitors.

Analysis

You analyze yourself and your competitors on the basis of yourself and your competitors non the basis of:

a. Market: What is your/ the market? What share of the market do you/they have? What advantages do you/they have in servicing your/their market segments?
b. Product: How does your product quality compare with the competitors? What special services do you / they offer? Do you/they have a programme to improve your/their products? Is there a possibility of developing a new/ or improved product to satisfy new needs?
c. Production: How do you compare your technology with the competitors? How do you compare sources of raw materials with those of your competitors? How do your skills (and those of your workers) compare with the competitors? What advantages / disadvantages does your / their location have?
d. Finance: How do you compare your financial resources with your competitors?
e. Government Policy: have you identified any opportunities or threats resulting from new or existing government policies(eg relaxation of import restrictions, introduction of VAT)

f. Environment: Do changes in the general environment including the local communities offer any opportunities or threats to you for example there is a large number of young people whose tastes are different from the rest of society.

After obtaining answers to these and any other questions you develop arrange them in a strength/ weaknesses / opportunities and threats SWOT Table.

Types of Competition

a) Pure / Perfect competition

   Characterized by situation homogeneous (similar)

b) Oligopolistic competition

c) Monopolistic competition

Entrepreneurial Skills

✓ A skill is knowledge which is demonstrated by action.

✓ An entrepreneur is someone who has good business idea and can turn that idea into reality. ✓To be successful an entrepreneur must

   - Identify an opportunity and understand it in great depth
   - Spot a gap in the market and recognize what new product or service will fill the gap
   - Must know what features the product will have and why it will appeal to customers
   - Know how to inform the customer about it and deliver the new product.

✓ Turning an idea into reality an entrepreneur needs skills; General Management skill and People Management Skills

✓ General management business skills include;

   - Strategy skills, planning skills, marketing skills, financial skills, project management skills, time management skills, leadership skills, motivational skills, communication skills, negotiation skills

MARKET

Meaning of Market:

- A word derived from Latin; 'Marcatus' which means: Merchandise, trade or place where business is conducted.
- A place and where goods are bought and sold.
- Generally it means "anybody of persons who are in intimate business relations and carry on extensive transactions in any commodity."
- A set of potential buyers and sellers of a product or service"

3.1. Marketing Functions and strategies

✓ Marketing consists of a multitude activities that include decisions about the company's

   - Products or services
   - Pricing policies
   - Promotions and
   - Distribution methods.

- ✓ The ultimate equal is to facilitate exchange between an enterprise and its customers.
- ✓ This exchange relationship exists as one party becomes willing to give something of value in order to receive something of value.
- ✓ Marketing is the process of conceiving than exchange and then accomplishing the tasks necessary to deliver the goods or services in a manner that satisfies customer and meets the business objective.

Marketing Functions

Marketing functions include:

i) The product – involves the planning, designing and developing the right type of the product in order to meet the customer's satisfaction. It includes.

a) The packing of the product
b) The image
c) The brand name and label
d) The product
e) The product quality
f) The product range
g) The product output
h) The product warrantees and after sale services
i) The product policy

ii) The price- involves giving value which is charged by the suppliers. This is an important element of marking because;

a) It relates directly to the generation of revenue
b) Measures the profit cost and revenue elements.
c) Affects the product quality and quantity
d) Has a psychological impact on consumers. **iii)The placement** – also known as distribution is concerned with linking the seller and buyer through the product and involves elements of a)Inform potential customers
b) To convince and persuade existing customers to continuer choosing the product
c) To establish a business image or good will
d) To canter competition from other business dealings
e) To increase sales and revenue.

The marketing strategy

- ✓ This is a consciously formulated plan that describes how the new venture will compete.
- ✓ It focuses the business enterprise on a target market to fill the gap or create a niche.
- ✓ A well calculated marketing strategy provides guidelines for the entrepreneur concerning-:
  - The expected results
  - Allocation of resources Responsibilities for marketing
  - Ways of controlling the enterprise.

The marketing Plan

Solidifies the marketing strategy by defining customers, sales forecasts and marketing objectives.

- ✓ It synthesizes market research and the entrepreneurs strategy into a blueprint for action
- ✓ The plan is implemented through a marketing programme, which addresses the marketing activities decisions regarding product, the pricing, the promotional activities and the placement activities.

The Marketing Mix

- ✓ The term marketing mix refers to the apportionment of effort, combinations, designing and integration of all elements of marketing into a single programme aimed at achieving the objective of a business enterprise.
- ✓ It is a detailed strategy, tasks, operations policies programmes, techniques and activities to which resources may be allocated to achieve marketing objectives.
- ✓ The term is used to describe the combination of the four inputs which constitute a marketing system (4pcs) i.e The product
  - The price
  - The placement
  - The promotions

The 4 Ps (the four Ps)

The marketing mix denotes a combination of the various elements which in their totality make up a marketing system i.e. the product, the price, the placement and the promotion.

The Product

- ✓ The product element of the marketing mix involves the planning, designing and developing the right type of the product or service to meet the customer satisfaction. The main decisions involve-; i)The product involve ii)The product size iii)The product quality iv)The product design v)The product range vi)The product volume vii)The product packaging viii)The brand name and label. ix) The product warranties and after sale service.
- ✓ The product element of the marketing mix strives to establish. ○A product policy ○The product strategies ○The product mix

The Price

- ✓ Pricing the product is an important element of the marketing mix.
- ✓ Price is the value or sum of money which is charged by the supplier of a product or service from the buyer.
- ✓ The financial price is the measurement of value and has the following importance.
  - i.) Economic value- because it relates to the generation of product revenue
  - ii.) Profits – through price profit cost and revenue elements are measurable. iii.) Product quality – price gives indication of the product quality.
  - iv.) The psychological element- price has a psychological influence in the market i.e high prices co-relate to superiority.
  - v.) Co-operate goals- are achievable through pricing decisions especially in formulating marking strategies
  - vi.) Meeting consumer expectations is measurable through price.

Placement

- ✓ Also known as distribution of goods physically
- ✓ This component of the marketing mix is concerned with linking the seller and the buyer.
- ✓ It involves the elements of - The channels of distribution - The transport means - The warehousing -The routing of the product.

Promotions

(A promotional message)

- ✓ A product promotion is the act of providing information about a product to its prospective users in order to persuade them to buy , enjoy or choose the product
- ✓ Any product promotional message usually includes information which shows;
  - That the product exists
  - That the product has ability to satisfy a particular want
  - The physical location where the product can be obtained or enjoyed The qualities that the product can be obtained or enjoyed.
  - The quantities that the product can be obtained the times when the product can be obtained The price of the product.
- ✓ Exam quest, briefly explain what entails a promotional message.

The importance of product promotion

i.)To inform potential customers about the existence qualities and other important details regarding a product. ii.)To convince or persuade existing customers to continue buying the product and potential customers to choose it.

iii.) To establish a business image or goodwill among the existing and prospective customers

iv.) To facilitate more sales revenue.

Methods of Product Promotion

- ✓ There are five main ways of promoting products namely; i)Advertising ii)Personal selling iii)Sales promotion iv)Publicity v)Public relations.

Advertising

- ✓ Refers to drawing attention to or describing a product in a public medium e.g newspapers , radio, television e.t.c
- ✓ Any advert in order to give value for its purpose should contain the following aspects.

i) a media presentation ii)payments for the advert iii)Identifiable sponsor who pays for the advert. Note:

- ✓ Any communication without costs to the sponsor is publicity and not advertisement.

Advertising Media

- ✓ An advertising media is the means through which an advertised message is conveyed to the members of the public who are consumers.
- ✓ The following are some of types of media available to advertisement. The press e.g newspapers, Posters , Billboards , Brochures , Shopping news , Radio , Television , Neon signs e,t.c

Factors which determine choice of an advertising medium

a)The intended target group

- ✓ The nature of the target group in terms of habits customers age, e,t.c will determine choice of the right medium.

b) the physical characteristics

- ✓ The mediums physical characteristics i.e visual aspects, colour, movement's e.t.c. c. Media circulation
- ✓ Where an advertiser aims to reach countrywide cliental, choice of a nationwide media is necessary.

c) Cost of advertising

- ✓ Should be affordable and that they should be reasonable compared to the returns. d)Urgency of the advertisement
- ✓ Urgent and quick adverts may require mediums such as Radio , TV e.t.c

Sales Promotion

- ✓ Sales promotion refers to the strategies and incentives which are aimed at promoting the purchase of a given product.
- ✓ The sales promotion strategies include; i) gifts and other premiums e,g soap, toothbrushes ii) discounts iii).displays e,g supermarket iv) credit facilities Use of loss leaders – one good is sold cheap to attract customers. vii.Use of free samples viii).After sale services.

b) Publicity

- ✓ Refers to the free advertising whereby the desire for a product is created or boasted by unpaid – for features or presentation in the mass-media (e.g a feature in press)
- ✓ These features may be solicited for or unsolicited for but remain entirely unpaid for by the busiess. – or a news release sent to studio.

c) Public Relations

The term public relations (PR) when used in product promotion refers to the process of communicating information of an organization product, Policies and actions to specific consumer groups or the public at large.

- ✓ This is done with the view of creating awareness and a positive attitude towards the organization and the product.
- ✓ It could also be done to correct mis-information or rehabilitate a spoilt image in order to get a satisfied client.
- ✓ It aims at creating a favorable attitude towards the organization in order to promote acceptance.

3.4 Factors which may influence an entrepreneur in choosing a promotional method.

1. cost element of each method of promotion should be analyzed in order to suit financial abilities
2. Targeted audience is important in order to address an appropriate combination method.
3. The nature of the product to be promoted i.e those that may require demonstrations and training et.c
4. Urgency of the promotional message.
5. Availability of resources especially the mechanical physical and human resources to implement a promotional mix.
6. Level of demand for the product ; where demand is high fewer promotional methods are required
7. the competitors promotional strategies
8. availability of media that is most accessible to its customers

ORGANIZATIONAL FORMS

Unincorporated Business

- ✓ These are business which do not have separate entity (existence from that of their owners)
- ✓ According to law such organizations are one and same in the existence of the owner. ✓They do not have separate rights and obligations from those of their owners
- ✓ They include
  - i)sole proprietors
  - ii)partnership

Sole Proprietorship

- ✓ Sole means single while proprietorship refers to the owner of a business owned by one person who takes responsibility on risks of the business.
- ✓ He either enjoys the profits or servers the losses of the business alone.

Formation of Sole Proprietorship

- ✓ It is simple and easy to form since legally only licensed from the government is required
- ✓ If the name of the business is different from that of the owner the business name should be registered with the registrar.

Management of Sole Proprietor

The owner of the business is the manager of the business

- ✓ He makes decisions operating the day to day activities the business.
- ✓ He may employ people to work in the business or be assisted by family members. **Sources of Capital**
- ✓ The term capital is used here to refer to the resource required to start and operate the business
- ✓ He may obtain capital from; i) his own savings ii) borrowing from friends and relatives iii) banks and other financial institutions iv) credit suppliers v)borrowing from government institutions i.e. KIE, ICDC vi) funding from non-government organizations vii) hire purchase funds viii) The business itself from retained profits.

Liability

Liability refers to the extent which the owner of the business can be called upon to meet the debts of the business.

- ✓ A sole proprietorship is viewed as being one and the same with the owner hence does not have separate rights and obligation.
- ✓ Where a sole proprietorship business cannot pay its liabilities all its assets and the business properties are sold in order to clear the business debts.
- ✓ The responsibility of the owner of the sole proprietorship business is thus unlimited.
- ✓ The sole proprietor is therefore said to have unlimited liability.

✓

This means that the liability of the owner is no just restricted to capital contributed but extends to include its personal property.

Features of a Sole Proprietorship

1. Is a business owned by one person
2. It had no separate legal existence from its owner
3. It has a limited legal life since its existence depends on the life of the owner.
4. The owner has unlimited liability in the business.

Advantages of a Sole Proprietorship

1. It is easy to start since only a license is required
2. Quick decision making
3. Freedom of action at any time
4. Flexibility in adopting quickly to changes in customers needs
5. Profits are entirely on the owner's hands 6.There is control over business secrets

7.Easy to use family labor cheaply.

Disadvantages of Sole Proprietorship

1. Limited life in case of death of the owner
2. Unlimited liability may cause the owner to loosing personal property. 3.The sole proprietor serves loses entirely by himself
4. Limited capital may delay expansion.
5. working for longer hours may result to fatigue 6.Lack of essential skills may cause mis-management.

Circumstances under which the Sole Proprietorship ideal

1 When customers show preference to specialized services

2 Where small capital is required to start up a business

3 Where returns are low and may not warrantee existence of a large business.

4 Where the market experiences frequent demand changes 5Where locations are remote and the population may be small.

Dissolution of a Sole Proprietorship

✓ Dissolution refers to the termination of the legal existence of the business.

This may be caused by;

i) The death of the owner ii)The transfer of the business to another person.

Problems the Sole Proprietorship may face.

1. Lack of continuity in case of death.
2. Lack of skills may lead to mis-management
3. Working for longer hours may lead to fatigue
4. Loses are served by the owner
5. Limited capital to facilitate expansion functions.
6. Lack of consultancy may lead to poor decision making
7. Unlimited liability may cause lose of property.

4.1.2 Partnership

- ✓ According to the partnership Act. A partnership is referred to as a relationship which subsists between persons carrying on a business in common with view of making profits.
- ✓ A partnership is thus an extension of sole proprietorship and is in fact necessitated by the fact that a sole trader may for several reasons fail to carry out his business efficiently and profitability.
- ✓ Partners pull the financial and managerial skills together in order to make profit.

Formation

- ✓ According to the partnership Act (934) a partnership business may come into existence through any of the following ways.

  i)Orally ii)By actions of persons concerned iii) By a simple put in written iv) By a partnership deed

NBthe above ways of forming a partnership are allowed by the partnership Act, However its better to remember that it may be made illegal under the following circumstances.

Circumstances under which the Partnership is illegal

- ✓ If the partnership has been formed for an illegal purpose e.g. theft.
  If is formed and the partners do not meet the minimum qualifications e.g. auditing
- ✓ Where the partnership contains more than 20 members

- ✓
- ✓ Where the partnership wants to run their business with the name which does not disclose the true names of all the partners or the name had not been registered under the registration of the business Act under which it is deemed illegal.

Requirements for the Registration of a Business Name.

- ✓ Under the partnership Act , the partners must furnish the registrar of business names for the following

a) The business name
b) The general nature of the business
c) The principle place of location of the business
d) The present Christian and sir names together with their usual residential address.
e) The nationality of each partners
f) Any other occupation of the partners
g) The date of commencement of their business.

Types of Partners

a) General partners

- ✓ These are the real partners in new sense of the partners which refers to those partners who are the most active partners in the partnership
- ✓ In most cases the general partner is a reliable of the debts of the partnership.

b) Limited partners

- ✓ This is a partner whose liabilities are limited to the amount of capital contributed to the partnership business
- ✓ This type of partners do not usually participate in the management of the partnership becus4 if thy do they loose their limited liability in respect to the transaction and decisions participated in.

c)Active partner

- ✓ This is the type of partner who takes the active part in the running of the business.
- ✓ In most cases such a partner may be employed somewhere or may be in another business all together

- ✓ The partner contributes capital to the partnership business and the profits or losses at lower proportions.

Articles of Partnership/ Partnership Deed.

- ✓ Although it is not a statutory requirement the partnership can be formed by a written agreement, it is usual for the partnership business in particular those involved in huge commitments to write articles of a partnership also known as a partnership deed.
- ✓ The aim of this document is to safeguard the interest of each partner and it constitutes a legal contract among the partners.

Contents of a Partnership Deed

1. The nature of the business to be carried out
2. The capital and property of the firm together with the respective capital contributions of each partner.
3. The sharing of profits or loses by partners.
4. The rules as to the case of interest on capital and drawings by partners. 5.Provision for proper accounts and their audit
6. The power of each partner.
7. The drowns for the resolution of the partnership
8. The method of determining the value of good will on retirement of drafting in of a new partner.
9. The method of determining the amount payable to a deceased partner.
10. No partners may should carry on a competing business
11. Any changes in partnership composition must be agreed upon by all partners.

Management of Partnership

- ✓ Members of a partnership are correctively responsible for the management of the business.
- ✓ The members may share responsibilities and duties according to their respective skills and availability in order to ensure effectiveness in management of the partnership.

  The partners may decide to hire skilled or non-skilled labour to assist the management of the partners.

✓

Features/ characteristics of a Partnership

1. **Mutual agency** – each partner is an agent of the partnership and therefore any action by one partner with transacting the business binds the rest of the partners provided his actions are within the partners express or implied authority.
2. **Limited life-** since the partnership is a relationship originating from an agreement between two or more members any changes in their relationship caused by factors such as- death withdrawal of a partner e.t.c terminates the partnership or dissolves it.
3. **Unlimited liability**
   - ✓ In a partnership the partners' liability is not limited to the amount of capital investment.
   - ✓ The partners are separately held liable for the debts of business and their personal properties may be sold to meet such debts.
4. **Ownership of interests** – the interest of a partner in a partnership business e.g. right to inspect the accounting records of a firm of a firm, admission or dismissal of partner transit of interest e.t.c must have the full consent of the partnership.
5. **Sharing of profits**

Each partners share of profits of proportional to his/her investment in the partnership. And any agreement of non-partner to share the profits does not make a non-partner a partner.

NB circumstances under which a non-partner may be included in sharing the partnership profits and losses.

1. As compensation for services rendered to the partnership
2. As compensation for the partnership use of his/her property or name. 3. As payments for loans advanced to the firm 4. As payment to the next of kin.

Sources of Capital of a Partnership

1. contributions from partners
2. Loans from commercial banks and other financial institutions
3. Stock from hire purchase firms
4. Credit facilities from suppliers
5. Loans from government institutions e.g. K.I.E e.t.c.
6. Plough backs from retained profits

Classification of Partnerships

There are five ways through which partnership are classified.

1. **By trading**

   A partnership may be classified was

a) Non-trading partnerships- these partnerships whose activities are to offer services e.g. legal, medical, accountancy, teaching e.t.c.
b) Trading partnerships – these are partnerships whose main activities are manufacturing, purchasing or sales of goods.

2. **By liability**
   a) **General partnerships** – are partnerships in which all partners may publicity act on behalf of the firm and each partner individually be held responsible for the debts of the firm. Their properties may be attached to clear the debts of their partnership.
   b) **Limited partnerships** – a partnership whose activities of certain partners are limited. The personal liabilities of such partners (limited partners) are limited to a certain amount stated. These amounts are normally equivalent to the amount of their contributions.

NB the following conditions must be fulfilled for a limited partnership to be formed.

1. The partnership should not consist more than 20 partners.
2. The partnership must consist one or more general partners.
3. The limited partners are not liable to the partnership debts beyond his capital contribution.

NB Restrictions of the limited partners.
1. Is entitled to inspect the books of the firm and examine the partnership state at any time.

2. The death, withdrawal bankruptcy of a partner shall not cause dissolution of a partnership or the partnership can not be dissolved by a court order because of lunacy of the partner.
3. A limited partnership is only dissolved by the general partners unless brought through a court order.
4. Any differences on partnership matters can only be decided by a majority of the general partners.
5. With the consent of the general partners a limited partner may assign his/her shares in the partnership to another person.
6. A person may be introduced into the partnership without the consent of the limited partners.

