Chalimbana University

DIRECTORATE OF DISTANCE EDUCATION

DTL 1601: ENTREPRENEURSHIP AND INNOVATION

FIRST EDITION 2019

Author: Sikalumbi A. Dewin

Chalimbana University
School of Leadership and Business Management
Department of Leadership & Traditional Governance

Chalimbana University © 2020

Copyright

© 2020 Chalimbana University

First Edition

All rights reserved

No part of this publication may be reproduced, stored in a retrievable system, or transmitted in any form or by any means, electronic, mechanical, photocopying or recording or otherwise without prior written permission of the copyright owner, Chalimbana University.

Chalimbana University
School of Leadership and Business Management
Department of Leadership & Traditional Governance
Private Bag E1
Chongwe
Zambia
Cell: 0977485465
Website: www.chau.ac.zm

Acknowledgements
Chalimbana University, wishes to thank Mr. Sikalumbi A. Dewin for producing this module.

MODULE OVERVIEW

Introduction

Welcome to the Entrepreneurship and Innovation module. This module aims at equipping you with knowledge and skills in small business management. The knowledge acquired from this module can be applied in any given society to enhance social and economic development in chiefdoms. You are therefore, required to study with an open mind and read other related materials. All the best.

Aim

The aim of the course is to equip learners with knowledge, and skills in entrepreneurship and innovation so as to run business profitably.

Study Skills

As an adult learner, your approach to learning will be different to that of your school days: you will choose when you want to study, you will have professional and/or personal motivation for doing so and you will most likely be fitting your study activities around other professional or domestic responsibilities.

Essentially you will be taking control of your learning environment. As a consequence, you will need to consider performance issues related to time management, goal setting, stress management, etc. Perhaps you will also need to acquaint yourself with areas such as essay planning, searching for information, writing, coping with examinations and using the internet as a learning resource.

Your most significant considerations will be *time* and *space* i.e. the time you dedicate to your learning and the environment in which you engage in that learning.

It is recommended that you take time now —before starting your self-study— to familiarise yourself with these issues. There are a number of excellent resources on the internet. A few suggested links are:

http://www.how-to-study.com/

The "How to study" website is dedicated to study skills resources. You will find links to study preparation (a list of nine essentials for a good study place), taking notes, strategies for reading text books, using reference sources, and test anxiety.

http://www.ucc.vt.edu/stdysk/stdyhlp.html

This is the website of the Virginia Tech, Division of Student Affairs. You will find links to time scheduling (including a "where does time go?" link), a study skill checklist, basic concentration techniques, control of the study environment, note taking, how to read essays for analysis, memory skills ("remembering").

Timeframe

You are expected to spend at least 36 hours of study time on this module. In addition, there shall be arranged contact sessions with lecturers from the University during residential possibly in April, August and December. You are requested to spend your time judiciously so that you reap maximum benefit from the course.

Need Help?

In case you have difficulties during the duration of the course, please get in touch with your lecturer for routine enquiries during working days **(Monday-Friday)** from 08:00 to 17:00 hours on Cell: +260963804004**; E-mail: adsikalumbi@gmail.com; website: www.chau.ac.zm.**You can also see your lecturer at the office during working hours as stated above.

You are free to utilise the services of the University Library which opens from 07:00 hours to 20:00 hours every working day.

It will be important for you to carry your student identity card for you to access the library and let alone borrow books.

List of equipment

In this module you will need a computer.

Assessment

In this course you will be assessed on the basis of your performance as follows:

Continuous Assessment		**70%**
Seminar presentation	15%	
Field Project	25%	
1 Test	15%	
Case study	15%	
Final Examination		**30%**
Total		**100%**

How to get the most out of this course

In distance learning, the study units replace the university lecturer. This is one of the huge advantages of distance learning mode. You can read and work through specially designed study materials at your own pace and at a time and place that is most convenient. Think of it as reading from the teacher, the study guide indicates what you ought to study, how to study it and the relevant texts to consult. You are provided with exercises at appropriate points, just as a lecturer might give you an exercise in class.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next to this is a set of learning objectives. These learning objectives are meant to guide your studies. The moment a unit is finished, you must go back and check whether you have achieved the objectives. If this is made a habit, then you will increase your chances of passing the course. The main body of the units also guides you through the required readings from other sources. This will usually be either from a set book or from other sources. Self-assessment exercises are provided throughout the unit, to aid personal studies, and answers are provided at the end of the unit. Working through these self-tests will help you to achieve the objectives of the unit and also prepare you for tutor marked assignments and examinations. You should attempt each self-test as you encounter them in the units.

The following are practical strategies for working through this course

1. Read the course guide thoroughly

2. Organize a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignment relates to the units. Important details, e.g. details of your tutorials and the date of the first day of the semester are available. You need to gather together all these information in one place such as a diary, a wall chart calendar or an organizer. Whatever method you choose, you should decide on and write in your own dates for working on each unit.

3. Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their course works. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.

4. Turn to Unit 1 and read the introduction and the objectives for the unit.

5. Assemble the study materials. Information about what you need for a unit is given in the table of content at the beginning of each unit. You will almost
always need both the study unit you are working on and one of the materials recommended for further readings, on your desk at the same time.

6. Work through the unit, the content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit, you will be encouraged to read from your set books.

7. Keep in mind that you will learn a lot by doing all your assignments carefully. They have been designed to help you meet the objectives of the course and will help you pass the examination.

8. Review the objectives of each study unit to confirm that you have achieved them. If you are not certain about any of the objectives, review the study material and consult your tutor.

9. When you are confident that you have achieved a unit's objectives, you can start on the next unit. Proceed unit by unit through the course and try to pace your study so that you can keep yourself on schedule.

10. When you have submitted an assignment to your tutor for marking, do not wait for its return before starting on the next unit. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor marked assignment form and also written on the assignment.
Consult you tutor as soon as possible if you have any questions or problems.

11. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in this course guide).

You should endeavour to attend the tutorials. This is the only opportunity to have face-to-face contact with your tutor and ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from the course tutorials, have some questions handy before attending them. You will learn a lot from participating actively in discussions.

GOODLUCK!

UNIT 1

INTRODUCTION TO ENTREPRENEURSHIP

INTRODUCTION

Welcome to unit one. This unit serves to introduce the course 'Entrepreneurship and Innovation' to you. It defines entrepreneurship, an entrepreneur, characteristics of an entrepreneur, the genesis of entrepreneurship, reasons for entrepreneurship and some concepts in entrepreneurship. It is intended to bring to you an overview of entrepreneurship. Hope you will enjoy the unit.

LEARNING OUTCOMES

At the end of this unit, you should be able to:

- Explain entrepreneurship and an entrepreneur.
- Discuss the characteristics of an entrepreneur.
- Suggest reasons for entrepreneurship.
- Describe the entrepreneurship concepts.

1.1 WHAT IS ENTREPRENEURSHIP?

It is important to mention to you that entrepreneurship can be defined by describing what entrepreneurs do. For example: *Entrepreneurs use personal initiative, and engage in calculated risk-taking, to create new business ventures by raising resources to apply innovative ideas to solve problems, meet challenges, or satisfy the needs of a clearly defined market.*

Therefore, the following definitions enhances the meaning of entrepreneurship. They help us to realise that entrepreneurship is not restricted to business and profit making alone but also to ...

i. *Entrepreneurship involves bringing about change to achieve some benefit. This benefit may be financial but it also involves the satisfaction of knowing that you have changed something for the better* (Lily Kretchman et al., 1991).

ii. *Entrepreneurship is essentially the act of creation requiring the ability to recognize an opportunity, shape a goal, and take advantage of a situation. Entrepreneurs plan, persuade, raise resources, and give birth to new ventures (*Richard Bodell et al, 1991.)

iii. *Entrepreneurship is the act of enhancing one's reality (Mui, 2011).*

iv. *The entrepreneurship process starts with an entrepreneurial mind that conceptually envisions a new business reality and then starts to concretely enact it on the market through committing other actors to the process* (Johannisson, 1998)

From those definitions, we can say**, "**Entrepreneurship is the science and art of identifying viable business opportunities and mobilising resources to convert those opportunities into profitable, sustainable and growing enterprises, usually under conditions of risk and uncertainty."

Question: What three key points do you think are in the above definition?

The above definition of Entrepreneurship clearly brings out to you three key points namely:

a. ability to constantly identify viable business opportunities;
b. ability to promptly mobilize needed resources and thirdly,
c. willingness to operate under conditions of risk and uncertainty.

1.1.1 Then, who is an Entrepreneur?

As you may be aware, many writers have defined an entrepreneur in various ways. Below are some of the definitions for you:

i. An entrepreneur is a person with particular ability to identify opportunities and to develop mechanisms for their successful exploitation (Mui, 2011).

ii. A person motivated by a strong desire to achieve positive and sustainable business results through hardwork, risk taking abilities, determination and generation of progressive ideas.

iii. Someone who constantly believes that with the right mindset, preparation and well surveyed ideas, any business is possible to start and manage.

iv. I can also say, an entrepreneur is a person with big "**eyes**" and "**ears**". In this definition I mean entrepreneurs have big eyes in the sense that they are able to see business opportunities where others do not. They also have big ears for listening and constantly seeking information and knowledge which enhances their entrepreneurial creativity and performance.

ACTIVITY 1.1

1. Come up with your own definition for 'Entrepreneurship' and 'Entrepreneur.'
2. What is the difference between entrepreneurship and an entrepreneur?

The following lesson is about the characteristics of an entrepreneur.

1.1.2 What are the characteristics of an entrepreneur?

As you may be aware, there is an enormous amount of literature that allows for very interesting discussion and even debate on what could be the characteristics of an entrepreneur. For example, McClelland (1961) pioneers the contribution to this subject. His work is amongst the earliest in recent times to specifically seek to bring out personal attributes of the entrepreneur. He is well-known for thoughts on *'need for achievement'* which he later placed within the framework of human motivation. The concept of need for achievement, though originally studied in the context of psychological theory, has become a vital concept in entrepreneurship theory, with researchers like Davidsson (1989) citing it as the most important distinguishing mark of an entrepreneur. Other researchers have also sought to unpack 'need for achievement' and also identified traits such as *'competitive mind'* (that is "to rival and seek to surpass others"), '*self-consciousness'*, and '*continual desire for self-development and learning'* (Sexton & Bowman, 1985; Low & MacMillan, 1988; Amit et. al., 1993).

> ***Achievement***
> *"To accomplish something difficult. To master, manipulate, or organize physical objects, human beings, or ideas. To do this as rapidly, and as independently as possible. To overcome obstacles and attain a high standard. To excel one's self. To rival and surpass others. To increase self-regard by the successful exercise of talent"*
> (Murray,1938, from Virtanen)

Though the aspect of *'economic risk-taking'* has been attributed to the entrepreneur since the time of the French economist Richard Cantillon

(1680-1734), more recent discussion of this attribute can be traced back to Kihlstrom and Laffont (1979) and Brockhaus (1980), with subsequent writers broadening it up to incorporate the non-economic dimensions. Discussion on *'tolerance for ambiguity'* which, to quite an extent is associated with risk-taking, can be picked up from Timmons (1976) and Schere (1982). Entrepreneurs will also tend to exhibit a strong sense of *'self-efficacy'*, or the unyielding belief in their ability (Chen, Greene and Crick 1998; Markman et al. 2002, Sutter, 2010). And this ability has often been demonstrated in how they manage the process of commercializing new knowledge by turning this into innovative products (Block, Thurik, & Zhou, 2010). Mark Casson (1982) identified *'judgement'* as one of the qualities that distinguish the successful entrepreneur from what he felt were a much larger group of non-entrepreneurs.

In point form, the characteristics as derived from Timmons (1976: page number) can be summarized as shown in the table below for you to have them on your fingertips.

Characteristics of Entrepreneurs	
1) Desire to achieve	9) Low fear of failure
2) Ability to tolerate ambiguity	10) Long-term involvement
3) Ability (and courage) to take (calculated) risks	11) Viewing money as a measure not merely an end
4) Possess personal values (such as honesty, integrity)	12) Desire to use feedback
5) Drive and energy/ goal-oriented	13) Continuous pragmatic problem solving
6) be innovative, creative, and versatile	14) Mobilising & working with resources
7) High initiative and personal responsibility	15) Self-imposed standards
8) Internal locus of control	16) Clear goal setting
	17) be self-confident and self-reliant

As a learner, it is also important for you to have a handy way to remember some facts about entrepreneurs and entrepreneurship as shown below:

E: *xamine needs, wants, and problems to see how they can improve the way needs and wants are met and problems overcome.*

N: *arrow the possible opportunities to one specific "best" opportunity.*

T: *hink of innovative ideas and narrow them to the "best" idea.*

R: *esearch the opportunity and idea thoroughly.*

E: *nlist the best sources of advice and assistance that they can find.*

P: *lan their ventures and look for possible problems that might arise.*

R: *ank the risks and the possible rewards.*

E: *valuate the risks and possible rewards and make their decision to act or not to act.*

N: *ever hang on to an idea, no matter how much they may love it, if research shows it won't work.*

E: *mploy the resources necessary for the venture to succeed.*

U: *nderstand that they will have to work long and hard to make their venture succeed.*

R: *ealize a sense of accomplishment from their successful ventures and learn from their failures to help them achieve success in the future.*

Below is an activity to enhance your understanding of the characteristics of an entrepreneur.

ACTIVITY 1.2

State and discuss the characteristics of an entrepreneur.

REFLECTION 1.1

From your own introspection, what entrepreneurial qualities do you possess from the list stated above? How can you develop and improve on those qualities that you do not possess?

1.2 REASONS FOR ENTREPRENEURSHIP

As you may be aware, there are many reasons that can make someone, including you become an entrepreneur. However, the reasons can be classified into Pushed and Pulled factors in entrepreneurship.

Experts contend that Entrepreneurship is usually seen as resulting from a situation of high unemployment and/or deprivation of a social or economic nature (**crisis situation**) or the existence of **market opportunities** and **successful entrepreneurs as role models** in society. When Entrepreneurship is as a result of a response to a crisis situation, then it is said to be **Pushed Entrepreneurship.** On the other hand, when Entrepreneurship is as a result of a market opportunity that has occurred or the existence of successful entrepreneurs as role models, then it is said to be **Pulled Entrepreneurship.**

The table below is meant for you to differentiate pushed form pulled factors: -

Pushed Entrepreneurship	Pulled Entrepreneurship
Being pushed to start a business after being dismissed from your job or getting retrenched	Being attracted to start your own business because you desire to earn more income than what you earn from your employers
Being pushed to start a business after the company you were working for, has been closed	Being attracted to start your own business upon seeing how successful your role model or an entrepreneur that you know, has become
Being pushed to start a business after the death of your parent/guardian who was fending for you	Being attracted to start your own business in your quest to lead your own independent lifestyle and become your own boss
Being pushed to start a business upon your graduation from college or university due to failure to get a job on the labour market (high unemployment levels in the country)	Being attracted to start your own business upon identifying viable market opportunities.

It is worth to mention to you that pulled entrepreneurs are generally said to prepare adequately before launching their enterprises and have therefore, a higher rate of success. Pushed entrepreneurs on the other hand, are said to respond to crisis situations or unplanned circumstances and normally start business under conditions of stress and through trial-and-error. They, therefore, exhibit lower rates of success. However, both pushed and pulled entrepreneurs can succeed in their ventures if they invest in systematic planning and constant monitoring of their business operations.

1.3 CONCEPTS RELATED TO ENTREPRENEURSHIP

There are many concepts in entrepreneurship.

However, you need to understand the two major concepts that are related to entrepreneurship.

These are;

a. Intrapreneurship?

Intrapreneurship is sometimes referred to as **Corporate Entrepreneurship** and it refers to situations where Chief Executive Officers and other senior managers who are just employees of an organization, run those organizations with a lot of entrepreneurial qualities and flair as though those organisations were their personal enterprises. They use leadership styles and make decisions based on sound entrepreneurial attributes and behaviours. If, for example, the Managing Directors of parastatals like ZESCO and ZAMTEL apply a lot of their own personal entrepreneurial competencies to run those organizations, they may be said to be practicing intrapreneurship.

b. Technopreneurship

Technopreneurship is the art of using or taking advantage of the constantly advancing technology or State-of-the-Art technology to create new entrepreneurial and innovative business enterprises. In Zambia, for instance, we have witnessed the emergency of several state-of-the-Art based ventures such as money transfer facilities (the likes of Zoona), enterprises engaged in T-shirt branding, printing of various commodities, community pay phone booths, internet cafes and several computer aided musicians who produce musical CDs/DVDs and others through the use of new and advancing technologies.

From the two concepts, the main lesson to you is that entrepreneurs should utilize the two concepts of intrapreneurship and technopreneurship to enhance the efficiency and effectiveness of their enterprises. Entrepreneurs should attempt to employ workers that are intrapreneurs in nature so that they add value to their enterprises' operations. Additionally, entrepreneurs should always endeavour to take advantage of state-of-the-art technologies in their operations in order to embrace technopreneurship.

ACTIVITY 1.3

1. Differentiate intrapreneurship from technopreneurship with examples.
2. How can you use entrapreneurship and technopreneurship to enhance service delivery in the chiefdom?

REFLECTION 1.2

How can you use entrapreneurship and technopreneurship to bring a positive transformation in your chiefdom?

UNIT SUMMARY

This is the end of unit one, an introduction to Entrepreneurship. The unit discussed the following:

- The definitions of entrepreneurship,
- An entrepreneur ,
- The characteristics of an entrepreneur,
- Reasons for entrepreneurship, and
- The two main concepts of entrepreneurship which are entrapreneurship and technopreneurship.

