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**ACKNOWLEDGEMENTS**

The Directorate of Distance Education wishes to thank Mrs Cecilia Shindende Mulowa for writing the Small Business and Entrepreneurship module.

MODULE OVERVIEW

**Pre-requisite:** BFE 2101, BEI 2102

Introduction

Welcome to the course ‘Small Business and Entrepreneurship Module’ The course intends to bring to you factors that surrounds the small business enterprises and how they can strategically position themselves to gain a competitive advantage. Hope you will enjoy the course and contribute positively.

Rationale

This course serves to provide students with appropriate small business and entrepreneurial, knowledge and skills which are important elements in managing Small Business Enterprises. The course emphasizes the development of entrepreneurial behaviour and skills which are essential to managers of Small Business Enterprises. It is hoped also that through their creativity, the trainee teachers would begin to initiate development of entrepreneurial attitudes and skills in their learners.

Aim

The aim of the course is to enhance students’ understanding of creative and innovative of Small Businesses and Entrepreneurship and their policy and operational environment.

Learning Outcomes

**By the end of the course student should be able to;**

* Analyze the critical role of entrepreneurship and small businesses in national economic development.
* Demonstrate an understanding of the special challenges in the policy and operational environment and opportunities for the promotion of entrepreneurship and small businesses.

Method of teaching

Teaching strategies that focus on learner centeredness will be used in order to ensure effective transfer of knowledge, skills and positive attitudes to the trainees. Such methodologies will include the following:

* Group and pair work
* Research
* Field trips
* Presentation
* Observation
* Inquiry
* Problem solving
* Demonstration

**Mode of teaching**

3 lecture hours per week.

1 Tutorial per week

**Summary**

The module looks at Entrepreneurship, Small and Medium Business and how they can survive in this global and international business environment. Factors affecting these small businesses are discussed including their organisation and development.

Recommended Readings:

Stocks D. and Wilson N., (2010). Small Business Management and Entrepreneurship. Thomson: London.

Scarborough, N. M and Cornwall, J. R (2014). Entrepreneurship and Effective Small Business Management, 11th Edition. Prentice Hall, New York

Recommended Reading

Zimmer T. and Scarborough N. (2008). Essentials of Entrepreneurship and Small Business Management. Pearson Prentice Hall, Upper Saddle River N. J.

Hodgetts, R. M. and Kuratko, D. F. (2002). Effective Small Business Management, John Wiley Press: New York

Ng’andwe, C (1994) “Financing small businesses in a liberalised economy”Ng’andwe, C, Fundanga, C and Banda, M (1994) Critical issues in 3rd Republic, EAZ, Lusaka

ZDA Act and annual reports

Small Industries Development Act

**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 web. 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, 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 18 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**](mailto:adsikalumbi@gmail.com)**; website:** [**www.chau.ac.zm**](http://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 book

ASSESSMENT

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

**Continuous Assessment 50%**

Assignment 10%

Project 15%

2 Tests of equal weight 25%

**Final Examination 50%**

**Total 100%**

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**UNIT 1**

# 1.0 FOUNDATION OF ENTREPRENEURSHIP

**Introduction**

This first unit seeks to bring out the understanding of Entrepreneurship, who an Entrepreneur is, the cultural diversity of entrepreneurship and the deadly mistakes of entrepreneurship.

Description: OutcomesLearning Outcomes

By the end of this unit students should be able to;

* define entrepreneurship
* explain the cultural diversity of entrepreneurship
* identify ten deadly mistakes of entrepreneurship

Description: TimeThe time frame for studying this unit is 2 hours

## Definition of Entrepreneurship

Entrepreneurship is defined differently by different authors.Theterm **“Entrepreneurship”** was originally derived from a French word **“Entreprendre”** which means **“to undertake”.** Entrepreneurship is the ability to create, build or generate something from nothing. It is initiating, doing, achieving, and building a business from readily available resources within or outside the community. Entrepreneurship is also the ability to maximize on opportunity in a situation where others see chaos, contradiction or confusion. It is the willingness by an entrepreneur to make a decision to take risks in pursuance of profit.

The word ‘entrepreneur’ originally meant to designate an organizer of musical or other entertainments in the French language where it cradled and Oxford English Dictionary (1897) also defined an entrepreneur in similar way as “the director or a manager of a public musical institution, one who ‘gets-up’ entertainment, especially musical performance”. In the early 16th century, it was applied to those who were engaged in military expeditions. It was later extended to cover civil engineering activities such as construction and fortification by the 17th century

An entrepreneur is a person who has the ability to see and evaluate business opportunities to gather the necessary resources to take advantage of them and to initiate enterprises, appreciate action to ensure profit and success of a business.

Characteristics of an Entrepreneur

Entrepreneurs are action oriented, highly motivated individuals who take risks to achieve their intended goals.The success of a business depends on the personal characteristics, situations, and skills. The more entrepreneurial characteristics are, the more likely it is that the business will succeed.

The kind of characteristics and skill of entrepreneur will vary according to the type of business to be undertaken.

Below is the list of characteristics of entrepreneurs.

* Taking initiative
* Self confidence
* Risk taking
* Task-result oriented
* Dynamic leadership
* Originality
* Future – oriented
* Respond positively to challenges
* Flexibility
* Knowledgeable
* Team player
* Independent
* Versatile knowledge
* Energetic
* Creative
* Responsive to suggestions
* Resourceful
* Commitment

Characteristics of an Entrepreneur can be summed up as follows;

1. **Risk-Bearer**

An entrepreneur bears the risk of uncertainty. Uncertainty is defined as a risk which cannot be insured against and is incalculable. According to Knight, he/she is the economic functionary who undertakes such responsibility of uncertainty which by its very nature cannot be insured, nor capitalized nor salaried too.

1. **An Organizer**

An entrepreneur is associates entrepreneur with the functions of coordination, organization and supervision. He/she is able to combine the land, labour and capital to produces a product. By selling the product in the market, he/she pays interest on capital, rent on land and wages to labourer’s and what remains is his/her profit.

1. **An Innovator**

Joseph A. Schumpeter, for the first time in 1934, assigned a crucial role of 'innovation' to the entrepreneur in his *magnum opus* ‘Theory of Economic Development’. Schumpeter considered economic development as a discrete dynamic change brought by entrepreneurby instituting new combinations of production, *i.e.,* innovations.” Through an introduction of new combination of factors of production.

Strengthening Entrepreneurial abilities

Many entrepreneurs do not have enough skills and character to run a business. Hence the need to improve their skills, and develop their characteristics.

Here are some of the suggestions on how improve entrepreneurial skills and characteristics.

1. **Seek help from others:** Talk about these issues to your friend and family and other business people.
2. **Observe other business people**: Thinking about what they do or see how it helps to make their businesses successful.
3. **Attend training:** Going for training to strengthen areas where you are weak. e.g. accounting procedurals.
4. **Read books:** Finding and reading books about areas where you need improvements

# 1.1 Cultural Diversity of Entrepreneurship

Before the 18th century when entrepreneurship was first used to refer to economic aspects, the evolution of the concept of entrepreneur had already been considered for more than four centuries. Since then, the term **‘entrepreneurship’** has been used, over time, in various ways:

In a Conference on Entrepreneurship held in United States, the term **‘entrepreneurship’**was defined as follows:

*“Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition”.*

As the world economies continuously get closer into the so called **‘Global village’** it is becoming increasingly vital for nations to adopt strategies to survive the effects of competition which are characteristic of globalization. One measure to remain afloat, adopted in industrialized countries, is to introduce entrepreneurship education in Schools, Colleges and Universities. The aim of Entrepreneurship Education is to;

* stimulate creative, innovative, and entrepreneurial thinking in the citizenry, particularly the youth.
* build knowledge and skills needed to recognize opportunities that others are unable to see, insight into the business world,
* develop self-esteem and the drive to act where others hesitate,
* impart skills that help to mobilise and use resources in the face of risks,
* provide instruction in business management tools such as business planning, capital mobilisation, marketing and cash-flow analysis.
* prepare learners for formal work and self - employment (informal work)
* strengthen interpersonal relationship skills through its interactive methodologies, particularly group work
* enhances financial literacy, effective communication, problem solving, conflict management, and team work
* provides a practical platform for pupils to interact with players in the real business world
* help in evolution of an entrepreneurial culture in which resource and profit maximisation take centre stage
* bridge the theory pupils learn in class to the reality of the economic world around them
* minimises wastage of national resources through bad debts and uneconomic use of (natural) resources

Zambia is a developing country with about 65% of the population living below the poverty datum line (CSO). About 300,000 young people, between 6 and 20 years, leave school each year either by dropping out or completing grade 12. On the other hand, institutions to provide them with vocation skills and Higher Education are not adequate to absorb the number and those churned out of formal education in previous years.

The current approach to formal schooling is heavily inclined to theory and preparing pupils to sit for the final national examinations, inducing a shift from the overall purpose of education; to prepare the learner to apply and adapt what s/he has learnt in school to his/her future life encounters. This development is not healthy for Zambia to achieve its **vision 2030 of being a middle income economy**. It demands for appropriate interventions aimed at realigning the citizen’s mind-set, particularly the youth who need to be more creative, innovative, enterprising and hardworking.

It is for this purpose that entrepreneurship educationthrough its methodologies seeks to address and enhance creativity, innovation, and entrepreneurial thinking. These are critical to wealth creation, in addition to benefits to both the learners and the community in which he or she lives.