3. **By time duration**

a)A temporally partnership (joint venture partnership) – this is a partnership formed for a specified period of time

- ✓ Termination of the stated period or accomplishment of the purpose may cause the partnership to come to an end.

b) a permanent partnership (partnership at will) – This is a partnership formed to carry the business indefinitely

- ✓ It does not have a fixed life of fulfilling its purpose

4. By activity

✓**a) Active partner** – this is a partner who is actively involved in the day to day management of the partnership and may be paid a salary for these services. And the partner is held liable for the debts of the firm.

b) A dormant /sleeping partner – does not take part of the day to day management of the partnership but contributes capital,shares profits and is liable for the business debts

5. By capital contributed

a) Real partner – a partner who contributes capital into the business and whose name may be used in relation to transactions of the business and enjoys the profits of the partnerships.

b) Nominal partner – is a partner who has not contributed any capital to the business but allows his or her name to be used in the business. They are usually influential persons whose names can be used.

✓He is not fully liable to the partnership debts however is he presents himself to the public in a manner that portrays him a general partner he will be held liable.

c) Quinsy-partners – a partner who has retired from the partnership but has left his capital in the partnership business which is treated as a loan, he earns interest

6. By age

a) Majority partner – A partner who has attained the age of 18 years and above. Such a partner unless stated to the centrally can be held liable for the partner.

i) Partner shares only profits and not losses since he didn't participate in decision making that may have caused such losses.

ii) The liability of the minor is limited only to the amount of capital contributed to the business since any liabilities arising may not be part his decision making.

iii) The minor partners can act on behalf the partnership and such acts shall be binding on the other partnership iv) When the minor partner attains the age of majority he/she has up to six months to decide whether or not to continue with the partnership. If he/she decides to stay, he has full responsibilities and rights of a major partner.

Termination/ Dissolution of Partnership

✓Although the partnership deed or articles of partnership will contain regulations of terminating the partnership, nevertheless in the absence of our subject these regulations, a partnership may be dissolved in the following ways.

1. When the fixed time if any are stated in the articles of the partnership expires.
2. If the partnership was specifically entered into for a given venture, transactions or undertakings the completion of which or achievement will automatically dissolve the partnership.

3. If the partnership is a partnership at will, it can be dissolved by any partner giving notice of his intention to dissolve the partnership.
4. By mutual consent of all partners
5. By bankruptcy or death of one the partners.
6. By one partner's shares in the partnership being changed or attached by a court order for private debts.
7. If any events occur which will make the partnership business illegal, the partnership will stand dissolved irrespective of the content of the partnership deed.
8. Automatic or compulsory dissolution as it is provided section 39 of the partnership Act which lay the following grounds under which a partnership may be dissolved by a court order.

   i) If any one of the partners becomes insane ii) If any of one partner becomes permanently incase of performing his/her duties through in capabilities, accidents or disabilities iii) Where a partner has acted in a manner which is pre-judicial to the carrying out firm's business and may bring the name of the business to its disables.

   iv) Where a partner was found guilty of breach the partnership contract. v) Where the firm has been operating in losses.

Circumstances under which the Partnership Deed is ideal.

1. In a business where the amount of capital required is reasonably large.
2. If professional were pulling together effort for efficiency and better performance.
3. If professional areas where the law prohibits a couple of days.

Advantages of Operating a Business under a Partnership

1. A partnership business benefits from the talents of individual ensuring almost efficiency and acceptance.
2. Since a partnership would be owned by a no. of partners it sets a basis of pulling together saving to raise large capital for investments
3. Sound decision making through consultative processes
4. A higher growth rate as a result of combining ambitious from different partners.
5. Partnerships have a good will and financial influence enabling it to raise finance easily.
6. Collateral or security of loans can be easily be raised.

7. Formation of partnership business requires minimal government interventions.

Disadvantages of Operating a Business under a Partnership

1. Slow decision making due to long discussion processes 2.Sharing of profits tends to disregard hard working partners.

3. Partnership business have limited life incase of retirement or dead of one partner.
4. Disagreements make partnerships business vulnerable to disputes among partners.
5. The partners have unlimited liability which lead to loosing personal property in the event the partnership business cannot settle its debts.
6. The agency burden where every partner is an agent of the partnership and one's partner's mistake may affect the rest.
7. Limited managerial skill may lead to mismanagement of the business.

4.2 Incorporated Business / Joint Stock Companies

i) Incorporated Business

- ✓ We have so far looked at unincorporated business and have seen the main features of such business is that they do not have a separate legal existence from the owners.
- ✓ We shall now focus on business units that are legally viewed as separate and distinct units from their owners
- ✓ Such businesses are called in co-operated or joint stock companies.
- ✓ Incorporated business organizations are legally separate and distinct from their owners or members.
- ✓ The main forms of incorporated business or joint stock company include;

i) Companies ii) Co-operative societies

iii) Public co-operation

- ✓ These are advanced forms of companies where a group of people pull their savings together and contribute as capital to set up a business enterprises or companies.
- ✓ These companies are governed by Acts of parliament under the Kenya all joint stock companies fall under the Kenya Companies Act = (cap 486) of 1948

- ✓ The Act lays down the formation and general conduct of joint stock companies.

4.2.1 Companies

- ✓ A company is a business registered by the registrar of companies Act.
- ✓ The Act of registering a company is known as incorporation.

Incorporation

- ✓ This is a process that creates an organization separate and distinct from the person forming it (owners)
- ✓ The organization is known as a body corporate and registered company is known as a cooperation

NB companies are business organizations or units formed to carry out a specific activity.

- ✓ They are organized by processing an existence that is separate and distinct from the persons who own it.
- ✓ Companies have rights and obligations of a natural person.

Rights and Obligations of Companies 1.It can own and dispose off property.

2. It can enter into a contract on its own name
3. It can borrow and lend money in its own capacity
4. It can hire and fire employees
5. It can sue and be sued in its own right
6. It can form subordinate agencies and its authority
7. It can spread information.

Features of a Company

- ✓ It is an artificial person created through legal process
- ✓ A company has rights and obligations of natural person e.g. holding and disposing property.
- ✓ A company has a perpetual life independency of the owners lives i.e. has perpetual succession.

- ✓ A company has a separate legal identity from the owner. ✓A company is created for a particular purpose
- ✓ The owners of a company enjoy limited liability

Types of Companies

- ✓ There are basically two types of companies. Namely
  a) Public limited companies
  b) Private limited companies

Public Limited Companies

- ✓ A public limited company has a minimum number of 7 members with no maximum membership.
- ✓ The maximum membership normally is determined by the number of authorized shares (capital) of the company
- ✓ In Kenya a public limited company has the term limited at the end.

Characteristics/features of a Public Limited Company.

1. Minimum membership is 7 with no maximum
2. Invites members of the public to subscribe to its shares
3. The shares are easily transferable among shareholders
4. It has a minimum of 3 directors
5. It has authorized minimum capita figure.

NB authorized share capital is to the total shares that have been legally authorized by the government during the company's registration

✓A public limited company starts to operate after receiving a certificate of commencement (trading)

A private Limited Company

- ✓ This is a company with a minimum of 2 persons and a maximum of 50 persons excluding all past and present employees.
- ✓ A private limited company should have name ending with limited.

Characteristics of a Private Limited Company.

1. Has a minimum of 2 members and maximum 50 members
2. It does not invite the members of the public to subscribe its shares.
3. It's shares are not easily transferable unless with consent with other share holders.
4. Operates with only one director.
5. Its shares don't have authorized minimum capital figure It can start its operations after receiving its certificate

Limited liability Concept in Companies

This is the fact that the liability of companies of owners is restricted to he amount of investment of a company plus any other amounts that to be undertaken to be contributed towards payment of one companies debt.

- ✓ The word limited indicates that the liability of the owners of members in respect to this amounts (capital contributed) and not their personal property. ✓A company may be limited by-:

  i) Shares ii)
  Guarantee.

Companies Limited by Shares

- ✓ This is a company where member's liability is limited to the value of shares held.

- ✓ The liability of members is limited to the share contributed.

Company limited by guarantee

- ✓ This is a company whose members liability is limited to the amount that members have undertaken to contribute to the business debts.
- ✓ These contributions may cover for;- ○Court charges and ○Any other expenses.

Formation of Companies

- ✓ A company may be formed by any person or persons associating for a legal purpose through registration with a registrar of companies under the companies Act.
- ✓ Although a limited company is a legal person it can only act through human agents who must register it with registrar of companies and for a company to be **MEMORANDUM OF ASSOCIATION**

This is document that defines that relationship between the company and outsiders.

- ✓ It informs the outsiders what the company does, the amount that is required.
- ✓ The memorandum of association is the company's chatter constitution and once the company is registered the memo becomes a legal document that can only be altered by law.

Contents of a Memorandum of Association.

1. Name clause – This states that name of the company ending with the work limited.

- ✓ Any name may be selected to be used by the company as long as it is not prohibited by law.
- ✓ This requirement is meant to protect people who may erroneously enter into a contract in the company believing it to be another company an also protects companies from possibly mis-use of their names.

2.Object clause – this clause outline the objectives of the company anything outside this objective will ultra virus.

Importance of the Memorandum of Association

a) It defines the limits of company associations.
b) It informs subscribers the purpose for which their money will be put.
c) It protects subscribers form possible misuse of their money
d) It protects outside parties dealing with the company by informing them the extent of its operation.

3.Situation clause- This clause discloses the locations of the legislative office and it contains the following elements.

a) Where the company is situated
b) Where the letters may be delivered
c) Where sermons may be served.

4.Liability clause – This clause states the status of the member's liability with regard to the debts of the company.

- ✓ The clause enables people who may enter into contract with the company to determine the extent of the company's liability.
- ✓ The statement of liability should clearly specify the members liability regard to the company debts.

5. Capital clause

- ✓ The clause states the total capital of the company is authorized capital into shares and their corresponding value.
- ✓ Incase of a public company, the capital clause will give the minimum amount of capital hat the company must raise before it commences business.

6. Association of substitution clause- This contains a declaration by the promoters (original owners) that they desire to form a company to pursue the objects of the memorandum of association and that they agree to take payments of their shares.

- ✓ The promoters are required to give details of their name addresses, occupation and no. of shares

ARTICLES OF ASSOCIATION

- ✓ This document contains the rules and regulations pertaining the relationship between the shareholders and the company among the shareholders themselves.
- ✓ These rules regulate the internal relations of the company forming a binding contact between the members and the companies and as well as among the members themselves.

Content of Articles of Association.

1. The right of each member e.g voting rights.
2. The issue, transfer and for future of shares and the alterations of shareholders.
3. procedures of calling and conducting meeting
4. the methods of appointing or electing officials
5. Qualification procedures duties and rights of directors 6.Preparation of books of accounts and the auditor's report.

NB whereas the memorandum of association is mandatory document of all companies, the articles of association are optional.

- ✓ Where the company does not draw the articles of association, it can adopt the standard articles of association contained in the company Act.
- ✓ A company may alter or amend its articles of association and such amends shall be valid.
- ✓ The power to alter the articles of association is specified in the memorandum of association.

List of persons who have consented to the directors of a company

- ✓ The directors are chosen from the founders of the company referred to as promoters and the list contains details of names addresses, occupations, shares subscribed and a statement of agreement to serve as directors.

A statutory declaration of compliant with the requirement of the company's Act.

- ✓ The declaration must be signed by person's names as directors or the company's secretary.

- ✓ The declaration must be equally by signed by the advocate engaged in the formation of the company and must expressly state that the company is formed by lawful persons.

CERTIFICATE OF INCORPORATION/ REGISTRATION OF A COMPANY.

- ✓ Once all the required documents are properly filled with the registrar of companies is ratified with what is contained in these documents.
- ✓ The registration brings the company into being and the companies issued with a certificate of registration.
- ✓ The registration gives a company an identity that is separated and distinct from its owners.
- ✓ From the date of incorporation the company becomes a body corporate with the name powers and rights and obligations of an incorporated company.
- ✓ The process of forming a company is formalized when a certificate of incorporation issued has inclusive evidence that all the information has been complied with and that the company is duly registered.

NB - A private company can start its business operations immediately it is issued with a certificate of incorporation, this is because the company does not have to invite the members of the public to buy shares.

- ✓ A public limited company must proceed to issue proposals inviting the members of the public to buy shares.(A prospectus a notice or circular of advertisement inviting the public to purchase the shares of a company).
- ✓ Public limited companies can only be allowed to purchase goods only when the registrar is satisfied that-:

  i)The company has raised a minimum amount of capital as required by the memo.

  ii)That every director has paid to the company the minimum amount of money on the shares to be taken.

  iii)That there's a declaration by at least one director that the company shall comply with the regulations stipulated by the law that governs companies.

✓

Once the registrar is satisfied by the above requirements then the public limited company is issued with the certificate of trading which will enable the company to commerce its operations.

Ownership and Management of Companies i) Ownership

- ✓ A company is owned by any person who has subscribed and purchased that company's shares.

  The owners of a company are known as shareholders and their names are entered into the company's registrar.

- ✓ Each share holder has a claim in the property of the company proportional to the shares held.
- ✓ The shareholders of a company have unlimited rights to the transfer or sale of their shares in the company. **ii) Management**
- ✓ The management of a company is in the hands of the board of directors.
- ✓ The initial directors stay in the office till the first meeting (AGM) is held at which new directors are elected.
- ✓ The size of the board is usually determined by the size of the company.
- ✓ The board of directors is charged of formulating and overseeing the implementation of company policies.
- ✓ The board is normally supported by a terms of profession employed to the responsible for the day to day management of various departments.
- ✓ For a public limited company, the directors are required by law to present the company's financial statement at the AGM meetings and filled with the registrar of companies.

Sources of Capital of a Company

a) From the public through the sale of shares
b) From commercial banks ad other financial institutions
c) government institutions i.e. KIT, ICDC e.t.c
d) Suppliers inform of trade credits.
e) The business itself inform of retained profits

✓

f) Higher purchase traders.
g) Rent revenue earnings from any investments.

1. Public limited companies

- ✓ These are stock joint companies that have sold stock to the general public and thus attracts public money in form of share capital I,e ordinary or preference shares.
- ✓ Such companies are usually quoted at the stock exchange where shares are bought and sold through stock brokers.
- ✓ These companies usually raise large size of money from the public and in order to do so the companies must;

a)Obtain permission from the development market authority also known as " New issue committee" this committee assesses the financial soundness of such companies before allowing theme to attract public money.

i) The aim is to safeguard the interests of public investors ii) The company in need of public money will have to obtain permission from the Nairobi stock exchange council before it can be allowed to have its shares dealt with.

2. Private limited companies

- ✓ These companies are formed by submitting the necessary requirement to the registrar of companies (the five documents)

Once this has satisfied the registrar of companies such a company will receive a certificate of incorporation.

- ✓ The private limited companies are usually not allowed to advertise their shares to attract public money and as such they sell their shares privately (private placing to the interested members of the public.
- ✓ Like public limited companies, private limited companies have limited liability, their shares are not fully transferable as they are not quoted at the stock exchange.
- ✓ Any transfer of shares requires the consent of other share members of the company.

✓

Advantages of a Company

1. More capital can be raised since it has large membership
2. The company offers better collateral for loans to be advanced.
3. Limited liability secures private property incase of inability to pay debts.
4. The companies have continuity i.e. have perpetual life or succession.
5. A company has a liability to hire highly qualified professionals facilitating better management
6. Shares are easily transferable.
7. The companies have legal identity and therefore no conflicts to its members.

Disadvantages of a Company

1. Difficult to form since it is costly and has long legal procedures
2. The company has restricted operations by the memorandum of association
3. Slow decision making due to long approval procedures
4. Limited ownership caused by land of control of the firm
5. The agency burden may cause mismanagement when especially the board is weak.
6. Double taxation especially of the dividends
7. Lack of secrecy since the company has to publish its financial status annually.

Main Features of Joint Stock Companies

- ✓ As already noted a joint stock company is an association of people who contribute capital to form common stock in order to carry on a business activity for product motive.
- ✓ The company formed comprises- corporate status and is registered under the company's act.
- ✓ A joint stock company may be public or private company and its main features include;
  a) Legal personality – the company has identities separates from that of other persons contributing capital and can therefore hold property, contract in its own name sue and be sued.

b) The shares are transferable – the share holders can sell their interest in the companies to other persons willing to invest in it (freely for public ltd company but limited to the consent of the rest of the shareholders for private company.
c) Common sill – as a separate entity it will be necessary for a joint stock company to sign documents and such signatures are normally embodied in a common sill of a company.

- ✓ The sill is kept under custody of the responsible offices.

d) Members/ shareholders can not bind the company by their Acts
e) Individual/ members are not entitled to take part in business since it is managed by the board of directors
f) Shareholders have a limited liability.

Advantages of Joint Stock Companies

1. The liability of share holders is limited to the capital contributed by shares guarantee.
2. A joint stock company is going concern implying that it has perpetual existence separate from that of the shareholders.
3. A joint stock company is an artificial legal person independent of the shareholders and it can own its assets and liabilities.
4. The shares of a joint stock company in particular public limited company are freely transferable.
5. The shares of a joint stock company can easily be used as security for loans making it easy to obtain loans.

Disadvantages of Joint Stock Companies

- ✓ It lacks secrecy and privacy since it requires audited financial statement annually.
- ✓ The formation of a joint stock company requires long legal formalities.
- ✓ They are difficult to form since they require a heavy capital investment.
- ✓ Joint stock companies can not increase their capital investments beyond the legally authorized capital.
- ✓ The decision making process of joint stock company is slow and bureaucratic due to consultations.
- ✓ Joint stock companies are not flexible to changes.

Dissolution of a Joint Stock Company

- ✓ When a company has started its expected to continue with its operations to the future since it is a form of business with perpetual succession.
- ✓ Termination of the life of a company may be through;
  1. Failure to commerce business within one year of its formation – upon this it may be would up by its court order on application.
  2. The membership falling below the required minimum and this dissolution may be decided by a court order.
  3. Accomplishment of the purpose or expirely of the period of operation.
  4. The registration if it fails to comply with statutory cooperation e.g failure to file annual files to the registrar of companies or engaging in illegal activities.
  5. A resolution by members to voluntarily wind up the company which may

     arise through.;

  a) where the company does not have a future on that line of business
  b) The members wish to sell it as a going concern in order to share profits.
  c) Where one company is acquired by another and the members wish to discontinue it so as to terminate its existence a separate legal entity.

  6. Through a merger with a larger company
  7. Insolvency – the company is not able to meet its obligations.

Holding Companies

- ✓ The company Act of the laws of Kenya defines a holding company as one which has more than half of equity share capital of another company of which it is a member or controls a bigger percentage of the board of directors of one or more other companies which are called subsidiary companies.
- ✓ A holding company may be public or private depending upon wishes of the promoters or shareholders.
- ✓ In Kenya a good example of a holding company is ICDC.

4.3 Public Corporations

- ✓ This is the net price to which the government has stakes in
- ✓ The government owns a certain percentage of the enterprises shares.
- ✓ Where a government has a fall ownership of the corporation, the business enterprise is known as a parastatal
- ✓ Some public corporations are profit seeking while other are not.

- ✓ examples of such public corporations include;○Kenya pipeline ○Kenya airways ○KCB (Kenya commercial Bank)○Kenya lighting company (KPLC)
- ✓ Parastatals are run to provide the essential services such as education, medical etc.

Similarities between public cooperation's and joint stock companies.

- ✓ They are both legal entities
- ✓ They are governed by a board of directors appointed ✓They are self financing.

Public corporations

1. A cooperation is wholly and partially owned by the government
2. Corporations tend to be monopolists
3. Are operated on public interest not entirely on profit motive.
4. They are paid for by the public from the taxes collected by the government.

Joint stock companies

1. Owned by the public and has shareholders.
2. They are subjected to companies
3. Purely operate on a profit motive.
4. Private funds finance joint stock companies.