This unit has prepared you for the next topics in this module. Therefore, it is necessary for you to understand the content and apply it.

UNIT 2

THEORIES OF ENTREPRENEURSHIP

INTRODUCTION

As you may be aware, there are a lot of theories almost in every field of study. A theory may be defined as *a collection of properly argued ideas about a particular phenomenon*. A theoretical framework could be described as the logical structure within which the thinking about a particular phenomenon can be placed and in which the relationships between the constituent elements (or concepts) can be understood. This unit therefore, discusses theories that are related to entrepreneurship. You may wish to know the Economic and Psychological theories of entrepreneurship are basically dealt here.

SPECIFIC LEARNING OUTCOMES

At the end of this unit, you should be able to:

- Describe a theory.
- Define theoretical framework.
- Discuss at least two psychological and two economic theories of entrepreneurship.

2.1 Why is a theoretical framework important to any field of study?

Kindly note that, a theoretical framework can assist us in being able to explain a phenomenon (i.e understand it) and to predict and possibly influence its occurrence. Such a framework is particularly critical to a field that is yet to be fully understood because it provides for a basis upon which further study can take place. Questions such as "what causes the other and how?" can then be considered within the framework. Outcomes of such study may be useful to different actors in society, including researchers, training providers, development practitioners, policy makers and private sector players.

Student, Entrepreneurship as a phenomenon has had many ideas that have been advanced in attempts to explain it as a whole or its various aspects. These ideas are argued from different perspectives which have been informed by various factors (history, underlying scientific discipline, philosophy, etc).

However, Cai et al (2011) provide a synthesis of the various specific theories that were used in articles published in six leading entrepreneurship Journals over the period 1998 to 2010. These are captured in the table below for you:

Table 2.1: List of related theories applied in entrepreneurial literature

Economics (7)	Management (12)	Sociology (5)	Psychology (3)
Agency theory	Behavior decision Theory	Structure theory	Social cognitive theory
Transaction cost theory	Contingency theory	Social network	Experiential learning theory
Industry organization theory	Dynamic capabilities theory	Social capital	Social learning theory
New growth theory	Human resource theory	Social exchange theory	
Human capital theory	Organization behavior	Institutional theory	
Evolutionary economics theory	Organization learning theory		
Behavior economics	Real option		
	Resource based view		
	Resource dependent theory		
	Strategy alliance		
	Strategy management theory		
	Upper echelon perspective		

As earlier indicated to you, this chapter does not attempt to go into any detail of each of the listed specific theories, but instead selects only a few of the broader and more encompassing theoretical frameworks employed by available literature (in which some of the specific theories in the above table are captured) and uses them to present entrepreneurship from different perspectives. The discussion starts with the economic perspective which, because it has had the most significant influence on entrepreneurship development. We will then move to consider the psychological perspectives which have been gaining momentum especially over the recent past. These perspectives are particularly relevant to our consideration of entrepreneurship in a developing country context. There are also growing views that the theories of entrepreneurship should particularly be grounded in Psychology and Sociology, if they are going to have any theoretical validity and developmental relevance.

ACTIVITY 2.1

1. Define theory.
2. What is a theoretical framework?

2.2 Economic Theories of Entrepreneurship

It is important for you to recognise that the thinking in the field of entrepreneurship has been strongly influenced by the economic theories. As you may be aware, economics is a very ancient discipline that involves *the study of how society produces and distributes goods and services*. Various interrelated theories have been advanced from different economic perspectives. However, we will only focus on two main categories [classical economic theory, and neo-classical theory] that capture most of the prominent theories, and use these to show how economic thinking has evolved with regard to entrepreneurship.

a. Classical Economic Theory

Student, the Classical Economic theory is concerned with two major questions about society:

1. First question is: “How does a society *create* wealth?”

   Without new wealth, as population increases, per capita wealth will decline. Thus, any society that wants to improve its standard of living (thus getting and staying out of a state of poverty) must find ways to continuously increase overall wealth.

2. The second question is: “How does a society *distribute* wealth among its members?”

   Unless there is some form of equitable distribution, less fortunate members of society (who may remain in poverty or slip into it) will be dissatisfied and this might result in instability.

It is important to you to know that Entrepreneurship can actually be identified within the concept of capitalism as propounded by “the father of modern economic theory”, Adam Smith in his 1776 book *The Wealth of Nations*. Smith perceived the capitalist as an owner-manager who combined basic resources; land, labour and capital into a successful industrial enterprise.

Smith described how the capitalist was essential in *wealth creation* and *wealth distribution* in society. Over time, the French word “entrepreneur” (meaning “to undertake”) begun to be used to identify this owner-manager of a new industrial enterprise.

Jean-Baptiste Say is another classical theorist that helped extends Cantillon’s thoughts by identifying additional roles of the entrepreneur as being a leader who brings human capital together in order to build a single productive organism. Say asserts that for this to happen, the entrepreneur *“requires a combination of moral qualities that are not often found together; Judgment, perseverance, and knowledge of the world as well as of business”* (Say, 1803 (1971), p. 330–331). He also acknowledges the existence of factors outside the control of the entrepreneur, and that these factors could result in business failure irrespective of the entrepreneur’s abilities.

b. Neo-classical Economic Theory

It is necessary to note that in the late 19th Century, Leon Walras (1874) and Alfred Marshall (1890), separately, developed similar models of capitalist economics that sought to address the above-mentioned weakness in the classical economic model. Hence the Neo-classical Economic Theory was developed.

The key concept of these alternative models is that markets consist of many buyers and many sellers who interact so as to ensure that supply equals demand; a state of perfect market equilibrium that distributes wealth among buyers and sellers and creates wealth in the process. Neo-classical economics assumed that as the size of the firm increases, the cost of production per unit decreases. Thus, the theory suggests that, compared to small firms, large firms are more profitable (and so do a better job at wealth creation).

Because of its logical framework and predictive power, neoclassical economics had for a good part of the 20th century been the mainstream economic theory in the United States. But critics of this theory including Veblen (1890), felt strongly that neo-classical economic theory only achieved its predictive capability by eliminating the *unpredictable* behaviour of the entrepreneur who assumed the risks of an *uncertain* reality and thrived on exploiting a market that was really *never* in a state of perfect equilibrium.

Joseph Schumpeter (1934), is another critic of the neo-classical economic theory and argued that entrepreneurship was an important part of capitalism because innovation (which is the hallmark of entrepreneurship) was the key driver to *wealth creation* and that it had an important effect on *wealth distribution*. By being able to significantly alter market structures via the creation of new demand arising from the introduction of new products entrepreneurs, in Schumpeter's view, had a "creative destruction" that caused established firms with older products or services to decline. This line of thinking marked the emergence of what is now known as entrepreneurship economics or the economics of entrepreneurship

You may wish to know that, the ongoing research effort has sought to better understand entrepreneurship in the economic context and so provide a theory with predictive capability just like the now largely discarded neoclassical theory. Kirchhoff (1994) seems to have taken a step in this direction by developing a "dynamic capitalism typology" that shows the complex relationship between the rate of innovation and the rate of firm growth. Typologies assist in organizing existing knowledge into categories that help explain relationships and guide the development of theoretical models.

Dynamic Capitalism Typology

Business Innovation Rate	Low (Business Growth Rate)	High (Business Growth Rate)
High	Resource Constrained Internally Constrained	Glamorous
Low	Economic Core	Ambitious

Source: Kirchhoff, 1994

Whilst even Kirchhoff admits that the typology is a rather oversimplification of more complex realities, it nonetheless greatly helps in understanding the different entrepreneurial manifestations being witnessed in different parts of the world. It is possible to relate this typology to entrepreneurship in a developing country context and so better understand the specific issues that may exist.

Below is a discussion based on the above matrix by Kirchhoff summarised to for you.

Economic Core Firms

These are said to be the most common form of entrepreneurship in the developed world.

Economic core firms are low-innovation and low-growth firms that primarily seek to satisfy the owner-manager's desires or needs while also fulfilling a specific need in a small market, and without aspiring for significant growth. They are probably likely to become even more prominent especially in Northern Europe where societies continue to shift into a post-materialistic phase characterized by a lack of desire to pursue significant wealth. The developing world has its own opposite scenario (pre-materialistic) in which sociological aspects of life (e.g the spirit of Ubuntu in sub-saharan Africa) are valued more than economic ones. Enterprise owners may be willing to forgo income in exchange good relationships.

Constrained Growth Firms

These firms, which are likely to be prevalent in emerging economies, have high rates of innovation but growth is constrained by the lack of resources. The source of constraint may be internal or external, though one could argue that even internal constraints (e.g. relevant skill, finance, technology, etc) may be largely due to external circumstances (e.g low levels of skill, financial inclusion and technological knowhow).

Constrained growth firms tend to make easy prey to better-resourced competitors, especially those from more developed countries. They tend to find their products copied and markets devoured by their competitors. Or they may simply be "swallowed" (bought out) by the competitors.

Ambitious Firms

Some firms can achieve high growth with only a limited number of innovations. A single successful product or service can sustain high growth for many years in a large market like the United States, China or South East Asia. However, since markets do not remain stable, an ambitious firm's growth rate will eventually decline if new products or services are not introduced.

Glamorous Firms

Ultimately, high growth rates can only be sustained over time with high rates of innovation.

In recent times, most firms in this category have tended to be technology-based firms producing products that allow constant development. Kirchhoff calls these firms "glamorous firms' because they often attract high media attention and receive local and national awards for their successes (Short & Dunn, 2002).

REFLECTION 2.1

Looking at the economic trends in the country, what economic theory can you suggest to our counntry. Defend your answer.

The following lesson exposes you to psychological theories of entrepreneurship

2.3 Psychological Theories of Entrepreneurship

Under the Psychological theories of entrepreneurship, the two theories that you should understand are:

a. The Traits Theory of Entrepreneurship

you need to know that the two basic assumptions underpinning the traits theory, as applied to entrepreneurship, are that:

(1) The person who *decides* to create a new enterprise (hence the entrepreneur) has a different psychological profile from persons that do not make this decision.

(2) The person who is more successful in entrepreneurial endeavours has a different psychological profile from those that are less successful.

Based on the above assumptions, it then becomes important for you to identify what attributes aid the entrepreneurial decision process and the extent of entrepreneurial success.

You may have noticed that these two assumptions directly relate to entrepreneurship as defined by Bygrave (1994) when he refers to (1) *opportunity identification* and (2) *opportunity exploitation*. What we are therefore now really seeking to understand (through the use of the traits theory of psychology) is what personal attributes assist in identifying good entrepreneurial opportunities and also assist in successfully exploiting these opportunities.

Theoretically, this should then assist in distinguishing entrepreneurs from those that are not, and, even further, also help in identifying different levels of entrepreneurship. This has value to

individuals, entire communities, countries and even the world at large. If entrepreneurship is indeed good for individuals and society, then those that may not be as entrepreneurial should be assisted to see where they are so that they could seek to develop themselves. Part of doing this may be to identify and learn from entrepreneurs.

Society as a whole should ideally be interested in identifying and supporting those that are found to be entrepreneurial. Most cultures in developing countries are closely knit and so could be fertile ground for the spread of entrepreneurship. But this can only happen if such societies understand entrepreneurship, appreciate its value to them, and therefore support it.

Traits Associated with Entrepreneurs

Student, a significant amount of empirical investigations has shown that the main psychological traits and inner motivations of the entrepreneur include the following (Veciana, 1989):

- Need of independence
- Need for achievement
- Internal locus of control
- Risk-taking propensity
- Unsatisfied or "marginated" person
- Intuition
- Tolerance of ambiguity

c. **The Theory/Concept of Entrepreneurial Self-efficacy (ESE)**

This is a concept from social learning theory that is employed in arguing that opportunities are psychologically constructed and not just stumbled upon. Self-efficacy stems from the work of Bandura (1997) and refers to a mental disposition (or attitude) of viewing situations as controllable and positive. Put differently, it refers to an individual's belief in the personal capability to accomplish a job or a specific set of task. Krueger (2000) advanced the view that the perception of opportunities depends on an individual's self-efficacy.

This view is drawn from social psychology where Kim & Hunter (1993) show the following strong relationship between attitudes, intentions and behaviour.

Krueger (1999) had pulled this relationship into entrepreneurship and asserted that entrepreneurial behaviour is informed by entrepreneurial intent which, in turn, is backed by entrepreneurial self-efficacy (ESE) as the underlying attitude.

Lindsay et.al (2010) therefore define ESE as *the belief in one's ability to successfully engage in entrepreneurial behaviour*. This belief is rational and linked to experience and not merely perceived self-confidence (Taylor 1991). Based on past relevant successes (or even failures!), the entrepreneur will be in a better position to predict outcome of personal effort.

It can therefore, be said that if one sees themselves as capable and competent, they are more likely to see a course of action as feasible, and hence more likely to see an opportunity.

Proponents of this view criticize theories that focus on static personality traits or predispositions of individuals, arguing that these have been found to be ineffective at predicting entrepreneurial activity.

ESE being a cognitive construct that links more closely to behaviour, has instead been felt by some as being more reliable. In fact, Chen et al (1998) pioneered research work that seemed to confirm this view.

It is further believed that individuals can develop self-efficacy through prior cognitive, social and physical experiences. From this view, formal education therefore becomes one means through which ESE can be developed. High levels of self-efficacy have an important role in helping individuals sustain effort until goals are reached.

For the entrepreneur such an attitude can facilitate transition from the nascent stage and through the start-up phase when ambiguities pertaining to the venture are often high. This role extends to entrepreneurial performance during the phases when the venture is more established (innovativeness and risk-taking remain key to continued. Chen et. al (1998) go on to identify five factors that they believe constitute ESE and these are; marketing, innovation, management, risk-taking, and financial control. Using these factors, we can say ESE is one of the strongest distinguisher of entrepreneurs from managers. However, it is worth to note to you that ESE is one concept in the psychology of entrepreneurship that has probably not been utilized enough,

especially in a developing country context and particularly in entrepreneurial assessment, education, counselling, and community intervention.

REFLECTION 2.2

From the psychological theories of entrepreneurship, which one(s) is suitable and appriopriate to develop entrepreneurial skills in community members?

ACTIVITY 2.2

1. Briefly, discuss two psychological and two economic theories of entrepreneurship with relevant examples.
2. From the four theories of entrepreneurship discussed, which one is the most appropriate in a community set up to stimulate and develop the entrepreneurial intention in the learners. Defend your answer.

UNIT SUMMARY

Student, we have come to the end of unit 2. However, it is important to remember that we have discussed the following theories of entrepreneurship;

- Classical Theory of entrepreneuship
- Neo-Classical theory of entrepreneurship
- Trait theory, and
- Concept of Self-Efficacy theory.

These should help you understand entrepreneurship in a broader pespective and help you decide the best approaches when developing entreprenerial skills in community members.

UNIT 3

THE ENTREPRENEURIAL PROCESS

INTRODUCTION

It is important for you to understand that the entrepreneurial process is a methodical way of starting a new venture [business] which has steps. The entrepreneur realizes, evaluates, and develops an opportunity by defeating forces of resistance (Dhenak, 2010). This unit, therefore, discusses the steps in the entrepreneurial process and what is involved in each step.

OBJECTIVES:

- Identify the steps involved in the entrepreneurial process.
- Discuss the steps in the entrepreneurial process and give relevant examples.

3.1 The Four Steps in the Entrepreneurial Process

It is a good idea to indicate to you in the first place that there are basically four phases or steps in the entrepreneurial process. These include identifying and evaluating an opportunity, developing a business plan, ascertaining resource needs, and managing the resulting enterprise (Barringer & Ireland, 2010). Each of these steps is in an order, one to four, in ranking as to the importance of each method. The elements in the steps in this discussion will be from an individual entrepreneurial and corporate entrepreneurial perspective.

1. ***Opportunity Identification.***

As you are already aware, stage one of the entrepreneurial process deals with opportunity identification. An opportunity by definition is a favorable set of circumstances which creates a need for a new product, business, or service (Barringer & Ireland, 2010). Opportunity identification is the process by which the entrepreneur comes up with a prospective for a new venture. Identifying the opportunity is not simple. Identification takes research, exploration, and

evaluation of current needs, demands, and trends from consumers and others (Dhenak, 2010). With researching and surveying, the product or service can develop. The organization or individual can now innovate what is lacking as long as the market exists for the opportunity to present itself. If the market is mature the window of opportunity is closed. Qualities through innovation add value to a product, service, or business. The qualities are attractiveness, durability, timeliness, and fixation to the product. These four conditions are what the consumer and end user want. Evaluating the opportunity through observing environmental forces, social forces, technology advances, and political or regulatory changes are attributes to thriving in any industry. From an individual perspective, opportunity identification and evaluation is the most important element because it identifies general trends, needs, and risks that involve the original idea which the entrepreneurial process can improve.

2. *Developing a Business Plan*

The second stage is developing a business plan. Business plan development is an integral piece for submitting a proposal for an entrepreneurial or intrapreneurial business (Harjai, 2012). The organization or entrepreneur develops a description of the future direction of the business. A good business plan must be in place that displays a distinct opportunity. The process in business plan formulation can be the most time-consuming stage for the individual entrepreneur or organization. An example of this is researching and doing a feasibility analysis for business plan formulation. Testing the viability of the idea gives the ability to change the thought process from idea to a business plan. Business plan development is part of strategic thinking and planning and works well with organizational activities. On an individual basis, the sole entrepreneur must rely on brainstorming in smaller focus groups. From a corporate perspective, business planning is the essential element to the entrepreneurial process.