Entrepreneurs are viewed as the key figures in economic development because of their role in introducing innovations. Entrepreneurship is one of the two necessary conditions for economic development, the other being the increased output of capital. Entrepreneurs are among the prime movers of innovations and are a necessary dynamic force of economic development. Essentially, the entrepreneur searches for change, sees need and then brings together manpower, material and capital required to respond to the opportunity that he sees, this is innovation. There is no doubt therefore that the entrepreneur and entrepreneurship are catalysts in the process of economic development of Zambia and the world over. This is done in the following ways:

1. Promoting capital formation by mobilizing the idle saving of the public.
2. Provision of immediate large-micro employment thus reducing unemployment.
3. Promoting balanced regional development.
4. Helping in the reduction of the concentration of economic power.
5. Stimulating the equitable redistribution of wealth, income and even political power in the interest of the country.
6. Encouraging effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.
7. Induce backward and forward linkages which stimulate the process of economic development in the country.
8. Promote country's export trade *i.e.,* an important ingredient to economic development

# 1.2 Ten Deadly Mistakes of Entrepreneurship

Deadly mistakes of entrepreneurship are several, but the main ones are as follows:

1. **No Business plan**

There’s need to identifyand scanthe best suitable idea for your business and develop an appropriatebusiness plan. This attracts investors and financialsupport.

1. **No clear business objectives or goals**

The objectives must be made clear so as to easily help in checking the success of the businessand maintain focus.

1. **Identifying the right products for sale**

An entrepreneur needs to understand the right products on demand in his/her area of operation. This will help to avoid stock going to waste because of lack of demand for the products.

1. **Carrying out market research**

More time should be spent on marketing than just talking about the business idea. Talking and doing nothing is not business until the idea is developed.

1. **Failing to determine the right form of ownership/organization**

There’s need to determine if the business will run as a sole trading business, partnership, cooperative etc. completion of registration formalities is also key here.

1. **Raising necessary funds**

Finance is the blood life of every business. Lack of finance will affect the development of a business.

1. **Procuring machinery and other material resources**

Enough and appropriate material and machinery will ensure the effectiveness of a business.

1. **Recruiting and maintaining the suitable staff**

Manpower is the most important resource of every business, it is therefore important to employ and maintain the most suable employees.

1. **Effectively undertaking the business operations**

Some entrepreneurs are impatient, lack focus, greedy and not willing to accept faults especially the young ones, this will greatly affect the running of business operations.

1. **Failure to work with others**

A loner in business is likely to fail, it is important to work with other people, especially those who have been in business for a longer period of time so as to learn something from them.

The following diagram is a summary of the ten deadly mistakes of entrepreneurship;

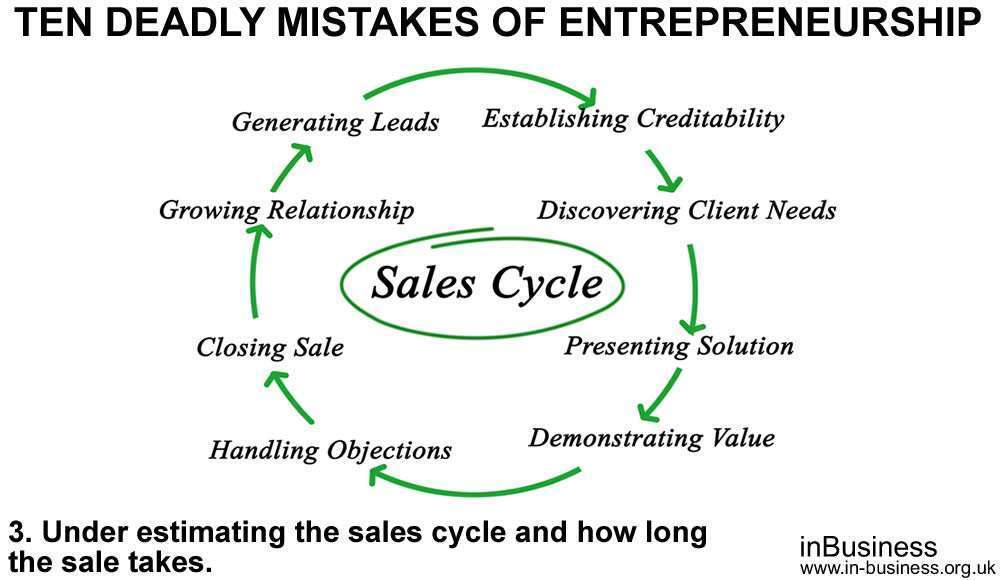


Figure 1

Description: summarySummary

In this unit, we looked at entrepreneurship as, the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition. We also defined entrepreneur,the commonest definition of the 21st Century, being a person who organizes, manages and takes the risk of running an enterprise.

An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and bringing together the necessary resources to set up an enterprise.Emphasis was also made on cultural diversity of entrepreneurship and the ten deadly mistakes of entrepreneurship.

|  |
| --- |
| **Discussion**  Discuss the ten deadly mistakes of entrepreneurship |

**UNIT 2**

# 2.0 THE ENTREPRENEURIAL MIND

**Introduction**

The first unitlooked at the definition of entrepreneurship and the cultural diversity surrounding entrepreneurship and the ten deadly mistakes made by entrepreneurs. This unit will bring your attention to the creativity, innovation and techniques for improving the creative process.

Description: OutcomesLearning Outcomes

By the end of this unit students should be able to;

* + discuss creativity, innovation and entrepreneurship
  + explain the techniques for improving the creative process
  + outline the issues surrounding intellectual property

TimeThe time frame for studying this unit is 2 hour

## 2.1 Creativity and Innovation in Entrepreneurship

The chief characteristic of the entrepreneur is the ability to combine already existing resources in creative ways and this is referred to as innovation. It is important to note that all innovations are traced to the innovator who is the entrepreneur. The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.

Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned and capable of being practiced. Therefore, entrepreneurial behavior is seen as the behavior that manages to combine innovation, risk taking and pro-effectiveness (Miller, 1983)

The concept of innovation refers to ‘doing something differently rather than doing the same thing better’. The innovation concept is what makes the practice of entrepreneurship the key factor in economic development.

Peter Drucker (1985) said, “Innovation is the specific instrument of entrepreneurs, the means by which they exploit change as an opportunity for a different service”. It therefore means that innovation is the means by which entrepreneurs create something new and unique in order to bring solutions to challenges faced by people in society. As they purse to innovate, entrepreneurs must also understand the environmental forces at play such as the social-economic, political, technological and legal.

## 2.2Techniques for improving the creative process

Innovation and creativity can take place in various ways and aspects of a business such as;

* in marketing of products/services.
* in the structure of management of the organization.
* in the production process of goods and services.

The innovation process is the procedure followed or steps that guide an entrepreneur towards transformation of an idea into something new and usable.

## 2.2.1 Steps for the Creativity and Innovation Process

**Strategic Thinking**

This is the first stage which deals with how the innovation will add value and provide a strategic advantage to the firm over its competitors. Strategic thinking contributes in making sure that the results of innovation are according to the organization’s strategic intention.

**Portfolio Management and Matrix**

This stage looks at failure in its perspective because failure is expected along the innovation process. It is important that an entrepreneur manages a number of innovations (portfolios) of different types at the same time aggressively to balance the likely risks of unknown with the intended targeted rewards of success and balancing the pursuit of the idea with the realities of learning, risking and failing until success is achieved.

**Research**

After understanding the ideal design, the entrepreneur should be able to compare it with the current design. This stage is meant to identify the gaps which may be there.

**Insight**

As a result of the preceding processes and activities, there are times when results show a light at the end of a tunnel and the entrepreneur is able to grasp the best ways to address the future possibilities. Insight comes as a results of a dedicated process of examination and development and not just at random. It comes because it is sought for.

**Innovation Development**

This stage deals with the design engineering, prototyping and the tests which results to the finished product/service as well as business designs. Even the manufacturing, branding, distribution, marketing and sales designs are done at this stage.

**Market Development**

This stage deals with business planning process which focuses on branding identification and development and preparation of customers so that they are aware of the products/service. This stage is also meant to prepare for rapid sales growth.

**Selling**

The product starts selling at this stage and the entrepreneur begins to earn the financial rewards but has to evaluate the demand so as to determine if at all the sales are according to expectation. In the case of progress improvement innovation, the innovations are operational in business and bring about the expected rewards of efficient production process and product of higher quality than before.

**Managing the Innovation**

It is important that the business does its best to manage this complex and expensive process of innovation. Businesses that take it become outstanding in innovation and earn good profits. Using own developed innovation process is very motivating on the part of the firm.

## 2.3 Intellectual Property

Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.

IP is protected in law by, for example, [patents](https://www.wipo.int/patents/en/), [copyright](https://www.wipo.int/copyright/en/) and [trademarks](https://www.wipo.int/trademarks/en/), which enable people to earn recognition or financial benefit from what they invent or create. By striking the right balance between the interests of innovators and the wider public interest, the IP system aims to foster an environment in which creativity and innovation can flourish.

Globalisation is a reality, not a trend or a fad, and it is driving internationalisation in allmarkets, including at the local level. Globalisation brings new challenges but also providesunprecedented opportunity to rejuvenate old businesses, grow new ones and to create new jobs(Kanter, 1995). There are challenges in going global but the risks are even greater in waiting forglobalisation to reach the local market and having to deal reactively with the consequences.

There need therefore to protect the innovations that entrepreneurs come up with both locally and globally. There are two broad areas in which policies can support theinternationalization of SMEs by addressing existing market failures:

* 1. Creating the right framework conditions.