Parastatal Bodies

A parastatal body is an organization distinguished from a body government but in which the government is a sole owner.

- ✓ They are established by the government to perform specific functions and their management is in the hands of board of directors.
- ✓ The board of directors is appointed by the government and the parastatals bodies do not sell shares since they are whole financed by the government.

Examples

- ✓ Marketing boards
- ✓ Coffee board of Kenya e.t.c.

Marketing Boards

- ✓ These are produce organizations set up to encourage and control of the Agricultural produce.
- ✓ Their objective is to protect producers and consumers and may be formed by both producers coming together or be constituted by the government.

Classification of Marketing Boards

1. commodity marketing boards- these are producer organizations with objectives are restricted to purchasing and selling of commodities e.g coffee, tea, pyrethrum
2. producer marketing boards- this is a produce organization dealing with a wide range of products e,g maize, wheat e.t.c
3. Expert marketing boards- this concentrate on marking one or more products overseas e.g KTDA or coffee board.

Functions of Marketing Boards.

1. To encourage and control the marketing of Agricultural produce through purchasing at

   fixed prices to facilitate stable incomes

2. To encourage income and price stability through the buffer stock in buffer funding system.
3. To facilitate farmers to obtain loans for farm inputs e.g quality fertilizers, seeds and equipment.
4. To support the government in licensing regulations
5. To provide a wide range of sport e.g transport, grading, packaging of

   products e.t.c
6. Marketing boards provide advisory advise to farmers
7. They facilitate research on agricultural products and markets.

Formation of a Public Cooperation

- ✓ They are formed by a specific Act of parliament which define and powers and the overall mandate of there institutions.
- ✓ The law creating corporations also state the minimum capital under which they will operate.
- ✓ The corporations are viewed as separate legal entities and may be wholly or partially owned by the government.

Management of Public Corporations.

- ✓ This is under a board of directors.
- ✓ The directors are appointed by the government when the government owns wholly the corporation or relevant joint directors and government appointed directors where the government owns partially the cooperation.
- ✓ The government influences decisions of the corporations either directly or indirectly e.g pricing decisions.
- ✓ In Kenya the board of directors is appointed by the relevant ministries or by the president.
- ✓ It is this board which is responsible for the implementation of the policies of the organization.
- ✓ The board may employ professional managers charged with the day to day running corporations.

Sources of Share Capital

1. Public corporations may get their capital from the government through loans or budgetary provisions.
2. Where the government own corporations jointly both contributions of capital and the public will raise capital through issuing shares.
3. As a body corporate a public corporate has power to borrow money from financial institutions.

Features of a Public Corporation

1. A service motive- they provide essential services to the citizens and may therefore not aim at making profits – entirely.
2. They are formed by an Act of parliament which states that government ministries will take charge of such corporations.

3. They are subsidized by the government to enable them provide essential goods and services at minimum fees.
4. The board of directors is wholly appointed by the government or jointly with other stake holders to influence the policies of the cooperation.
5. They are financed by the government but for jointly owned public corporations.
6. It has a legal distinct from the government or any other owners
7. They have limited liability

Advantages of Public Corporations.

1. Raising initial capital is each since funds comes from the government
2. Public corporations improve the welfare of the people since basic goods and services are offered at affordable prices
3. The company has limited liability
4. They are used to meet government objectives.

Disadvantages of Public Corporations

1. Political influence may lead to a week management
2. Public corporations may not respond to consumer needs since some operate as monopolist.
3. Public corporations have a public interest making them difficult to achieve their objectives.
4. The job insecurity of senior managers e,g C.O.S , may lead to dishonest management
5. Slow decision making because of the size of same public corporations
6. most corporations are loss making

Dissolution of Public Corporations.

- ✓ Since formation of a public corporation is by an Act of parliament it follows therefore, that in order to dissolve such an organization onc would have to repeal the Act of parliament under which they are allowed.
- ✓ The following reasons may lead to repealing the Act of parliament under which they are formed.

1. Perpetual operations of the corporation of a loss

2. Outright insolvency.
3. Mismanagement which mat adversely affect the performance of the corporation

4.4 Co-operative Societies

- ✓This refers to a co-operative.
- ✓ The term co-operative is derived from cooperation
- ✓ It is a body of people or a body of persons who have agreed to come together to achieve a certain goal.
- ✓ The members of the public get together to voluntarily contributes capital to he corporative society sharing the risks of investments in order to achieve and enjoy the benefits.

Reasons for Promoting Cooperative Societies in Kenya.

- ✓ They facilitate members to manage their own society and distribute themselves the benefit generated.
- ✓ In order to increase bargaining power in selling the members produce or gaining maximum satisfaction.
- ✓ In order to enhance participation by members in economic activities minimizing the middlemen.
- ✓ In order to reduce market cost of produce especially in transportation and storage.
- ✓ In order to promote and improve quality production
- ✓ In order to facilitate stable income earning
- ✓ In order to put together capital resources of expensive investment e.g transport, refrigeration e.t.c.

Formation of Co-operative Societies

- ✓ They are formed by a minimum number of 10 members who pursue to undertake some objectives
- ✓ The members work out a defined plan of what the co-operative society is supposed to do.

For the co-operative society to be formed they have to submit their constitution to the commissions of co-operative societies with the following detail.

- ✓ The objectives of the society
- ✓ By-laws of the society

- ✓ The areas of corporation of the society.✓The nature of the business to be undertaken✓The location of the head office.
- ✓ The application of registration is to be submitted to the commissioner through the local cooperatives.
- ✓ Upon satisfying the commissioner, a certificate of registration is issued .
- ✓ The co-operation then recruits members who pay registration fees and buy their specified shares in the society.
- ✓ No member is allowed to buy more than 5% of the share capital .
- ✓ The registration of the co-operative society makes it a body separate meaning it becomes a separated entity distinct from its owners and with perpetual succession.

Ownership and Management of a Co-operative Societies.

- ✓ It is owned by its owners and its ownership and membership is opened and voluntarily ✓The members in a co-operative society have a limited liability to the amount contributed.
- ✓ The supreme authority of the registered co-operative society is in the AGM (Annual general meeting).
- ✓ During the AGM the managing director is elected on one person one vote basis irrespective of the shares owned by each member.
- ✓ The outcome is determined by a simple majority and such elections are supervised by the district corporation officer.
- ✓ The managing director serves for a period of time after which elections are held by a vote.
- ✓ The elected members hold constant meetings to discuss operations and the concerned of the cooperative.
- ✓ The committee may employ professional staff to charge of various parts in the society.
- ✓ A number of sub-committees may be formed from the elected officers to take to take various responsibilities of various societies.

Examples of Committees in a Co-operative society

1.Executive Committee-The committee is charged with the day to day running of the society and its membership is made up of the following

a) Chairman

b) V-chairman

c) Honorable secretary

d) Treasurer

e) Secretary

2. Education committee- It is charged with educating members of the society and it is made up of 3-members answerable to the executive.
3. Credit committee- It is normally common in saving and credit societies. It is made up of 3-members answerable to the executive and it is charged with the following:

i) Processing loan applied and making recommendations.

ii) Loan recovery

iii) Credit recommendations and approval

4.Supervisory committee-It is charged with overseeing the overall management of the society's finances.

The Relationship between the Cooperative Society and its Business with its Members

✓A cooperative society should usually transact its business with its members.
✓This business relationship relates the following relations.

i) The customer relations- The members can be customers of the cooperative society by purchasing its goods and services ii) The supplier relations-The members can supply to the society by the seeling to the cooperative society marketing their produce.

iii) The employee relations- The members can be employees who work for the cooperative society which they jointly own.

Sources of Capital for Cooperative Societies.

1.Members contributions through

i).Registration fee ii).Amount contributed by members to purchase shares iii).The fee charged from the proceeds or sales of the members produce.

iv).Interest earned on money loaned out or firm inputs advanced to members.

2. The loans from financial institutions.
3. Plough backs or financing through retained profits.

Features of the Cooperative Society

1. Separate entity- Registration of a cooperative society makes it separate from its owners and the cooperative society has rights and obligations that are separate distinct from those of its owners.
2. Liability-The liability of its members is restricted to the amounts they have contributed in terms of capital.
3. The minimum membership of a cooperative society is 10 persons and the maximum number is specified since it depends on the share capital of the society.
4. Continuity-The cooperative society has a perpetual life.
5. Cooperative societies are governed using by-laws contained in the constitution of the cooperatives.
6. The share capital is divided into units both persons who want to become members of the society.
7. The cooperative society is run by management committee elected
8. The distribution of profits to the members is according to the level of activity carried out among members-High volume of activity command high portions of profits.

Essentials for the Success of a Cooperative Society.

1. Adequate volumes to secure the benefits of large scale production.
2. Adequate finance to fund operations construction purchasing of equipments.
3. A sound management team with effective entrepreneur skills.
4. Existence of a definite objective

Principles of Cooperatives

1. Open Membership

Membership is open and voluntary without artificial restriction imposed on membership

2. Democratic administration.

The affairs of the cooperative society are managed in a democratic manner and elections are on a one person

3. Service to members-The primary purpose of a cooperative society is to render services to members.
4. Distribution of profits or surplus- Distribution of profits or surplus is based on a specified rate.
5. Limited interest on capital- This is because the aim of cooperative society is to help its members and not make profit.
6. Cooperation with officer cooperative society so as to achieve a common purpose and a common objective.
7. Education to its members.

Types of Cooperative Societies.

A cooperative is a voluntary association of persons who come together to promote their social economic interest.

The types include:-

a) Producer cooperatives

A producer cooperative is an association of producers such as societies which collect, process, market and distribute the members produce.

Functions of Producer Cooperatives

i) Getting better prizes for members produce.
ii) Providing better transport facilities for moving the produce from the source to the market.
iii) Providing better storage facilities for members for members produce. iv)Proving grading, packing and processing services to the members. v) Extending credit facilities to its members.
vi) Educating members on better methods of production through seminars, demonstrations etc.
vii) Facilitating use of quality seeds, fertilizers and farm inputs

Consumers Cooperatives

- ✓ A consumer cooperative is an association of borers who have the same consumer needs.
- ✓ The consumers buy bulky and sells to the consumers at lower/fair prices.
- ✓ This reduces the cost of products by eliminating the middle men.
- ✓ The main function of these cooperative societies is to purchase and distribute quality goods to members at reasonable prices.

Benefits of the Consumer Cooperatives

i) They make goods easy available to members.

ii) They buy goods in bulky and sell to members at lower prices. iii) They distribute the realized profits to members at lower prices

Why consumer cooperatives are not popular in Kenya.

- ✓ Fears competition between the local traders which push prices down and provide quality goods hence no need for cooperatives.
- ✓ Many people supply enough subsequent food for themselves.
- ✓ Most people cannot afford large amount of capital required to start.
- ✓ Most population in Kenya lives in the rural setup and may not accept the cooperative rule.
- ✓ No proper attention to such cooperatives by the government.

Savings and Credit Cooperative Society (SACCOS)

- These societies are formed by persons who come together to save their money in a common pull with a view of getting loans to improve their welfare.
- The members of a SACCO are usually under one employer and members contributions are deducted from their salaries but the employer to the cooperative society through a check of system at regular intervals usually monthly.

- At the members savings earn interest and get loans at reasonable interest rates normally 1% per month.
- Members savings serves as a security for a loan, three guarantors and a pay slip.

Why SACCOS are Popular among Employees

i)It is easy to save with the SACCO since deductions are done through a check of system.

i) Easy to get loans from SACCOS due to fewer simple requirements. ii) Interest charge on loans is low compared to commercial banks. iii)Loans do not require collateral except far members' salary slip and guarantors. iv)Members savings are save since they are insured.

v)Incase of death the beneficiaries do not lose their savings in cooperatives nor they are called upon to repay. vi)SACCOS are flexible since they give different types of loans e.g. normal, emergency, school fees loans, medical etc.

Structure of Cooperative Societies

- This refers to the hierarchy of the cooperative movement.
- It shows the various levels of which various cooperatives operate this include: **i) Primary Cooperatives**
- Draw membership from business organizations engaged in production of particular goods and services.
- Such cooperatives are found in specific geographical turgid or sector.

Examples:- Local agricultural societies in different regions.

ii). Secondary cooperatives made up of the primary cooperative within a region e.g. a district. Through such cooperative the primary cooperative society pulls their objectives.

Main Reasons of Forming a Cooperative Union

- To strengthen the buying capacity especially of farm inputs or transport facilities.
- To negotiate for loans for members cooperatives from the cooperative banks.
- To market the produce of members cooperatives.

- To help members cooperatives with the processing of their produce.
- To help member's cooperatives with storage, administrative services, accounting etc.
- To educate, advice, train, the staff of members cooperatives.

National Union.

- This is the union of various cooperative unions.
- The national cooperatives form umbrella bodies of cooperatives formed.
- The membership of such a cooperative comprises cooperative societies or operating in a particular production line.

Examples:-

a) The Kenya Planters Cooperative Union.
b) The Kenya Union of Savings and Credit.

Apex Cooperatives.

These are the overall cooperative bodies to which all other cooperatives i.e primary, cooperative unions and national union are carried. An example in Kenya is is the Kenya National Federation of Cooperatives Union. They are formed to promote cooperative performance with the aim of:-

a) Providing information about the activities of cooperative in Kenya.
b) Providing education and training for member cooperative for efficient and
c) Represent Kenya cooperatives both regionally and internationally.

Another example is the Kenya cooperative bank.

iii)**International cooperatives:**Are composed of national cooperatives from various countries

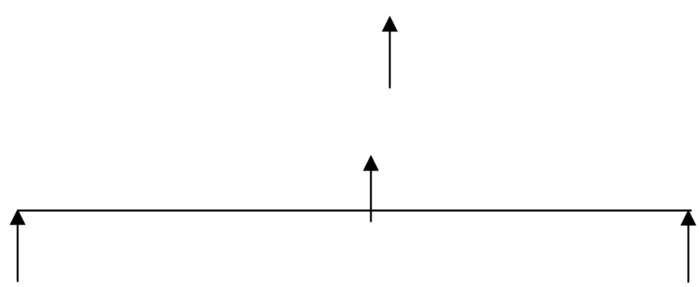
e.g. The Kenya Federation of Cooperatives

Problems Facing Cooperative Societies.

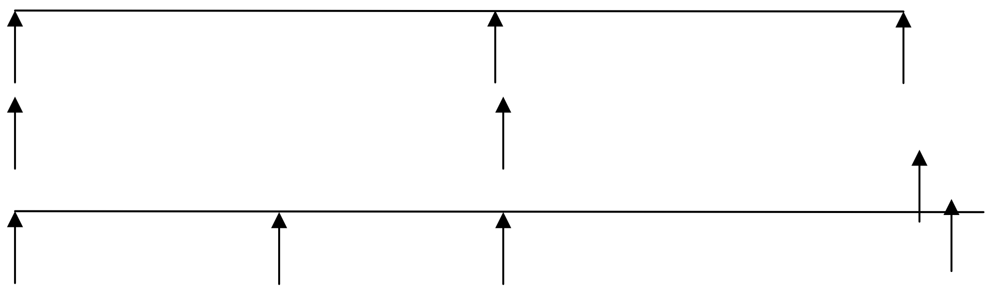
- Mismanagement by cooperative officials who take advantage of their knowledge and position to benefit themselves.
- Unskilled management elected without any knowledge whatsoever with management skills.
- Lack of adequate capital due to small contributors and difficult to get bank loans.
- Capital interference and self interests.
- Most cooperatives are agro based facing price fluctuations climatic problems, low prices etc.
- Little government input to rejuvenate the cooperative societies.

Advantages of Cooperative Societies.

- Low cost services to members.
- Improved welfare of members enhancing their participation in economic activities.
- Encourage savings enabling members to accumulate their capital.
- Extended credits to members at low interest rates improving their welfare.
- Limited liability protecting personal property.
- Flexibility in membership for entity and exit.
- Equality of the members in terms of rights irrespective of the number of shares held.
- Large capital base due to high membership.



societies



Disadvantages of Cooperative Society

- ❖ Poor management caused by the system of choosing the managers I.e. AGM elections.
- ❖ Constant political interference causing unrest and mismanagement.
- ❖ Withdrawals are easy which may cause instability and discontinuity.
- ❖ Slow decision making due to over consultation.
- ❖ Lack of secrecy since all activities must be approved by all members.
- ❖ Large membership may cause management problems.

Dissolution of a Cooperative Society

- ❖ Disagreement among members or an agreement of members may lead to application of registration.
- ❖ Insolvency- Where the cooperative is unable to meet its debts.
- ❖ By a court order upon application by one or more members.
- ❖ An order of dissolution by the apparent ministry in the interest of its members.
- ❖ Withdrawal of members leaving membership to less than the minimum required.

4.5. Review Questions

1. Explain advantages of running a business as a sole trader
2. Describe hurdles faced by a sole trader in raising capital
3. Explain at least 3 types of partners
4. What is a partnership deed and what are its contents

5. Briefly explain circumstances under which a partnership may be dissolved
6. Briefly explain circumstances under which a partnership deed may be ideal
7. Describe the process of setting up a company
8. What are the main features of a limited liability company?
9. Explain the features of a public company
10. What are the characteristics of a private company?
11. What are the contents of memorandum of association?
12. Define cooperative society and state reasons for formation of cooperative movement
13. Briefly explain principles of cooperative movement

CHAPTER FIVE

5.0 RESOURCE NEEDS FOR ENTREPRENEURSHIP

In this lecture we shall discuss the sources of business finance which include equity finance, debt finance – loan, bills of exchange. ,factoring ,trade debtors ,accrued expenses ,credit card buying (plastic money) ,debenture finance, invoice discounting (confidential factoring) ,factoring ,sale and lease –back ,sale of an asset, and purchase.

General objectives

By the end of the course the learner should be able to identify the appropriate sources of funding for entrepreneurship. At the end of this lecture you should be able to:

1. Explain the Various sources of finance for entrepreneurship
2. Discuss the advantages and disadvantages of the various sources of finance
3. Identify factors that influence the various sources of finance sought

5.1 Sources of Business Finance

- ✓ The entrepreneur may obtain finance from the following main sources.

  - o Debt financing
  - o Equity financing
  - o External and internal sources.

- ✓ Debt financing requires a borrowing system and the entrepreneur is bound to pay back the funds borrowed together with interest payable.
- ✓ Debt financing can be long term or short term. Depending on the lender collateral, amy be required.
- ✓ Equity financing does not require collateral and offers the investor some form of ownership position in the business.
- ✓ Internal financing are funds generated from several sources within the company, they include profits sale of Assets, reduction in the working capital accounts receivable, retained profits e.t.c
- ✓ External sources of finance may come from family members, credit suppliers, government programmes, grants e.t.c.

5.1.1 Equity Finance

- ✓ It the largest source of finance to a business organization and usually forms the base of which other finances are raised.
- ✓ Equity is the total sum of the business ordinary shares plus the retained earnings also known as revenue reserves.

a) Ordinary share-capital

- It that finance contributed by ordinary shareholders of a business. It is raised through the sale of the company's ordinary shares- who are the real owners of the business.
- The finance type is only raised by limited companies and is permanent in nature and can only be refunded in the event of liquidation.
- It earns ordinary dividends as a return to the investments.
- The investors carry voting rights and usually each share is equal to one vote.
- The ordinary shares are quoted at the stock exchange where they are sold and bought.
- The finance carriers the highest risks in the company because it gets its return after other finances have got their and also in the event of liquidation is it paid last.

- The ordinary dividends are not a legal obligation on the part of the company to pay.
- Where the profits are good ordinary shareholders get the highest return because their dividends are varied.
- This type of finance grows with time and this growth is equity which basically is facilitated by retention earnings.