3. *Determining and Allocating Resources*

The third stage is determining and allocating resources. Ascertaining resource needs is a requirement to opportunity and business plan implementation (Dhenak, 2010). Assessing the risks in association with insufficient or inappropriate resources must be set apart from useful ones. The question that needs an answer here is: ‘Can the organization or individual

propositioning the venture be capable of obtaining sufficient resources to move forward?' The entrepreneurial process calls for securing financial and non-financial resources as well as intellectual proprietary protection where it applies. Financial resources include start-up costs, the financial performance of like business, and economic attractiveness while Non-financial resources include skill sets and labor pools for potential employees (Barringer & Ireland, 2010). Resource allocation and availability are important to corporations because sustainability and profit depend on proper planning and understanding the physical internal and external environments. For the individual gaining funding from investors and loans and knowing where to cut cost in execution and implementation is the most important issue with resource determination and allocation. An example from an individual perspective is making a product via a manufacturer that already exists as opposed to manufacturing the product themselves.

4. *Managing the Enterprise*

The fourth stage is managing the enterprise. Once resources are secure with the entrepreneurial process, the business plan implementation can take place. Managing the company means examining operational issues that will occur when implementation begins and throughout the entire business plan cycle. The management process involves implementing structure and business style while determining variables for success (Harjai, 2012). Establishing a control system to identify and resolve any problem areas will help the management process. Lack of experience can give the individual entrepreneur issues with business growth and administration. Individuals fare better in the entrepreneurial process improving on existing ideas that have a strong consumer focus and demand.

ACTIVITY 3.1

1. Discuss the four steps in the entrepreneurial process with practical examples.
2. Defend clearly why each step is relevant/necessary.

REFLECTION 3.1

Identify any business activity viable in your community. Analyse how you can fit it in the entrepreneurial process discussed above.

3.2 Summary

Kindly note that there are a wide range of factors that influence people and organization in the entrepreneurial process. However, the steps are just four. These are;

1. Spot and assess the opportunity
2. Draw up a business plan
3. Establish resources
4. Run the company.

Each step ranks in importance, the first is the most important followed by the second, third, and fourth. However, all stages are a part of the entrepreneurial process.

UNIT 4

4.0 FORMS OF LEGAL BUSINESS OWNERSHIP

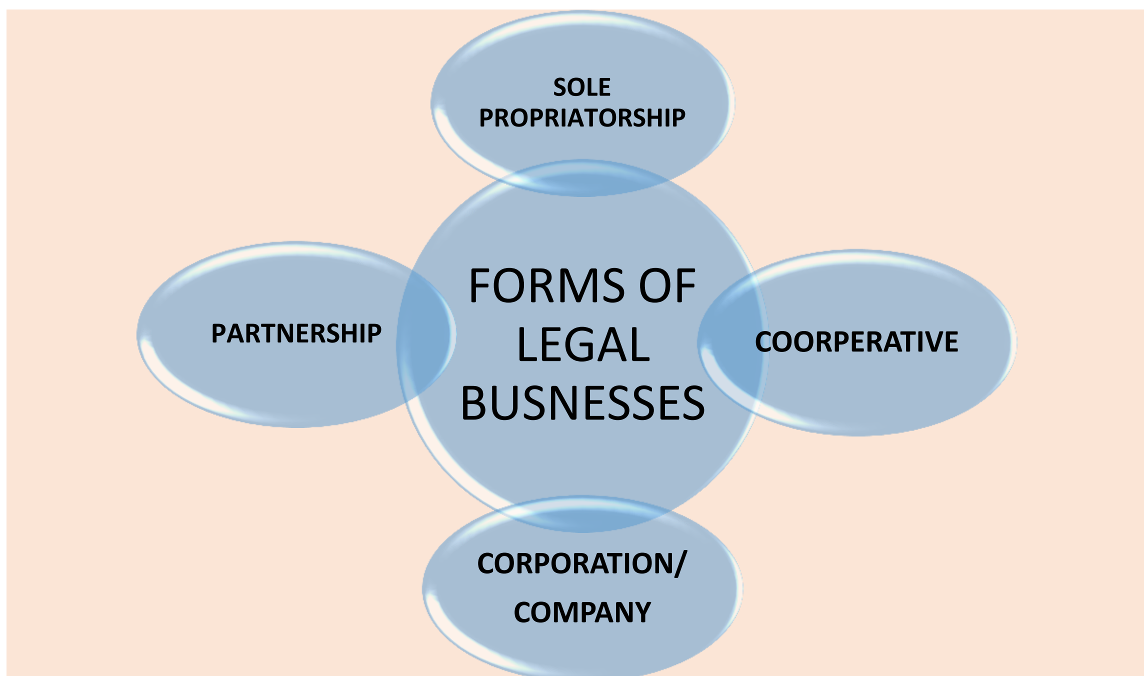
INTRODUCTION

There are various forms of business that an entrepreneur can choose from. However, you must be aware that the choice may be dictated by the size of the business, capital available, number of owners and the registration procedure among others.

LEARNING OBJECTIVES:

- State forms of legal business ownership.
- Discuss the forms of legal business ownership with examples.

Student, there are different forms of business ownership from which an entrepreneur can choose from. These are; Sole proprietorship, Partnership, Cooperative and Corporation/Limited Company.



Let us discuss each of them in details below.

1. Sole Proprietorship

A sole proprietorship, also known as a sole trader or simply a proprietorship, is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business. The owner receives all profits (subject to taxation) and has unlimited responsibility for all losses and debts. Every asset of the business is owned by the proprietor and all debts of the business are the proprietor's. This means that the owner has no less liability than if they were acting as an individual instead of as a business. It is a "sole" proprietorship in contrast with partnerships.

Advantages of Sole Proprietorship

- The owner of the business has full control
- The receives all the business profits
- The assets of the business belong to the owner of the business.
- It is easy to start.

Disadvantages of sole proprietorship

- The owner is responsible for all the debts of the business.
- It is difficult for one person to raise enough capital
- There is no one to share ideas with.
- If the owner dies the business also dies.

2. Partnerships

A partnership is an arrangement where entities and/or individuals agree to cooperate to advance their interests. In the most frequent instance, a partnership is formed between one or more businesses in which partners (owners) co-labour to achieve and share profits or losses… Partnerships have widely varying results and can present partners with special challenges. Levels of give-and-take, areas of responsibility, lines of authority, and overarching goals of the partnership must all be negotiated. While partnerships stand to amplify mutual interests and success, some are considered ethically problematic, or at least debatable.

Advantages

- Partners share business idea and plan together.
- The partners are responsible for all the debts of the business
- Work becomes easy as responsibilities are shared.
- If one partner is unwell the other will continue with the business hence the business does not suffer.

Disadvantages

- Profit is shared among partners
- It is difficult to achieve you own dreams.
- It becomes burdensome if your partner is lazy or has no idea to contribute.

3. Cooperative Society

A co-operative society is a voluntary association started with the aim of service of its members. It is a form of business where individuals belonging to the same class join their hands for the promotion of their common goals. These are generally formed by the poor people or weaker section people in the society. It reflects the desire of the poor people to stand on their own legs or own merit. The philosophy of the formation of co-operative society is "all for each and each for all".

A co-operative denotes a form of organization wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of economic interests of themselves.

A cooperative (also co-operative; often referred to as a co-op) also refers to business organization owned and operated by a group of individuals for their mutual benefit. Cooperatives are defined by the International Cooperative Alliance's Statement on the Cooperative Identity as autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly owned and democratically controlled enterprises. A cooperative may also be defined as a business owned and controlled equally by the

people who use its services or by the people who work there. Cooperative enterprises are the focus of study in the field of cooperative economics.

A co-operative society has been formed behind the following broad objectives.

- To render service to its members instead of making profits.
- It encourages a state mutual help in the place of competition.
- It assures a state of self-help in the place of dependence.
- It develops a state of moral solidarity in the place of unfair business activities.

4. Company/Corporation

A company is a form of business organization. It is a collection of individuals and physical assets with a common focus and an aim of gaining profits. This collection exists in Law and therefore a company is considered a "Legal Person"… In English law, and therefore in the Commonwealth realms, a company is a form of body corporate or corporation, generally registered under the Companies Acts or similar legislation. It does not include a partnership or any other unincorporated group of persons.

Advantages of Corporation

- Generally, a **Corporation's** shareholders are not liable for any debts incurred or judgments handed down against the **Corporation**. A **Corporate** structure is perhaps the most advantageous way to start a **business** because the **Corporation** exists as a separate entity. Shareholders only risk their equity in the **Corporation**. Typically, the owners are not personally responsible for the debts and liabilities of the business; thus, creditors cannot pursue owners' personal assets, such as a house or car, to pay business debts.
- **Corporations** may be able to raise additional funds by selling shares in the **Corporation**.
- Shares are transferable.
- Every share has one vote.
- The business runs independently with no interference by the owners.
- The business can exist indefinitely.

Disadvantages of Corporation

- Double taxation. Depending on the type of **corporation**, it may pay taxes on its income, after which shareholders pay taxes on any dividends received, so income can be taxed twice. Excessive tax filings.
- Expensive to form: there are many filing fees associated with forming a corporation.
- Complicated to form: Corporations must file **Articles of Incorporation** with the state they are incorporating in for which states charge different filing fees. They may also need to file **By-laws**, which may require the help of an attorney to write.
- The interest of the shareholders and management may clash.

ACTIVITY 4.1

Discuss the forms of business available that an entrepreneur can choose from. Clearly explain with examples the advantages and disadvantages of each.

REFLECTION 4.1

From the forms of businesses discussed in question one, which one is suitable for a starter up entrepreneur. Defend your answer.

SUMMARY

You have come to the end of the unit. The unit discussed the forms of legal businesses stating the advantages and disadvantages of each. With this clear understanding, you can now easily go for the business of your choice knowing what it takes.

UNIT 5

FINANCING THE BUSINESS

5.1 Introduction

Student, for every business to quick start, it needs capital. Capital is any financial resource invested in business with the aim of making profit. Discussed in this unit are the sources of financing the business.

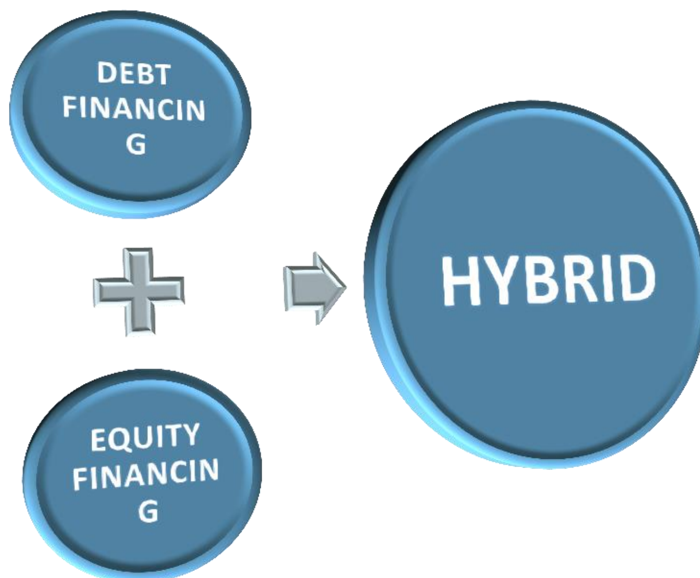
Outcomes

Upon completion of this unit you will be able

(i) Identify the various sources of financing for business.
(ii) Discuss the various sources of financing for business.
(iii) Appreciate the advantages and disadvantages of the various sources of finance

5.2 Ways of financing the business

Basically there are three ways of financing the business. These are debt, equity and hybrid as shown on the table below.



5.3 Equity Financing

Equity financing refers to the issuing of shares to investors in order to support a company's business operations. The shares can be sold on Stock Exchange, for example Lusaka Stock Exchange (LUSE). This mode of financing is especially important during a company's start-up stage. In this method of financing, investors make gains when there is an increase in the share price, as well as through the distribution of dividends by the company in which the investor has purchased a stake.

5.3.1 Advantages of Equity Financing

The first advantage of equity financing is that it offers another source of funding besides arranging for loans from banks or other financial companies. A company may use funds from business investors when it begins its business operations to cover the start-up costs. The company can then use the cash flow from its operations to directly grow the company or to diversify into other areas. Related to this is the fact that investors tend to take a long-term view, and typically don't expect an immediate return on their investment. This allows the company to keep more cash on hand to expand the business, rather than having to pay a portion of its profits to repay loans. For this reason, this method of financing is less risky than debt financing because the company doesn't have to pay back its shareholders. This fact also makes equity financing a good option when a company cannot afford to take on (more) debt.

A second, related advantage to equity financing is that equity financing helps to confer legitimacy, by enabling companies to tap into investor networks and thereby to enhance their credibility.

The third advantage of equity financing is that if companies have prepared prospectuses for corporate investors and explained to them that their money is at risk in the companies' brand-new start-up business, then investors will understand that if the business fails, they will not get their investment back.

Finally, equity financing offers additional advantages in terms of management of the company. Some prospective investors may be able to offer valuable business assistance that a company may not be able to provide for itself. Investors provide invaluable assistance in the form of management expertise, business contacts and access to other sources of capital. Quite a number of good investors and Venture Capitals assume the role of business advisors or even come on board fully as part of the management team. This can be important, especially in the start-up period of a new business.

From the above advantages you may think that equity financing is a perfect source of finance. However, it has some disadvantages and below are the notable ones.

5.3.2 Disadvantages of Equity Financing

The most important disadvantage is that investors must be granted some ownership of the company and a certain percentage of the profits. If the company's business takes off, then the company will have to share a portion of its earnings with the equity investors. Over time, the distribution of profits to shareholders may exceed the sum that a company would have had to pay for loans.

Venture Capitals often request an equity stake of 35–51%, especially when companies are just start-up companies without a strong financial background. The potential for equity financing may be limited for this reason, as company directors are sometimes unwilling to dilute their controlling power through equity financing.

5.4 Debt Financing

The most important disadvantage is that investors must be granted some ownership of the company and a certain percentage of the profits. If the company's business takes off, then the company will have to share a portion of its earnings with the equity investors. Over time, the distribution of profits to shareholders may exceed the sum that a company would have had to pay for loans.

Venture Capitals often request an equity stake of 35–51%, especially when companies are just start-up companies without a strong financial background. The potential for equity financing may be limited for this reason, as company directors are sometimes unwilling to dilute their controlling power through equity financing. The sources of debt financing are discussed below.

5.4.1 Advantages of Debt Financing

The first advantage is maintenance of complete control over the business. The lender charges a company interest for the use of a loan, but the lender does not have the right to say how a company should manage its business. The ownership of the business stays completely in the hands of the corporate directors and shareholders. This also means that lenders will not be entitled to any of the profits that companies make from the business; the borrowing company is merely required to repay the loan within the fixed time period.

Debt financing is appropriate for companies which pursue an aggressive growth strategy, especially when they have access to low interest rates. Though a company may lose some of its assets if it is unable to repay its loans, the company won't lose corporate control or ownership to outsiders. Companies wishing to make use of debt financing are recommended to seek appropriate legal advice from the company's lawyers and accountants for better information on asset protection. The second advantage of debt financing is related to loan repayment interest. Companies can deduct their interest payments (but not the principal repayments) as a business expense. The interest rate which a company pays is usually based on the prime interest rate, and the interest that the company has to pay on a company loan is

tax-deductible. This means that debt financing covers up part of a company's business income from taxes and reduces the company's tax liability.

The third advantage to debt financing is credit maintenance. Continuity of debt borrowing can help to establish a company's record of creditworthiness. This will prove beneficial in the future when a company seeks to obtain bank loans and to achieve competitive company insurance rates from banks.

5.5 Disadvantages of Debt Financing

The first major disadvantage of debt financing is that companies need to pay back not only the principal of the loans, but also the interest, which may create a financial burden. This financial obligation must be treated as a liability on a company's statement of financial position. Since a company will often choose to borrow funds to pay for its business operations, the company may end up committing itself to large business expenses, thereby forcing it to transfer its holding rights to another company. The company may also be under pressure to repay its loans with cash that it badly needs for some other aspects of its business, and the company's business will suffer as a consequence.

The second disadvantage of company financing concerns the process of securing a loan. If companies borrow from banks or other financial companies, they will often be required to pledge company properties as collateral to secure the loan. This means that if a company does not repay its loans, then the lender can take the properties and sell them on the market in order to recover the value of the loan obligation. Thus, if a company pledges its business assets as collateral for the loans, and it is unable to pay back its creditors, then the company may lose important corporate assets.

Similarly, if a company pledges its personal assets, such as company properties or its stock portfolio, then it may risk losing them to pay back business loans.

The third disadvantage of credit financing is that obtaining business loans can be very difficult if a company does not have a good credit rating and strong track record of loan repayment. Furthermore, if a company carries too much debt, then that company may come to be seen as "high risk" by potential investors; this will limit the company's ability to raise capital via equity financing as well; this constraint can severely limit future cash flow.

The fourth disadvantage of debt financing is that debt can stifle a company's growth because of the high cost of repaying the loan, especially in the case of repaying compounding interest. This in turn increases a company's risk of bankruptcy. Related to this and the previous point, banks will often not accept a high leverage ratio for company, as high leverage ratios can be seen to be very risky. In such a scenario, a company may instead have to resort to the use of equity financing, i.e. issuing share capital, to balance its sources of financing.

5.6 Hybrid Financing

Hybrid type of financing refers to the combination of debt and equity. It involves the borrowing
of money to add to what is available so as to have enough capital.