This can be achieved through the following;

1. Legal and regulatory.
2. Trade and investment.
3. Education, training and culture.
   1. Supporting specific SME policies and initiatives.
4. Reducing the administration burden of cross border activities.
5. Supporting appropriate financial instruments.
6. Facilitating quality advisory services for new and small businesses.
7. Encouraging networks (local, regional, international).

The contextual issues need to be dealtwith at the national and international levels while the specific policies and services are besthandled at the national and local levels.For most countries SME policies are being put in place and specificinitiatives are increasingly being supported. Intermediaries are being established to help in thisprocess. These include specialised agencies, NGOs and private sector organisations. In Zambia, apart from the legal system, organisations such as Consumer and Competition Protection Commission (CCPC), Patents and Companies Registration Agency (PACRA), Zambia Bureau of Standards (ZBA) etc. are working together to ensure that SMEs work in an environment that upholds the policy framework protecting Intellectual Property (IP).

At the sametime, progress is being made on improving the framework conditions, which clearly must be inplace in order for the economy and SMEs to thrive and grow.For countries with sufficient framework conditions in place, focusing support on specificactivities and services is important to encourage SMEs to internationalise. This includesproviding the necessary information to help SMEs internationalise, including detailed information on policies andabout doing business abroad as well as training and information about the various ways tointernationalise. Policy makers should focus on reducing the administration burden of cross border activities,facilitating both import and exports and encouraging collaboration between SMEs and largerfirms, both locally and internationally.

## 2.4 Types of intellectual property

**Copyright**

Copyright is a legal term used to describe the rights that creators have over their literary and artistic works. Works covered by copyright range from books, music, paintings, sculpture and films, to computer programs, databases, advertisements, maps and technical drawings.

**Patents**

A patent is an exclusive right granted for an invention. Generally speaking, a patent provides the patent owner with the right to decide how - or whether - the invention can be used by others. In exchange for this right, the patent owner makes technical information about the invention publicly available in the published patent document.

**Trademarks**

A trademark is a sign capable of distinguishing the goods or services of one enterprise from those of other enterprises. Trademarks date back to ancient times when artisans used to put their signature or "mark" on their products.

Example of a Trademark

1. **Industrial Design**

An industrial design constitutes the ornamental or aesthetic aspect of an article. A design may consist of three-dimensional features, such as the shape or surface of an article, or of two-dimensional features, such as patterns, lines or color.

1. **Geographical indications**

Geographical indications and appellations of origin are signs used on goods that have a specific geographical origin and possess qualities, a reputation or characteristics that are essentially attributable to that place of origin. Most commonly, a geographical indication includes the name of the place of origin of the goods.

summarySummary

In this unit the emphasis is that, without innovation there can be no entrepreneurship. Since there is no market for opportunities, the entrepreneur must endeavor to be ***creative*** by ***identifying*** the ***available opportunities***, ***peruse and exploit*** them using his/her ***capabilities*** to obtain the needed resources and ensure that the idea finally bears fruit, (in form of goods and services). The unit concluded with the definition and types of intellectual property.

Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.IP is protected in law by, for example, [patents](https://www.wipo.int/patents/en/), [copyright](https://www.wipo.int/copyright/en/) and [trademarks](https://www.wipo.int/trademarks/en/), which enable people to earn recognition or financial benefit from what they invent or create.

|  |
| --- |
| Discussion  As an entrepreneur becomes innovative, the firm’s competitive advantage increases and so does the competition. In what ways can an entrepreneur protect his/her business and product/services from competitors? |

**UNIT 3**

# 3.0 ROLE OF SMALL BUSINESS IN THE ECONOMY

## Introduction

The previous unitlooked at creativity, innovation techniques for improving the creative process in entrepreneurship and intellectual property. This unit will focus on small business, its definition, characteristics and the role it plays in national economies.

Description: Outcomes**Learning Outcomes**

**By the end of this unit students should be able to;**

* + define a small business and identify its characteristics
  + state the role of small businesses in national economic development
  + discuss the resilience of small businesses

Description: TimeThe time frame for studying this unit is 2 hours

## 3.1 Meaning of Business

Different authors have defined business differently. Hence, there are more than one definition of the term ‘business’. It is a concept easy to understand but difficult to define. Nevertheless, an attempt has been made here to define the term ‘business’ in a systematic and orderly manner.

Literally speaking business means the state of being busy: Broadly, business involves activities connected with the production of wealth. It is an organized and systematized human activityinvolving production and purchase of goods and services with the object of selling them at a profit.

The meaning of business can be better understood if we go through some important   
definitions of business given by business experts:

According to Urwick and Hunt, *“A business is any enterprise which makes, distributes   
or provides any article or service which other members of the community need and are  
able and willing to pay for.”*

In the words of Peterson and Plowman, *“A single isolated transaction of sale and purchase will not constitute business. Recurring or repeated transactions of sale and purchase alone mean business.”*

Thus, in essence, business concerns with buying and selling goods, manufacturing goods   
or providing services in order to earn profits.

## Characteristics of Business

The main characteristics of business flowing from above description are as follows:

1. **Sale or Transfer of Goods for Value**: One of the basic characteristics of a business   
   is that it involves sale or transfer of goods and services for value. The production or purchase of goods and services for personal use does not come under the realm of business. For example, if a carpenter prepares furniture for his/her own use, it will not come under business because it does not involve exchange or transfer of goods (furniture) for value.
2. **Dealing in Goods and Services**: Business implies dealing in goods and   
   services. The goods may be consumer goods like bread, cloth, watches, etc. and producer goods like tools, machinery, etc. As regards services, they refer to intangible and invisible items. Examples, of services are transport, electricity supply, insurance etc.
3. **Recurrence of Dealings**: Business involves recurring or repeated transactions of sale and purchase for sale. Thus, an isolated or a single transaction, of course, involving buying and selling does not constitute business. If a man, for example, sells his/her car and earns profit, it is not a business because it is an isolated transaction of selling car. But, if the same man regularly purchases and sells cars, then such act is business. The reason is that the buying and selling of cars is on a recurring or repeated basis.
4. **Profit Motive:** Profit motive is the biggest and powerful stimulus for running a   
   business. As stated earlier, business involves production and purchase of goods and   
   services with the motive of selling them at profit.
5. **Risk Involved:** Business involves risk also. Business activities always focus on   
   future. Future is highly uncertain. Hence, risk is always involved in uncertainty. Profit or   
   return depends upon the degree of risk involved. The businessman is rewarded in terms   
   of profit for his/her risk bearing capacity.

## 3.2The role of Small Businesses in National Economic Development

The word development essentially means a process of upward change whereby the real per capita income of a country increases over a long period of time. Then, a simple but meaningful question arises: what causes economic development? This question has absorbed the attention of scholars of socio-economic change for decades.

The economic history of the presently developed countries, for example, America and Japan tends to support the fact that the economy is an effect for which Small Medium Entrepreneurs (SMEs) is the cause. The crucial role played by the entrepreneurs in the development of the Western countries has made the people of under-developed countries too much conscious of the significance of SMEs for economic development.

Now, people have begun to realize that for achieving the goal of economic development, it is necessary to increase entrepreneurship both qualitatively and quantitatively in a country. It is only active and enthusiastic entrepreneurs who fully explore the potentialities of the country's available resources-labour, technology and capital.

Economic theorists like Schumpeter visualized the entrepreneurs as the key figure in economic development because of his role in introducing innovations. Parson and Smelser described entrepreneurship as one of the two necessary conditions for economic development, the other being the increased output of capital. Harbison includes entrepreneurs among the prime movers of innovations, and Sayigh simply describes entrepreneurship as a necessary dynamic force. It is also opined that development does not occur spontaneously as a natural consequence when economic conditions are in some sense ‘right’: a catalyst or agent is needed, and this requires an entrepreneurial ability. It is this ability that he perceives opportunities which either others do not see or care about.

Essentially, the entrepreneur searches for change, sees need and then brings together the manpower, material and capital required to respond the opportunity what he sees. The late Steve Jobs, whose company, Apple, has created such products as the I Phone and I Pad, is perhaps the clearest example of such an able entrepreneur.

The role of SMEs in economic development varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of the political system to the entrepreneurial function. The entrepreneurs contribute more in favourable opportunity conditions than in the economies with relatively less favourable opportunity conditions.

Viewed from opportunity point of view, the underdeveloped regions, due to the paucity of funds, lack of skilled labour and non-existence of minimum social and economic overheads, are less conducive to the emergence particularly of innovative entrepreneurs. In such regions, entrepreneurship does not emerge out of industrial background with well-developed institutions to support and encourage it. Therefore, entrepreneurs in such regions may not be an “innovators” but “imitators” who would copy the innovations introduced by the “innovative” entrepreneurs of the developed regions.

Under the conditions of paucity of funds, and the problem of imperfect market in underdeveloped regions, the entrepreneurs are bound to launch their enterprises on a small-micro scale. As imitation requires lesser funds than innovation, it is realized that such regions should have more imitative entrepreneurs. And, it is also felt that imitation of innovations introduced in developed regions on a massive micro can bring about rapid economic development in underdeveloped regions also. But, it does not mean that such imitation requires in any way lesser ability on the part of entrepreneurs.

Many believe that small-micro enterprises provide immediate large-micro employment, ensure a more equitable distribution of national income and also facilitate an effective resource mobilization of capital and skill which might otherwise remain unutilized. The important role that entrepreneurship plays in the economic development of an economy cannot be overemphasized.