Advantages of Ordinary Share Capital to Shareholders

- ❖ Ordinary shares have a right to vote and their votes influence the company's activities. ❖Ordinary shareholders can use their shares to secure loan.
- ❖ Ordinary shares are easily transferable.
- ❖ The owners of the ordinary shareholders earn dividends in perpetuity.
- ❖ The fluctuating nature of dividends is earned.
- ❖ The ordinary shareholders benefit from the residual claim in the event of liquidation.

Disadvantages of Ordinary Shareholders.

- ❖ Carry variable returns in case of low or non-profit dividends are not paid..
- ❖ Incase of liquidation an ordinary shareholder may lose everything.
- ❖ The sale of more ordinary shares dilutes ownership of the existing shareholders.
- ❖ The dividends of an ordinary shareholder are double taxed.

b) Retained earnings (revenue reserves)

- ✓ This is a source part of equity finance which arises out of undistributed profits over and above dividends paid to shareholders
- ✓ It is a cost free source of finance and its cost is opportunity cost in terms of foregone dividends to ordinary shareholders.
- ✓ The retained earnings constitute growth in equity which is a cost of equity because the company may declare retained earnings as extra dividends or inform of bonus issues.

Arguments in Favour of Retention

1 Acts as a stabilizer to future dividends (ordinary dividends) especially when profits perform poorly.

2 No cost are incurred for it's acquisition

3 It is able to be raised at no notice especially during unforeseen events e,.g

   a. Abrupt increases in the prices of raw materials
   b. Fire hazards e.t.c

4 Promotes savings promoting investments and growth.

5 Large volumes of retained earnings influence the company's shares positively.

6 A good source of finance to those very urgent short-term ventures whose returns are immediate

7 The boost the company's creditability to the company's creditors.

The advantages of using retained earnings as a source of finance to the company.

1. It is the largest internal source of finance which the business will use without paying any costs.
2. The use increases the equity base of the company making it possible to generate more debt finance.
3. Retained earnings are used to finance new fixed assets whose value cannot be met by other sources
4. It is used without pre-conditions or restrictions making it the most flexible source of finance.
5. It boosts confidence among the company's creditors
6. It is a permanent source of finance to the company to be used on long –term investments.

The disadvantages of using retained earnings as a source of finance to the company.

1. Easily misused by the management as it may be invested in areas which are prejudicial to majority shareholders.
2. Retained earnings once used will leave not shield to take care of contingencies exposing the company.
3. The finance can easily be mis-invested in areas of quite low returns.
4. the source involves a lot of sacrifice to the ordinary shareholders inform of opportunity cost 5.Easily invested in high risk investments.

Notes

Capital reserve

- ✓ these are reserves which cannot usually be classified as normal trading profits arising out of the company's ordinary trading activities – but are created with say shares are sold at a higher price than the per value and the excess is profit – such are credited to he capital reserve account and is used to offset the issuing expenses.
- ✓ It can also be created from revaluation of assets (fixed assets) iii) Quasi equity finance (preference share capital)
- ✓ This is finance contributed by Quasi – owners or preference shareholders
- ✓ It is called quasi – equity because it combines features of debt finance and those of equity finance.
- ✓ It is called preference share capital because it is accorded preferential treatment over ordinary shareholders.

Similarities between Ordinary & Preference Shares Capital

Both finances earn a return in the form of dividends

i) They are a permanent source of finance especially the irredeemable

preference shares

ii) Both receive perpetual dividends (irredeemable preference shares) iii) Both form the company share capital iv) Both are difficult to raise due to prolonged formalities.

v) Both claim on assets residual and in profits after debt finance has had it's claim.

vi) Payment of dividends not a legal obligation vii) Both finances are not secured viii)Both are long –term finance to the company.

5.1.2 Debt Finance – Loan

✓This is the type of finance which is obtained from persons other those actual owners of the company i.e creditors to the company. The finance can be in any of the following forms; ○Loans ○Debentures ○Bank overdrafts ○Trade creditors

○Borrowing against bills of exchange
○Lease finance ○Mortgage finance
○Hire purchase finance

All the above finances have a legal claim or change against he company's resources or assets.

Requirements a Company must meet before raising Debt Finance.

1. The company must provide a summary of history of the business and its nature. This is used to assess the risk of the company's business line.
2. Details of management – names, ages, qualification and experience of managers and directors. If these are of questionable integrity, such as a company may not get debt finance.
3. To produce five years audited accounts which will reflect t he company 's financial ability to service debt finance.
4. the purpose of the loan must be;

   i)within the lender's priority ii)Within the government areas of priority for development purposes.

5. Furnish lenders with cash flow forecast and proposed trend of repayment.
6. Major shareholders of the company must give consent to the loan.

Reasons why Commercial Banks prefer to lend short-term

1. Majority of deposits with these banks are subject to withdrawal on demand and shortterm notice these cannot be lent long term. The violation of this principle led to the downfall of a number of financial institutions in 1986/87 in Kenya.
2. Commercial banks are subject to sudden credit squeeze imposed by the central Bank and as such they have to keep their investments in short-term investments to meet the requirements of the central bank.
3. Short-term forecasts are usually accurate and also short-term investments are less risky which is thus preferable to commercial banks.
4. Short-term investments are usually more profitable to the banks e.g overdrafts which carry higher rates of interest than long-term loans.
5. Usually short-term investments are not secured e.g overdrafts and thus are easier ad more flexible go give.

Limitations of debt finance/ disadvantages of using debt finance to the company.

1. Interest is a legal obligation and failure to pay it may lead to company into receivership and consequently liquidation.
2. Using debt finance entails conditions and restrictions as to its use and this makes it nonflexible finance which can only be invested in those ventures approved by the lenders.
3. Its use on large scale increases the company's gearing level which exposes the company to incidences of receivership and thus liquidation.
4. It is not usually long-term finance and the payment of principal leaves the company in financial strain and may cause liquidity problems to the company.
5. the use of excessive debt finance i.e beyond 67% level puts the company at the mercy of the lenders because they can come in to control their interests which dilutes the control of owners and this may lead to lower share prices. Moreover,
6. This finance calls for a security i.e it is usually secured against a collateral security which may be rare or lenders may be rare or lenders may restrict the use of such asset thus reducing the company's operations and thus its profit.
7. The lenders usually insist that the security be compressively insured which will compound the cost of this finance as it will entail an implicit cost to the company.
8. This finance is available only in big businesses which are known to lenders and as such small companies will not be able to raise it easily as they are assumed to be risky and are in most cases unknown to lenders.

Advantages of using Debt Financing.

1. Most debt financing is short-term and as such it will not burden the company's cost of financing for long i.e cost is short-lived.
2. Interest on debt is a tax-allowable expense and thus the effective/real cost of debt will be equal to interest less tax on interest I,e interest is less by the much of tax on it. (refer to cost of finance)
3. the principal is later reduced in real monetary values by much of inflation on it I.e the company pays less on long- term loans by virtue of inflation reducing the real monetary value of the principal and interest.
4. The use of debt finance does not necessarily entail dilution of control to existing shareholders are these shareholders may only lose the control if the company has used 67% of debt finance in its financing i.e in its total capital employed.
5. it is usually invested in viable ventures whose return is higher than its cost, thus it is used with a good investment policy
6. This finance does not call for a lot of formalities in its use in as much as it does not involve a lot of floatation costs.

Circumstances under which a company should use short-term debt finance.

1. Under situations when the company has identified a venture which calls for finance on short-term notice and will pay back early enough to facilitate repayment of the loan.
2. Under situations where the company's venture promises higher returns that the cost of debt finances.
3. Under high debtor's turnover where the company wants to boost sales through further investment in stock.
4. Under boom conditions when the company's cost of debt is relatively lower as profits will increase relatively and the company can be able to service debt finance. This will raise the earning per share of the company's shares.

Characteristics of Debt Finance

1. It is a fixed return finance i.e interest on debt is fixed regarding less of the profits made by the company.
2. Interest of debt finance is a legal obligation on the part of company to pay and failure to pay it may lead the company into receivership in the extreme.
3. It is usually given on conditions and restrictions except for overdrafts.
4. It carries a first claim on profits and assets before other finances.
5. It does not carry voting rights and as such it does not participate in the decision making process of the company.
6. Its use rises the company's gearing level.
7. It is always refundable except for irredeemable debentures.
8. it is usually a secured type of finance
9. Interest on debt finance is a tax-allowable expense.

Similarities between Debt finance and Ordinary Share Capital

1. in the case of irredeemable debentures both form a permanent source of finance to the company
2. Both carry explicit costs to the company I. e interest on debt finance and
3. Dividends on ordinary share capital.
4. both are raised by financially strong companies
5. In case or irredeemable debentures both will entail a permanent cost to the company.
6. In case the company has used overdrafts then both are not secured finances.

7. Both are external sources of finance to the company.
8. Both have control over the company if the company has used debt finance of up to 67% of the company's total financing.

Classifications of debt Finance.

1. short-term finance

This ranges from 1 month up to 4 years and is given to customers known to the bank or to lenders. The agreement of this loan will mention both the repayment of principal and interest, and must identify whether it is simple or compound interest. For principal, it has to be paid over some time. This finance usually secured and the terms of the loan will be restrictive. Usually be invested in an area acceptable to the bank or lender. Usually this finance should be used to solve short-term liquidity problems.

2. Medium –term finance.

This finance will be in the business for a period ranging between 4-7 years. This term is relative and will depend upon the nature of the business. This type of loan is used for investment purpose and is usually secured but the security should not be sensitive to the company's operations. The finance obtained must be investigated while respecting the matching approach to financing i.e the term and pay back period must be matched. This type of finance if the most popular of all debt financing because most of the business will need it both in their growing stages and also their mature stages of development.

3. Long-term finance

This is a rare finance and is only raised by financially strong companies. It will be in business for a period of 7 yeas and above. This finance is used to purchase fixed assets in particular during the early stages of a company's development. It is always secured with a long-term fixed asset. Usually land or buildings. Its investment, however must obey the matching approach. In all, the companies needing such finance do not have to be known to the lenders.

Reasons why long term loans are difficult to raise on Kenya's financial markets/ limitations of using long-term debts.

1. This finance calls for long-term securities such as land and buildings which most businesses in Kenya may not have.
2. There are no long –term savings to back-up these loans due to low income of average Kenyans and as much most of the savings are short-term and cannot be made available on long-term basis.
3. Most business in Kenya are agro-based and these are risky and as such lenders cannot avail their finance to such businesses of long-term.
4. The central bank has tended to stimulate the development of money markets that capital markets which have not been fully developed to avail such finance to meet the development needs of industry and commercial sectors of the economy.
5. Long-term loans are not usually profitable because interest and principal repayment are eroded by the by the impact of inflation and thus banks may be reluctant to give such.
6. The size of the businesses in Kenya is small and such businesses are not going concerns so as to be able to attract this finance on long term basis.
7. A number of companies in Kenya are multinational companies which obtain long-term finances from parent companies abroad and this has limited the development of capital markets in Kenya as demand by such companies is low.
8. there are been a tendency by the financial institutions to avail long term debt for building purposes and little attention has been paid to long-term finances for businesses.
9. This finance is given on conditions and restrictions to avail long-term debt for building purposes and little attention has been paid to long-term finances for businesses.
10. This finance is given on conditions and restrictions which make it less ideal for profitable ventures as such restriction may reduce profitability of companies concerned.
11. Long-term forecasts by commercial banks are inaccurate and filled with a lot of uncertainties thus the banks are very reluctant to shield such potential risks and prefer to lend short term which they can forecast with some degree of accuracy and certainty.

Solutions to the above problems.

1. The government should diversify the security such that the same asset acquired acts as its on security and also to allow guarantees as securities in particular personal guarantees
2. The government or individual commercial banks should undertake mass education campaigns to businessmen so as to induce them to save/keep their money in banks so as to avail such money of long –term lending.

3. the government should participate in the development of this capital market

by;

i) Allowing some parastatals to go public i.e. to sell shares to the public. ii) Selling or purchasing long-term debt instrument or creating a market for these and allowing the forces of demand and supply for money to operate freely in Kenya so as to determine the prices of securities in the financial market.

4. The government should introduce insurance schemes to cover agro-based industries so as to reduce their risk and so as to be open to long-term finance.
5. There should be diversification in the economy from over-dependence on agro-based industries to manufacturing which will create employment and thus boost the incomes of average Kenyans and thus saving which will be available for lending.
6. The government should stabilize the value of the Kenyan currency so as to attract foreign long-term investors and aim at exporting more as means of gaining foreign exchange which can be used to stimulate long-term growth through importation of more capital goods and less consumer goods.

General Limitations of Debt Financing

1. The economic life of the asset to be used a security act as an outer limit to debt financing both the terms of principal and the term.
2. If the balance of debt outstanding in the company's capital structure is high it means t hat the company is highly geared and this cannot allow lenders to give further finance to such a company as it will be viewed as risky.
3. Debt financing may be expensive because it carries both implicit and explicit costs. These may out-weigh the returns from the investments.
4. Ordinary shareholders may limit the much a company can use in debt financing as the level of the gearing is influenced by this finance thus putting them at risk.
5. The size of the company may influence its ability to raise debt finance this size works better for quoted companies and unquoted companies usually find it difficult to raise such finance.
6. General economic conditions may limit the availability of debt finance because in recession it is quite dangerous to use large sums of debt finance as these may not be serviced under conditions of low profits and may lead to the company's receivership in extreme.
7. The management for the company may also limit the availability of this finance either by virtue of its nature (if its integrity is questionable) or if it is conservative in the use of debt.

Advantages of using an Overdraft

1. it can be used to bail the company out of short-term financial liquidity problems
2. Usually it is not secured as the company's goodwill is all that matters in obtaining this finance as long as the company is known to lenders.
3. It is used without pre-conditions or restrictions which makes it a flexible source of finance,.
4. It can be raised fast thus very useful in emergency financing endeavors.
5. It is not expensive to raise i.e there are no costs paid to obtain it such as

   floatation costs. '

6. Its cost and financial constraints are short lived.
7. it can assist the company to meet its obligations in particular short term obligations thus sustaining the goodwill from creditors.
8. Overdraft finance does not increase the company's gearing level, at least in the long run.
9. Overdraft finance is used without consent of shareholders thus it is flexible as it can be used as and when it is needed.

Disadvantages of using Overdrafts

1. It is very expensive finance and its lending rate is usually 1-2 % higher than the usual lending rates.
2. Its constant use of a sign of bad/poor financial management policy and this may endanger the company's ability to raise long-term finance as longterm lenders view constant use of overdrafts as a sign of lack of overdrafts as a sign of lack of cash forecasts and budgeting policies on the part of the economy.
3. It is not easily available to every business thus it is obtained by companies know better to the bankers,.
4. In some cases this finance may be used in a manner flexible to the management which most cases may not be in the interest of shareholders it may be used in areas which may not directly benefit shareholders i.e it
5. It is only available is small quantities and as such may not be useful for bigger ventures.
6. The bank may recall this overdraft in part or in whole at any time and this may inconvenience the Company affected.
7. Overdraft finance may only be used to finance non-profitable operations e.g working capital and cannot be used to finance fixed assets which are the most important ingredients in the company's production and profitable operations.

Other Sources of Debt Finance a)
Bills of exchange.

As a source of finance, bills of exchange can be:-

a) discounted
b) endorsed
c) given as securities for loans

The commonest type of bills of exchange. *Accommodation type of bills of exchange*is that type where two parties A and B are B is known to bankers. The two enter into an agreement where A draws a bill on B and B accepts it an agreement whereby A draws a bill on B and B accepts it and thereafter A can either discount the same bill or endorse it to another party to get finance which A will have to refund later to B. However a bill of exchange is defined as an unconditional order in writing addressed by one person to another signed by the person giving it, requiring the person to whom it is addressed to pay on demand at a fixed or determinable future date a certain sum of money to the order of the person or to bearer. Most of the bills mature between 90-120 days although they could be sight bills i.e payable on sight be valid and to serve as a source of finance it should be

i) signed by the drawer ii) accepted by the drawee iii) be unconditional iv) bear appropriate revenue stamp

Advantages of Bills of Exchange as a Source of Finance.

1. It does not involve a lot of formalities and as such will allow the drawer to obtain finance faster.
2. It is highly negotiable making it a liquid investment which the company can liquidate fast (if the drawee is of high credit rating)
3. Since it is unconditional the drawer will use the same finance obtained on the strength of the bill without preconditions and restrictions.
4. It does not affect the company's gearing level.
5. It is cheap to obtain and to retain – retention cost is discounts which are usually lower than bank rates.

6. it does not call for any tangible security because the good will of the drawee is all that is necessary to use

Disadvantages of Bills of Exchange

1. It is a very short-term source of finance and as such it may not be profitable as its duration cannot warrant any profitable ventures i.e finance from the bill cannot be invested in profit table ventures.
2. There are possibilities that the bills may be dishonored by the drawee and drawer may have to settle any liabilities incurred thereon.
3. It is a foreign bill of exchange this may delay the finance in that it may require the approval of the central bank before discounting it.
4. Its negotiability and thus liquidity as an investment will depend upon the goodwill of the drawee which will be lacking in some cases.
5. Finance from this bill may be misused (misinvested) by the management thus may not benefit shareholders.
6. There are chances of getting a fake bill of exchange which cannot be discounted nor endorsed which will constitute a fraud to the company.
7. It may involve some costs in particular discounts which may be high depending on conditions some of which may be a bit expensive to fulfill e.g stamp duty.

Factoring

This can be defined as an outright sale of the company's debtors to a factor (which is usually a financial institution that specializes in purchasing of debtors) this factor will pay the selling company up to 80% of the face value of debtors and is left with 20% to care of bad debts if any, and also his discounts, this type of source of finance is rare in Kenya mostly because it is an expensive source of finance due to high discount costs. Savings in this source are in form of costs of credit management which are transferred to the factor. However, the factor takes up risks in debts (of default) which previously were supposed to be borne by the selling company.

Reasons why factoring is not popular in Kenya (disadvantages)

1. Most transactions in Kenya are strictly on cash basis, due to low creditability of most of the small firms in Kenya.

2. It is costly source of finance because the discount rate may even be higher thank bank rates, thus companies may prefer to use overdraft finance than factoring.
3. After selling a debtor, chances are that one might lose such a customer completely and such this method can be used by monopolies only.
4. Sale of debtors reduces the company's liquidity position in a way and this may not be preferred by companies which depend on trade credit as their liability rates will not be acceptable to trade creditors.
5. There is ignorance amongst the business community in Kenya about the use of this facility as a source of finance.
6. It is difficult to legally enforce collection of debtors in Kenya and this may discourage would be factors.
7. Kenya's money market is not fully developed and as such the factor may find it difficult to liquidate these debtors or pass the title in this asset to another party.
8. Trade credit is very popular in Kenya and this has made up for factoring.

Advantages of using Factoring

1. The selling company can obtain ready finance from the factor which can be used to solve its liquidity problems.
2. the selling company transfers the risk of bad debts to the factor company thus reducing its losses
3. It minimizes the burden of collecting debtors' i.e debt collection expenses.
4. this finance can be raised fast thus does not entail a lot of formalities
5. It does not carry collateral security thus a flexible source of finance to raise.
6. it can be raised by any company regardless of its status as long as it has good debtors i.e of reputable companies.
7. it does not affect the company's gearing level thus no loss of control to the company by its use.

Trade Debtors

This acts as a source of finance in such as the company holding; such debtors can discount them with a bank and obtain immediate finance. They can be used as security for loans in particular overdrafts. The company can continue to sell on credit and as such this source can be a semi –permanent source of finance.