Student, to help you understand certain terms in the financing of the business, the terms are listed
and defined for you below.

1. **Savings:** keeping the money for future use (plans).
2. **Bank loans:** you can borrow the money from the bank to be paid with interest.
3. **Mortgage:** is a special type of loan for buying property where monthly payments are spread over a number of years. It is the type of loan which is given if you provide security (collateral) e.g. land, building etc.
4. Borrowing from friends or family and pay later on the agreed period.
5. **Leasing:** this is where monthly payments are made for the use of equipment such as a car, machinery etc. Leased equipment is rented and not owned by the firm except in finance lease.
6. **Debentures**: are loans made to companies.
7. **Subletting:** you can allow someone to use (an apartment, house etc. that you are renting) for a period of time in return for payment. Subletting unused space can be a valuable source of additional revenue (income).
8. **Hire purchase**: this is the acquisition of asset and the amount is paid in instalments (commonly known as pay slow). Hired equipment is owned by the firm after the final payment is made.
9. Grants from charities or the government to help businesses get started, especially in areas of high unemployment.

5.7 Other Sources of Financing

There are other sources of financing including the following:

(i) family donations

(ii) donations from friends

(iii) inheritance from relatives

(iv) grants from the government/NGOs

(v) salary

(vi) selling of an asset

(vii) savings

5.8 Activity

Identify and discuss the sources of financing the business.

5.10 Reflections

Which of the following businesses is on the safe side? Defend your answer.

(i) J. B Enterprises had K10, 000.00 and borrowed K20,000.00 more for investment.

(ii) J. K Enterprises had K15,000.00 and borrowed K15,000.00 more for investment.

(iii) J. M Enterprises had K20,000.00 and borrowed K10,000 more for investment.

5.11 Summary

In this unit you have leant about the main sources of financing a business being equity, debt and a hybrid of the two. The advantages and disadvantages were of equity and debt financing have been explained to you.

You also learn other about non-convention sources such as family donations, donations from friends, inheritance from relatives, grants from the government/NGOs, salary, selling of an asset, savings.

The use of the above sources depends on the stage at which the company has reached whether a startup or mature.

UNIT 6

SWOT ANALYSIS

OBJECTIVE

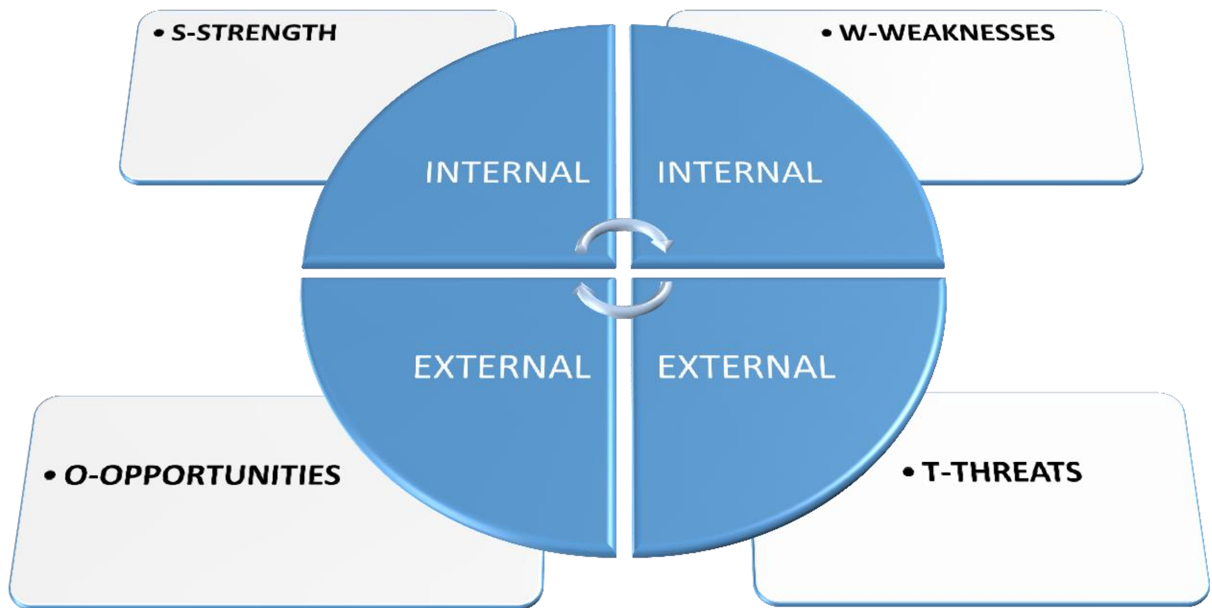
- Describe SWOT analysis.
- Demonstrate knowledge on using the SWOT analysis to analyse business ideas.

Introduction

Welcome to unit 6. You might have come across SWOT in various fields. However, this unit discusses SWOT analysis as tool in examining the viability of the business. Further, the advantages and disadvantages are also discussed. Hope you will enjoy the unit.

6.1 Meaning of SWOT

You may be wondering as what can SWOT mean!!! SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control while Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.



SWOT Analysis is the most renowned tool for auditing and analyzing of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates.

In other words, it is the foundation for evaluating the internal potential and limitations and the probable or likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting or predicting the changing trends and also helps in including them in the decision-making process of the organization.

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below;

1. **Strengths -** Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained.

Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency.

Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

2. **Weaknesses -** Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.

   Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

3. **Opportunities -** Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

   Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

4. **Threats -** Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

6.2 Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in the following manner-

a. It is a source of information for strategic planning.
b. Builds organization's strengths.
c. Reverse its weaknesses.
d. Maximize its response to opportunities.
e. Overcome organization's threats.
f. It helps in identifying core competencies of the firm.
g. It helps in setting of objectives for strategic planning.
h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm's resources and capabilities with the competitive environment in which the firm operates.

6.3 Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key

strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

There are certain limitations of SWOT Analysis which are not in control of management. These include-

a. Price increase;
b. Inputs/raw materials;
c. Government legislation;
d. Economic environment;
e. Searching a new market for the product which is not having overseas market due to import restrictions; etc.

However, internal limitations may include-

a. Insufficient research and development facilities;
b. Faulty products due to poor quality control;
c. Poor industrial relations;
d. Lack of skilled and efficient labour; etc

ACTIVITY 6.1

Identify one business idea or activity and use SWOT to analysis the relevance and viability of the idea or activity**.**

SUMMARY

You have come to the end of unit 6. In this unit we discussed what SWOT analysis is with examples. It is tool used to analyse the viability of the business.

UNIT 7

RISK MANAGEMENT

INTRODUCTION

As you may be aware, to farmers, changes in weather, prices and other factors between the time the decision is made to cultivate and the final outcome is known can make good decision to turn very bad. Because of time lag in agricultural production and our inability to predict the future accurately, there are varying amounts of risk and uncertainty in all farm Management decisions. If everything was known with certainty, decision would be relatively easy. However, in the real world more successful managers are the ones with the ability to make the best possible decisions, and courage to make them when surrounded by risk and uncertainty.

OBJECTIVES

By the end of the unit, you should be able to;

- Define risk and briefly discuss the sources of risks and uncertainties.
- Demonstrate knowledge on risk management.

7.1 Definition of risk and uncertainty

In life, it is difficulty to attain a situation where all possible outcomes are known for a given management decision and the probability associated with each possible outcome is also known.
Risk refers to variability of outcomes which are measurable in an empirical or quantitative manner. Risk is insurable.
Uncertainty refers to future events where the parameters of probability distribution (mean yield or price, the variance, range or dispersion and the skew and kurtosis) cannot be determined empirically. Uncertainty is not insurable. It is when one or all possible outcomes are unknown, the probability of the outcomes is unknown or neither the outcomes nor the probabilities are known.

7.2 Sources of risk and uncertainty

The most common sources of risk are production, technological, pricing or marketing and financing risks.

1. Production risk: Crop and livestock yields are not with certainty before harvest or finals. Weather, diseases, insects, weeds are examples of factors which cannot be accurately predicted and cause yield variability.

Even if the same quantity and quality of inputs are used every year, these and other factors will cause yield variations which cannot be predicted at the time most input decision must be made. The yield variations are examples of production risk. Input prices have tended to be less variable than output prices but still represent another source of production risk. The cost of production per unit of output depends on both costs and yield. Therefore, cost of production is highly variable as both input prices and yield vary.

2. Technological risk: Another source of production risk is new technology. Will the new technology perform as expected? Will it actually reduce costs and increase profits? These questions must be answered before adopting the new technology.

3. Price or marketing risk: Variability of output prices is another source of risk. Commodity prices vary from year to year and may have substantial seasonal variation within a year. Commodity prices change for number of reasons which are beyond the control of individual entrepreneurs.

4. Financial risk: Financial risk is incurred when money is borrowed to finance the operation of the business. There is some chance that future income will not be sufficient to repay the debt. Changes may take place in the interest rates, scale of finance, and ability of the business to generate income.

7.3 Methods of reducing risk and uncertainty

The various methods which can be used to reduce risk are discussed hereunder.

1. Diversification: Production of two or more commodities on the farm/business may reduce income variability if all prices and yields are not low or high at the same time.

2. Stable enterprises: Production risk can be reduced by careful selection of the enterprises with low yield variability. For example, irrigation will provide more stable crop yields than dry land-farming. This is particularly important in areas of low rainfall and unstable climate.

3. Insurance: For phenomena, which can be insured, possible magnitude of loss is lessened through converting the chance of large loss into certain cost.

4. Flexibility: Diversification is mainly a method of preventing large losses. Flexibility is a method of preventing the sacrifice of large gains. Flexibility allows for changing plans as time passes, additional information is obtained and ability to predict the future improves.

5. Spreading sales: Instead of selling the entire commodity output at one time, entrepreneurs, e.g farmers prefer to sell part of the output at several times during the year. Spreading sales avoids selling all the crop output at the lowest price of the year but also prevents selling at the highest price.

6. Hedging: It is a technical procedure that involves trading in commodity through a commodity broker.

7. Contract sales: Producers of some special type of crops like grocery, vegetables etc. often sign a contract with a buyer or processor before producing. A contract of this type removes the price risk at planting time.

8. Minimum support price: The government purchases the commodity from the

manufacturers/farmers if the market price falls below the support price.

9. Net worth: It is the net worth of the business that provides the solvency, liquidity and much of the available credit.

ACTIVITY 7.1

a. Define risk and briefly discuss the sources of risks and uncertainties.
b. Suggest possible ways of preventing/avoiding risks and uncertainties.

REFLECTION 7.1

Identify one business venture and clearly state the risks in that business.

Discuss the possible ways of preventing the stated risks in that business.

SUMMARY

You have come to the end of unit 7. The unit discussed types risks and measures to reduce and/or prevent risks. Hope you enjoyed the unit.

UNIT 8

MARKETING

Introduction

You may be aware that every business minded person produces goods so that he/she can sell for the purpose of making profit. Marketing acts as the conversion point of products and services into revenue. This topic therefore, discusses marketing, branding, selling process as well as marketing research.

OBJECTIVES

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

- Define marketing
- Discuss the marketing philosophy and marketing approaches.
- Discuss the marketing mix.
- Describe branding
- Demonstrate marketing research
- Explain the selling process

8.1 What is marketing?

You must know that marketing is a "social process involving the activities necessary to enable individuals and organizations to obtain what they need and want through exchanges with others and to develop ongoing exchange relationships" (Mullins and Walker, 2014: pg.5).

However, Kotler (2005), defines marketing as the "social process by which individuals and groups obtain what they need and want through creating, offering and exchanging products and services that have value with others."

8.2 What is a market?

A market consists of individuals and organizations who are interested and willing to buy a particular product to obtain benefits that will satisfy a specific need or want, and who have the resources to engage in such a transaction.

8.3 The marketing philosophy

Profitable business generally follows a plan for success called the marketing concept. The marketing concept recognizes two main objectives for business. These are to satisfy customers' needs and wants, and to make a profit. To achieve these two goals, businesses spend money on research to learn what consumers need and want. Businesses also choose short and long term objectives that will guide them as they seek success in both consumer satisfaction and in increasing profits.

In tracing the development of the marketing concept, it is customary to chart three successive stages in the evolution of modern business practice. These stages are as follows:

i) The production orientation.

ii) The sales concept orientation.

iii) Marketing Orientation.

i). <u>Production Orientation</u>

The production orientation to marketing focuses on producing goods and services. High production efficiency, often through large scale production of standardized items, is the central focus. It is believed that customers would purchase the products as long as they are of reasonable quality.

ii). <u>Sales Orientation</u>

At one time most companies were sales oriented. That is, their goods and services were produced and sold without regard for consumer preferences. Little attempt was made to research consumers' needs or desires. Goals were limited to short term profits. The main aim was to sell what the firm makes, rather than to make what the customer want.

iii). <u>Marketing Orientation</u>

The marketing concept or orientation holds that the key to successful and profitable business rests with identifying the needs and wants of consumers and providing products and services to satisfy them. It is the work of the producer to identify the needs and wants and preferences of the consumer and then satisfy them better than the competitors would.

Every marketing oriented firm focuses on consumer satisfaction and directs its resources to produce the goods and services that customers want. A successful marketing oriented firm sets long-range goals that are achieved by responding to changing and emerging consumer preferences.

8.4 Marketing Approaches

There are two approaches that a firm can use to sell their products in the marketplace. These are mass marketing and market segmentation.

a) **Mass marketing:** Mass marketing is using a single marketing plan for one product to reach all consumers, usually a large group. Products that are mass marketed generally have a universal appeal and few basic feature to differentiate them from competitors.
   To mass market a product, businesses select a single general advertising theme that appeals to most people who use the product. The theme is designed to keep the name of the product before the general public. The most important thing, for a product to be mass marketed is that it must have a universal appeal, e.g. products like household cleaners.

b) **Market segmentation:** Market segmentation is the process by which the market is divided into distinct subsets with similar needs that lead them to respond similarly to particular product offerings and marketing programs. In other words, market segmentation is dividing up a market into several smaller groups with similar needs.
   Market segmentation may also be defined as the process of identifying the clusters or segments of customers in a market which share similar needs and wants and will respond in a unique way to a given marketing effort.

8.6 TARGETING

Targeting is the act of choosing or selecting the market segment that a firm should enter and start doing business. A firm will only choose those segments that it believes are right for its business. Furthermore, target segments should be selected on the firm's ability to match or exceed competing offers, as well as the economic attractiveness of the segment.

Different Targeting Strategies

There are three common strategies that are used in market targeting. These are outlined below:

a) **Niche Market Strategy**

Niche marketing is a strategy that involves targeting one or a few segments that consists of a number of customers who seek specialized benefits from a product. In other words, it is a market coverage strategy in which a firm goes after a large share of one or a few segments. The niche approach is especially appealing when the company's resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few segments or niches.

Through niche-market strategy, the firm achieves a strong market position because of its greater knowledge of consumer needs in the niche it serves and the special reputation it acquires. It can market more effectively by fine-tuning its products, prices, and programs to the needs of carefully defined segments. It can market more efficiently, targeting its products, channels, and communications programs toward only consumers that it can serve best and most profitably.

Niching also offers smaller firms an opportunity to focus their limited resources on serving niches that may be overlooked by larger competitors.

Most firms begin with niche strategy to get a foothold against larger, more resourceful competitors, then grow into broader competitors. One of the major reasons behind the niche-market strategy, is to help a firm to avoid direct competition with large firms. This is so because niches most often attract only one or just a few competitors.

The major drawback of the niche strategy, however, is that the business of a firm that rely on such a strategy can suffer greatly should larger competitors decide to enter the same segment with greater resources.

b) **Mass-market Strategy**

A business can pursue a mass-market strategy in two ways. First it can **ignore** any segment differences and design a single product and marketing program that will appeal to the entire market or to the largest number of consumers. The primary object of this strategy is to capture sufficient volume in order to enable the firm gain economies of scale and a cost advantage. Consequently, it is favoured by larger companies or larger business units.

This strategy requires:

- substantial resources, as well as production capacity and good mass-marketing capabilities.
- sustainable investment.

The second approach to the mass-market is known as the **differentiated Market approach**. It is a market coverage strategy in which a firm decides to target several market segments and designs separate offers for each. Thus, under this approach, a firm must design separate products and marketing strategies for the different segments of a market. The main advantage of this approach is that it can help generate more sales.

The major drawback of mass-market strategy, however, is that it is costly. There are, for instance, costs for designing different products, manufacturing, inventory, marketing, etc.

c) **Growth-market Strategy**

Businesses that pursues a growth market strategy often target one or more fast growth segments, even though these segments may not be very large. It is a strategy often favoured by small firms to avoid direct confrontation with larger firms while building volume and market share.

Growth market strategy usually require strong research and marketing capabilities. One problem however, is that sustained fast growth often attracts large competitors.

8.6 POSITIONING

The final act in the target marketing process of segmentation is positioning. According to Lovelock (2004): “Positioning is the process of establishing and maintaining a distinctive place in the market for an organization and/ or its individual product offerings.”

Positioning may also be defined as “the act of designing the company’s offering and image so that they occupy a meaningful and distinct competitive position in the target customers; minds” (Kotler, 1997).

This is an important aspect of the positioning concept. Positioning is about what the buyer thinks about the product or organization. What matters is how the product is perceived.

Understanding the concept of product positioning is key to developing an effective competitive posture.

The following four principles can provide guidance to an enterprise that may want to position itself in the market segment:

1. An enterprise must establish a position in the minds of its targeted customers.
2. The position should be singular, providing one simple and consistent message.
3. The position must set a company apart from its competitors.
4. An enterprise cannot be all things to all people - it must focus its efforts.