Thus, it is clear that SMEs serve as a catalysts of economic development. On the whole, the role of entrepreneurship in economic development of a country can best be put as ***“an economy* is *the effect for which entrepreneurship is the cause”.***

## 3.3 Resilience of small Businesses

Sutcliffe and Vogus (2003) distinguish between two main approaches to the definition ofresilience. The first emphasizes characteristics of organizations, which allowthemselves to continue performing under difficult circumstances or to recover from shocks, while thesecond approach views resilience from a more developmental perspective. Whereas thecharacteristicapproach to resilience emphasizes the inherent ability of organization to maintain their performance levels under challenging circumstances, or toregain them after unexpected events, the developmental approach offers a view of a moreongoing process.

On the developmental account, shocks and challenging circumstances canprovoke the emergence of resilience, evidenced by an increasing ability to respond to and,crucially, to emerge stronger from, these difficult experiences.Resilience as the ability of an organization to bounce back from adversity bestronger.

Legnick-Hall et al (2011) also define resilience as an ability to return to anoriginal state, and as a route to developing new capacities, through which anorganization can transform itself and emerge stronger and better equipped to compete withothers. Resilience is ‘a firm's ability to effectively absorb, developsituation-specific responses to, and ultimately engage in transformative activities to capitalizeon disruptive surprises that potentially threaten organization survival.

Resilience has elements in common with organizational capacitiessuch as flexibility, adaptability and agility. It is distinctive because of itsunique foundation in the need to respond to unexpected and often hugely impactful events,and because of its consequences which can include a significant transformation of theorganization.

Defining resilience with recourse to organizational characteristics alone fails to take account  
of positive potential outcomes, such as increased competitive advantage, throughwhich organizations develop resources and skills that allow them to anticipate and mitigatechallenging circumstances, allows the notion of a firm as emerging stronger from adversity tobe captured.

Resilience is also a strategic objective intended to help anorganization survive and prosper. A highly resilient organization is also more adaptive,competitive, agile and robust than less resilient organizations’. In conclusion we can say resilience is a collection of characteristics, and is astrategic goal with the potential to deliver competitive advantage.

Description: summarySummary

Business is concerned with production and/or buying and selling of goods and services with the primary objective of earning profits. The main characteristics or features of a business are production and/ or distribution of goods and services, regularity in dealings, profit motive and element of risk. Besides economic objectives, i.e., earning profits, businesses can also be resilient, a strategic goal with potential to deliver competitive advantage.

|  |
| --- |
| **Activity**   * 1. Define a business   2. Discuss the main characteristics of a business.   3. Explain the resilience of small businesses. |

**UNIT 4**

# 4.0 BUSINESS PLAN DEVELOPMENT

**Introduction**

Having looked at the characteristics of business and its resilience. This unit will highlight the strategic management process,building competitive advantage, feasibility analysis and the elements of a business plan.

Description: Outcomes**Learning Outcomes**

**By the end of this unit students should be able to;**

* + discuss the strategic management process
  + explain how businesses can build competitive advantage
  + outline feasibility analysis
  + identify the elements of business plan

Time This unit is to be covered in 2 hours.

## 4.1 Strategic Management Process

The strategic management process is an organizational strategy, also known as the process by which managers make achoice of a set of strategies for the organization that will enable it toachieve better performance.Strategic management is a continuous process that appraises thebusiness and industries in which the organization is involved;appraises its competitors; and goals to meet all the present andfuture competitor’s and then reassesses each strategy.Strategic management process has following four steps:

**1.Environmental Scanning**

Environmental scanning refers to aprocess of collecting, scrutinizing and providing information forstrategic purposes. It helps in analyzing the internal and externalfactors in an organization. After executing the environmentalanalysis process, management should evaluate it on a continuousbasis and strive to improve it.

**2. Strategy Formulation**

Strategy formulation is the process of deciding best course of action for accomplishing  
organizational objectives and hence achieving organizational purpose. After conducting environment scanning,managers formulate corporate, business and functional strategies.

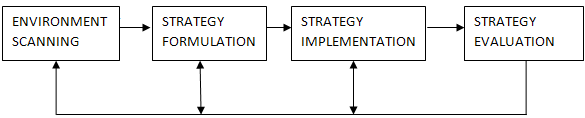
**3. Strategy Implementation**

Strategy implementation implies making the strategy work as intended or putting the  
organization’s chosen strategy into action. Strategy implementation includes designing the organization’s structure,distributing resources, developing decision making process, and managing human resources.

**4. Strategy Evaluation**

Strategy evaluation is the final step of strategy management process. The key strategy evaluationactivities are: appraising internal and external factors that are the root of present strategies, measuring performance,and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as itsimplementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Presentbusinesses that have already created a strategic management plan will revert to these steps as per the situation’s requirement,so as to make essential changes.Components of Strategic Management Process are an ongoing process and therefore, it must be realized that each component interacts with the othercomponents and that this interaction often happens in chorus as illustrated below:

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**Figure 3**

## 4.2 Building a Competitive Advantage

Every business, large or small, needs a competitiveadvantage to distinguish itself from the competition.In the aggressive business world, especially intoday’s economy, every advantage counts toestablish your business in the top of your industry.Gaining a competitive advantage takes strategicplanning, extensive research and an investment inmarketing.

A competitive advantage is simply afactor that distinguishes your business from others and makes customers more likelyto choose your product over the competition. Without a competitive advantage, yourbusiness has no unique method of drawing in customers.Itis a way in which you can create value for yourcustomers that your competitors cannot. This may be lower cost, faster service,better customer service, more convenient location, higher quality, or other factors.

For example, a restaurant offering the best food in town (best-tasting, highestrated, most well-known chef, or some other measure of quality) would have anadvantage other its competitors by offering a higher-quality product.Alternately, a business could focus on reducing overhead and production costs tooffer a market-quality product at a below-market price. Being able to offer thisproduct at the price that they do would then be their competitive advantage.Creating a competitive advantage involves analyzing your business's strengthsand those of your competitors, and then learning how to take advantage of thesefactors.

1. **Work to understand your customers**

Identify the demographic qualities of yourcustomer base. If you serve businesses, what type of businesses do you typically sellto? If you serve individuals, are they typically young or old, male or female, married orsingle? Do they live within a 1⁄4 mile (0.4 km) of the business or 50 miles? What is theirtypical income? Are they different from your competitor's customers? If you do notunderstand your customers, you cannot determine why they patronize your business.Take this one step further by seeking to understand your customers on a personallevel. What are their hobbies? What do they care about? What aspects of yourbusiness or your product resonate with them?Demographic information can be discovered through customer interaction,surveys, or analyzing customer information.

1. **Examine your business's unique strengths**

Examining the strengths of yourbusiness can let you know which areas you can build on to create a competitiveadvantage. Ask yourself, “Why do customers buy from me?” The answer to this questionwill help you understand what value you offer them.For example, if you own a Chinese food restaurant, the quality of food, thelocation, or perhaps the speed of the delivery service may all contribute to acustomer choosing you over your competition.Don't be afraid to ask your customers directly. You can make a survey for them tofill out, or just approach them, but your key objective is to discover why it is theychoose you.If many customers list location, for example, you can work on other aspects of yourbusiness to create an even greater advantage.

1. **Look at your competitors**

A competitive advantage means you need to offer somethings your competitors don't. Therefore, you need to know what it is your competitorsdo well, and do not do well. Think about your competitors' products, services, prices,location, and marketing. Then, compile a list of all the reasons you feel a customer wouldchoose your competitors' business.Compare this to your list of advantages. What strengths do you have that yourcompetition does not have? Which strengths does your competition have that youdo not? The areas of strength that you have are the areas you should focus onexpanding.

1. **Reduce costs**

Cost reduction is one strategy that businesses can pursue to gain acompetitive advantage, or to add to their advantage. Most markets have pricesensitive consumers, and being able to offer your product or service at a lower price is acertain way to create value for your customers.

1. **Examine your entire production process**

This includes everything from purchasingsupplies, to how your workers produce your products, to how your product is sold.Consider investing in technology that can reduce costs. If you own a restaurant, forexample, purchasing energy-efficient equipment can reduce your operating costs.  
If your business has an excellent credit rating compared to your peers, you canfinance these purchases at a lower cost.Examine how your workers are producing as well to make sure they are notwasting resources and those they are producing as much as possible.

1. **Focus on service**

In your particular market, service may be a key factor thatdifferentiates competitors. If your business already has strength in service, considerdoing more to focus in this area.Hiring better staff, improving training standards, managing staff closer, offeringrewards and incentives for strong service, and offering more convenient hours ofoperation can all help generate an advantage. It is important to create a culture ofexcellent service. If your service advantage is based on a few simple factors (likelonger hours), your competition can easily replicate it.

**(vii) Focus on product or service quality**

If you cannot compete with your peers onlocation or on price, for example, you can always compete on quality. This is eventruer if high quality is one of your strengths. Customers will often pay more or go togreater lengths for an exceptional product.You'll need to first determine exactly what quality means in a particular market. Forexample, do customers want maintenance-free products, better design, or longerlife? What does quality mean to your customers?Look at best-selling products in your market. What aspects of these products makethem desirable?

**(viii) Differentiate your products and services**

Look for one or more marketableattributes that you have that can set you apart from your competitors. Make sure your product has both attractive features and benefits. A feature issomething that the product has or is, such as a drill that has interchangeable drillbits. A benefit is a positive outcome that the user experiences as a result of usingthe product, like how using an umbrella keeps you dry in the rain.When aproduct has both of these, it's much more possible to gain a competitive advantage.