Accrued Expenses

Examples of these are;

i) accrued electricity bills ii) accrued telephone bills
iii)accrued water bills iv)accrued rent

v) Accrued rates.

These are a short-term source of finance and can be big sources if the company has a number of these outstanding expenses. However, a company should use these in as much as they cannot affect its future operations and only pay such on the last date when these are due.

Credit Card buying (plastic money)

These are arrangements whereby a company or an individual enters into an agreement with a credit card organization to use their card to purchase a number of goods and services and pay after agreed period of time. Usually repayment carries interest charges. These cards are used to obtain such goods and services as:

i) fuel expenses in particular for tour companies ii) stationery iii)Medical expenses for employees and their families.

iv)Vehicle maintenance v)Air transport vi)Purchase of inputs such as oils, spare parts e.t.c.

Reasons why Plastic Money has Developed Fast in Kenya of late

1. Due to high incidences of frauds by dishonest employees these cards e.g in tour companies.

2. They minimize the use of liquid cash thus reduces chances of petty cash frauds and also solves the company's liquidity problems and those of individuals.
3. Kenyan society has developed fast (in sophistication) and the use of these cards is a sign of high social and economic status.
4. There is a lot of awareness amongst Kenya's elite community as regards credit facilities and as such have responded to the introduction of this type of money fast.
5. There is a lot of risk associated with carrying lots of cash which is open to theft and as such people prefer to carry finance in card form.
6. A number of companies and establishments have quickly recognized these cards as a means of settling bills and some even give discounting to card holders which has boosted their popularity.
7. It is a source of finance to individuals who depend on monthly earnings who settle their bills using the credit cards and later pay at the end of the month when their liquidity position warrants it.

Disadvantages/ limitations of using credit cards as a source of finance.

1. It is expensive to obtain (because the bolder has to deposit some amount of money with credit card
2. Organizations) and later pay interest on all his expenditure.
3. It may lead to unwarranted spending which may lead to financial strain on the part of the holder

   when it comes to settling his bills.

4. The majority of Kenyans are unaware of these credit card facilities in particular the rural Kenyans

   who form the majority of Kenyans.

5. The card is limited only to those establishments which have formal arrangements with credit cards

Debenture Finance

Debenture has its origin in the latin word Deboe which means " I owe" it is a document that is evidence of a debt which is long term in nature, and confirms that the company has borrowed a specific sum of money from the bearer or person named in the debenture certificate. Most debentures are irredeemable thus forming a permanent source of finance to the company. If these are redeemable then these will be long-term loans which range between 10-15 years. They can be endorsed, negotiated, discounted or used as securities for loans. They carry a fixed rate of interest with is payable after six months i.e twice a year.

Classification of Debentures

a)**Classification according to security**

i)**Secured debentures**- these are secured against the company's assets or have a fixed charge against the company's assets. In the event of the company's liquidation such debentures will claim on any or all of the company's assets not yet attached by other secured creditors. A debenture holder with a floating charge has a status of a general creditor, however floating charge debentures are rare and they are sold by financially strong companies.

ii) **Unsecured (naked) debentures** –these carry no security whatsoever and such they rank as general creditors. They carry a residual claim to the first class creditors but a superior claim to the first class creditors but a superior claim over ordinary shareholders. These are rare sources of finance and are sold by financially strong companies with a good record of dividend payment to the shareholders.

b)**Classified According to Redemption**

i) Redeemable Debentures – these are bought back by the issuing company. Like preference shares, these have two redemption periods which are minimum and maximum redemption periods. This usually between 10-15 years. i.e. the company has the option to redeem these after 10 years but before expiry of 15 years. In most cases redeemable debentures are secured against specific assets e.g. land or buildings (mortgage debentures) their interest is a legal obligation on the part of the issuing company.

ii) Irredeemable debentures (perpetual debentures) these can never be bought back by the issuing company except in the event of liquidation and as such they form a permanent source of finance to the company. These debentures are rare and are only sold by financially strong companies which must have had some good dividend history. These are unsecured and thus are known as naked perpetual debentures.

c) Classified according to convertibility.

i) Convertible debentures- these are the type of debentures which can be converted into ordinary share capital and this conversion is optional as follows;

a) At the option of the company i,e at the company's option.
b) At the option of both parties i,e debenture holder and the company
c) At the option of the holder.

However the conversion price of the debenture is given by

i) Conversion price= nominal value of the debentures
No. of shares received

ii) Conversion ratio = <u>Nominal value of debentures</u> Nominal value of shares to be converted.

In all, convertible debentures are never secured.

iii) Non- convertible debentures – these cannot be converted into any shares be it ordinary or preference shares and are usually secured.

d) Subordinate debentures (naked)

These are issued with a mutuality period of 10 years and above and usually they carry no security and depend upon the goodwill of the company. They are so called subordinate because they rank last in claims after all classes of creditors except trade creditors. Nevertheless their claims are superior to those of shareholders both preference and ordinary shares.

Advantages of using debenture finance (to the selling company)

- In case the company sells irredeemable debentures these will form a permanent finance to the company which can be invested in long term venture or fixed assets.
- Their use does not entail dilution of the company's control as they carry no voting rights with which to influence the company's policies.
- In case of convertible debentures, once converted into ordinary shares will be permanent finance to the company and can be used in finance to the company and can be used in financing of long- term ventures.
- Interest on debentures is tax –allowable expense and as such it will be less by the much of the tax on interest.

Disadvantages of using debenture finance (to the selling company.)

1. Interest on debenture is a legal obligation for the company to pay and failure to pay it may put the company into legal wrangles.
2. it raises the gearing level of the company which may expose it to risks of receivership and, in extreme, liquidation
3. In case of redeemable debentures once redeemed may leave the company in financial strain.
4. Since interest is paid twice a year it may be cumbersome to the company to pay and may pose liquidity problems.
5. For irredeemable debentures these place a permanent commitment in terms of cost to the company.
6. If they are redeemable and reach maximum redemption period before they are redeemed these may force the company into receivership and consequently liquidation.
7. For secured debentures, these may be expensive because they will carry implicit costs. i.e insurance and maintenance of the security and later explicit costs . i.e interest on these debentures.

Similarities between Debentures and Preference Shares Capital.

1. They both carry fixed rate of return.
2. Both increase the company's gearing level.

3. both can be converted into ordinary shares, if convertible
4. both carry no voting rights in the company
5. both may be unsecured if the company sells naked debentures
6. both claim on profits and assets before ordinary share holders
7. If they are both redeemable they can force the company into receivership after the expiry of the maximum redemption period if not yet redeemed.

Differences between Debentures and Preference shares Capital

Debentures	Preference Shares
1. Interest is legal obligation for the company to pay.	

2. interest is a tax-allowable expenses to the company

3. they claim on profits and assets before preference shares

4. they are purely creditors

5. they cannot participate over and above their fixed claim

6. they can be raised by any company

7. these are usually not transferable except bearer debentures

8. these are usually secured

9. cost of raising debenture finance is low ‘

10. They are usually sold at a discount.

1. dividend payment is not a legal obligation for the company to pay
2. Dividends are after appropriations and are thus not tax-allowable expense.
3. they claim on profits and assets after debentures
4. they have an element of ownership int eh company i.e quasi-owners
5. they may participate over and more their fixed claim in case of participative preference shares
6. they can be raised by limited companies only,

7. these are usually transferable to other parties though the stock exchange

8. these are never secured

9. cost of raising preference share finance is high e.g floatation costs

10. They are usually sold at par value or above i.e at a premium

Advantages of using Debenture Finance to Ordinary Shareholders.

1. The use of debenture finance does not dilute the shareholders control of the company unless they are convertible and are converted.
2. Under boom conditions ordinary shareholders may benefit from higher dividends due to fixed charges on debentures which is paid under conditions of high profits.
3. Interest on debentures is tax-allowable expense and as such this may allow the company to retain more and even pay higher ordinary dividends to its shareholders.
4. In case the company issues irredeemable debentures, these will be invested in long-term ventures with not only have the effect of raising the shares pieces of the company's ordinary shares but will also increase the company's future ordinary dividends.
5. After debentures are redeemed, the company will benefit from the asset/ investment they had financed which will increase the net worth of shareholders.

Trade Credit

This finance is obtained by companies by which purchase goods on credit and pay for such goods later. This "kind" and is available to companies which can pay bills on time as and when they fall due. It the largest source of finance to sole traders and wholesalers in Kenya. This is cheap source of finance and it does not entail any explicit cost except discounts foregone. This finance may be long-term in particular if the company meets its bills regularly such that after settling a given bill the same company obtains further credit immediately, thus may become a continuous source of finance. In order to be a source of finance, credit received must exceed credit given.

Advantages of using trade credit in Kenya a source of finance (reasons why trade credit is popular in Kenya)

1. Most businesses in Kenya lack collateral securities which are necessary to raise other forms of debt finance thus resort to trade credit.
2. it is cheap source of finance because the only cost involved is discounts lost I,e no implicit or explicit costs.
3. most other finances need the borrower to maintain healthy accounts which small businesses in Kenya may not have thus resort to trade credit.

4. The fact that small businesses in Kenya are not known to lenders makes trade credit the best source of finance as they may not qualify for other finances which require that the borrower be known to the lender.

Disadvantages (limitations) of using Trade Credit.

1. The debtor company will undergo the opportunity cost of the discount foregone by the very buying company.
2. This finance is not reliable because in the event of default on the buyer's side the seller cannot give it and this way cut the buyer's credit line which may lead a lot of inconveniences and in some cases stoppages in production or sales of the debtor.
3. It is usually restricted to working capital items and as such may not be available for fixed assets which are important for profitability reasons.

Promissory Note

✓A promissory note is a bill wherein one party promises to pay another party on a specific date and conditions, a specific sum of money. It is a short term source of finance to the company, usually up to 3 months. This type of finance is used when the two parties know each other well. It acts as a source of finance in as much as it can be discounted or endorsed. It can also used as security for loans.

Advantages and disadvantages promissory note

Advantages of promissory note

1. It does not involve a lot of formalities and as such will allow the drawer to obtain finance faster.
2. It is highly negotiable making it a liquid investment which the company can liquidate fast (if the drawee

is of high credit rating)

3. Since it is unconditional the drawer will use the same finance obtained on the strength of the bill without preconditions and restrictions.
4. It does not affect the company's gearing level.

Disadvantages of promissory note

1. It is a very short-term source of finance and as such it may not be profitable as its duration cannot warrant any profitable ventures i.e finance from the bill cannot be invested in profit table ventures.
2. There are possibilities that the bills may be dishonored by the drawee and drawer may have to settle any liabilities incurred thereon.
3. It is a foreign bill of exchange this may delay the finance in that it may require the approval of the central bank before discounting it.

Invoice Discounting (confidential factoring)

This is an arrangement where the selling company discounts its invoices usually with a bank or financial institution and will receive a large percentage of its invoices in cash in advance. Usually it is expensive source of finance and should only be used if the company cannot obtain overdraft finance from commercial banks. The invoice discounter analyse which invoices to discount and in this case he will request the selling company to send original invoices to the customer and a copy to the discounter. The invoice discounter has not only lien on the debts but also recourse to the borrower in which case the seller or borrower will have to pay the discounter should any debtor default to pay his bills on the due date.

Advantages of using invoice discounting as a source of finance

1. it is useful as a solution to short term liquidity problems
2. it does not call for a collateral security and as such it is a flexible of finance to raise.
3. it is easy to raise as it does not entail a lot of formalities
4. Normal credit will be extended to customers as the discounting of invoices does not affect the relationship between the selling company and its customers.

Disadvantages of using Invoice discounting as a source of finance.

1. The discounter has resource to the borrower and in case may debtor fails to honour his obligation then the discounter can turn to the seller to pay such debt and interest on finance advanced to him.
2. It may be an expensive source of finance in particular if the invoices are small and numerous in which case the costs of collecting these may be too high.
3. This type of finance is usually available to those companies whose debtors are highly rated in credit payment point of view thus may be discriminative if a given company has unknown debtors in which case they cannot be discounted.

Similarities between invoice discounting and factoring

1. Both are raised on the account of the company's debtors or invoices.
2. both are expensive sources of finance to the company because discount rates in both case will be higher than the bank rate on borrowed funds
3. both fall in the family (group) of short term sources of finance to the company, thus are aimed at solving the company's liquidity problems

Differences between invoice discounting and factoring

Invoice discounting

1. the bank has recourse to the borrower
2. the borrower keeps the debtor's ledger
3. Chances of bad debts are high and this may increase the cost of the company of using such finance.
4. invoices act more or less as securities for a short term loan
5. the discount rate is usually low

Factoring

1. the factor has no recourse to the borrower
2. The factor takes over the debtor's ledger.
3. The chances of bad debts are minimal and even then these are borne by the factor.
4. The invoices are sold outright to the factors and cannot act as securities for loans.

5. The discount rate is relatively high.

Advantages of leasing as a source of finance

1. It may be a long –term source of finance e.g for land leased for a period of 99 years
2. In case the lease agreement gives the option to purchase the asset after the expiry of the lease term then

Such a company will have known which asset it is taking over, and thus make a good investment decision based on experience.

3. Lease charges are tax-allowable expenses thus will reduce the company's tax

liability.

4. The lessee enjoys the benefits of wear and tear which reduce his tax liability.
5. The company does not risk holding assets which may turn to be technologically obsolete.

Disadvantages of leasing as a source of finance.

1. This type of finance is available for fixed assets and as such does not have provision for working capital which is important in generating sales.
2. the periodic rental charges may outweigh the cost of the same asset in the long-term i.e in the long run the leasee may pay more in rental charges that the cost of this asset.
3. The lessor may not renew the lease agreement and this may put the lessee out of business.
4. It is limited only to those assets which are available from the lessor's business thus is not useful in all financial requirements of the company.
5. Lease finance entails implicit costs e.g maintenance and insurance of the same asset leased which may compound the cost of this finance.

Sale and Lease –Back

This is an arrangement whereby a company which owns some assets arranges to sell the same assets and at the same time agrees with the buyer to lease the same asset back at an agreed rental charge. This type of arrangement is possible if the asset back at an agreed rental charge.

This type of arrangement is possible if the asset is fixed asset whose return must outweigh the cost of the same finance. Also the parties involved must have had an intimate relationship before i.e. they should be acquitted to one another.

Advantages of using Sale and Lease Back

1. The company gets finance in cash and finance in kind which boost its operations tremendously
2. Since the lessor and the lessee are known to each other, this finance may not entail any conditions or restrictions on the part of the lessee.
3. This arrangement does not involve tedious formalities, thus is flexible to raise for financing reasons.
4. The risks of obsolescence shifts from the lessee to he lessor thus will entail less risk of capital loss the lessee.
5. It is easily available i.e faster because the two parties are known to each other.

Disadvantages of using sale and lease back.

1. The company's asset will be removed from the balance sheet which will in essence affect its financial position i.e reflect a bad financial picture.
2. The lessee may not enjoy the benefits of wear and tear as such this will increase his tax liability.
3. The finance is limited to the cost of the asset leased, and cannot be versatile.
4. If it is an operating lease, then it will be used for short-term purpose.
5. It entails implicit costs such as repairs and maintenance costs of the asset leased.

Conditions under which sale and lease back is ideal as a source of finance

1. If the asset is required for seasonal purpose
2. If the asset is technologically sensitive i.e may soon be technologically obsolete.
3. If the asset cannot meet the company's contemplated expansion programmes

4. Where the asset has a tendency of depreciating fast
5. If the asset is not sensitive or central to the company's operations.

Sale of an asset

For companies with assets which are not very necessary for their operations, such assets can be sold to raise finance for the company. These assets should only be sold if the funds from the sale of assets can be invested in ventures which can generate returns higher than those the asset sold was generating.

Hire Purchase

This is an agreement whereby a company acquires an asset on hire by paying an initial installment usually 40% of the cost of the asset and repays the other part of the cost of the asset over a period of time. The source is more expensive than bank loans. Companies that use this source of finance need guarantors as it does not call for collateral securities to raise. The company hiring the asset will be required to honour all the terms of the agreement which means that if any term is violated then the hiree may repossess the asset e.g in Kenya if the hirer fails to pay any installment before he clears 2/3 of the value of the assert the hiree may reposes it. Companies that offer this finance in Kenya are;

i)ational industries E.A ltd ii)Diamond trust (K) ltd.

iii) Kenya Finance Corporation iv) Credit Finance Co. Ltd.

They avail hire purchase facilities for such assets as;

1. plant and machineries
2. vehicles
3. tractors
4. heavy transport machines
5. aircrafts
6. Agricultural equipments.

Conditions under which Hire Purchase is an ideal source of finance.

1. If the asset is so expensive that there is no single source of finance that can finance it e.g aircrafts.
2. Under conditions of credit squeeze or restrictive credit control.
3. If the company cannot obtain securities to cover a loan to finance this type of asset.
4. if the asset will meet the company's future expansion programmes
5. If the asset is not very sensitive to technology.
6. If the company is highly geared and cannot borrow to finance such an asset.

Advantages of using hire purchase as a source of finance.

1. It does not call for securities in acquiring it an as such it is a flexible source of finance.
2. this finance is a long-term finance and as such it can be used to acquire fixed assets which are very essential for the company's profitability
3. It is useful under conditions where the company cannot raise finance due to the amount involved i,e if it is substantial.

Disadvantages of using hire purchase as a source of finance

1. it is an expensive source of finance and in most case the interest on it may outweigh bank rates and at the end of the hire purchase contract the total installments paid may double the cost of the asset.
2. it involves a lot of formalities to obtain e.g legal implications and accounting formalities prior to

Signing Hire Purchase Agreement.

1. the hiree has a lien over the asset until the final installment is cleared in which case if the hirer defaults the hiree may repossess the asset in particular if the hirer has not paid 2/3 of the value of the asset this will entail a capital loss to the hirer once the asset is repossessed by the hiree.
2. It may be difficult to get a guarantor for expensive purchases e.g huge machinery as their value may be beyond the financial capabilities of a number of guarantors making it difficult to acquire heavy fixed assets necessary for the company's operations.
3. By not purchasing the asset outright, the hirer foregoes discounts which will be an opportunity cost as a result of hire purchase.
4. Hire purchase is limited to those assets which are available with the hiree and as such may not cover all areas of the company's financing needs e,g for working capital.

Institutional Investors

- ✓ These are body corporates which avail finance for long term use, and avail their finances though purchase of shares in the stock exchange, debentures and through mortgage finance to deserving financially strong companies. Companies that avail this finance include trustee companies, pension organizations, insurance companies, and investment companies' e.t.c. these avail finance in large quantities and usually do this to earn a return on the same finance or to acquire ownership in those companies so as to safeguard their investments. Companies which are financially strong will attract institutional investors.

Advantages of using finance from institutional investors.

1. it is cheaper to raise this finance because it will be available in large sums and from a few companies i.e flotation costs will be low.
2. These institutions using their financial experience can advise the company in its investment activities so as to utilize such finance more profitably.
3. the cost of servicing their finance is low as these will be paid with a few cheques unlike the case with

   a company having a large number of shareholders with will issue many cheques this increasing the cost of servicing this finance.

4. These investors will come to the rescue of the company permanent finance if they purchase ordinary shares and this will be used in long term ventures.
5. Being major shareholders they will contribute valuable ideas during the annual general meetings and such ideas may improve the running of the company benefiting from such finance.

Disadvantages of raising finance from institutional investors.

- ✓ They may disrupt the company's running through the various ideas they would want the company to implement which may not be in the interest of other shareholders.
- ✓ They influence the company's dividend policy and as such this may be to the detriment of small shareholders.
- ✓ In case they decide to sell their shares this will lead over supply of shares which will lower the price of the company's shares in the stock exchange; this may erode the company's credibility.