8.7 THE MARKETING MIX

Once a company has identified a target market and learned about its characteristics, the next step is to develop a marketing plan. This includes decisions regarding the marketing mix. The marketing mix is a combination of decisions about **product, place, price, and promotion** - the ***four Ps of marketing*** used to reach a target market and make a profit. The most important aspect of marketing mix is a company's ability to direct all four Ps of marketing to one select target market.

Product

The Product element focuses on product planning which involves finding out which goods and services consumers need and want. The products are then selected and designed, or the services chosen, that will meet the needs and wants. In other words, it involves identifying what products to make, when to make it, its level of quality, how many to produce and sell, its packaging, brand name, and warranties or guarantees.

Place

The Place element is concerned with getting the right goods and services in the right place for the right customers so that they can buy. It focuses on how the products are to be distributed.

Price

The Price element is concerned with setting prices accurately. It is a very important element in the marketing mix in the sense that if prices are too high, customers won't buy. And if the prices are too low the firm's possibility of making profit will decrease. Therefore, producers must know what price people in their target market are able and willing to pay. Other factors that affect price decisions are the quality of the items, the pricing strategy of competitors, and the billing methods

and terms of payments appropriate for the target market. Different pricing strategies are used, depending on the target market and the competition.

Promotion

The Promotion element in the marketing mix focuses on advertising, promotion, personal selling, and public relations. Decisions includes all decisions on educating potential customers about the product and how to develop a good public image with promotional activities. Which media, newspaper, radio, television or magazine, for example, are best for reaching a target market.

8.7.2 PRICING

Price is the value of money (or its equivalent) placed on a good or service. It is usually expressed in monetary terms. It may also be expressed in non-monetary terms, such as free goods or services in exchange for the purchase of an item.

The seller's objective is to set a price high enough for the firm to make a profit, and yet not so high that it exceeds the value potential customer place on the product.

Basic Pricing Strategies

A major factor in determining the profitability of any product is price. You need to find the right price for your target market. Only then will you have a chance of being successful.

There are several basic strategies that you may want to consider in determining the price for your products. These are discussed below.

a) **Cost-oriented pricing**

In cost oriented pricing, marketers first calculate the costs of acquiring, or making a product and other expenses of doing business. Then they add their projected profit margin to these figures to arrive at a price. Markup Pricing and cost-Plus Pricing are two of the most common methods of cost oriented pricing.

Markup-Pricing: Markup-Pricing is used primarily by wholesalers and retailers who are involved in acquiring goods for resale. A markup is the difference between the price of an item and its cost. It is generally expressed as a percentage.

If a business is to be successful, the markup on its products must be high enough to cover the expenses of running the business and must include the intended profit.

Cost-Plus Pricing: In cost plus pricing, all costs and expenses are calculated and then the desired profit is added to arrive at a price. Cost plus-pricing is used primarily by manufacturers and service companies.

b) Demand-oriented pricing

Marketers who use demand-oriented pricing attempt to determine what present consumers are willing to pay for given goods and services. The key to using this method of pricing is the consumer's perceived value of the item. The price set must be in line with this perception. If it is not, or if the perceived value itself is misread, the item will be priced too high or too low for the target market, either of which could cause the product to fail.

c) Competition-oriented pricing

Marketers who study their competitors to determine the prices of their products are using competition-oriented pricing. These marketers may elect to take one of the three actions after learning their competitors' prices. Thus they may opt to price their products as follows: a) price above the competition, b) price below the competition, or c) price in line with the competition.

What is different about this method of pricing is that there is no relationship between cost and price or between demand and price. Marketers simply set prices on the basis of what their competitors charge.

Two basic types of competitor-oriented pricing strategies are competitive-bid pricing and going-rate pricing.

Competitive Bid Pricing: Determining the price for a product on the basis of bids submitted by competitors to a company or government agency is called competitive bid pricing. Most government agencies are required by law to request bids on certain specifications so they can select the company that offers the lowest price on the desired product.

Going-Rate Pricing: Almost all firms engage in this type of pricing. It involves studying the competitors' prices to make sure that one's own prices are in line. Going rate pricing is especially important in businesses where the competing products are similar. The firm with the leading market share may be the leader in setting prices. Other companies may choose to price their products above that of the market leader, below or in line with the market leader.

D). Pricing strategies for new product

One of the two pricing methods discussed below may be used when a new product is introduced.

i. **Skimming Pricing**

   This is a pricing policy that sets a very high price for a new product to capitalize on the high demand for it during its introductory period. At this time, the high price is geared toward trendsetters, who are generally willing to pay higher prices in order to be the first to own or avail themselves of a new product.

ii. **Penetration Pricing**

   This is the kind of pricing in which the initial price of a new product is set very low. The purpose of penetration pricing is to encourage as many people as possible to buy the product and thus penetrate the market.

E). Psychological pricing strategies

Psychological Pricing refers to techniques that create an illusion for customers or that make shopping easier for them. In either case, psychological pricing techniques appeal to particular market segments because of their shared perceptions and buying habits. The following are the common psychological pricing techniques:

i. Odd-even pricing

This is a technique that involves setting prices that all end in either odd or even numbers. The psychological principle is that odd numbers such K79, K7: 95, K59: 99, etc., present a bargain image. Even numbers such as K10, K20, K100, present a quality image. You will

find that many marketers follow the odd-even technique in an effort to project a certain image.

ii. Prestige pricing

Under this technique, the practice is to set higher-than-average prices. The reason behind this kind of pricing practice is to show status and prestige to the consumer. Also many customers tend to think that higher prices mean higher quality. Thus they are willing to pay more for certain goods and services.

However, it is important to note that even customers who are known to prefer higher priced products have limits on what they will spend for prestige goods and services. To avoid exceeding these limits, marketers must set ceiling prices very carefully.

iii. Promotional pricing

The psychological technique of promotional pricing is generally used in conjunction with sales promotion when prices are lower than average. Two basic types of promotional pricing are loss leader pricing, and special event pricing. Loss leader pricing is used to attract customers by offering, very popular items of merchandise, for sale at cost price or slightly above the cost price. Customers who are familiar with the prices of these items will be attracted by the bargain and will come to the store to shop. Marketers hope that while customers are in the store they will also buy other items at the customary markup and will return on subsequent occasions.

In special-event pricing, items are reduced in price for a short period of time. At the end of a season, businesses also run clearance sales to get rid of old merchandise in order to make room for the new.

iv. Price lining

This is a special pricing technique that requires a store to offer all merchandise in a given category at certain prices. For example, a store might price all of its blouses at K25, K35, and K50.

When deciding on price lines, a marketer must be careful to make the price differences great enough to represent low, middle, and high prices for the category.

An advantage of price lining is that the target market is fully aware of the price range of products in a given store, and this helps the store maintain its image. It also helps customers compare items, both within a single line and between the various lines.

F). Discount pricing

Discount pricing involves the seller's offering reductions from the usual price. These discounts include cash, quantity, promotional discounts, etc.

i. **Cash Discounts**

Cash discounts are offered to buyers to encourage them to pay their bills. For example 2 per cent discount is granted if the bill is paid in 10 days. If the buyer does not take advantage of the discount, the full amount must be paid within 30 days for instance.

ii. **Quantity Discounts**

Quantity discounts are offered to buyers for placing large orders. Quantity discounts encourage buyers to buy to purchase more than they originally intended.

iii. **Promotional Discounts**

Promotional discounts are offered to wholesalers and retailers who are willing to advertise or promote a manufacturer's products. The discount may take the form of a percentage reduction in price or free merchandise.

8.7.3 PROMOTION

The role of promotion

Promotion is any form of communication a business or organization uses to inform, persuade, or remind people about its products and improve its public image. Typically, a business uses promotion to convince potential customers to buy from it instead of from a competitor.

Types of promotion

There are four basic types of promotion as indicated below:

a) **Advertising**

Advertising is a non-personal presentation and promotion of ideas, goods, and services by an identified sponsor. Advertising is distinguished from other forms of promotion by three features. The following are the three features:

1. The time or space devoted to it is paid for
2. It uses the set format to carry the message rather than personal one-on-one selling.
3. It identifies the sponsor of the message.

Businesses spend so much on advertising because it offers the following **six advantages**:

1. A large number of people usually see the advert's message.
2. Advertising costs per potential customer are usually low.
3. Businesses can choose the most appropriate media to reach their target market.
4. A business can control the content of an advertisement and adapt it to the medium and method of presentation.
5. Advertisements integrated into television shows, magazines, or newspapers are subject to repeat viewing. This fixes the advertiser's message in people's minds.
6. Advertisements can presell products. In other words, they can influence people to make up their minds about a purchase before they shop.

Disadvantages of Advertising

1. Advertising cannot focus on individual needs because the message is the same for all.
2. Some forms of advertising such as television can be expensive for many businesses.
3. Advertising may be wasteful and inefficient in certain instances, For instance a newspaper advert may be seen by only a few people who

read newspapers, television adverts by only a few viewers of specific shows.

4. Because of the cost and the need to attract and hold the attention of potential customers, advertisements must be brief. Other a result most adverts are too brief to inform in depth. Thus in comparison, the other forms of promotion, especially personal sales presentation are far more complete.

b) Publicity and public Relations

Publicity involves creating demand for a business or product by placing news about it in publications, radio, television, or stage. A business can use publicity to promote particular products.

The principal function of publicity however is building an image. Image is the way a business organization is defined in people's minds. It is an impression based on a combination of factors including physical surroundings, personal experiences, and things written or said in the media.

The right kind of publicity can create a positive image for a company and maintain or improve that image within the community.

The basic difference between advertising and publicity is that publicity is not paid for by the business. It is free. For this reason, publicity is an excellent way to spread information about a company and its products.

The **disadvantage** of publicity is that not all publicity is positive for a business. This is because bad stories are likely to get publicized too. Negative stories can hurt the company's image.

Public Relations : To avoid such problems or to repair the damage when it occurs, larger companies have put in place public relations departments. People in these departments write news releases and plan events designed to present a favourable image of the company.

Not only large companies but also well-run businesses do not leave things to chance. They work hard to create a favourable image. They engage in public relations.

Public relations refer to any activity designed to create goodwill toward a business.

The types of activities that qualify as public relations and the audiences to which they are targeted are many and varied. Businesses are concerned with their employees, customers and the general public.

Employees: To customers, employees are the company. Successful businesses have loyal and well-motivated employees. The public relations staff work with management to design programs that foster such attitudes. These programs include:

i). job training.
ii). Newsletters for and about the company and its employees.
iii). Open communication between management and employees.
iv). Promote from within.
v). Awards for employees for improvement in performance and efficiency.

Customer Relations: Good communication between employees and customers is vital in promoting a favourable business image. Many retail firms also offer special services and amenities in order to maintain good customer relations.

Other public relations efforts include customer advisory boards. These are panels of consumers who make suggestions on new products and services. Customer advisory boards are used by manufacturers and retailers alike to test new products or services.

Other firms employ consumer affairs specialists to handle consumer complaints and to serve as consumer advocates within the firm. Many businesses also sponsor special events to foster positive customer relations.

Community Relations

Community relations refers to the activities that a business uses to acquire or maintain the respect of the community. Business fosters good community relations by participating in and sponsoring activities that benefit the civic, cultural and social life of a community. Businesses need to be active members of their communities. This helps to create a goodwill for their business participants.

c). Sales promotion

This is the use of marketing devices such as displays, premiums, and contests, to stimulate purchases. It includes such special events as fashion shows and vendor demonstrations. It does not include personal or face-to-face selling, advertising, or publicity. The objectives of sales promotion are to increase customer traffic (and thus sales), to inform customers about new products and policies, and to create a positive store image.

Displays: window, floor, and counter displays are all forms of visual merchandising. By exposing potential customers firsthand to a company's products, displays stimulate sales and serve as in-store advertisements.

Product samples: one form of sales promotion is the product sample. A product sample is a free trial size of a product that is sent through the mail, distributed door-to-door, or through retail stores and trade shows. Detergents, toothpastes, shampoos, etc., are frequently promoted this way.

Samples are especially important in promoting new products. Drug manufacturers frequently give samples to doctors to try with their patients. Teachers sometimes receive sample textbooks to encourage them to buy classroom set.

Contests and Rebates: Many products are promoted through contests and rebates. These are used by businesses to create excitement and interest and thereby generate sales.

Contests are games and activities that require the participant to demonstrate a skill. This can include writing a short story or an essay about a product, naming a product, or creating a new advertising slogan. Contest winners are awarded such prizes as all-expense paid trips and money. Contests helps promote store traffic and maintain product loyalty. As a result, buying often increases.

Rebates are discounts offered by manufacturers for purchasing an item during a given time period. Firms may use rebates to encourage customers to buy their products.

Premiums: The most popular and frequently used sales promotion devices at consumer level are premiums. Premiums are prizes or rewards offered to a customer as an added inducement to make a purchase. They are designed to increases sales by building product loyalty, attracting new customers, and increasing store traffic.

d). Personal selling

Advertising, publicity, and sales promotion are forms of non-personal selling. Non personal selling involves communicating with customers in ways other than through direct contact. The remaining way for a business to communicate with its customers is through personal selling.

Personal selling involves making an oral sales presentation to one or more potential buyers. It is the principal responsibility of sales personnel.

There are two types of sales personnel. These are order-taking personnel, and order-getting personnel.

Order-taking personnel, such as cashiers, counter clerks, and sales associates, perform routine tasks. At the retail level, they set up displays, stock shelves, answer customer inquiries, and operate cash registers.

Order-getting personnel, such as professional sales people, are more involved in informing customers and helping them to buy. Generally, order-getting sales personnel sell items. They usually receive more intensive training than their order-taking counterparts.

Personal selling is designed to complete a sale once a customer is attracted to a business by advertising, publicity, or sales promotion.

If the sales presentation is done well, personal selling improves customer satisfaction. This is because the salesperson can use information gained from the personal contact to address the customer's unique concerns and problems.

The **advantage** of personal selling is that it is the most flexible and individualized of the promotion devices available to business.

The **disadvantages** of personal selling are as follows**:**

1. A salesperson can help only one person at a time. This means that to reach many customers, a larger sales staff is needed. This will mean more expenses to meet the requirements of a larger staff.

2. A business that relies on personal selling must make sure that their employees completely understand the selling process to ensure continued sales and goodwill. This may mean additional training. As a result, the cost of personal selling is likely to be higher.

The Concept of Promotional Mix

After a business establishes a promotional budget, it must determine its promotional mix. Promotional mix is the combination of different types of promotion a business uses to persuade customers to buy its products.

Many businesses use more than one type of promotion. Each of the promotion is designed to complement the other. All types of promotion must be coordinated.

8.7.4 PRODUCT

Your decisions about your product are extremely important to your marketing. This is so because they will help you to achieve two things:

- Satisfy the requirements of your target market.
- Meet your enterprise's business objectives.

THE PRODUCT CONCEPT

A product is any item or service that satisfies the need of a consumer. A product can be a physical product such as leather belts. It can be a service such as a hair cutting salon. It can also be a mix of physical goods and services, such as a hardware store and free advice on building.

8.8 BRANDING

A firm should also focus on developing the required branding for its products. A brand is a name, design, or symbol that identifies the products of a company. Branding identifies and helps to differentiate the goods or services of one seller from those of another. It consists of a name, sign, symbol, or some combination thereof.

Brands consist of two types of attributes. These are:

a) **Intrinsic attributes:** These are the functional characteristics of a product. If a firm decides to alter the intrinsic attributes the effect will be that the product itself will be altered too.

b) **Extrinsic attributes:** These are attributes such as the brand name, marketing communication strategy used, etc. Altering these will not alter the product.

Benefits of Branding

Brands develop personalities and encapsulates the core values of a product.

For the **customer**, branding is important because:

a) It makes it easier for the customer to identify the products.
b) It provides continuity and consistency.
c) It reduces risk.
d) It helps gauge product quality.
e) It provides psychological rewards (e.g. it satisfies certain status needs).
f) It provides cues about the nature of source of the product and its vales.

For the **manufacturer**, branding:

a) Helps to differentiate the product.
b) Make purchase decision easier.
c) Enables premium pricing.
d) Promotes loyalty. Some customers will always be loyal to the product and buy it all the time.
e) Enables integrated marketing communications.
f) Helps corporate identity,
g) Provides legal protection for the product

The Strategic role of branding

Branding is strategically important because it can be used to:

a) Defend the market share.
b) Group brands.
c) Protect established positions.
d) Attack competing brands.
e) Deter market entry by other brands.
f) Help a firm to achieve customer retention.

Branding Strategies

There are several branding strategies that a firm may choose from. The following are the strategies:

a) **Individual Brands:** In this type of branding the firm provides a brand name for each product. Thus, the product is known by its name instead of the name of the company making the product.

   The advantage of individual branding is that it reduces the risk should one product fail. This is so because the risk of one product failing will not affect the other products. Thus, such a risk will be confined only to that one product. The other advantage is that it promotes competition in multiple entries within the same product class.

b) **Family Brands:** in this type of branding, a firm uses one brand name to cover a group of its products. The advantages of this kind of branding are:

   i). It facilitates the promotion of product line items.

   ii). It is less costly compared to individual branding.

   However, its main disadvantage is that it may prove ineffective if it covers both high quality products and low quality products. The inclusion of low quality products may destroy the family brand.

c) **Co-Branding:** this strategy involves putting two brands together to form a new brand.

d) **Global Brands:** these are brands that have a wider scale of coverage. Taking on many countries. Thus the brand of the manufacturer is sold globally in many different countries and continents world-wide.