**(ix) Form an alliance with another company**

Forming a partnership or alliance withanother company can be an excellent way to gain a competitive edge. For example,assume you are a local equipment supply company. You could approach a localtransportation company and offer to provide them with a discount on products in exchangefor quicker or more preferential local transportation. In doing so, you can offer your  
customers their products in a shorter time frame than your peers, providing you with acompetitive advantage

## 4.3Feasibility Analysis

Feasibility analysisis the process of confirming that a strategy, plan or design is possible and makes sense. This can be used to validateassumptions, constraints, decisions, approaches and business cases.

The following are common types of feasibility analysis.

1. **Financial**  
   Validating that a goal is possible within your financial constraints. For example, a construction project that uses reference class forecasting as a sanity check for project budget.
2. **Schedule**  
   Validating that a goal is possible with time constraints. For example, a fashion label discovers a trendy new fashion accessory at a fashion week. They do a feasibility check to see if they can produce and distribute the item in time for the Spring/Summer season.
3. **Technical**  
   Validating that a given technology can support requirements or that a goal is technically possible. For example, an e-commerce project confirms that a partner's API can support a list of requirements for an integration project.
4. **Market**  
   Research to estimate the probability that a product, service or customer experience strategy will succeed in the market. This may include factors such as customer needs, perceptions, demand,positioning and competition.
5. **Regulations & Standards**

Confirming that a strategy complies with laws, regulations and standards.

1. **Organizational**  
   Looking at the people side of change such as a strategy that requires a significant change to organizational culture.
2. **Operations**

The feasibility of deploying and operating a project. For example, thecosts and technical challenges associated with operating andmaintaining a deep water offshore wind farm.

## 4.4 Elements of a Business Plan

**What is a Business Plan?**

A business plan is a written document prepared by an entrepreneur that describes the type of business, its goes and objectives, the product or service to be produced and supplied, marketed, and the steps necessary to achieve the goals and objectives of the business.

**Functions of a Business Plan**

The following are the important functions of a Business Plan

* It forces the entrepreneur to come up with a more organized business idea.
* It leads to putting down of idea into a written document
* It is an operation plan used to direct the operations of the business.
* Many businesses use business plan to get loans from the lending institutions.
* Helps in determining the viability of the business idea.
* Provide an estimate of start-up cost.
* Determine whether a business has a chance of making good profit.
* Provide revenue estimate (by defining your market – who your customers will be and the percentage of the market you can expect to reach).
* Compete in the market place.
* Anticipate potential problems so that he/she can solve them before they become disasters.

Note that making a business plan is an important phase and needs to be allocated sufficient time.

**Business Plan Outline**

There are a number outlines of a Business Plan. the generally accepted one has the following elements:

1. Executive summary
2. Business idea
3. Vision, mission, and objective of the business
4. Company profile
5. Marketing plan: This includes; industry trend, product/service, target market, competitive analysis and marketing mix (already discussed in unit)
6. Operational plan: composed under this are; suppliers, manufacturing, operational requirements and human resources
7. Management: Here the following are required; preparation of an operational chat, a profile of all senior managers including their nationalities, management and development plans.
8. Financial plan: this is composed of start-up cost, cash flow statement. Income statement and the Balance sheet.

summarySummary

This unit focused on Business Management, how a business can build Competitive Advantage, Feasibility Analysis and the elements of a Business Plan.

|  |
| --- |
| **Assignment**   * + - 1. What is Strategic Management?       2. Explain how a business can build Competitive Advantage?       3. What are the main contents of a Business Plan?       4. Prepare and demonstrate a Business Plan. |

**UNIT 5**

# 5.0 BUSINESS ENVIRONMENT

## 5.1 Introduction

Having lookedbusiness management, how a business can build competitive advantage, feasibility analysis and the elements of a Business Plan. This unit focuses business environment, that is, the regulatory system and sources of capital of businesses. It will also look at the different forms of business ownership.

Description: Outcomes**Learning Outcomes**

**By the end of this unit students should be able to;**

* + define business environment
  + discuss the regulatory systems surrounding businesses
  + explain the single window licensing system
  + identify the various sources of capital for SMEs
  + discuss the different forms of business ownership

TimeThis unit is to be covered in 2 hours.

## 5.2 What is Business Environment?

Business environmentis the sum total of all external and internal factors that of a business. You should keep in mind that external factors and internal factors can collaborate with each other and work together to improve a business. For example, a healthand safety regulations are external factors that affect the internal environment of business operations. Additionally, some  
external factors are beyond your control. These factors are often called external constraints. Let's take a look at some keyenvironmental factors.

## **External Factors**

Political factorsare governmental activities and political conditions that may affect your business. Examples include laws,regulations, tariffs and other trade barriers, war, and social unrest.

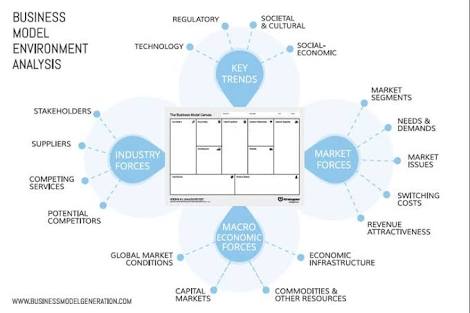
Macroeconomic factorsare factors that affect the entire economy, not just your business. Examples include things like interestrates, unemployment rates, currency exchange rates, consumer discretionary income, consumer savingsrates, recessions, and depressions.

Microeconomic factorsare factors that can affect your business, such as market size, demand, supply, relationships withsuppliers and your distribution chain, such as retail stores that sell your products, and the number and strength of yourcompetition.

Social factorsare basically sociological factors related to general society and social relations that affect your business. Socialfactors include social movements, such as environmental movements, as well as changes in fashion and consumer preferences.For example, clothing fashions change with the season, and there is a current trend towards green construction and organicfoods.

Technological factorsare technological innovations that can either benefit or hurt your business. Some technologicalinnovations can increase your productivity and profit margins, such as computer software and automated production. On theother hand, some technological innovations pose an existential threat to a business, such as Internet streaming challenging the  
DVD rental business

A business can be established, but to successfully sustain a business,there’s need to understand that, business environment presents threats as well as opportunities for any business. Agood business manager not only identifies and evaluates the environment but alsoreacts to these external forces. Figure 4 below is an illustration of the interaction of external and internal factors of the “Business Environment”

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**Figure 4**

## 5.3 Regulatory System

The BRRA (Business Regulatory Review Agency) is an established pursuant to the Business Regulatory Act No. 3 of 2014. The Act is an instrument under businesslicensing and regulatory reforms which are aimed at creating a conducive environment within which the private sector,particularly Small and Medium Enterprises, can grow and flourish.

**Objectives of the Agency**

1. To improve the quality of regulation by ensuring that businesses are regulated in a fair, equitable and transparent mannerand for specific and legitimate reasons (better regulation).
2. To ensure consistent regulation, curb red tape and abuse of regulatory powers and that businesses have a say in theirregulation.
3. To ensure that regulatory bodies discharge their functions effectively and efficiently and in a coordinated manner.
4. To ease and reduce the cost of compliance with regulation; and ultimately.
5. To foster a pro-business, transparent, simpler and cost effective regulatory regime.

**Functions of the Agency**  
The functions of the Agency are as follows:

1. Reviewing and approving proposed regulatory frameworks
2. Managing the e-registry
3. Facilitating single licensing for the various sectors
4. Providing secretarial, technical and administrative support services to the Business Regulatory Review Committee
5. Developing and disseminating guidelines and standards for regulators and public consultants
6. Monitoring and evaluating the business regulatory framework in the various sectors
7. Building capacity and provision of technical support to regulatory agencies on the provision of regulatory services (termsand conditions of issuing licenses, certificates, permits or authorization) in conformity to the Act
8. Facilitating and implementation of the action plans designed by the Committee on regulatory service centers and singlelicensing system; and
9. Overseeing regulatory service centers.

Amongst agencies involved in the Zambian Regulatory System are; Zambia Public Procurement Authority (ZPPA), National Pensions Scheme Authority (NAPSA), Zambia Tourism Agency (ZTA), Zambia Bureau of Standards (ZBS) and Patents and Companies Registration Agency (PACRA).

## 5.4 Single Window Licensing System

The main value proposition for having a single window for a country or economy is to increasethe efficiency through time and cost savings for traders in their dealings withgovernment authorities for obtaining the relevant clearance and permit(s) or licenses. In a traditional pre-single-windowenvironment, traders may have had to contend with visits and dealings with multiple government agencies in multiple locations to obtain the necessary papers, permits, andclearances.

**Single Widow Licensing System**

A common definition of the term **“Single Window Licensing System”** is:A facility that allows parties involved in the licensing system to lodgestandardized information and documents with a single entry point to fulfill all regulatory requirements. Ifinformation is electronic then individual data elements should only besubmitted once.

**Benefits of the Single Window System**

1. **Faster Processing:**Window system is built on a modern platform which makes it faster up to 68 times faster in the processing of continuous andsingle bonds and reduces thewait times at processing by up to 33 per cent.
2. **Paper Reduction:**Working with a number of licensing agencies, paper forms can be standardized, automated and streamlined making it easy toincrease predictability in transit, enhance transparency and enhance compliance with regulations and laws.
3. **Reduced Costs:** The system cuts costs through digitization of manual processes and reduction of waiting times at licensing points. A good amount of money is saved annually through digital submission of export and other licenses.
4. **Access to Information:**Partner Government Agencies get access to information. For example, in international trade, it is easy to access electronic manifests, and cargo release documentsfrom one source making it easier to determine the risk of cargo entering into the country.