Factors affecting the type of finance sought.

Finance to be raised by accompany should be at a cost than the return expected from the project where such finance has to be invested , for this reason two types of costs should be considered before raising any finance:

1. **Explicit costs**

These are costs that the company has to pay directly to the lenders for using their money this could be either interest payable for using debt finance or dividends payable for using share capital; these two costs are paid to retain such finance in the business.

2. **Implicit costs**

These are costs which are not necessarily paid to lenders directly but which must be paid to obtain finance these include such costs as; insurance of the security, its maintenance costs and floatation costs for raising share capital. These two costs should be weighed against benefits to be derived from the use of such finance. **a) Need for finance.**

i) A company may raise finance to finance its working capital needs, this finance is known as bringing finance such as finance will be raised form such sources as overdraft and short-term loans.
ii) To acquire a fixed asset this will be raised from long-term sources of finance
    d) ordinary share capital
    e) preference shares capital
    f) long term debt financed or sell of debenture
    g) hire purchase finance
    h) lease finance et.c

3. The company's gearing level.

✓The gearing level will influence the company's ability to raise further finance in as much as highly geared companies are viewed as highly risky as they have used more debt finance than equity finance. This exposes it to chances of receivership and consequently liquidation as creditors can recall their money at short – notice. This means that high gearing will not allow the company to raise debt finance as creditors will be reluctant to lend to a highly geared company. Also such a company cannot raise equity finance as the demand for its shares will be low due to such indebtedness.

4. The size of the company

The size of the company will determine which finance it can raise. This is so because small companies may not be able to raise difference finances due to the following reasons;

a) such companies will find it difficult to have access to different finances because:

i) They may be unknown to the lenders and as such their credibility will be questionable.
ii) Such companies may not have the necessary securities to pledge in order to raise various finances available in the financial market.
iii) They may be ignorant of the various finances available on the financial market.

b) They may not meet the requirements of the stock exchange so as to float their shares e.g for a company to go public such a company must have a minimum of shs. 2,000,000 or such £ 100,000 which very few companies may have.
c) Lenders also discriminate against small companies in their lending activities in particular due to ownership of small companies most of which are sole traders whose life span is equivalent to that of the owner, this means that they viewed as highly risky areas of investment.
d) Big companies not only are they able to raise share capital, but also can sell their debentures even under credit squeeze, which condition usually makes it difficult for small companies to raise finance.

Repayment Patten

These include the repayment of principal and interest. Ideally a company's repayment of principal should be spared over such a period as can enable the asset and or the project financed to pay back. In case of interest the company.

Review Questions

1)Explain the main sources of finance for businesses 2)What are the advantages of equity finance?

3) Describe the requirements a company must meet before it can raise debt finance
4) Explain Limitations of debt finance/ disadvantages of using debt finance to the company
5) Explain reasons why factoring is not popular in Kenya
6) What are the advantages of using debenture finance
7) Advantagesof using debenture finance to ordinary shareholders. 8)Explain the advantages of sale-lease back

CHAPTER SIX

6.0 BUSINESS PLAN DEVELOPMENT

In this chapter, we shall discuss the structure of business plain which entails business description ,product/ service description ,definition of the product or service ,marketing plan, organizational and management plan ,financial statement (personal) ,executive summary and appendices.

General Objectives

By the end of the course the learner should be able to develop a business plan.

Specifically the learner should:

i) Explain the motives for capital expenditure and the steps followed in the capital budgeting process.

ii) Define business plan iii) Explain the importance of business plan; iv)

Explain the components of a business plan

6.1 Planning for the Business Venture

- ✓ Planning is a predetermine cause of action. It is a statement outlining an organizational mission and future direction, short and long term performance, targets and strategies
- ✓ Planning as a formal document contain a mission statement description of the firm's goods and services, a market analysis, financial projections and description of management strategies together with policies for attain the goals.
- ✓ Planning is a process of determining the goals and objectives of the enterprises for a future period of time developing the strategies guiding the firms operational and utilizing the available resources towards achieving the set goals and objectives.

- ✓ Planning involves; ○Predicting into the future by defining the enterprise mission statement ○Determining the organizational goals and objectives ○Formulating strategies towards achieving and objectives. ○Assigning of responsibilities and functions ○Allocating resources ○Monitoring and evaluation ○Taking corrective action or re-designing the original.

Need for Planning

- ✓ Planning is the cornerstone and backbone of management.
- ✓ It covers all the functional levels and activities of the entrepreneurs/ enterprise.
- ✓ It involves predicting and projecting the future and making adequate arrangements on how to reach there.
- ✓ Planning helps entrepreneurs in the following ways.

- o To develop the most effective way of achieving maximum growth.
- o To properly informed about the competitors and the able to predict their next cause of action ○To meet up with the consumers needs and income ○To meet up with the frequent changes in the market ○To be acquitted with the market forces of fluctuations. ○To have adequate knowledge of the financial requirements of the business.

The planning function

- ✓ The planning function covers all activities of the business i.e finance, sales, marketing, personnel management, research and development.
- ✓ Planning functions involve formulation of the enterprise goals, objectives, strategies, policies standards, budgets, procedures and programmes to be embarked upon towards fulfilling the business mission statement.

The components of planning function

a) Objective - is the measurable, verifiable, specific and attainable

- The objective gives focus and direction to a business mission statement.

b) Strategies - are a scheme & methods which an entrepreneur hopes to deploy in order to move the enterprises from it's present position to arrive at its targeted goals

c) Policies - are overall guides to action which must be followed consistently for the achievement of organization goals

- they act as rules & regulations which an entrepreneur imposes on the enterprise in order to achieve the major objectives.

d) Standards - are a planning function that permit an entrepreneur to use values as forms (acceptable standards) when certain things have been adopted as norms in the entrepreneur, they acts as control measures for evaluation of performance.

e) Budgets – are quantitative expressions of future cause of action. They usually show cash flow of an organization and act as a guide especially for the entrepreneurial spending i.e ○sales budgets ○purchases ○experiences ○cash

f) Procedures - help and entrepreneur to chart the sequence or related tasks to be performed for the accomplishment of the enterprises objectives

- it enables the entrepreneurship determine how a particular task will performed and when it should be done.

g) Methods reveal the manner of performing specific tasks. It mainly Prescribes how one step of a procedure should be carried out.

h) Programme - are a set of activities undertaken to accomplish objectives e.g a Production programme may specify a production objective

Production standard or even production policies.

6.2 Business Plan

Definition: a business plan is a document that convincingly demonstrate that your business idea can sell enough of its products and services so as to make products and services so as to make satisfactory profit and attractable to potential financiers.

In other words a business plan in a road map you can follow to start and manage a successful business. It shows step by step on how to start, fund, manage, monitor, and evaluate a successful business.

Business Plan as a Tool

1. Objective and goal creating tool
2. management tool
3. training tool
4. promotion tool
5. fund raising tool/capital
6. staffing tool
7. monitoring and evaluating tool
8. business creation tool
9. weakness/ omissions identifying tool
10. measuring performance
11. for motivation

Why Prepare a Business Plan

1. To avoid silly mistakes
2. It defines and focus business objectives and goals
3. As a tool for fundraising, marketing, monitoring, evaluation, staffing
4. To be realistic on our intentions
5. To clearly communicate your vision/ ideas to other within and outside.

Who should writes a Business Plan?

1. should be written by entrepreneur since he/ she is the owner of the business idea and is the custodian of the vision
2. Can be written by consultants and employees.

What is a "good" Plan?

1. a good plan should be dynamic document which should be available for reference for decision making evaluation and future plans
2. it should clearly communicate visions and ideas
3. should show the evidence of understanding of target customers
4. Appealing to the potential financier.

Benefits

1. It forces would be entrepreneur to establish written goals and objectives for their proposed businesses.
2. it enables potential entrepreneur to assess the viability of their business opportunity on paper
3. it assist in identifying the potential customers, marketing opportunities, pricing strategy, promotional activities, distribution strategy and a competitive conditions needed for business success.
4. it identifies the number of employees needed, the skills they should possess, the task they will perform and the methods of remuneration to be adopted.
5. it establishes the financial needs of a business and suggests the possible sources of financing
6. it helps to identify critical factors for successful entry and growth of a businesses in a given market place.

Components of a business plan

Business plans include details under the following main sections;

1. Executive summary
2. Business description
3. Marketing plan
4. Competitor analysis
5. Management plan

6. Business operation (production/ service, delivery plan)
7. Financial plan

8 Appendices

Executive Summary

N/B. This should be done last

It includes the;

1. type of venture
2. products/ service to be offered ‘
3. how unique
4. it there a major opportunity for products/ services
5. the business status/ stage
6. legal form of business
7. location of business
8. target market
9. % share of market
10. competitor strength and weakness
11. strategy of entering the market
12. managing staff and their qualifications and experiences
13. Time frame for accomplishing your goals.
14. how mach money needed for starting and running the business
15. what type of financing are seeking
    a. loan
    b. grand
16. the strength of the business that will make it succeed
17. future plans of the business

Business Description

For a new startup business it will include

1. objectives, vision, mission statement and goals

2. specific objectives (SMART)
    a. service objective (qualify of service)
    b. profit objective (actual % and amount targeted)
    c. growth objective
    d. social objectives (corporate responsibility)
3. type/form of business venture
4. date of commencement
5. physical location
6. advantages of the location
7. postal address, physical address/ street/buildings/ road
8. telephone contact/ email/ fax/website
9. brief history of the business (company)
10. experiences of the owners

Marketing Plan

1. description of the target market (customer segment)
2. description of products/ services
3. prices of products/ services
4. distribution of products /services
5. promotion of productions/ services

Competitor Analysis

1. internal analysis both strength and weakness
2. external analysis (opportunities and threats)
3. environmental analysis (political, social, economic, regulatory factors that can impact on your business)

Management and Organization

3. key management staff
    a. their positions/ designations and responsibilities
    b. qualification and experience
4. other staff

    a. their positions/ designation and responsibilities
    b. qualification and experience
    c. Their number.
5. Human resources practices
    a. Staff recruitment
    b. Motivation ‘
    c. Training and development
    d. Reward and recognition
    e. Staff appraisal

Business Operation

1. Product/service development design and facilities.
2. Description of premises
3. ownership status
4. renovations/ facelifts/medications
5. products and services to be offered
6. machinery, tools, equipment and other facilities required
7. implementation
    a. procurement
    b. repair and maintenance
    c. repair and maintenance
    d. future expansions
8. legal requirements: business name, tax compliance, labour laws, by-laws e.t.c
9. monthly overhead expenses
10. professional and support services

Financial Plan

1. pre-operational costs (costs before start-up
2. working capital
3. projected monthly cash flow statement
4. projected annual cash flow statement
5. projected profoma income statement
6. projected balance sheet

Appendix

1. brochures and advertisement materials
2. maps and photos of location
3. copies of lease and contracts
4. company certificates of registration
5. list of assets available as collateral for a loan
6. copies of licences
7. research and marketing results
8. any other materials needed to support your business plan
9. list of equipment owned or to be purchased

How does Potential Lenders and Investors Evaluate the Plan

- ✓ Potential readers or evaluators should reflect on the strengths of management and personnel, the product or service and the available resources.
- ✓ Suppliers who may want to see a business plan before signing a contract together with customers who may want to see the business plan before buying the product or service and the available resources
- ✓ Suppliers who may want to see a business plan before signing a contract together with customers who may want to see the business plan before buying the products pay more attention to the i) experience of the entrepreneur ii) Market projections
- ✓ Lenders will primarily be interest in the ability of the new venture to pay back the debt of together with the interest within a designated period of time.
- ✓ Banks want facts with an objective analysis of the business opportunity and all the potential risks associated with a business
- ✓ Lenders forcus on the 4cs of credit i.e

  i.Cash flow

  ii.Collateral iii.Character

  iv.Contribution of equity

- ✓ The business plan must therefore reflect the entrepreneurs credit history, the ability of the entrepreneur to meet the debt and the interest payable (cash flow) the collateral or tangible assets being secured for the loan and the amount of personal equity the entrepreneur has invested in the business.

- ✓ Investors on the other hand place more emphasis on the enterprenuers character then lenders.
- ✓ Investors want to make sure that the entrepreneur is complaint and willing to accept this involvement.
- ✓ They also demand a high rate of returns and will therefore focus on the market and financial projections
- ✓ In preparing a business plan it is important for the entrepreneurs to consider the needs of external sources and not merely provide their own perspective.

Presenting the Business Plan

- ✓ It is often necessary for an entrepreneur to orally present the business plan before and audience of potential investors – in this case the entrepreneur is expected to provide a short presentation of the business plan.
- ✓ The entrepreneurs are expected to sell their business concept in this short period – try and persuade potential investors that his is a good investment
- ✓ The focus of such presentation is why this is a good opportunity – an overview of the marketing program.
- ✓ Concluding remarks might reflect the recognized risks and how the entrepreneur plans to address them.
- ✓ Unlike oral presentation –written presentation requires the entrepreneur to consult where necessary the services of lawyers accountants, marketing consults and engineers in preparation of the business plan.
- ✓ The plan must give a detailed account of the needs of the expected readers.

Information Needs

- ✓ Before committing time and energy to preparing a business plan, the entrepreneur should do quick feasibility study of the business concept to see whether there are possible barriers to success.
- ✓ The information obtainable from the many sources should focus on

i.marketing ii.goals and objectives

iii.finance

iv.production

Goals and

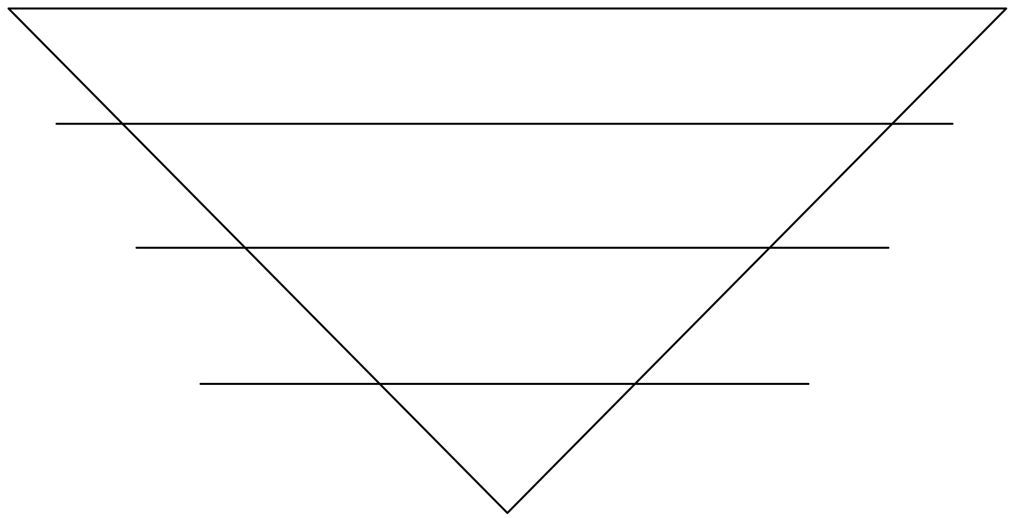
Objectives

- ✓ Before beginning the feasibility study the entrepreneur should clearly define the goals and objectives and also provide frame work for the business plan, marketing plan and financial plan.
- ✓ Goals and objects that are too general or that are not feasible make the business plan difficult to control and implement.

Market Information Needs

- ✓ One of the initial and important elements of information needed by the entrepreneur is the market potential for the product or service
- ✓ In order to ascertain the size of the market it is important for the entrepreneur to define the market e.g the consumer group men, women, youths e.tc.
- ✓ The consumers income – high or low- are they rural or urban deadlier.
- ✓ The education level is another important aspect of consideration
- ✓ A well defined target market will make it easier to project the market size and subsequent market goals.
- ✓ In order to build a strong marketing plan with reasonable and measurable market goals and objectives the entrepreneur will need to gather information on the industry and market.
- ✓ Most entrepreneurs have difficulty with this stage and do not of tern known where to begin. The best way to start is to first visualize the following process of gathering market information.

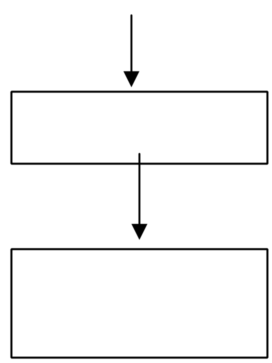
An upside –down pyramid approach to gathering information (for a food business)



Local competition

Strengths

& weakness



- ✓ This means that we start with very broad –based data and information and work down until we develop a positioning strategy and quantifiable goals and objectives.
- ✓ We begin the process by evaluating the general environments trends – this would include household income trends. ○Population shifts

  ○Food consumption habits and trends ○

  Travel trends and ○Employment trends

- ✓ The next step is to assess the trends in the national food service industry- here the points of interest would be; ○Total food sales ○The commercial restaurant sales e.t.c.
- ✓ This first two stages focuses on the national market and the located
- ✓ This consists of the general local economic trends and as assessment of the local food industry
- ✓ The final step is an analysis of the local competitive environment by analyzing each competitors strengths and weaknesses.
- ✓ Once this analysis is completed, the entrepreneur is ready to clarify the product of service he/she would offer, the actual market positioning in the competitive environment and the market objectives – in order to form the marketing plan.

Writing of a Business Plan

- ✓ The time of writing a business plan depends on the experience and knowledge of the writer (entrepreneur) as well as the purpose it intends to serve.
- ✓ It should be comprehensive enough to give any potential investor a complete picture and understanding of the new venture
- ✓ The following is a simple outline of a business plan.

Outline of a Business Plan i) Introducing page; ○Name and address of the business ○Names and addresses of the principal owners ○The nature of the business ○Statement of financing needs ○Statement of confidentiality of the report

- ii) executive summary
- iii) description of the venture (business)
    - a. the product/services offered
    - b. the size of the business
    - c. the background of the entrepreneurs
- iv) the production plan
    - a. the manufacturing process
    - b. the physical plant and machinery
    - c. the suppliers
- v) the marketing plan
    - a. the pricing

b. the distribution
c. the promoters

vi) competitors analysis vii)Management plan viii) Financial plan ix)Appendices

Introductory page

- ✓ This is the title of cover page that provides a brief summary of the business plan's content. The introductory page should contain the following ○The name and address

○The names of entrepreneurs (Tel, Fax , Email , Box e.t.c) ○A description of the company and the business nature ○The amount of finance needed ○A statement of the confidentiality of the report.

Executive Summary

- ✓ This section of the business plan is prepared after the total plan is written – normally to maximum of two pages.
- ✓ It should stimulate the interest of the potential investor and therefore should not be taken lightly
- ✓ The executive summary should be concise and convincing, addressing issues such as ○The business concept or model ○The unique aspects of concept ○The individual starting the business ○How the money will be made and how much
- ✓ Any supportive evidence that may give it strength are included
- ✓ The section is only meant to highlight factors and provide a strong motivation to the person reading the plan.

Description of the Business

- ✓ The description of the venture should be detailed so as to enable the investor to ascertain the size and scope of the business
- ✓ This sect ion should begin with the mission statement and vision of the business venture
- ✓ The statement basically describes the nature of the business and what the entrepreneur hopes to accomplish
- ✓ The definition will guide the firm through long –term decision making

- ✓ After the mission statement a number of important factors that provide a clear description and understanding of the business venture should be discussed.
- ✓ Key elements are the
    - ▪ Products or services
    - ▪ The location and size of the business ▪The history of the venture.