   The advantage of this kind of branding is that it dramatically improves sales and profit. However, its main drawbacks are:

   i). It requires heavy investment.

   Ii). It may attract negative association of the name in some countries.

e) **National Brands:** These are brands of the manufacturer that are sold nationally. Like global brands, the advantages of these brands are that they are likely to increase sales and generate profits. However, they also need heavy investment.

National brands (also called manufacturer brands) are nationally recognized. Some national brands are so popular that they help attract customers to a business. National brands generate the majority of sales for most product categories.

National brands not only identify a product but also indicate a standard quality and price. They appeal to customers who want consistent quality, dependable product performance, status, and who will not take risks with unknown goods and services

f) **Store Brands (Private Brands):** In case of private brands or store brands, products are sold under a brand name created by the retailer. In recent years, high quality store brands have gained considerable ground versus national brands. The main advantage of this type of a brand from the customer's side is that its products are relatively cheaper compared to other brands.

Private brands appeal to customers who want quality and good performance but at a lower price. Many large stores and retail chains have private brands.

Private brands are popular because they are more profitable. They are better controlled by retailers because they cannot be sold by competitors and thus can lead to retailer (rather than to manufacturer) loyalty.

Unbranded Merchandise

Some customers are unwilling to pay the higher prices of branded products. These customers often purchase generic products (products that carry no brand name). They are often sold in supermarkets and discount stores. Such products are often priced lower than branded goods. They cost less because they are not heavily advertised.

Product planners must know their markets and customers well. By understanding buyer preferences for certain products, a business can provide a proper balance of products for its target market.

9.1 What is marketing Research?

Marketing research is the process of getting the marketing information needed to make sound business decisions. It involves the systematic gathering, recording, and analyzing of data about problems related to the marketing of goods and services.

The primary emphasis of most marketing research, is to obtain information about the preferences, opinions, habits, trends, and plans of potential customers.

9.2 Conducting Marketing Research Process

Five major steps are involved in the marketing research process. Each step must be performed sequentially and systematically to arrive at a solution to a problem. The following are the steps in the marketing research process:

Step 1: Problem Definition

Defining the problem is one of the most important steps in marketing research. Problem definition occurs when you have identified the problem that your proposed program of research intends to address. A marketing researcher should clearly state the problem.

Step 2: Design the Research

i). State whether you will follow a **qualitative** or **quantitative** research methodology.

ii). Determine the data collection Method: This may be either through any of the following methods:

- Observation method.
- Survey method.
- Experimental method.

iii). Determine the contact methods: This may be done through any of the following or a combination of them:

- Face to face contact or interviews.
- Telephone.
- Mail, or email.

iv). Design the sampling plan

- From which population will the sample of respondents be drawn from?

- What will be the sample size?
- What will be the method of sampling?

Step 3: Obtaining Data

During the second step in the marketing research process, data are obtained and examined about the problem and problems being studied. The word data means facts.

There are two types of data used in marketing research. These are primary data and secondary data.

Primary data are raw facts and figures obtained for the first time and used specifically for the particular problem under study.

Secondary data are facts that have already been collected, and are used for some other purpose than the current study.

Primary data are obtained using the following methods:

i). The survey method: This is a research technique in which information is gathered from people directly through the use of questionnaires. This is a written list of questions pertinent to the identified problem.

The survey method is the most frequently used method for collecting primary data.

ii). The Observation Method

The observation method is a research technique in which the actions of people are observed and recorded. This method is frequently used to get information about employee performance or customer behavior.

The observation technique may either use natural or contrived observations.

With natural observation, customers or employee are observed by the researcher as they would naturally act in a given situation. For example, the researcher may personally observe the customers as they shop, enter or leave a store. Sometimes, the researcher may choose to use hidden cameras to observe the customers or people under study.

Some observations are contrived (devised). For example, observers pose as customers to measure the effectiveness of the selling techniques used by sales people. The salespeople are observed with respect to approach, sales presentation, product knowledge, and suggestion selling.

For the observation technique to be successful, data from the observation must be recorded, actions must be identified and behaviours noted.

iii). Experimental Methods: this is a research technique in which one or more marketing variables are observed under controlled conditions.

For example, a business may want to compare the effectiveness of two different advertisements. To do so, the researcher will select two similar groups of consumers. One group is shown one advertisement, and another group is shown the other.

The adverts are the variables, while the two groups are the controlled condition.

If one advert gets a better response, the business may choose it for its advertising campaign.

The experimental method of marketing research is least used often. This is because of high costs of setting up the research situation.

Step 4: Data Analysis

The third step in the marketing research process is data analysis. Data analysis is the compiling, analyzing and interpreting the results of primary and secondary data collection.

The accurate compiling of data allows marketing researchers to carefully analyze and interpret data in order to make recommendations to management regarding the problem being studied.

Step 5: Recommending solutions to the Problem

Successful research usually results in the development of several alternatives or recommendations for solving a problem. Recommendations must be well written and well organized so that the appropriate business managers will understand them. This means the recommendations must be clear and well supported by the research data.

A typical research report outline includes:

- Title page.
- Acknowledgements to people who assisted in the research effort.
- Table of contents.
- Lists of tables, figures, charts, and graphs.

- Introduction (includes the problem under study, its importance, definitions, limitations of the study, and basic assumptions).
- Literature review (including the results of any secondary data reviewed for purposes of the research effort).
- Procedures used (research techniques used to obtain primary data).
- Findings
- Recommendations.
- Summary and conclusions.
- Appendices.
- Bibliography.

Step 6: Report the Results the Decision Maker

Report your findings in line with the objectives of your research. This is especially easier if at the beginning your marketing research started with clearly defined objectives.

Step 7: Implementing the Findings

After a research effort has been completed, the findings of the marketing research should be implemented.

Once the recommendations have been implemented, a business should carefully monitor the results. A Business needs to know whether the specific actions taken are successful and to what extent are they successful.

ACTIVITY

- Discuss the importance of marketing to the business.
- What is marketing segmentation? State its benefits.
- Differentiate branding from packaging.
- What is marketing research? Why is important to the business?

SUMMARY

You have come to the end of the unit. In this unit we have discussed the marketing concept in details and the marketing research as a tool for business planning and management. You will need enough time to get back and review the unit at your own free time.

UNIT 9

BUSINESS PLANNING

Introduction

You must be aware that for a business to succeed, it must have a plan that provides a link between short- and long-term goals, helps to tie specific activities to goals, identifies resource constraints and commitments, and outlines expected returns and payoffs. Planning helps the testing of ideas on paper before implementation, and builds confidence to move forward and take advantage of opportunities. Managers can feel more in control when they are proactive, rather than reactive. This unit therefore, exposes you to the business planning, budgeting the context of business planning. The unit further discusses legal responsibilities and business ethics that organizations need to be aware of in the course of running their businesses.

9.1 Outcomes

Upon completion of this unit you will be able

(i) Explain what business planning is
(ii) Describe the main features of a business plan
(iii) Describe the stages of budgeting
(iv) Explain the legal responsibilities of an organization
(v) Explain the business ethics affecting an organization

9.3 Terminology Planning

A basic management function involving formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources. The planning process

(i) identifies the goals / objectives to be achieved,
(ii) formulates strategies to achieve them,
(iii) arranges or creates the means required, and
(iv) implements, directs, and monitors all steps in their proper sequence.

9.4 Business planning

Business planning is all about finding, describing and refining the competitive advantage of a particular operation to assist in achieving its goals and objectives (production, financial, transitional, family, etc.). Jack Welch, former CEO of General Electric is often quoted as saying, "If you don't have a competitive advantage, don't compete."

So, what is a competitive advantage? In an industry where there are many participants, such as agricultural production, a competitive advantage is something that you, as a single producer, can do better than anyone else. It may be producing the best genetic cattle, the tastiest vegetables, or it may be producing these things cheaper than anyone else.

Business planning is about finding, describing and refining your competitive advantage and moving your business in a direction so that the goals and objectives of the business can be fulfilled. This material will help answer some of the key questions regarding the planning process. Business planning is not a new concept. Planning relies on components that have been used by managers for many years. The plan should serve as a mechanism to connect the production, marketing and financial aspects of the operation, while at the same time considering retirement and business transition needs, etc. In a very general sense, the plan is a statement of how you intend to react to the constant changes in the business environment in which you operate, and how to achieve the goals and objectives that you have set. Most importantly, the process can help to identify the competitive advantage (or advantages) of your individual operation, and help you to devise specific strategies and tactics to capitalize on those advantages.

Specifically, the planning process helps to:

- Identify goals. (What do you want to accomplish?)
- Identify inventory resources. (What do you have to work with?)
- Assess the business and environment in which the operation exists. (What might you do in the future?)
- Analyze business performance. (How have you done in the past?)
- Decide on actions. (What will you do now?)
- Implement strategies. (How will you do it?)
- Evaluate the plan. (Is it working?)

9.3 Outline of the business plan

Arising from the above, would you think of an outline of a business outline? When you complete check if some of your thoughts are similar to those outlined below:

1. Cover Sheet: Business Name, Address, Phone Number, Principals

2. Executive Summary or Statement of Purpose

3. Table of Contents

(a) Section One:
The Business
(i) Description of Business
(ii) Products/Services
(iii) Market Analysis
(iv) Marketing Plan

(v) Location
(vi) Competition
(vii) Management and Operations
(viii) Personnel
(ix) Application and Effect of Loan or Investment

(b) Section Two:
Financial Data
(i) Projected Financial Statements
Income Statements, Cash Flow Statements, Balance Sheets, Assumptions to Projected Financial Statements
(ii) Break Even Analysis
(iii) Sources and Uses of Funds

(c) Section Three:
(i) Supporting Documents Historical financial statements, tax returns, resumes, reference letters, personal financial statements, facilities diagrams, letters of intent, purchase orders, contracts, etc.

9.4 Budgeting

Budgeting is the process of creating a plan to spend your money. This spending plan is called a budget. Creating this spending plan allows you to determine in advance whether you will have enough money to do the things you need to do or would like to do. Budgeting is simply balancing your expenses with your income.

9.5 Objective of budgeting

After looking at the defining of budgeting above can you possibly identify the objectives
of budgeting? Well see if your thoughts agree with mine. The main objectives of budgeting
are to:

(i) Control finances
(ii) Ensure continued funding of current commitments
(iii) Enable an organization make confident financial decisions and meet its objectives
(iv) Ensure there is enough money for future projects

9.6 **Keep Steps of drawing a Budget**

There are a number of key steps you should follow to make sure your budgets and plans are as realistic and useful as possible.

(i) Make time for budgeting

If you invest some time in creating a comprehensive and realistic budget, it will be easier to manage and ultimately more effective.

(ii) Use last year's figures - but only as a guide

Collect historical information on sales and costs if they are available - these could give you a good indication of likely sales and costs. But it's also essential to consider what your sales plans are, how your sales resources will be used and any changes in the competitive environment.

(iii) Create realistic budgets

Use historical information, your business plan and any changes in operations or priorities to budget for overheads and other fixed costs.

It's useful to work out the relationship between variable costs and sales and then use your sales forecast to project variable costs. For example, if your unit costs reduce by 10 per cent for each additional 20 per cent of sales, how much will your unit costs decrease if you have a 33 per cent rise in sales?

Make sure your budgets contain enough information for you to easily monitor the key drivers of your business such as sales, costs and working capital. Accounting software can help you manage your accounts.

(iv) Involve the right people

It's best to ask staff with financial responsibilities to provide you with estimates of figures for your budget - for example, sales targets, production costs or specific project control. If you balance their estimates against your own, you will achieve a more realistic budget. This involvement will also give them greater commitment to meeting the budget.

9.7 Benefits of a business budget

There are a number of benefits of drawing up a business budget, including being better able to:

(i) manage your money effectively
(ii) allocate appropriate resources to projects
(iii) monitor performance
(iv) meet your objectives
(v) improve decision-making
(vi) identify problems before they occur - such as the need to raise finance or cash flow difficulties
(vii) plan for the future
(viii) increase staff motivation

9.8 Legal Responsibilities

The word legal refers to anything having to do with the law. In Zambia, the legal system is the combination of laws, processes, and people that go together to protect our rights and safety. Elected officials, judges, the courts, lawyers, and police officers are all part of the legal system. When running an enterprise, ensure that you observe the following legal requirements:

9.8.1 Registration and Certificate of Incorporation

One of your legal obligations before you start operating is to first ensure that you register your firm. Registration will enable you to get a certificate of incorporation.

In Zambia, companies are formed by registration under the Companies Act Chapter 388 of 2006 of the Laws of Zambia. Thus, a company is formed by the issuance of a certificate of incorporation by the Registrar of Companies. The certificate identifies the company by name and serial number.

9.8.2 Paying Taxes

Another legal obligation of any business firm is to ensure that the firm pays its fair share of taxes. There are many different types of taxes that a business firm and its employees are expected to pay. Some of these are, property taxes (taxes levied on the value of property), corporation taxes (levied on all corporations), presumptive taxes (taxes paid by people in the informal sector, e.g. marketeers, minibus, and taxi drivers), etc. All governments in the world have a tax system. This is because it costs money to run a government, and the tax system is the government's way of obtaining this money.
To help in the collection of Taxes, the Zambian government established the Zambia Revenue Authority to undertake this task.

9.8.3 Price Discrimination: A business firm should guard against engaging in price discrimination. This is a legal requirement that every businesses entity should observe. Price discrimination occurs when a seller charges different buyers' different prices for the same product, and when the price differences are not related to cost differences.

9.8.4 The Environmental Council of Zambia regulates business firms as to the amount of pollution they can emit into the air or rivers. As a manager of an enterprise, you must know the limits of how much you can legally emit in the environment.

9.8.5 The National Pension Scheme Authority (NAPSA) ACT N0. 40 of 1996 of the laws of Zambia requires every employer who are runs an enterprise to pay to NAPSA in respect of his or her employees. The NAPSA Scheme consists of an employer's contribution and an employee's contribution. A contributing employer shall pay contributions to NAPSA each month.

9.8.6 The Industrial and Labour Relations Act N0. 27 of 1993 of the laws of Zambia states that every employee shall as between himself and his employer, have the following rights:

- The right to take part in the formation of a trade union.
- He right to be a member of any trade union of his choice

No employer, or any person acting on his behalf shall prevent, dismiss, penalize or discriminate against or deter an employee from exercising these rights confirmed on him by sub section (1).

9.8.7 The Minimum Wages and Conditions of Employment Act (Laws Volume 15 Cap 276) Statutory Instrument N0. 7 of 2006 of the law of Zambia outlines the required minimum wages that employers should pay their least paid employees. Usually people who are engaged as a general worker, cleaner, handyman, an office orderly, or a watchman are the least paid.

As an employer running an enterprise it is your responsibility to find out the minimum wages before you engage people as employees.

9.8.8 The Factories Act (CAP 441) OF 2006 0f the laws of Zambia states that this act is intended to make further and better provision for the regulation of conditions of employment in factories and other places as regards the safety, health and welfare of persons employed therein, to provide for the safety, examination and inspection of certain plant and machinery, and provide for purposes incidental to or connected with the matters aforesaid.

- The act requires firms to provide protective clothing and appliances to their employees.
- It requires all employers to provide a safe working environment.

9.8.9 The Workers' Compensation Act N0. 10 OF 1999 of the laws of Zambia was created to provide for the establishment and administration of a Fund for the compensation of workers disabled by accidents occurring, or diseases contracted in the course of employment, and to provide for the payment of compensation to dependents of workers who die as a result of accidents or diseases. Employers are required, by the law, to make payments to the Fund on behalf of their employees.

9.9 Business Ethics

Business ethics is when an entrepreneur knows the right and wrong behaviour in doing business.

What are some of the ethics (rules) in business?

(i) The goods and services must be of good quality.

(ii) The business must not break the laws of the land.

(iii) The business must be honesty and fair towards its customers (respecting customer rights).

(iv) The business must be socially responsible to the community. This means helping the community.

(v) Prices should be fair.

(vi) No misleading advertising (cheating).

(vii) Employees must be treated with respect and be paid fair wages and salaries (observe the minimum wage).

(viii) The employer must be flexible when dealing with its customers and employees.

Desirable Business Ethics

(i) Honesty
(ii) Integrity

(iii) Fairness
(iv) Loyalty
(v) Dependability
(vi) Flexibility
(vii) Punctuality
(viii) Responsibility

9.10 Insurance

Business insurance protects against losses in four major risk areas. These are loss of property, liability losses, loss of earning power, and loss due to dishonesty or non-performance.

9.1.1 Loss of Property

There are many forms of insurance available to protect against property losses. The two most common are fire and marine insurance.

(i) **Fire Insurance policies** can be used to cover loss or destruction of an enterprise's buildings, fixtures, machinery, equipment, or other property resulting from fire.

(ii) **Marine insurance policy** can be used to cover the loss of goods that are being transported by water. Marine insurance may be in form of ocean marine insurance or inland marine insurance.
(iii) **Burglary and robbery insurance:** this protect against losses due to theft of money, merchandise, and other business items.
(iv) **Vehicle insurance:** protects against loss in the event of theft or property damage to cars, trucks or other vehicles. It also protects against personal injury to the driver or passengers

9.1.2 Loss of Earning Power

Business interruption insurance: This is the type of insurance that compensates a business for loss of income during the time repairs are being done to a building or property after a natural disaster.

9.1.3 Loss due to Dishonest or non-performance

(i) **Fidelity Bonds:** These protect a business from employee dishonesty. Usually, businesses require employees who handle money to be bonded. If a bonded employee steals the money, the bonding company pays the loss. This is to reimburse the enterprise for the losses.