For instance, in the business registration processes, you obtain a Tax Payers Identification Number (TPIN), which can be traced by PACRA, Financial Institutions and Zambia Revenue Authority (ZRA) using a single window licensing system.

## 5.5 Sources of Capital for SMEs

A business may be endowed with great businessideas. However, the rate of implementingthose ideas is very low due to lack of capital. Itis why many people die with ideas that, if theywere implemented, would have transformedthe world into a better place. As anentrepreneur, you need to try and pushyourself to the limit to make your ideas reality.Nowadays, banks have become so conservative with their cash. There are so manythings taken into consideration before any business loan is approved. It means thatentrepreneurs need to think outside the box and determine alternative and creativefinancing options for their businesses. With the Internet and technology, it is time toput them to use when it comes to raising capital, rather than relying only on thetraditional sources that have been there forever.

Today, we would like to take you through different ways businesses or entrepreneurscan raise capital. Not every source of capital is applicable to every business idea,though. An entrepreneur should choose one which fully meets their demands. Hereis a breakdown of traditional and creative sources of capitalyou may use to start upyour company.

1. **Family and Friends**

If your business is well thought out and has a proper business plan, your familymembers together with your friends are the closest people to approach when itcomes to raising capital for your business. Your communication skills should saveyou at this point. The good thing with cash from friends as well as family members isthat it comes with very low-interest rates or none at all. It makes it cheap for youwhen running the business since you would not be required to pay interest rates onloans.However, be careful when choosing the members since some of them might want amajority share of your company.

1. **Selling off Assets**

When starting off a business venture, it is good to consider and use what you have toget what you want.Do you have any assets that you can easily convert into cash? Ifyou have some, the better for you. Just sell them and use the cash to kickstart yourbusiness. It is vital to be aware that, in the business world, it is all about risking andnothing else. Sell off all your assets and invest in your business. Doing so is cheaperthan going out for a loan which will automatically come with high interest rates.

1. **Angel Investor**

If you have a great business idea, it is good to look for an angel investor who willprovide capital for you to kick-start your venture without any financial strains.However, you should note that angel investors will have a share of your business andwill also be involved in decision making. Furthermore, they also expect a certain valueof return on their investment. If indeed you have a proper and well laid out businessplan, make your dream a reality by looking for an angel investor. Have properlanguage and convince them that your business idea is quite profitable.Stress that all their investment shall come back with great returns.This is another awesome idea you can use to expand your business in the 21stcentury. However, this method only applies to companies or businesses that arealready beyond the start-up phase and are facing difficulties in running andadministration due to financial strain.

1. **Venture Capitalists**

If you mayapproach venture capitalists who will inject a certain amount of capital into the  
business and keep it running instead of closing it down. As a piece of advice, we  
would like to state that many venture capitalists insist on recovering their cashwithin a period of three years.

1. **Home Equity Loan**

If you have a home equity loan, you may use the loan to finance your business. Thegood thing with these loans is that they come with flexible terms and low interestrates compared to traditional loans. However, caution should be taken since, if thebusiness fails or you somehow don’t follow the terms and conditions of the loan, yourisk closure.

1. **Renting out Property**

In the business world, it is always good to risk what you have to get to where youwant to be. The best example is renting your apartment and using the rent to start upyour business. It is a very creative way many people across the US have used to getinto entrepreneurship. There is absolutely no need for you to live in a ten bedroomedhouse when you can fit in a three bedroomed house. Rent the 10 bedroomed house anduse the cash to start your business.

1. **Commercial Bank Loan**

With a proper business plan, which has objectives and is commercially based,different financial institutions will be willing to give out small business loans to you.There are two types of businessloans: the secured loans and the unsecured loans.The secured loans have collateral, meaning that if you fail in repaying them, yourassets might be taken away by the bank. On the other hand, the unsecured loanshave no security attached to them. What may limit you in both cases is if yourpersonal financial score is low.

1. **Merchant Cash Advance**

If you plan to use credit and debit cards for your business, one good source of capitalcould be a merchant cash advance. It is a loan given to businesses against theirfuture credit and debit card sales. The advantage of merchant cash advance is thatthe lender collects a certain percentage of the credit and debit card sales, meaningthat if the sales are low, he will take a low amount and if the sales are high, he willtake a higher percentage. Also, it does not come with interest rates since it is notconsidered a form of loan.It is sometimes referred to as invoice advances. This is a process whereby anentrepreneur agrees with the moneylender to grant them the money against futurepayment of invoices by the customers.However, it is good to note that if your clients fail to pay their invoices on time, youcould end up losing the service provider.Many companies nowadays borrow money on their personal and business creditcards so as to finance their businesses. It is due to the fact that they are cheaper andfaster than merchant cash advances as well as invoice factoring.

1. **Online Borrowing**

The Internet is slowly taking over the entrepreneurial world by storm. Online lendingserviceslikeare now growing and becoming very popularcompared to traditional business loans from banks as well as microfinanceinstitutions. It is because they are fast and reliable. The timing of the loan takes lessthan a day. If you have a business idea, don’t hesitate, just apply for money fromonline lenders and kick-start your venture in no time.

1. **Government Grants**

The government, especially the small business administration, offers grants toentrepreneurs who want to have research-related business ideas. However, yourtopic of concern should be related to a problem-solving activity. The idea should alsohave high commercialization potential for you to get funded. The good thing aboutgrants is that they are absolutely free and you don't need to repay anything back tothe government. The good thing about grants is that they are absolutely free and youdon't need to repay anything back to the government.

1. **Bartering**

My assumption is that most of us have heard about bartering. It is a form of tradewhereby we exchange goods for other goods. It means no money or cash is involvedin the transactions. In this case, however, you could have business ideas that needmachinery. If you meet someone who has the machine that you need, you couldconvince them to give the equipment in exchange for different things. It will save youthe total amount of cash needed to start up your business.

1. **Finance Companies**

Finance companies are also options you can use to get capital for your business.These companies are there to give small loans to small business owners. However,these companies do offer loans at high interest rates. Thus, it is good to be verycareful when signing contracts with such companies. To make it even worse, they areloosely regulated.

In the world that we live in today, getting access to funding for your businessrequires you to look beyond the traditional sources people used to depend on in thepast. It means that the level of your creativity needs to edge out the rest of theindividuals.

## 5.6 Forms of Business Ownership

An entrepreneur needs to decide how his/her business will be organized depending on nature of business, amount of capital and availability of other resources including the available skills and manpower. There are a number of forms of business, the following are the main ones:

# 5.6.1SOLE PROPRIETORSHIP:

This is also called sole trade organization and is the oldest form of business ownership. It isowned, managed and controlled by the sole owner.

**Advantages**

* **Simple Form of Organization:** Proprietorship is the simplest form of organization. The entrepreneur can start his/her/her enterprise after obtaining license and permits. There is no need to go through the legal formalities and no formal statutory registration.
* **Owner's Freedom to Take Decisions:** The owner, i.e. the proprietor is free to make   
  all decisions and reap all the fruits of his/her labour.
* **High Secrecy:** Secrecy is another major advantage offered by proprietorship. This   
  is because the whole business is handled by the proprietor himself/herself and, as such, the business secrets are known to him/her only. The proprietor is not required by law to publish his/her accounts.
* **Tax Advantage:** As compared to other forms of ownership, the proprietorship form   
  of ownership enjoys certain tax advantages. For example, a proprietor's income is taxed   
  only once while corporate income is, at occasion, taxed twice, say, double taxation.
* **Easy Dissolution:** In proprietorship business, the entrepreneur is free to dissolve his/her business any time, as there are no co-owners or partners to consult.

**Disadvantages**

* **Limited Resources:** A proprietor has limited resources as the proprietor mainly relies on his/her funds and savings or borrowings from relatives and friends. Thus, the scope for raising funds is limited in proprietorship and hinders the expansion of the enterprise.
* **Limited Ability:** Proprietorship is characterized as one-man show. One man may be expert in one or two areas, but not in all areas like production, finance, marketing, personnel, etc. Then, due to the lack of adequate and relevant knowledge, the decisions taken by him/her are imbalanced.
* **Unlimited Liability:** Proprietorship is characterized by unlimited liability, so this means that in case of loss, the private property of the proprietor will also be used to clear the business obligations.
* **Limited Life of Enterprise Form:** The life of a proprietorship enterprise depends solely   
  upon the life of the proprietor. When he dies or becomes insolvent or insane or   
  permanently incapacitated, there is very likelihood of closure of enterprise.

## 5.6.2 PARTNERSHIP

Partnership as an association of two or more persons who have agreed to share the profits of a business which they run together.

**Advantages**

* **Easy Formation**: Partnership has less legal formalities, it is a contractual agreement between the partners to run an enterprise. Hence, it is relatively ease to form. Though the registration of a partnership is desirable, but not obligatory.
* **More Capital Available:** Partnership are able to raise more capital compared to sole proprietorship business because more than one person provides funds to the enterprise. This also increases the borrowing capacity of the firm. Moreover, the lending institutions also perceive less risk in granting credit to a partnership than to a proprietorship.
* **Pooling of Talent, Judgment and Skill:** As there are more than one owners in   
  partnership, all the partners are involved in decision making. Usually, partners are pooled from different specialized areas to complement each other. For example, if there are three partners, one partner might be a specialist in production, another in finance and the third in marketing. This gives the firm an advantage of collective expertise for taking better decisions.
* **Diffusion of Risk**: In partnership, the losses of the firm are shared by all the partners as per their agreed profit-sharing ratios. Thus, the share of loss in case of each partner will be less than that in case of proprietorship.
* **Flexibility:** Like proprietorship, the partnership business is also flexible. The partners can easily appreciate and quickly react to the changing conditions compared to larger business organization.
* **Tax Advantage:** Taxation rates applicable to partnership are lower than companies.