Production Plan

- ✓ The plan should describe the complete product. If some or all of manufacturing process is to be subcontracted
- ✓ The plan should describe the sub-contractors, including location, reasons for selection, costs and any contracts competed.
- ✓ Others include – manufacturing operations and layout the raw materials the suppliers, costs capital equipment e.t.c.

Operation Plan

- ✓ This section goes beyond the manufacturing process and describes the flow of goods and services from production to the customer
- ✓ It includes storage, shipping, control procedures, customer support services ✓Others include renovations, product service, machinery and tools et.c

Marketing Plan

- ✓ The marketing plan- is an important part of the business plan since it describes how the product or service will be distributed, priced and promoted.
- ✓ Marketing plan – is an important part of the business plan since it describes how the product or service will be distributed, priced and promoted
- ✓ Marketing research evidence to support any critical marketing decisions as well as forecasting sales should be described in this section.

Organization Plan

- ✓ The organizational plan in part of the business plan that describes the ventures form of ownership
- ✓ That is, proprietorship, partnership or corporation

- ✓ The details the shares of stock authorized, share options as well as names and resume of directors
- ✓ It details the organizational structure.

Financial Plan

- ✓ Is an important part of business plan since it determines the potential investment commitment needed for the new business venture and indicate its economic feasibility

Appendix

- ✓ The appendix of a business plan generally contains any back-up materials that are necessary in the text of the document. Reference to any documents in the appendix should be made in the plan itself.

Review Questions

1) What are the components of planning function?
2) What is the importance of preparing business plans?
3) How do Potential Lenders and Investors Evaluate the Plan
4) Describe the contents of a good business plan

CHAPTER SEVEN

7.0 CURRENT ISSUES IN ENTERPRENEUSHIP

In this chapter we shall discuss concept of business ethics, social responsibility, and environmental issues in business, taxation trade exhibitions, e-commerce globalization, business outsourcing and HIV/AIDS and entrepreneurship.

General objectives

By the end of the course the learner should be able to identify and explain current issues in entrepreneurship. At the end of this lecture the learner should be able to:

i) Explain the concept of business ethics process.
ii) Define Social responsibility
iii) Explain the role of business responsibility in entrepreneurship iv)Discuss environmental issues in business
v)Explain the concept of business outsourcing
vi)Explain the impact of HIV/AIDS on entrepreneurship

7.1. Business Ethics

1. Ethics: this is a set of moral principal that govern the action of an individual or group
2. The principal should play a significant role in guiding the conduct of manager's entrepreneurs and employees in the operation of the business.
3. Business ethics is concerned the right and wrong in the practice of entrepreneurs (business)
4. It addresses both the body of principals governing business practice with emphasis on the product the consumers and the entrepreneur's moral concepts.

Sources of Moral Principles

i) Doctrines: primarily religion & politics that have there over years since the beginning of the history e.g

- the mosaic ten commandments
- Athenian principle of democracy - The British concept of individual justice - The bill of rights of UK.

ii) **Value and norms**

✓ Values and norms of a given society are related to religious tendencies, customs and traditions that vary from society to society.

iii) **Code and standards**

✓ Codes and standards formulated by a particular professional groups and business organizations.

✓ The entrepreneur needs to be critical in all his dealings i.e conduct and his dealings with others should be within acceptable business limits as established by business principals, manners and values.

Important Aspects of Business Ethics

1. Competition

✓Competition is regarded as healthy and fair when carried on within acceptable business limits as established by business principals, manners and values.

Unfair competitive aspects

i) Reduction of prices of goods and services to very low levels with the object of putting competitors out of business.
ii) Explaining the ignorance or the consumers as on quality and quantity.
iii) Grouping together with a view of lowering the prices in order to push other out of business.

iv) Bribing – in order to get business contracts prevents fair competition.
v) Gaining control over the supply of any commodity in order to create an artificial scarcity.

2. Pricing

- ✓ An entrepreneur it is necessary to give fair prices of goods and services
- ✓ Over pricing is likely to put customers away while under pricing might not be good for competitors.

3. Customer/Supply relations ○Ethical business owners treat customers and suppliers with fairness and consideration.

○Honestly and courtesy is required in dealing with customers e.g ▪Preferential treatment.

4. Goods & service

- ✓ The products and services offered by customers must meet the quality and quantity requirements

5. Employee treatment

- ✓ Employees should be treated ethnically e.g ○Working for reasonable number of hours ○ Pleasant working conditions

○Listen to their complaints and give satisfactory answers ○No discrimination

6. Product promotions ○The entrepreneurs should make sure that all promotional activities are ethnically presented i.e
   - ▪ No mis- representation
   - ▪ Packaging of the right products
   - ▪ Fair promotional method which confirm to good morals.

7.2 Aspects of Management Ethics

1.Organization ethics e.g code of ethics

- ✓ Organization ethics refer to the moral principals or policies set by the organization with guide behaviour in the organization with guide behaviour in the organization which guide behaviour in the organization referred to as code of ethics
- ✓ The code of ethics should guide the behaviour of all persons in an organization referred to as the code of ethics.
- ✓ The code of ethics should guide the behaviour of all persons in an organization and it's effectiveness include. i)starting the code ii)Appointing ethics committee.

iii) Holding regular updates on the codes

✓The entrepreneur should maintain good codes of conduct in order to enable him deal with.

i)legal issues ii)government

regulations iii) social

pressures

2. Individual ethics

- ✓ Involve personal attributes such as honesty avoiding criminal Acts, willingness to perform e.t.c
- ✓ The individual ethics in influenced by determined by religious political and family backgrounds.
- ✓ Together with the standards of organization one is working in.

3. Social ethics

✓ Involve ethical issues which relate to;

i)Environmental awareness ii)Public

relations iii) Fair competitions

4. Government obligations

✓Involves ethical practices to statutory laws and regulation such as

i. Payment of taxes
ii. Making annual returns e.g NHIF, NSSF iii.Insurance e.t.c

7.3 Role of an Organization (entrepreneurs) to Stakeholders

✓Stakeholders include the society, employees and the government.

i) The role of the business enterprise to society

- ✓ To provide employment
- ✓ Conservation of the environment
- ✓ Develop social amenities e.g schools ii) Role of the society to the organization ✓A source of labour
- ✓ Raw materials to the organization ✓Market for the products and services ✓Capital to invest in the business.

iii) Organization role to employees

- ✓ Good compensation (wages and salaries)
- ✓ Good working conditions
- ✓ Training programmes
- ✓ Recreation facilities iv) Role of employees to organization
- ✓ Creativity and innovation
- ✓ Time management
- ✓ Working to set goals
- ✓ Following rates and regulations
- ✓ Respecting other co-working and management.
- ✓ Working to set goals
- ✓ Following roles / instructions
- ✓ Roles of organization
- ✓ Job creation
- ✓ Infrastructure
- ✓ Tax
- ✓ Foreign exchange through exports

Tools of Ethics

Ethical language

- ✓ The key terms of ethical language are values, rights, duties and roles
- ✓ Values are permanent desires that seem to be good in themselves e.g peace
- ✓ Values are answers to answers to questions of why? E.g why should managers behave ethically?

Rights

- ✓ It's a claim that entails a person to do something. While a duty is an obligation to take responsibility e.g to pay tax.

How Companies/ Organizations improve their Ethical Standards ✓Having codes of conduct

- ✓ Forming ethical committees
- ✓ Social audience/ judicial courts
- ✓ Enhancing control measures i.e rewarding, punishment. This will motivate people to work ✓Training ethics to people ✓Using role models.

Discipline

- ✓ The term discipline simply means that members of a group confirm to the rules and regulations framed by an organization
- ✓ Discipline is the orderly conduct of affairs by the members of an organization who adheres to its regulations because they desire to corporate harmoniously in forwarding the end which the group has in view, and willingly recognized that, to do this, either wishes must be bought into a reasonable union with the requirements of the group in action.

Note;

- ✓ Discipline means ordering i.e the opposite of confusion.

- ✓ Discipline does not merely mean a strict and technical observance of rigid, inflexible rules and regulations
- ✓ Discipline simply means working co-operatively and behaving in an orderly and normal way as responsible person would expect and employee to do. ✓Discipline is the training that corrects mould strengthens or perfects ✓Discipline is the control gained by enforcing obedience. ✓Discipline requires punishment.

Code of Ethics

T he term ethics refers to a general idea or belief t hat influences people's behaviour and attitude.

A code of ethics refers to a set of laid down moral rules or principles which govern behaviour on deciding on what is right and what is wrong,

- ✓ Ethics from the foundation of the people of an organization as they make decisions or internally and with other stakeholders

The basis of ethical standards

- ✓ Three main elements from a basis of ethical standards ○The law
- ✓ Law defines for society as a whole, which actions are permissible and which are not
- ✓ The law establishes the minimum standards of behavuiour ✓Actions that are legal may not necessary be ethical ○Policies and procedures of the company.

N/B Research suggests that merely a half of an organization have a written code of ethics

These serve as specific guidelines for people as decisions are made.

○ Morale stance

- ✓ This is the stance or the position of an individual taken when faced with a dilemma may not be governed by moral rules.
- ✓ Such behaviour is influenced by the values individuals learn from childhood schools and family and church.

○ Training

- ✓ A major determinant of ethical behaviour is training.

Note" you get a good adult by getting the right child and teaching him right things.

Ethical principles that guide behaviour

1. honesty; which refers to being truthful, sincere, forthright forward and frank
2. integrity – that is being principled, honorable, upright and courageous
3. act with convictions
4. do not be two faced
5. do not adopt an " End justifies means philosophy
6. Promise keeping; being worth of trusting, keep promises, fulfill commitments and abide by the spirit as well as the intent or aim of an agreement.
7. fidelity- being faithful and loyal to family, friends, employees and the country, being confidential
    a. Safeguard the ability to make independent professional judgment by avoiding undue influence of conflict.

Establishing Ethical Standards in an Organization

✓ although there are no single standards for ethical behaviour managers must encourage employees to be familiar with various tasks for judging behaviour using; ○utilitarian principle

- ▪this refers to choosing the option that offers the greatest number of people
- ▪

○ Kant ‘s categorized imperative

- Act such that the action taken under the circumstances could be a universal rule of behaviour ○The professional ethics
- Take only those actions that a disinterested panel of professional colleagues would view as proper

○ Golden rule

- Refers to treating other people the way you’d like them treat you.

○ The television rule

- Would you and colleagues fell confortable explaining your actions to a national T.V audience.

○ The family rule

- Would you feel comfortable explaining to your children your spouse or your parent why you took a certain action?

Ways of maintaining respectful conduct by office employees

i) Respect seniors by adhering to their requirements in terms of duty, social life.
ii) Respect of colleagues – recognize other employees and respect then to create a friendly working environment
iii) Respect your work simply because it sustains you and do what is expected of you.
iv) Respect visitors so as to get a positive image of the organization, treat them with a lot of respect.
v) Respect customers and clients.

Situations of sexual harassment and discrimination

i) indecent dressing is a common cause and it is be that both men and women dress in a way not provocative to others in terms of thought and feelings
ii) sexual favour- this can be in form of seniors asking for sexual favouor so that they can give promotion transfers e.t.c or

a.Junior staff offering such to get promotions and transfers.

iii) Use of obscene language

7.4. Social Responsibility

- ✓ Refers to the roles undertaken by business organization on the surrounding environment.
- ✓ It is the liability the organization undertakes to be called upon to account for the conduct that affects communities or the society at large
- ✓ Organizations are constraint in their conduct by legislation which in essence affects their relationship with stake-holders, employee's suppliers, customers the society at large and the environment.

The Stakeholders

- ✓ Therefore business organizations have social responsibility to a number of groups (stakeholders) who include the society, employees and the government.
- ✓ The idea behind the stakeholder's concept is that there are certain groups which have specific interest in a business. The interests may differ from one group to another and can be classified into three main groups.

a) Internal stakeholders (employees)

- ✓ This evolves on the objectives of employees and management who are bound to have an influence on how the organization is run- they are likely to be interested in.

iv) continuity of employment

v) the growth of the organization in order to share its prosperity vi) personal esteem arising with this success vii) Individual interests and goals.

b) Connected stakeholders

- ✓ Shareholders are not part of the organization itself, except in the case of managers and staff who hold equity in the company. They will have distinctive interests in the business, such as

  i. A return on their investment in the form of dividends and an increase in the capital
  ii. Concerns that the business performs within the law and reasonable ethical parameters
  iii. Participation in decision-taking through exercising rights to attend the annual General meeting and vote.

- ✓ The organization's bankers will have specific concerns relating to the financial performance of the company, so that any short and long-term financing will be repaid with the minimum of risk. If the bank provides finance for a company, it will also wish to ensure that is kept informed of the company's financial condition.
- ✓ The customers of the enterprise require a good quality goods and services at the right price. They also want to have access to products through convenient, low cost distribution channels. In addition, businesses are seeing increasing evidence of consumerism – customers being more demanding of enterprise not only in what they manufacturer using child labour in Asian countries is evidence of this- not only did it impact on the manufacture, but it had a major effect on perceptions of large football league teams buying the merchandise.

i.Ongoing and mutually beneficial business relationships
ii.Being paid in time.

b)External stakeholders

- ✓ External stakeholders are those generally unconnected with the business but who nevertheless have an interest in its activities. This category includes virtually everyone else.

The government seeks compliance with legal requirements as well as; ✓Ongoing creation of employment and wealth.

- ✓ Revenues in the form of income tax, capital gains tax, corporation tax, national insurance contributions, value added tax and excise duties.
- ✓ Information, such as statutory company return and export/ import information for the department on Trade and Industry.

Local authorities

- ✓ Have a specific concern with the economic activity that can be brought to their catchments area. They will also be interested in revenues though local taxation. A wider concern is the impact of the business on the local environment.
- ✓ The competitors of the business with to ensure that there is fair competition and that all businesses operating in a sector are behaving ethically and in a climate of mutual respect.

Importance of Enterprise social Responsibility

2. Enhance business relations with the society. Just as a society depends on business organization for goods and services, so business depends on society.

   ✓When business participate in social responsibility. It creates acceptance by the society as a whole and as such; it will create a good working conditions that will enable them to work for the benefits of their organization.

3. Recognition of the society's good will. By engaging in social responsibility, the business organization is appreciating is appreciating the fact that it is the society as a whole that has enabled their continual existence.
4. Supplement governments effort in development organization also have a relationships with the government at the local, state and federal levels. By participating in socially responsible activities that relates to national development such as buildings of schools or providing training activities to members of a society, the business organization are helping in the governments efforts in development.
5. Means of waste management- business organization also acts as means of waste management because they ensure that they participate in a clean environment,.
6. They ensure that they keep the environment safe for all in the society hence they act as a means of waste management. They also help in waste management by recycling waste products.

Social Concerns of an Entrepreneur

Protection of the environment-

The environment has over the years become increasingly common within the business organization agenda, promoted by a consumer interest in the environment impact of business actions.

- ✓ Business enterprises considers now they impact the environment (how their activities influence the environment) and how the government influences their activities.
- ✓ Most business enterprises participates in activities that ensure the following
- ✓ That the environment is polluted as little as possible
- ✓ That they adopt preventive measures (gives due consideration to the environment in the early stages of the activity) ✓That law materials are used economically.

Participation in community work:-

- ✓ The immediate areas play a very importance part in the creation of an organization, its reputation, and its continued operation. The business enterprise are concerned with active participation in community development programmes like welfare programmes for the aged, supporting of activities by providing educational, recreational, cultural, health, transportation, welfare and housing facilities and welfare and welfare programmer for the handicapped and undernourished in the community.

Gender issues

- ✓ Business organization also strive to participate in gender based issues which is a historical problem. They do this by ensuring that they employ both men and women in their organization and that the promotions at work are based on merits not on the fact that one is a woman or a man. Since women in activities that will ensure that they ensure that hey are empowered i.e creating training programmes for women and providing funds to the women to start small businesses. They also participate in programs of gender based violence and female genital mutilation by funding such programmes.

Provision of quality goods and services.

- ✓ The business enterprises are also concerned with the quality of goods and services that they provide to the market. They ensure the goods and services are safe and are of the correct standard and not defective. They do this by conducting ample research before introducing the product into the market. They also ensure that any complaints by the consumers are attendant to and remedies made. Most business enterprise also educate consumers on their products and they also avoid misleading adverts.

Ethical Business Practices

- ✓ Ethics is a major factor in the social responsibility of business. Ethical philosophy if a branch of philosophy that is concerned with the judgments of the rightness or wrongness of an act. The aim of professional or business ethics in the protection of professionalism, human rights, integrity of character, and good service. In general, the issues considered in such code of ethics consists of;

a) Honest – in this respect, it is necessary that facts are presented fairly and accurately.
   Claims made about products or services, even in the

b) Fairness – every one whom you deal with should be given appropriate consideration. This includes workers, customers, suppliers and others with whom the organization interacts.
   a. Loyalty- this is in terms of loyalty to other stakeholders i.e customers,
   b. Workers, n suppliers' e.g.

c) Confidentially – this is especially important for service industries such as banks. It is important that transactions with customers are respected and protected so that they are not disclosed to third parties.

d) Trust- there should be a mutual trust where the owners of a business should have proper trust in their customers, while the customers should also have enough trust in the organization. Without trust, no meanigl and lasting relationship can develop.

e) Courage- this refers to the need to treat others with respect, be incorruptible in business operations, even when it means losing the business

There are four main schools of thought in moral philosophy, offering different approaches to solving ethical dilemmas. These approaches are ways of an organization forming their code of ethics. They include

a) Deontology- this is the ethics of principle equating any decision with a moral law. This principle maintains that the act itself should be considered in judging the rightness of an act. For the " normal idealist" the motives of the actor and the a consequences of the act should be ignored in such judgments. This means that any act is right if it is consistent with an accepted moral principles or law. Societies have developed certain rules that members generally accept e.g people do not rob or deliberately injure each other. These rules are valid in many situations including organizational ones.

b) Utilitarianism – this is the most deliberate of the three approaches. It maintains that the rightness or morality of an act lies not in lies not in the act nor in the motives of the act and deems it right if majority benefits. According to utilitarianisms, if the consequences of an act to the individual and society, both the good and the bad, represent a net increase in society's happiness, then the act is good.

c) Teleogy- this is the ethics of purpose. It considers whether the outcome of an action accomplishes the original goal. It uses the actor's motives in determining whether the act is right or wrong. It gives priority to the individual to judge the action. If an act which is within the law ensures the continuation of the business then it is right.

d) Egoism: this is the ethics of self- interest, claiming that personal or organization benefits are the only rational criterion for judging economic actions.

Technology issues

7.4. E-Commerce

- ✓ Communication – is the art of sending and receiving messages or information from one person to another via a channel
- ✓ Information- this is a product of data which has been given a structure and put into a context. In order for people to design and make what is needed to solve a problem, they first need information.
- ✓ Technology – this is the generation of knowledge and process to develop systems that solve problems and extend human capabilities. Other words, people create technology to solve problems and to make it possible to do new things. E.g people needed a way to keep cold during how weather so, they invested the refrigerators
- ✓ Communication technology is the knowledge, tools, machines and skills that to into communicating. In other words communication technology is all the things people make and do to send and receive messages. Telephones, radios, television and computers are all examples of technologies that help us communicate with one another. In addition to communicating with other people, communication technology can be used to communicate with machines and to help machines communicate with each other. Information is the knowledge and skill needed in order to take a particular action.