(ii) **Performance Bonds:** These are also called surety bonds. They insure against losses that might occur when work or a contract is not finished on time as agreed. For example, a building contract might be required to purchase a performance bond to guarantee completion of the job on time and according to specification. The company that issues the performance bond is responsible for damages if the contract is not completed.

9.1.4 Liability

Product liability insurance: protects against business loss resulting from personal injury from defective products manufactured or sold by a business.

Risk-transfer mechanism that ensures full or partial financial compensation for the loss or damage caused by event(s) beyond the control of the insured party. Under an insurance contract, a party (the insurer) indemnifies the other party (the insured) against a specified amount of loss, occurring from specified eventualities within a specified period, provided a fee called premium is paid. In general insurance, compensation is normally proportionate to the loss incurred, whereas in life insurance usually a fixed sum is paid. Some types of insurance (such as product liability insurance) are an essential component of risk management, and are mandatory in several countries.

Insurance, however, provides protection only against tangible losses. It cannot ensure continuity of business, market share, or customer confidence, and cannot provide knowledge, skills, or resources to resume the operations after a disaster.

9.11 Reflections

Do organizations need to write out business plans. If your answer yes, justify your answer.

9.11 Activities

(a) Outline the frame work of a business plan.
(b) Why is budgeting critical to business planning?
(c) What are some of the legal responsibilities and business ethics that an organization must adhere to when conducting its business?

9.12 Summary

In this unit you have learnt about business planning, its importance and the main features of the business plan. The unit further helped you appreciate budgeting in the context of business planning, the purpose of budgeting and the importance of budgeting. The unit ended at discussing the legal responsibilities of an organization and that organizations must adhere to business ethics.

UNIT 10

ENTREPRENEURSHIP AND VALUE ADDITION

Introduction

You will realize that entrepreneurship is not all about continuously looking for business opportunities outside, but also persistently identifying and asking what value can be added to the existing products either produced or already on the market and sell them at a higher amount. As you are aware, Zambia is rich in natural resources. Most of them are in raw form, others are in the primary and secondary industries. A few are in the tertiary industries. Identifying what value can be added at whatever stage demonstrates innovation. This unit therefore, discusses the value addition to the existing products and services to so as to maximize profits.

Objectives

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

- Describe what value addition is.
- Explore areas ripe for value addition.
- Exploit existing business opportunities from value addition.

The concept of value addition

What is Value Added?

Value Added is the extra value created over and above the original value of something. It can apply to products, services, companies, management, and other areas of business. In other words, value-added is the enhancement made by a company/individual to a product or service before offering it to the end customer. Value can be added to, a product, a service, a process, or an entire business. Value can be added by way of providing better or extra services in the form of after-sales services and better customer support. Value can also be added by improving a product in some way, or by including extras with the product. For example, a retail seller of computers

can add value by including software or computer accessories with the basic product, the computer.

Companies with strong branding can add value to their products or services simply by way of using the company's logo to sell the product.

Gross Value Added

Gross Value Added (GVA) helps to measure the contribution to an economy of an individual sector, region, industry, or producer. In, other words GVA helps to measure the gross value-added by a particular product, service, or an industry. GVA is important because it helps to calculate Gross Domestic Product, which is a key indicator of the state of the nation's total economy.

GVA can be calculated using the Value Added Statement (VAS). Net Value Added can be calculated by subtracting Depreciation from Gross Value Added.

Economic Value Added

Economic Value Added (EVA) can be defined as the incremental difference between a company's rate of return and its cost of capital.

Economic Value-Add is used to measure the value that a company generates from the funds invested into it.

EVA helps to quantify the cost of investing capital into a project. It also helps to assess whether the project is generating enough cash to be considered a good investment. EVA indicates the performance of a company on the basis of where and how the company created wealth.

Areas for value addition in communities

Below is a table for you to identify the products and services and state the value you can add to make the product/services marketable or profitable. The first one has been done for you as example.

S/N	PRODUCT/SERVICE	VALUE TO ADDITION
1	**Vegetables**	- **Drying them and make/sell them as food supplements.** - **Drying them, grinding and makes spices from them.** - **Packaging them nicely in branded packets or carrier bags.**
2		
3		
4		
5		
6		
7		

ACTIVITY

Identify products and services for value addition in the chiefdom and draw a value addition strategy to exploit those opportunities.

SUMMARY

You have come to the end of the unit. The unit discussed areas and the need for value addition. Continuous identification of areas for value addition bring about the need innovation and sustainability. Hope you enjoyed the unit.

UNIT 11

BUSINESS TRANSACTIONS AND BUSINESS DOCUMENTS

Introduction

Business transaction refers to the legal process of exchanging goods with goods and services. It is the process of buying and selling goods and services. For transaction to take place, there must be a seller who has goods or services and then a buyer who wants the goods or services. The two must agree to make the contract binding.

Business documents are documents that are used in business transactions. Business documents make the business transaction legal and binding. In the exchange of goods and services, there are many documents that are used for the smooth running of the business. Documents are written records of transactions which take place between different persons or parties.

11.1 Outcomes

Upon completion of this unit you will be able

(i) Define business transactions.

(ii) State three types of business transactions.

(iii)Discuss the three types of business transactions.

(iv)Define business documents.

(v) State the significance of business documents.

(vi)Explain the main features of the business documents.

(vii) List and describe at least 15 business documents.

11.2 Business Transactions

Business transaction refers to the legal process of exchanging goods with goods and services. It is the process of buying and selling goods and services. For transaction to take place, there must be a seller who has goods or services and then a buyer who wants the goods or services. The two must agree to make the contract binding.

11.3Types of Business Transactions

(i) Barter Transaction

This is the exchange of goods with goods or services. It is the oldest type of business transaction in the world. In this type of transaction, people are able to exchange goats with pigs, beans with clothes, chickens with a service of cultivating a piece of land etc.

(ii) Credit Transaction

This is the type of transaction where the services/goods are collected and payment is made later. In this type of transaction, an invoice is used to prove that a debt is there.

(iii) Cash Transaction

This is the type of transaction where services/goods are collected and payment is made immediately. With the coming of technology, there are many ways of participating in cash transactions. These include;

- Payment by hard cash.
- Payment by cheque
- Payment by the debit card/Visa card.
- Internet/mobile banking.

11.4 Business Documents

Business documents are documents that are used in business transactions. Business documents make the **business transaction legal and binding**. In the exchange of goods and services, there are many documents that are used for the smooth running of the business. Documents are written records of transactions which take place between different persons or parties.

11.5Significance of Business Documents

From the introduction above, are able to deduce the importance of business documents? Below are the reasons why business documents are important:

(i) To prove that a business **activity** has taken place.

(ii) To provide **future reference** in case it becomes necessary.

(iii) To provide **information** that is useful for various purposes such as making business **decisions and payment.**

(iv) To work as a **source form** which other business records can be made such as **book keeping records.**

(v) To provide **back ground information** about the business.

(vi) To provide detailed information about the **goods** and **services** available for sale e.g. catalogue, quotation, price list and many more others.

(vii) To acknowledge receipt or payment of money e.g. cash sale slip and receipt.

(viii) To know the customers who have taken goods on credit (debtors), e.g. invoice.

(ix) To help in proper assessment of taxes such as VAT basing on the volume of sales, purchases and many more.

Various transactions use different documents depending on the type of transaction and the terms of payment agreed upon between the buyer and the seller.

11.6 Features of Business Documents

Arising from the above, you should be able to realize that business documents have the following features:

(i) Name and address of the business originating the document (seller/buyer).

(ii) Name and address of the business receiving the document (seller/buyer).

(iii) Name of the document e.g. quotation, receipt etc.

(iv) Document number (serial number)

(v) Date when the document is written.

(vi) Types/description of goods/services in question; e.g. dozens, boxes, colour, size etc.

(vii) Quantity of goods

(viii) Unit price and total amount.

(ix) Terms and conditions of the transaction.

(x) Name/signature of the person who prepared/received.

11.7 Types of Business Documents

(a) Catalogue

It is a business document which is more like a pamphlet or booklet that displays pictures and prices of the goods on sale. It may also be used for advertising.

(b) Price List

It is a list of items sold by the person to whom an Inquiry is sent, together with the price at which each item is sold. It can serve the purpose of the catalogue.

(c) Inquiry Note

This is a letter sent by a potential buyer to the supplier/seller seeking information about the goods or services offered for sale, the prices pertaining them and the terms of sale and delivery of goods.

(d) Invitation to Tender

This is a document that is similar to an inquiry note but it is addressed to more than one seller or buyer of good or services requiring them to state the conditions under which they are willing to sell or buy the goods. Invitation to tender are usually advertised in newspapers, radios and televisions.

(e) Quotation

This is a business document prepared in response to an Inquiry by the potential seller to the possible buyer containing terms and conditions under which goods can be sold. It describes the goods/services, unit price and total, and the terms and conditions for the transactions.

(f) Order Form

It is a business document which is sent by a prospective buyer to the seller requesting him to supply the specified goods. It is also termed as Local Purchase Order (L.P.O). It authorizes the seller to supply the goods/services requested.

(g) Proforma Invoice

It is a business document sent by the seller to the buyer showing the quantity sent and the prospective prices. It shows the terms and conditions under which the goods have been supplied. It is similar to an invoice but it does not guarantee credit. It may be sent together with the goods.

(h) Invoice

It is a summary of the details concerning goods supplied on credit. It is usually written in duplicate where by the seller retains a copy and the original is sent to the buyer. It acts as notification of the amount owed by the buyer for the goods and services bought and evidence of the debt to the seller.

(i) Advice/Dispatch Note

It is a document sent by the supplier/seller to the buyer informing him/her that the goods ordered are on the way. It shows the exact time the goods should be expected. This gives the buyer ample time to prepare transport and storage for the goods.

(j) Delivery Note/Consignment Note

It is a document sent by the seller to the buyer along with the goods being delivered. Its purpose is to serve as evidence of physical transfer of the goods from the seller to the buyer. The buyer signs on it confirming that the goods ordered have been received in good condition and as ordered. If there is any error noticed, the buyer has to notify the supplier as soon as possible for

correction to be made. In a consignment, the supplier/sender is called a consigner and the receiver/buyer is termed as the consignee.

(k) Credit Note

It is a business document sent by the seller to the buyer to adjust an overcharge or if part of the goods supplied are returned to the supplier. A credit note can be sent if wrong description or quantities or qualities of goods are sent, if the goods are damaged or expired etc.

(l) Debit Note

It is a business document prepared by the seller to the buyer adjusting the undercharge in the invoice which could be wrong price in the quotation, errors in calculating, omissions etc. it means that the buyer has to pay more than the initial amount.

(m) Cash Sale Slip

It is a business document prepared by the seller to the buyer who pays cash at the time of purchasing the goods. It serves as evidence of receipt of money in cash and is only issued for cash transactions.

(n) Receipts

It is a business document prepared by the seller to the buyer acknowledging payment of debt by the buyer and concludes a credit transaction.

(o) Cheque

It is a business document or an order from an account holder to his/her bank, requesting the bank to pay the stated amount of money to the named person or bearer. The cheque book must officially be issued by the bank, should have a cheque number, account number from which the money should be withdrawn, the bank name where the account is operated and space where the payee is named, amount stated and for the signature. Moreover, it has the counterfoil which remains in the cheque book, showing the details of the cheque being given out.

(p) Statement of Account

It is a document issued by the seller to the buyer indicating a summary of transactions between the seller and buyer for a particular period of time. It is issued periodically, usually monthly, quarterly or semi-annually. It usually starts with the balance brought forward followed by entries relating to transactions and ends with a closing balance which the supplier expects to be paid.

11.1 Reflections

Do organisations need business documents in the running their businesses?

11.1 Activities

1. Discuss the features of the following: barter, credit and cash transactions

2. State and discuss the types of business transactions available. Clearly state the advantages and disadvantages of each. (20 marks)
3. Define business documents.
4. Outline the significance of business documents
5. Explain the main features of the business document.
6. List and describe at least 15 business documents.

11.8 Summary

In this unit you have learnt that for transaction to take place, there must be a seller who has goods or services and then a buyer who wants the goods or services. The two must agree to make the contract binding. Further you have also learnt that there are different types of business transactions; and these are barter, credit and cash transactions.

Additionally, you have covered business documents that are used in business transactions. They validate a business transaction. Business documents have several features and some of them are, name and address of supplier, date, description of goods and services, quantity, unit price, terms and conditions etc.

UNIT 12

BASIC ACCOUNTING

12.0 Introduction

Welcome to Unit 11, 'Basics of Accounting. This Unit will define accounting, provide a brief history of accounting, the accounting equation and the principles of double of double entry. The Unit goes further discusses books of original entry such as the journal and the cash book. Additionally, the unit will discuss the trial balance and it will end by providing basic information about the four financial statements.

12.1 Outcomes

Upon completion of this unit students, you will be able

- Explain what accounting is about
- Briefly describe the history of accounting
- Present and explain the accounting equation
- Explain what is meant by 'double entry'
- Prepare a trial balance from a set of accounts
- Explain why the debit and credit trial balance totals should equal one another
- Explain how the double entry system follows the rules of the accounting equation
- Briefly discuss the four principle financial statements

12.2 Terminology

Accounting can be defined as 'the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information'. In other words, accounting involves deciding what amounts of money are, were, or will be involved in transactions (often buying and selling transactions) and then organizing the information obtained and presenting it in a way that is useful for decision making.

12.3 History of Accounting

Accounting began because people needed to:

(i) record business transactions,
(ii) know if they were being financially successful, and
(iii) know how much they owned and how much they owed.

Accounting is known to have existed in one form or another since at least 3,500 BC (records exist which indicate its use at that time in Mesopotamia). There is also considerable evidence of accounting being practiced in ancient times in Egypt, China, Greece, and Rome. In England, the 'Pipe Roll', the oldest surviving accounting record in the English language, contains an annual description of rents, fines and taxes due to the King of England, from 1130 to 1830.

However, it was only when Paciloi wrote about it in 1494 or, to be more precise, wrote about a branch of accounting called, ‘bookkeeping’ that accounting began to be standardized and recognized as a process or procedure.

One accounting scholar (A. C. Littleton) suggested that seven key ingredients which were required before a formal system could be developed existed when Pacioli wrote his treatise:

(i) Private property. The power to change ownership exists and there is a need to record the transaction.

(ii) Capital. Wealth is productively employed such that transactions are sufficiently important to make their recording worthwhile and cost-effective.

(iii) Commerce. The exchange of goods on a widespread level. The volume of transactions needs to be sufficiently high to motivate someone to devise a formal organised system that could be applied universally to record transactions.

(iv) Credit. The present use of future goods. Cash transactions, where money is exchanged for goods, do not require that any details be recorded of who the customer or supplier was. The existence of a system of buying and selling on credit (i.e. paying later for goods and services purchased today) led to the need for a formal organised system that could be applied universally to record credit transactions.

(v) Writing. A mechanism for making a permanent record in a common language. Writing had clearly been around for a long time prior to Pacioli but it was, nevertheless, an essential element required before accounting could be formalised.

(vi) Money. There needs to be a common denominator for exchanges. So long as barter was used rather than payment with currency, there was no need for a bookkeeping system based upon transactions undertaken using a uniform set of monetary values.

(vii) Arithmetic. As with writing, this has clearly been in existence far longer than accounting. Nevertheless, it is clearly the case that without an ability to perform simple arithmetic, there was no possibility that a formal organised system of accounting could be devised.

When accounting information was being recorded in the Middle Ages it sometimes simply took the form of a collection of invoices and receipts (covered in Unit 3) which were given to an accountant to calculate the profit or loss of the business up to some point in time. This practice persists to this day in many small businesses.

The accountant of the Middle Ages would be someone who had learnt how to convert the financial transaction data (i.e. the data recorded on invoices and receipts, etc.) into accounting information. Quite often, it would be the owner of the business who performed all the accounting tasks. Otherwise, an employee would be given the job of maintaining the accounting records.

As businesses grew in size, so it became less common for the owner to personally maintain the accounting records and more usual for someone to be employed as an accounts clerk. Then, as companies began to dominate the business environment, managers became separated from owners – the owners of companies (shareholders) often not be involved in the day-to-day running of the business. This led to a need for some monitoring of the managers. Auditing of the financial records by accountants became the norm and this, effectively, established the accounting profession.

The first national body of accountants, The Institute of Chartered Accountants of Scotland, was formed in Scotland in 1854 and other national bodies began to emerge gradually throughout the world, with the English Institute of Chartered Accountants being formed in 1880 and the first US national accounting body being formed in 1887.

12.3 The Accounting Equation

By adding up what the accounting records say belongs to a business and deducting what they say the business owes, you can identify what a business is worth according to those accounting records. The whole of financial accounting is based upon this very simple idea. It is known as the *accounting equation*.

It can be explained by saying that if a business is to be set up and start trading, it will need resources. Let's assume first that it is the owner of the business who has supplied all of the resources. This can be shown as:

Resources supplied by the owner = Resources in the business

In accounting, special terms are used to describe many things. The amount of the resources supplied by the owner is called capital. The actual resources that are then in the business are called assets. This means that when the owner has supplied all of the resources, the accounting equation can be shown as:

Capital = Assets

Usually, however, people other than the owner have supplied some of the assets. Liabilities is the name given to the amounts owing to these people for these assets.
The accounting equation has now changed to:

Capital = Assets - Liabilities

This is the most common way in which the accounting equation is presented. It can be seen that the two sides of the equation will have the same totals. This is because we are dealing with the same thing from two different points of view – the value of the owners' investment in the business and the value of what is owned by the owners.