**Disadvantages**

* **Unlimited Liability**: In partnership firm, the liability of partners is unlimited. Just as in proprietorship, the partners' personal assets may be at risk if the business cannot pay its debts.
* **Divided Authority:** In partnerships each partner can discharge his/her responsibilities in his/her concerned individual area. But, in case of areas like policy formulation for the whole enterprise, there are chances for conflicts between the partners. Disagreements between the partners over enterprise matters may destroy the business.
* **Lack of Continuity:** there is uncertainty in continuity of partnership in case of death or withdrawal of one partner.
* **Risk of Implied Authority:** Each partner is an agent for the partnership business. Hence, the decisions made by one is binding to all the partners. A wrong decision made by an incompetent partner is borne by other partners and may lead the firm into difficulties.

## 5.6.3 COMPANY

A corporation is an artificial being invisible, intangible and existing only in contemplation of law. It possesses those properties which the charter of its creation confers upon it, either expressly or an incidental to its very existence

**Advantages**

* **Limited Liability:** The liability of shareholders, unless and otherwise stated, is limited   
  to the face value of shares held by them or guarantee given by them.
* **Perpetual Existence:** Death, insanity, insolvency of shareholders or directors do not affect the company's existence. A company has a separate legal entity with perpetual succession.
* **Professional Management:** In a company management is left in the hands of directors who are well experienced persons in order to manage the day-to-day activities, they are salaried professional managers appointed by shareholders, the company is therefore professionally managed.
* **Expansion Potential:** As there is no limit to the maximum number of shareholders   
  in a public limited company, expansion of business is easy by issuing new shares and   
  debentures. Companies normally use their reserves to expand their business.
* **Transferability of Shares**: If the shareholders of a company are displeased with the progress of the business, they can sell their shares anytime. During all this change of   
  ownership, the business continues to operate.
* **Diffusion of Risk:** As the membership is very large, the whole business risk is spread among the several members of the company. This is an advantage particularly for small investors.

**Disadvantages**

* **Lack of Secrecy:** As per the legal provisions, a company has to make their financial  
  statements available to the Registrar of the Companies and Financial Institutions; the secrecy of business comes down. During Annual General Meetings confidentiality is further reduced when the company provides its annual report to the shareholders as the competitors do also find out the details of all financial data.
* **Legal Restrictions**: companies take considerable time and effort to register compared to proprietorship and partnership, as a company has to comply with more legal formalities.
* **Management Mischief:** Sometimes the managers and directors misuse the company resources for their personal benefits. This brings losses to the company.
* **Lack of Personal Interest:** Unlike proprietorship and partnership, the day-to-day   
  affairs of a company are looked after by salaried managers. Since they are the employees not the owners, this may result in inefficiency and, in turn, losses due lack of personal interest and commitment in the company.

## 5.6.4 CO-OPERATIVES

Co-operative organization is an association of persons, usually of limited means, but have voluntarily joined together to achieve a common economic and through the formation of a democratically controlled business organization, making equitable contributions to capital required and accepting a fair share of risks and benefits of the undertaking.

## Advantages

* **Easy Formation**: Compared to the formation of a company, formation of a co-operative society is easy. Any ten adult persons can voluntarily form themselves into an association and get it registered with the Registrar of Co-operatives. It does not involve long and complicated legal formalities.
* **Limited Liability:** Like company form of ownership, the liability of members is limited to the extent of their capital in the cooperative societies.
* **Perpetual Existence:** A co-operative society has a separate legal entity. Hence, the   
  death, insolvency, retirement, lunacy, etc., of the members does not affect its existence.
* **Social Service:** The basic philosophy of co-operatives is self-help and mutual help. Thus, co-operatives foster a better living for themselves.
* **Open Membership**: The membership of co-operative societies is open to all irrespective of ethnic, religious and economic status. There is no limit on maximum members.
* **Tax Advantage**: Unlike other three forms of business ownership, a co-operative   
  society is exempted from income-tax and surcharge on its earnings up to a certain limit.   
  Besides, it is also exempted from stamp duty and registration fee.
* **Democratic Management:** The management of co-operative society is entrusted to   
  the managing committee duly elected by the members on the basis of ‘one-member one- vote’ irrespective of the number of shares held by them. The proxy is not allowed in co- operative societies. Thus, the management in cooperatives is democratic.

## Disadvantages

* **Lack of Secrecy:** A co-operative society has to submit its annual reports and accounts   
  with the Registrar of Co-operative Societies. Hence, it becomes quite difficult for it to   
  maintain secrecy of its business affairs.
* **Lack of Business Acumen**: The members of co-operative societies generally lack business acumen. When such members become the members of the Board of Directors,   
  the affairs of the society are expectedly not conducted efficiently.
* **Lack of Interest:** The paid office-bearers of co-operative societies do not take interest in the functioning of societies due to the absence of profit motive. As a result, a small problem may cause the co-operativeto become inactive or come to a halt.
* **Corruption:** In a way, lack of profit motive breeds fraud and corruption in   
  management. This is reflected in misappropriations of funds by the officers for their   
  personal gains.
* **Lack of Mutual Interest:** The success of a co-operative society depends upon its member’s utmost trust to each other, however, all members are not found imbued with   
  a spirit of co-operation. Absence of such spirit breeds mutual rivalries among the members. Influential members tend to dominate in the society's affairs.

Description: summarySummary

The unit looked at the regulatory system, window licensing system, source of capital and the four main types of businesses, namely; Sole proprietorship, Partnership, Company and Co-operatives.

|  |
| --- |
| Group work  In pairs, discuss:  1. Ten regulatory Agencies in Zambia, stating their areas of regulation.  2. Various Sources of capital.  3. The main types of businesses, their advantages and disadvantages. |

**UNIT 6**

# 6.0 POLICY ENVIRONMENT FOR SMALL AND MEDIUM SCALE ENTERPRISES

## Introduction

Having discussed the different ways in which businesses are organized, the various sources of capital, single window licensing systemand the regulatory system of SMEs in the previous unit, this unit will focus on the incentives and publicstrategies ofSmall and Medium Enterprises and technical support services.

Description: Outcomes**Learning Outcomes**

**By the end of this unit students should be able to;**

* + define SME elaborately
  + identify public SME promotion strategies
  + explain the technical support services
  + discuss the SME incentives

Time This unit is to be covered in 2 hours.

## 6.1 What are SMEs?

Before we discuss SME strategies, let’s begin by defining Small and Medium Enterprise (SME).

There’s no single definition of small-micro enterprise (SMEs), it varies from one country to another and from one time to another. The definition may depend upon the pattern and stage of development, government policy and administrative set up of the particular country. As a result, there are at least 50 different definitions of SMEs found and used in 75 countries.’ All these definitions are related to capital or employment or both or any other criteria.

By definition, SMEs are “small and medium-sized” enterprises. The most standardclassification of SMEs is by number of employees although sometimes revenues are also used.Many SMEs are of a stable size and are content to remain small. Firms in this category includemany family businesses, most sole proprietorships and many other micro, small and mediumsized firms.

While SMEs are clearly a large and critical part of most economies around the world,SMEs differ greatly in their growth orientation. The term “SME”, which describes a firm’s size,is therefore not adequate for measuring entrepreneurship or anticipating internationalisation offirms. Growth orientation as well as both the inclination and ability to internationalise areimportant characteristics in SME internationalisation.

According to the European Commission Communication an Enterprise qualifies to be a SME if the entity is engaged in an economic activity, irrespective of its legal form.

According to Strokes, D., Wilson N. (2006), Small Micro-Enterprises can be classified into five main types as follows:

1. **Manufacturing enterprises,** i.e., enterprises producing complete articles for direct consumption and also processing enterprises;
2. **Feeder enterprises** specializing in certain types of products and services, e.g. casting,   
   electro-plating, welding, etc.
3. **Serving enterprises** covering light, repair, shops necessary to maintain mechanical   
   equipment;
4. **Ancillary large enterprises**, producing parts and components and rendering services.
5. **Mining or quarrying.**

## 6.2 Public SME Promotional Strategies

Entrepreneurship is about creativity, innovation and growth. It is, by its very nature, abottoms- up approach. A widely used definition from Harvard Business School is“entrepreneurship is the pursuit of opportunities beyond the resources you currently control”(Stevenson 1983, 1985; Stevenson and Jarillo, 1991). Entrepreneurship can be facilitated bycreating an environment which provides incentives for entrepreneurs and reduces the barriers tostarting and growing companies. However, entrepreneurship cannot be “created” through top-down approaches.

Entrepreneurial economies are the result of multifaceted systems for nurturing high-impactentrepreneurship. Real opportunities arise from firms with new ideas that add unique value(Schramm 2004). Innovative entrepreneurs come in all shapes and forms, whether they startcompanies, grow existing firms, innovate within large companies or establish social enterprises.These are creative, proactive people pursuing a vision and galvanising the necessary resourcesalong the way to make that vision a reality.