Benefits of ICT to a Business Enterprise

- ✓ We make use of information to such a great extent in our daily lives that we probably do not realize how much we are relying on it. Although information is itself invisible and intangible, the information may have to use repeatedly will have been recorded in a paper or prepare for display on a computer screen; though we can also find whether forecast on radio, convenient at times
- ✓ Turning to the world of business, we can see that obtaining and using information effectively is vital. Business makes decisions, at all levels, more or less continuously; and the quality of those decisions depends almost entirely on the quality of the information on which they are based. Businesses complete with one another and thrive or wither according to how sound their decisions have been.
- ✓ Business thus needs accessible information that is accurate, up-to- date and sufficient. ICT (Information and Communication Technology) refers to the developed knowledge, skills and ideas that pertain to human communication process and the information they handle.
- ✓ It is the new science of collecting, storing, processing and transmitting of information.
- ✓ Although ICT is important in all organizations, there is a difference in how important it is. In some organization it is part of the infrastructure; in some the delivery of goods and services depends on it; in some, it is a major areas for strategic

i) improved accuracy, internally and externally ii) services to customers that are more comprehensive than before iii) faster processing, leading to prompter responses to customers

iv) Information for management, not previously available, or available too late to be useful; and tighter financial control.

v) New customer services previously not possible vi)New sources of information to allow improved product design and marketing vii)New customer services previously not possible viii)New sources of information to allow improved product design and marketing ix)Reduced costs arising from the greater productivity of staff who supported and assisted by appropriate computer services

x)A more attractive, cleaner working environment in some cases, helping recruitment and retention of staff.

Uses of e- business, E, government, e, procurement in small enterprises E- Business

✓E- Business is the use of the internet and other networks and information technology to support electronic commerce, enterprise communication and collaboration, E, business can also be defined as web-enabled business process both within an internet worked enterprise and with its customers and business partners.

Benefits of E-Business

i)consumers have a much wider choice available on the cyber market ii)consumers can compare products, features, prices and even look up reviews before they select what they want

iii)Consumers also have the convenience of having their orders delivered right to the door step. iv)Consumers are driven to e-shopping in holders as even branded goods cost less on the net.

v) It minimizes inventory costs to the organization. They do this by adopting just in time- system enhancing the firm's ability to forecast demand more accurately.
vi) It improves customer services vii)It reduces distribution costs
viii) It helps business globalize. This is done through the interest by making information about certain products available on the net.
ix) It helps market products move quickly.

- ✓ Because of the significance of small enterprise worldwide, it is increasingly being realized that if small sector gets behind in the information, then the whole
- ✓ The information revolution has opened up a great deal of potential for small enterprise in the marketing field. The excellent opportunities E- business offers to small enterprises are to; ○Access new market ○Improve customization ○Lower various kinds of costs ○Reduce the size of the enterprise ○Sell products/ goods into global market
- ✓ The fact remains that E- business has empowered small enterprise like nothing else ad done so in the past. E- Business has emerged as an opportunity for small enterprises. Not making use of a will turn into a threat to their very survival

E-Government

- ✓ E- Government is a new term that finds wide applicability. While the term still, means different things to different people, available evidence suggests that it had been undergoing progressive conceptual development. So for the three generations their conceptual developments that have been identified are discussed below.

1.First Generation Conceptualization

- ✓ In this conceptual generation, e-government is conceived as the government equivalent of e-commerce, and used to mean the application of advanced ICT to deliver government services. This conceptualization emerged from the relative success of " e- commerce" applications resulting in pressure being placed on government organization were doing. As a public sector equivalent of e-commerce, e-government is viewed primarily as a tool for electronic delivery of public services. The government transfers a range of services into electronic formats so as to make them more conveniently accessible over the internet.
- ✓ Proponents of this conceptual view include Douglas Holmes (2001), Negaham cook (2000) and John (Arrow 2001). According to Holmes "electronic government or egovernment, is the use of information technology, in particular the internet to deliver public services in as much more convenient, customer –oriented, costeffective and altogether different and better way. He further points out that cutting costs, and improving government efficiency, meeting and improving citizens expectations and relationships and facilitating economic development are some of the important considerations driving e-government.

Features of E-Government

a) It is smart government in the sense that it selectively used of variety if ICT in ways and areas to add value.
b) It is customer- driver in that, customer needs and conveniences drive its organizing structures and business processes.
c) It is responsive, transparent and accountable, responds to the needs of its customers, and employs ICT to support continuous engagement with customers.
d) It is available on a 24* 7 basis (24 hours a day and seven days a week.) thus it does not kept its customers waiting for office hours and working days.
e) It is accessible from anywhere since it is ICT – enabled.

What E- Government is not

- ✓ E- Government is not simply about technology; it is about the applicants of technology specifically ICT, in government.

E- government is not so much what the government does but it is about how it accomplishes its tasks

- ✓ E- government is not about building a smaller or leaner government, Smart in the sense that it is simple, moral, accountable, responsive and transparent and also in the sense that its decisions and actions are goal-oriented, outcome –driven and performance-based.

E-Procurement

- ✓ E-procurement has been defined by the CIPS as;
- ✓ The combined use of information and communication technology through electronic means to enhance external and internal purchasing and supply management process alternating a shooter definition is;
- ✓ E-procurement is the business –to – business purchase and sale of suppliers and services over the internet.
- ✓ The key enabler of e-procurement is the ability for systems to communicate across organization boundaries. While technology for e-procurement provides the basic means, the main benefits derive from the resultant change in business procedures, process and perspectives. E-procurement is made possible by the open standards of XML (extensive mark-up language), a structured language that allows easy identification of data types in multiple formats and can be understood across all standard internet technologies. Adoption of XML will help organizations to integrate policies seamlessly and exchange information with trading partners.

Implementation issues of e-procurement

- ✓ The CLPs has provided the following list of issues to be overcome when implementing eprocurement, organization are not simply passing costs or process inefficiency onto another part of the organization or onto suppliers
- ✓ Competition issues i.e in exchanges using collaborative purchasing.
- ✓ Possible negative perceptions from supplier's e.g their margins reduced further from eauctions.
- ✓ Website and information control lost to exchange administrators
- ✓ Negotiated procurement benefits may be shared with other exchange users who may be competitors
- ✓ Creation of catalogues can be long process and costly to suppliers.
- ✓ Education – the concerned people in the organization should be educated by the entrepreneur in new technologies that have been selected for the project.
- ✓ Product quality requirements – the technology selected should consistently give a uniform product quickly that is demanded by the customer segment.

- ✓ Technology that gives overall cost and market acceptance ;- the selection of technology should aim at giving products and services of consistent quality that market is looking for. The technology is selected based on long range requirements of the organization and that gives consistent product differentiation in the market place

7.5. Globalization Trends

- ✓ Globalization is an international phenomena which sweeping across all continents and every sector of business. The political barriers to business are being eliminated. The electronic media and communication have reduced the distances putting the customer at the center of business.
- ✓ Business is going global due to the reasons of globalization and development of state of art technologies, infrastructural facilities and reducing time and every for transaction.
- ✓ Entrepreneurs are taking up new ventures in their quest fro global size organization, profit and large markets beyond the national boundaries of the entrepreneur. With the result, entrepreneur is also going global size organizations; result entrepreneurship is also going global thus making manufacturing, marketing and management that are represented by different nationalities. The situation calls for different strategies in countries not as diverse as South Asia countries, USA, Kazakhstan, Uzbek or Kenya.
- ✓ The globalization process started worldwide in 80s, the entrepreneurs are moving to different countries and starting new ventures,. Many organizations are founded, organized and operated one the principle that the globe is their field of operations. Modern communication and transport systems are helping to go global; initially small business ventures were based on local domestic markets. International business was consideration domain of large organizations. This perception is fast changing. Trade has been conducted on international scale for many years. Establishment of manufacturing organizations, and development of business by licensing, arrangements management contracts, joint ventures, mergers, acquisitions, subsidiaries and strategic partnerships
- ✓ The availability of cheaper inputs for the production such as raw materials, infrastructure, trained labour force are taking entrepreneurs to different counties to give global competitive advantage to their proposed ventures. Large markets
- ✓ Going global can generate greater revenue and greater operating margins. With large funds, it is possible to purchase sophisticated equipments, update designs and adopt global manufacturing qualities. An international entrepreneur would like to go to the countries where there are economic developments and where the scale of economies can be attained.

Factors Restraining Entrepreneurs from going Global

1. Government controls and barriers

- ✓ To protect the local industries, existing industries and employment, every country tries to protect them. This is done by two ways.
- ✓ One, by fiscal regulatory measures like, high taxation, inspection, monitoring controls, quantitative restrictions and foreign exchange controls. Second through non- monitoring barriers like introduction of controllers and inspectors, large documentation, legal insecurity, social and cultural barriers and treatment of outsiders in a different way as compared to insiders.

2. Entrepreneurial culture

- ✓ An entrepreneur should be open to consider dispassionately the business opportunities that are coming in other countries. The entrepreneur should have a wide vision to expand geographically.

Advantages of an entrepreneur going global.

- ✓ Large markets beyond home country borders
- ✓ Greater motivation in new opportunities
- ✓ Improvements in the technologies, quality and operations
- ✓ Extending life of product cycle
- ✓ Challenges in doing business in competitive environment
- ✓ Earning foreign exchange for the organization and home country.

Social Cultural Trends

- ✓ The social cultural environment of a business consists of class structure, social mobility nature of social organization, social institutions, customers and taboos. People's basic beliefs, values and norms are largely shaped by their society.
- ✓ The social setting consists of among other things, people and their characteristics, their real or apparent roles and their interpersonal relationships, culture has been defined as " that complex whole which includes knowledge, beliefs, art, law, morals, customs and any other capabilities and habits acquired by people as members of a society. Thus culture consists of common habits like people behaviors in their daily lives, and common interest in entrainment, sports, news advertising e.t.c
- ✓ Culture serves the needs of people within a society. For instance, culture provides standards and rules regarding when to eat and what is appropriate to, eat fro

- ✓ People's behaviors, particularly their consumption patterns and life styles are influenced to great extent by the social classes to which they belong. The most commonly used measures of social status are income, education, occupation and area of residence. Entrepreneurs should consider their consumers social status before introducing a product the Kenyan slum area of Kibera.
- ✓ Another dimension to social and cultural life is the manner in which social relationships manifest themselves in business, operations, and operations. Obligations to immediate and extended family members, kismen, friends and quittances are carried over to reach of considerations in most business dealings such as those involving recruitment of personnel and credit sales
- ✓ The social –cultural dimensions has been identified as one of the factors contributing to the failure in most African countries.

Economic Trends

- ✓ Some of the economic factors which promotes and hinders entrepreneurship includes.

1, Capital: capital is the most important perquisite to establish an entrepreneur one, machine of another to create his business enterprise.

The stage of economic development in a country plays and important role while considering establishment of new venture. To some capital refers to funds available for investment; to others it refers to equipment and machinery used by entrepreneurs and managers to produce goods and services; and others still, it refers to postponed consumption. All these refer to the term capital.

2. land- according to economies the term land refers to all farm land and all natural resources provided by nature. Therefore agricultural land, forests, rivers lakes, seas and all natural resources are according to economists, land, forests, rivers, lakes, seas and all natural resources area according to economies to economists land. It should be realized that the amount of land is finite and can, therefore, not be appreciably increased.. Land as a factor of economic production explains the existence of a variety of business including furniture business and food business.

3. Labour – this refers to all the physical and mental effort exerted in the production of goods and services. Unlike land, labour can be substantially expanded by increasing both its quantity and or improving its quality. Quantity of labour can be increased by higher birthrates and or/ improving its quality its quality. Quantity of labour can be increased by higher birthrates and / or from inflow of people from other countries. The quantity on other had can be improved

through better health of labourers, better education and vocational training of people or combining labour with more and better quantities of the other factors of production.

4. entrepreneurship – the process of combining land, labour and capital in some one way in order to produce pertinent goods and services is called entrepreneurship .One factor that bothers many potential business owners is how to determine in advance whether one has the qualities of a successful entrepreneur. Although it is difficult to predict to predict whether a particular individual will succeed or not if he ventures into business.

Consumer Trends

- ✓ A consumer is the end user of a product offered by an organization. Understanding consumer behaviour is of paramount importance because and entrepreneur first have to identify consumer needs and then develop a product that will satisfy those needs if the firm to succeed in the long –term. There are certain factors that influence consumer behaviour that the present and future entrepreneurs have to consider.

These factors are divided into; ○Internal influences ○ External influences

Internal influences

- ✓ Needs and motives- a need is simply a deprivation of something of value. When a need is sufficiently aroused it becomes a motive. That is, a motive is an inner state that directs and individual towards the goals of satisfying a felt need.
- ✓ Perception- perception refers to the way an individual vies the world around him. An individual's perception of an object will determine how he or she will react towards that object or event. Entrepreneurs acquire the purchase and consumption experience they apply to the future related behaviour.
- ✓ Attributes – an attitude is a leaned tendency to respond to product, brand of company in a way that is consistently favourable or unfavorable. The more favorable a consumer's attitude towards a product, the higher the usage rate and vice-versa
- ✓ Personality- personality refers to rather enduring traits or factors that affect t he manner in which an individual deals with hi immediate environment.

Entrepreneurs are interested in personality because they believe it affects consumer behaviors

External factors

i) Culture- culture is a learned behaviour and results of behaviour whose component elements are shared and transmitted by members of a particular society. The entrepreneurs who hope to avoid costly mistakes should familiarize.

Themselves with the culture and sub-cultures of people they plan to market their products to.

i) Social class- a social class is defined as an open aggregate of people with similar social ranking. Class differences are important to entrepreneurs because certain product is more likely to appeal to one class that another.
ii) Family- the family has an important influence on the consumption behaviour of an individual. Quite often each consumption family member has specific roles in the buying process.

iv) Purchasing power- this is people's ability to buy goods and services according to economists whether people buy a product or not largely depends on their incomes. Price of the present product and prices of substitute products and complimentary goods among others.

Challenges Posed by Emerging Trends

- ✓ There is a challenge in changing the type of business activity to engage in.
- ✓ It is also difficult to attract additional capital especially for those who want to venture in small businesses due to the preference accorded to large enterprise owners by the loaning institutions
- ✓ Entrepreneurs also have the challenge of sustaining and maintaining their businesses
- ✓ Human resource is the one who can make best use of other resource to convert raw materials into finished products. If no proper resource to convert raw materials into finished products. If not properly managed, the enterprise may not be able to realize its objectives
- ✓ Marketing is also a challenge because if no proper marketing strategy is not formulated, then the business enterprise may collapse. Marketing is the lifeline of any firm.
- ✓ Developing and entrepreneur culture is also very difficult due to difficult of many cultural activities that inhibit entrepreneurship.

Management of the Challenges

- ✓ One should identify a business opportunity and develop a business idea and do several evaluation of the business idea before engaging into business
- ✓ To sustain the business avoid excessive optimism, prepare good marketing plans, make good cash projection, keep familiar with the market and be sensitive to stress points in the business
- ✓ To attract an additional capital ensures you have a proper business plan that can enable the lenders to lend you money.
- ✓ An entrepreneur should ensure that there are effective measures to develop, maintain and motivate his employees in order to manage his human resource effective
- ✓ The entrepreneur should find it necessary to update the technology processes and product as per the need of that time.
- ✓ An entrepreneur should ensure he/she consider all the factors that affect consumer consumption before establishing which marketing strategy to use

7.6. Review Questions

1. Organizational performance and effectiveness depend upon successful management of the environment .Discuss the socio-cultural and technological factors influencing the business community in your country.

2. when considering its social responsibilities to internal and external environment, a business enterprise must consider the interest of many stakeholders

   Explain the ways in which a business enterprise can be socially responsible towards the following stakeholders

   i)consumers ii)employees

   iii)society

3. Mr. Ouma an employee of Karachuonyo enterprises ltd has worked in the organization for over ten years. In the recent past, his supervisors have noticed that Keya has become rude towards his colleagues to seniors. Briefly explain, some of the reasons that may have led Keya to this type of behaviour

4. Define the term “ code of ethics

5. why is code or ethics desirable in an office

6. what is discrimination and what are the effects at the place of work

7. Define sexual harassment and suggest ways to stop sexual harassment in the office.

8. What are the trends in enterprise management?

9. Establish the challenges posed by the trends and ways of managing the trends.

10. Resistance to change has ordinary been associated with change are accepted a major element of a change process. Give a brief account of ways that a business organization can adopt to reduce resistant to change by employees.

11. While being an entrepreneur has many benefit and provide many opportunities. Any one planning to undertake this way of life should be aware of the potential problems

12. Describe 10 factors considered in identifying a good business opportunities

13. Describe 5 methods of selection and validation business opportunity

14. Describe the component of market research

15. What is an enterprise? State 5 characteristics of a good enterprise

16. Explain the importance of a location of a business

17. Name the factors important in consumer decision to buy or not buy your product.

18. Explain reasons why the government may get involved in business.
19. Describe ways thoughts which the government may regulate may regulate business activities

20. Define business ethics and state sources of business principles

21. Explain the role of an (entrepreneurs) to other Stakeholders

22. What is organizational code of ethics? Explain the importance of enterprise social responsibility Explain the Benefits of ICT to a Business Enterprise

23. What Challenges are posed by emerging trends? How can business organizations tackle them?

SAMPLE QUESTION PAPERS

UCU 005: INTRODUCTION TO ENTREPRENUERSHIP (Sample Paper 1)

TIME: 2 HRS

Instructions

*Answer Question **ONE**is compulsory and any other **TWO** questions*

QUESTION ONE

a)Define the term entrepreneurship (2 marks) b)State and explain four ways of identifying a business opportunities (8 marks

c)What is market? (2 marks)

d) How do markets determine the success of enterprise? (8 marks)

e) Describe 5 function of the entrepreneur in a society. (10 marks)

(30 marks)

QUESTION TWO

a) Explain any 5 **c**haracteristics of an entrepreneur must have in answering the question, explain whether an entrepreneur is born with the traits or they can be leaned.

(10 marks)

b) Describe 5 entry requirement unto self-employment (10 marks)

(20 marks)

QUESTION THREE

a) Most small scale enterprises carry out the trading activities at a central location. Outline the measures an entrepreneur would take to gain a competitive edge over her

competitors (10 marks)

b) Explain the steps the Kenya government has taken in order to promote

entrepreneurship. (10 marks)

(20 marks)

QUESTION FOUR

Assuming that you have required resources (financial) as an entrepreneur identifying a business activity you will pursue in your area. Give reasons and process of identifying

the activity (20 marks)

QUESTION FIVE

a) Explain 5 internal factors that motivate a person to become an entrepreneur

(10 marks)

b) The entrepreneur has been recognized as a major contribution in the achievement of national development. Discuss.

(10 marks)

UCU 005 INTRODUCTION TO ENTREPRENUERSHIP (Sample Paper 2)

TIME: 2 HRS

Instructions

*Answer Question **ONE**is compulsory and any other **TWO** questions*

QUESTION ONE

a) What are the problems of small business that enterprises should consider before starting up a business and how can they avoid them?

(10 marks)

b) What are the considerations partners should make before entering into a partnership?

(10 marks)

c) What are advantages of sole proprietorships over limited companies

(10 marks)

(30 marks)

QUESTION TWO

a) What factors do you consider in selecting a good business opportunity?

(10 marks)

b) What are the characteristics of small enterprises and of what importance are they to a country's national development? (10 marks)

(20 marks)

QUESTION THREE

a) Discuss the commonalities between creativity, innovation and entrepreneurship

(10 marks)

b) Examine the various sources of innovations (10 marks)

(20 marks)

QUESTION FOUR

a) Discuss five reasons why entrepreneurs and small firms have difficulties in accessing finance for start up and expansion. For each reason stated suggest a

solution. **(20 marks)**

QUESTION FIVE

a) Discuss five reasons why planning is important to an entrepreneur

(10 marks)

b) Explain four ways in which the government contributes to the development of entrepreneurship. (10 marks)

(20 marks)