Unfortunately, with this form of the accounting equation, we can no longer see at a glance what value is represented by the resources in the business. You can see this more clearly if you switch assets and capital around to produce the alternate form of the accounting equation:

Assets = Capital + Liabilities

This can then be replaced with words describing the resources of the business:

Resources: what they are = Resources: who supplied them
(Assets) = (Capital + Liabilities)

It is a fact that no matter how you present the accounting equation, the totals of both sides will *always* equal each other, and that this will *always* be true no matter how many transactions there may be. The actual assets, capital and liabilities may change, but the total of the assets will

always equal the total of capital + liabilities. Or, reverting to the more common form of the accounting equation, the capital will always equal the assets of the business minus the liabilities.

Assets consist of property of all kinds, such as buildings, machinery, stocks of goods and motor vehicles. Other assets include debts owed by customers and the amount of money in the organization's bank account.

Liabilities include amounts owed by the business for goods and services supplied to the business and for expenses incurred by the business that have not yet been paid for. They also include funds borrowed by the business.

Capital is often called the owner's equity or net worth. It comprises the funds invested in the business by the owner plus any profits retained for use in the business less any share of profits paid out of the business to the owner.

12.4 Double Entry Accounting

You have seen that every transaction affects two items. You need to show these effects when we first record each transaction. That is, when we enter the data relating to the transaction in the accounting books we need to ensure that the items that were affected by the transaction, and only those items, are shown as having changed. This is the bookkeeping stage of accounting and the process we use is called **double entry**. You will often hear it referred to as **double entry bookkeeping**. Either term is correct.

12.5 Books of Original Entry (The Accounting Journals)

When a transaction takes place, we need to record as much as possible of the details of the transaction.

For example, if we sold four computers on credit to Mr Ntabo for K4,000 per computer,we would want to record that we sold four computers for K4,000 each to Mr Ntabo on credit. We would also want to record the address and contact information of Mr Ntabo and the date of the transaction. You may also record information like the identity of the person who sold them to Mr Ntabo and the time of the sale.

Books of original entry are the books in which we first record transactions, such as the sale of the four computers above. We have a separate book for each kind of transaction. Thus, the nature of the transaction affects which book it is entered into. Sales will be entered in one book, purchases in another book, cash in another book, and so on. We enter transactions in these books recording:

(i) the date on which each transaction took place – the transactions should be shown in date order;

(ii) details relating to the sale (as listed in the computer example above) are entered in a 'details' column;

(iii) a folio column entry is made cross-referencing back to the original 'source document', e.g. the invoice;

(iv) the monetary amounts are entered in columns included in the books of original entry for that purpose.

12.6 The Journal

The other items which do not pass through these five-day books are much less common, and sometimes much more complicated. It would be easy for an Accountant to forget the details of these transactions if they were made directly into the ledger accounts from the source documents and, if the Accountant left the business, it could be impossible to understand such bookkeeping entries.

What is needed is a form of diary to record such transactions, before the entries are made in the double entry accounts. This book is called the Journal. For each transaction it will contain:

- (i) the date
- (ii) the name of account(s) to be debited and the amount(s)
- (iii) the name of the account(s) to be credited and the amount(s)
- (iv) a description and explanation of the transaction (this is called a narrative)
- (v) a folio reference to the source documents giving proof of the transaction.

The use of a journal makes fraud by Accountants more difficult. It also reduces the risk of entering the item once only instead of having double entry. Despite these advantages there are many businesses which do not have such a book.

12.6.1 Uses of a Journal

Some of the main uses of the Journal are listed below:

- (i) The purchase and sale of fixed assets on credit.
- (ii) Writing off bad debts.
- (iii) The correction of errors in the ledger accounts.
- (iv) Opening entries. These are the entries needed to open a new set of books.
- (v) Adjustments to any of the entries in the ledgers.

12.7 The Cash Book

The Cash Book consists of the cash account and the bank account put together in one book. This means that we can record all money received and paid out on a particular date on the same page. In the Cash Book, the debit column for cash is put next to the debit column for bank. The credit column for cash is put next to the credit column for bank.

Periodically, or on request from the business, the bank sends a copy of the account in its books to the business. This document is known as the bank statement. When the business receives the bank statement, it checks it against the bank columns in its Cash Book to ensure that there are no errors. With the coming of on-line banking, a business has records of a bank statement on the press of a button, this therefore means, reconciliations are made easier.

Table 1.4 Cashbook

Date	Details	Folio	Cash	Bank	Date	Details	Folio	Cash	Bank
2-Jan	Capital			10,000.00	7-Jan	Rent			1,200.00
3-Jan	Marvin			1,200.00	9-Jan	Electricity			200.00
4-Jan	Loveden			300.00	11-Jan	Printing			150.00
5-Jan	James		250.00		14-Jan	Stationery		120.00	
6-Jan	Mabisi			350.00	15-Jan	Advertising			1,500.00
7-Jan	Chitambala				16-Jan	Purity Ltd			250.00
8-Jan	Kabwalwa			500.00	17-Jan	Lusaka Water			500.00
9-Jan	Mutafya			750.00					
10-Jan	Musonda		120.00						
11-Jan	Zimba		20.00						
12-Jan	Machungwa			650.00	29-Jan	Balance C/d		270.00	9,950.00
			390.00	13,750.00				390.00	13,750.00
1-Feb	Balance b/d		270.00	9,950.00					

12.8 The Trial Balance

Double-entry accounts are used to calculate the level of profit earned by a business. They can also be used to take a measure of the business's size and financial structure. Before any of this is completed it is customary to extract a trial balance.

The trial balance is simply a list of the closing balances on each individual ledger account. The debit balances and credit balances are listed in separate columns. If the double-entry bookkeeping has been conducted correctly then the totals of these columns should 'agree', that is, should total the same amount. This is no coincidence. It is logical that the totals of each column should be the same. For every debit entry, a credit entry of equal amount was made in an account. In other words, every time we added an amount to the debits we always added an equal amount to the credits – meaning it has to be the case that the debits and credits agree in total. It doesn't matter which accounts have been affected because the trial balance looks at the system as a whole.

The trial balance is a prerequisite in the preparation of the profit and loss account and balance sheet.

A trial balance that fails to agree would indicate that mistakes have been made in the double-entry bookkeeping. Common errors shown up by the trial balance would include:

(i) Only entering half of a transaction (i.e. missing out a debit or a credit entry)

(ii) Entering two debits or two credits for a transaction rather than one of each

(iii) Entering different amounts for the two entries.

However, even if a trial balance agrees this does not mean that the bookkeeping has been error-free. For example, any of the following errors would not prevent the trial balance agreeing:
(i) Missing out a whole transaction (i.e. both the debit and the credit entry)
(ii) Entering the same incorrect figure on both halves of the transaction
(ii) Reversing the debit and credit entries.

Worked Example
Imagine a company with the following closing balances as at 31 May 20x9
Purchases K 994
Sales K 816
Returns outwards K 15
Returns inwards K 16
A Lyon & Son (Creditor) K 624
Cash K 445
Using the figures above we can prepare a Trial Balance

Trail Balance as at 31 May 20X9		
	Debit	**Credit**
Purchase	994	
Sales		816
Returns outwards		15
Returns inwards	16	
A Lyons		624
Cash	445	
	1,455	**1,455**

12.9 The Financial Statements

There are principally four types of Financial Statements that accounting deals with. Do you know them? Well you may have heard of the Trading Profit and Loss Account, Balance Sheet, Cash Flow Statement and the Statement of Owner's Equity. These are the statutory statements that need to be prepared depending on the type of business.

12.9.1 Trading Profit and Loss Account

This is simply a statement showing how much an organisation has made, how much it has spent and the profit or loss resulting hence forth for a period of time.

12.9.2 Balance Sheet

The balance sheet shows the financial position of an organization at a point in time. In other words, it presents a snapshot of the organization at the date for which it was prepared. The balance sheet is not the first accounting record to be made, nor the first that you will learn how to do, but it is a convenient place to start to consider accounting.

12.9.3 Cash Flow Statement

This is a statement which shows the cash situation of an organization. It shows exactly where the cash has come from during the year, and exactly what we have done with it. The statement that fulfils these needs is called a cash flow statemen.

12.9.4 Statement of t of Owner's Equity

The statement of owner's equity portrays changes in the capital balance of a business over a reporting period. The concept is usually applied to a sole proprietorship, where income earned during the period is added to the beginning capital balance and owner draws are subtracted.

12.1 Reflections

Do you think it is necessary for a company to prepares a Trial Balance before to prepares financial statements?

12.2 Activities

1. Why do you think it is called ‘double entry’?
2. Why can’t we just adjust the balance sheet and forget about making entries in any of the accounting books?

12.10 Summary

You should now have learnt that:

Accounting is concerned with the recording and classifying and summarizing of data, and then communicating what has been learned from it. Accounting has existed for at least 5,500 years but a formal, generally accepted method of recording accounting data has only been in existence for the last 500 years. The accounting equation is: Capital =Assets −Liabilities. The two side of the accounting equation are represented by the two parts of the balance sheet. The totals of one part of the balance sheet should always be equal to the total of the other part. Every transaction affects two items in the accounting equation. Every transaction affects two items in the balance sheet.

You have also leant how to prepare a trial balance and that trial balances are one form of checking the accuracy of entries in the accounts. The errors can be made in the entries to the accounts that will not be shown up by the trial balance. The trial balance is used as the basis for preparing profit and loss accounts and balance sheets.

UNIT 13

COOPERATIVES AND TRUSTS

Introduction

Welcome to unit 11. You will agree with me that normally work that is done as a group is neater faster and not burdensome. Working together brings much more benefits that a single person cannot achieve within a given period. In this unit, we will discuss cooperatives and trusts and their benefits. Hope you will enjoy the unit. All the best.

Objectives

By the end of this unit, you should be able to;

- Describe cooperatives with real-life examples.
- Explain the types of cooperatives available.
- Describe trusts and their relevance to communities.

13.2 Cooperatives

In chapter four, we defined what a cooperative is and the advantages and disadvantages. You can refer to the chapter to refresh your mind. In this unit, we will discuss the types of cooperatives.

13.3 Types of cooperatives

There are different types of Cooperatives. Discussed here are the seven types with regard to their specialization.

i. Producer Cooperatives

These are groups of people engaged in the agricultural fields of specialization like farming, fishing or fish farming, and forestry. Cooperative members may be farmers, landowners or

owners of fishing operations. They can cooperate by buying farm inputs, equipment, and insurance, hiring managers and sales people, marketing and advertising together, or operate storage or processing facilities or a distribution network.

ii. Worker Cooperatives

These are firms owned by some or all of the workers. They offer workers a chance to own their own company or shares with very little financial investment, depending on the start-up capital needed. They are also becoming popular with small groups of advocates, designers and engineers, fundraisers, and various professionals.

iii. Consumer Cooperatives

These are firms owned and managed by people who want to be buying from the cooperative. Consumers can create a cooperative to provide pretty much anything they want to be buying. Their orders may include groceries, electricity or telephone service, fuel, housing, professional care, healthcare, legal services, financial services or under the label of credit unions.

iv. Credit unions

Credit unions are consumer-owned financial services cooperatives in which every depositor of a certain amount becomes a member-owner. Members attend the annual general meetings and have a vote on any elections convened by the board of directors that is typically made up of community volunteers. These have the mostly considerable expertise in relevant fields.

v. Retail or Purchasing Cooperatives

This is a retail or purchasing cooperative, also called a shared service cooperative. Most of these cooperatives are owned and managed by independent business owners. For example, the Agriculture Cooperative Union and some hardware stores are independently owned businesses that have formed national and international cooperatives to purchase goods and services at rates that will keep their bottom lines in the murky. There are also many successful smaller operations such as a group of independent business consultants or attorneys who want to buy office supplies, insurance, or other products and services together. What unites all of these cooperatives

is that they seek to improve their efficiencies and market competitiveness by bulk buying of goods and services.

vi. Housing Cooperatives

This type on cooperative is owned by the residents, makeing them a type of consumer cooperative. This can range from a single house to apartment complexes with hundreds of units and also includes co-housing projects, in which dozens of homes are cooperatively owned. Condominiums are a relative of cooperatives, although with condos each member owns their own unit; in a cooperative, each member owns a share of the cooperative that owns all of the property. A special type of housing cooperative is a resident-owned community of manufactured homes, in which residents own their homes and own a share in the cooperative that owns the land and runs the park.

vii. **Complex Cases and Multi-Stakeholder Cooperatives**

This is a hybrid among these types of cooperatives mentioned above. They are called “multi-stakeholder” cooperatives. Mostly, they create specific roles and rights for the several types of members. For instance, this may take the form of a credit union/producer or consumer/worker hybrid cooperative. In these setups, the membership fees might differ for the two groups. This recognizes that there will likely be fewer producer members, and that they potentially have more to gain and therefore, more incentive to invest. Many times, you may also have a number of board seats reserved for each (for example, on a board of seven, there are three open memberships while two members will be elected by the credit unions, and two by the producers). These types of cooperatives are more multifaceted, and may experience tension among the various types of members.

13.4 TRUSTS

A business trust is a form of business organization which is similar to a corporation, in which investors receive transferable certificates of beneficial interest. The trustees are administered for

the advantage of its beneficiaries who hold equitable title to it. They administer the trust based on the terms set forth in the declaration of trust. The beneficiaries receive certificates of beneficial interest as evidence of their interest in the trust, which is freely transferable. Profits and losses resulting from the use and investment of the trust property are shared proportionally by the beneficiaries according to their interests in the trusts.

In some societies, a business trust is subject to the laws of trusts whereas in other states the laws of corporations or partnerships govern its existence. Business trusts are also known as Massachusetts trusts or common-law trusts.

A trust is a legal concept where property (which may be real property or assets) is overseen by an appointed person who manages the interests of one or more beneficiaries. This appointed person is referred to as the trustee and the individual who owns the property is called the settler.

The settler entrusts his or her assets to the trustee, who then holds the legal title. This often occurs in estate planning, where people who desire to leave their property to their children may instead leave it in the hands of a trustee. For example, if the children are under 18 years of age or are not trusted to handle money, a trustee will represent the interests of the beneficiaries. This concept is also applied to a business trust.

A business trust is set up when the assets and property of a business corporation are entrusted to an appointed **trustee**. The trustees will manage the operation and assets of the business, not for their own profit, but for the profit of the beneficiaries. The person who creates the business is referred to as the **settler**. The beneficiaries may receive a certain amount of income throughout the duration of the business trust.

At the time when the business trust is over, the ownership of the business will eventually be transferred to the beneficiaries. In order to set up a business trust, the organization must prove that it is engaging in some kind of legitimate business practice. This may include the manufacture of products, buying and selling goods, or investing.

A business trust will usually be established as an alternative to a standard partnership because in a business trust, the interests of the partners are represented by a trustee. The beneficiaries actually have very limited liability in the profits of the business.

People will engage in a business trust for a variety of reasons. It may be used to safeguard certain assets from a lawsuit, creditors, or taxation. A written document will be issued to the trustee

which will specify the duration of the agreement, the specific responsibilities of the trustee, as well as the interests of the beneficiaries. The trustees will hold the actual title for the business, but the beneficiaries will receive certificates as proof of their interests in the trust.

The duties of the trustee and the interest of the beneficiaries may be treated differently depending on the jurisdiction in which the trust is formed. Some states may treat a business trust as a partnership, which would hold the beneficiaries liable for certain aspects of the business. But, in general, in a business trust the beneficiaries will have limited liability.

13.5 ACTIVITY

1. State the benefits of cooperatives and trusts in chiefdoms.
2. What are the weaknesses and successes of cooperatives and trusts that are operating in the chiefdoms?
3. What measures should be put in place to revamp the existing cooperatives and trusts?

13.6 SUMMARY

You have come to the end of the last unit. In this unit we have discussed types of cooperatives and trusts and their benefits to community development.

REFERENCES

De Klerk, A., Old, S., & Breebaart, H. (2001). *Introduction to Entrepreneurship and Small Business Management*. Pretoria: University of South Africa, UNISA

Cronje, G. J., Breebaart, H., Klerk, A., Old, S., Swanepoel, E., & Memue, A. M. (2008). *Introduction to Entrepreneurship and Small Business Management*. Pretoria: UNISA Press.

Farese, Shneider lois et. al, (1991) *Marketing Essentials*. Columbus: Glencoe.

Graf, David et al, (1990) *Business in an Information Economy*, New York: McGraw-Hill

Griffin, R. (2008). *Fundamentals of Management*. Mason: South Western.

Hargreaves, R. (1987). *Starting Business, a Practical Handbook*. London: Heinemann

Holt, H. D. (2004). *Entrepreneurship, New ventures Creation*. New Delhi: Prentice Hall.

Jones, R., Gareth et al, (2000). *Contemporary Management*. Boston: Irwin/McGrawHill.

Laudon, K.C., and Traver, C.G. (2012). *E-Commerce: Business* (8th ed). Boston: Pearson Edu.

Robert D. H, Michael P.P et al (2008) *Entrepreneurship* (6th Edition). New Delhi: Tata McGraw-Hill Publishing Company Limited.

Rudinger, E. (1989) *Entrepreneurship*. London: Consumer Association Ltd.

Sexton, D.L., & Lanstrom, H. (Eds.). (2000). *Handbook of entrepreneurship*. Oxford: Blackwell Business.

Strokes, D., Wilson, N. (2006) *Small Business Management Entrepreneurship,* (5th Ed). London: Thomason Learning.

Stoner, Jones et al, (2008) *Management*, New Delhi: PHI Learning.