Entrepreneurs, as described above, are growth oriented although only a small segment ofentrepreneurs are high growth oriented, meaning they are pursuing large, global markets withsome unique and scalable technology or product. It is these high growth firms which are thelargest source of job growth and wealth creation. These firms also tend to be more focused oninternationalisation. In fact, many high growth firms, which are often venture-back companies,start with a global strategy from the onset. These firms are often referred to as “born global” or“gazelles”.

Small and medium-sized enterprises public promotional strategies and tactics can be achieved through sustainable development. European Commission (2010) considers that sustainable development “offers a vision of progress that integrates immediate and longer-term objectives, local and global action, and regards social, economic and environmental issues as inseparable and interdependent components of human progress”. Sustainable development includes a set of principles that might govern many areas (politic, economic, social, environmental), aimed to assure a harmony state on long term.

Promotional activities area new subject in academic preoccupations. In this sense, objectives must be focused on understanding if their promotional activities of an SME are in accordance to the principles of sustainable development. Many support measures exist to help SMEs to link up with and engage in joint activities. These include corporate matchmaking services, customizedmarket research intelligence and assistance with standards and quality issues. Also, the creation  
of networks in which entrepreneurs can come together for advice and mutual support.

The following are some of the public SME strategies:

* Improving SMEs access to information about networking opportunities.
* Encouraging co-operation between all stakeholders: SME associations, publicagencies and intermediary organizations.
* Strengthening linkages between national and regional hubs of relevantinformation flows.
* Increasing the participation of SMEs in research and innovation networks.
* Greater SME involvement in existing (regional, national and global) public-private  
  partnerships.
* Supporting the emergence and maintenance of innovative clusters.
* Stimulating collaboration between public and private research institutions.
* Improving the availability of market information.
* Strengthening co-operation among firms.
* Identifying and promoting best practice policies which support company innovation throughcluster development.
* Exchange experiences at the national and international levels

In all the above the issue of sustainable development should be the most important factor. Businesses must evaluate environmental and social consequences of their strategies. Every component of their business dealings must have a central element of sustainability for the ecosystem.

Sustainable development also consists of collecting funds for ecological causes and reducing consumption of energy, offering deals for social responsible behaviors, covering some environment protection taxes, of non-renewable resources or of products that might affect the environment (Catoiu, Vranceanu and Filip, 2010).

According to this concept, the promotional activities have to be oriented to an integrated communication, through which all the categories of stakeholders be correctly informed on company’s activities.

The design of public strategy campaigns must take into consideration the characteristics of the its sensitivity to environmental problems. In this direction, the companies have to implement researches as to measure accurately the expectations and the impact of promotional campaigns. Also, the promotional messages must have an outline of the environmental benefits of products and services the company is offering and their interest in developing CSR programs.

The modern day promotional strategy is through Public-Private Partnerships**(PPPs).** Thisrepresent cooperationamong public institutions and private enterprises whichintend to develop infrastructure networks and at the sametime providing public services. The EU defines PPPs as akind of collaboration linking public establishment andbusiness world that intend to provide finance, structure,renewal, management or repairs of an infrastructure orintend to provide a service (Bovis, 2010).

On the other hand, the UN defined PPPs as new waysemployed by the public institutions to form agreementswith the private sector, who share their resources andtheir capability to accomplish projects within allocatedbudget and time, whereas the public sector maintain the  
task to make available such services to the public in amanner that assists the public and bring economic growthand upgrade the quality of life (Bult and Dewulf, 2007).

PPPs can be benefited several ways in developing a wellestablish SME sector. First, PPPs can unite diverseactors’ knowledge and skills in formulating effectivedecisions as well as results in developing effectivestrategies and policies (Lowndes and Sullivan, 2004).

Secondly, PPPs can employ different diverse partners’particular resources and can devise improved problemsolving techniques further successfully and competentlythan a single partner (Cohen, 2001). Lastly, employingwide-ranging methods to undertake complicated  
problems, PPPs can decrease the unintentional costs ofnarrowly identified, single-sided solutions (Keast et al.,2004). The other benefits of PPPs to SME sectordevelopment are numerous, especially for the developingcountries. These include:

1.Sharing of each other’s competence.

1. Cost of product development.
2. Faster product development.
3. Facilitation of product acceptability by consumers.
4. The efficient use of resources.
5. Availability of modern technology.
6. Better project design and implementation.
7. Improved operations combine to deliver efficiency andeffectiveness.
8. Increases accountability and incentivizes performance.
9. Maintenance of required service standards.
10. Improves access to finance.

## 6.3 Technical Support Services

Technical support refers to a range services companiesprovide to their customers for products such as software, mobile phones,printers, and other electronic, mechanical or electromechanical products.Technical support services usually provide users with help in solvingsome common problems rather than providing training on how to use theproducts.

Technopedia explains that, (Tech Support)Technical support is usually delivered over telephone, via email, over chat(IM) or using special software or software extensions that the user canemploy to directly contact tech support. Technical support representativesare very familiar with the ins and outs of the products for which theyprovide support. If there is a problem that cannot be solved by the techsupport, it is escalated to the development team and logged as a bug thatshould be fixed by a future product update or the next product iteration.

There are a few key types of technical support:

**Time and Material:** This type of support is common in the techindustry. Also known as “break-fix” IT support, the payment of thematerials and technician service charge falls upon the customer fora pre-negotiated rate.

**Managed Services:** This is usually given to large-scale customersrather than individual consumers. A list of well-defined services andperformance indicators are provided to the customer on an ongoingbasis for a fixed rate, which is agreed upon on contract. Services  
provided could be 24/7 monitoring of servers, 24/7 help desk andthe like. This may include on-site visits when problems cannot besolved remotely.

**Block Hours:** This is a prepaid support system where the customerpays for a certain amount of time, which can be used per month orper year. This allows customers to use the hours flexibly without thehassle of paper work or multiple bills.

## 6.4 SME Incentives

There are basically eight incentives to Promote SME development according toWang Yuanzhi, director of the small and medium-sized enterprises department under the  
National Development and Reform Commission (NDRC), he further stated that, most central governments give toppriority to the development of small and medium-sized enterprises (SMEs). Different government ministriesand local government authorities have introduced preferential measures in support of SMEdevelopment. These measures can be classified into the following eight areas:

1. **Fiscal support:** A special SME development fund can be established within the central  
   government budget, local government authorities to offer fiscal support to SMEs based  
   on actual circumstances.
2. **Financial support:** Strengthening of credit policy guidance to improve the financing  
   environment of SMEs. Greater support can be given to SME financial institutions,  
   commercial banks and they can be encouraged to adjust their credit structure, and greater creditsupport will be extended to SMEs. The state can take measures to broaden the directfinancing channels of SMEs. Also, an SME credit guarantee system can be established topromote this kind of guarantee as a financing channel for SMEs.
3. **Support to start-ups:** Support can be given to the establishment and development of  
   SMEs by offering tax incentives. Eligible SMEs will enjoy reduction and exemption ofincome tax within a given period.
4. **Partnerships:** SMEs are encouraged to introduce foreign capital, advanced technology andmanagement skills through the establishment of Sino-foreign equity and contractual jointventures in accordance with the state's foreign capital utilization policy.
5. **Support on Technology Innovation:**SMEs are encouraged to develop new products to  
   meet market demand, adopt advanced production techniques and equipment to enhance  
   product quality and achieve technological advancement. SMEs undertaking technology  
   innovation and technology renovation projects in support of large enterprises will be  
   eligible for interest subsidy. SMEs are encouraged to collaborate with academic and  
   research institutions to carry out technology cooperation, development and exchange.  
   The commercialization of technological achievements will be promoted and technologytype SMEs will be encouraged.
6. **Support on market expansion:** Large enterprises are encouraged to cooperate with  
   SMEs in areas such as raw materials supply, production and sales. Priority is givento SMEs during government procurement of products and services. SMEs can be encouraged to increase exports and engage in foreign economic and technologicalcooperation and exchange. Qualified SMEs are encouraged to invest abroad,participate in international trade and expand into overseas markets.
7. **Social services:** A sound service system for SMEs can be established, encouraging  
   different types of social intermediaries to provide a full range of supporting services to  
   SMEs, such as advice on business start-up, enterprise diagnosis, information consulting,  
   marketing and sales, investment and financing, loan guarantee, property right  
   transaction, technology support, import of talent, personnel training, external cooperation,  
   exhibition, and legal consulting.
8. **Protect the lawful interests of SMEs:** The state protects the lawful investment of SMEs  
   and their investors as well as their lawful interests derived from such investment.

Description: summarySummary

In this unit, we looked definition of SME, their incentives and public strategies and technical services. We’re now ready to move on to the final unit of the module.

|  |
| --- |
| 1. Explain the characteristics of SMEs.  2. What public strategies are being exercised by Zambian Entrepreneurs? |

**UNIT 7**

# 7.0 MANAGING SMALL BUSINESS

**Introduction**

Congratulations for having come this far, so much has been covered and now you’re now in the final unit where we’ll look at challenges managing an enterprise, functions of management and other the aspects of management, such as human resource, marketing and financial management.

Description: Outcomes**Learning Outcomes**

**By the end of this unit students should be able to;**

* + define management
  + explain special challenges in managing small business
  + outline issues surrounding human resource
  + discuss marketing issues in small business
  + elaborate financial management of small business

Time This unit is to be covered in 2 hours.

## 7.1 What is Management?

Management, unlike other subjects such as economics, philosophy, political science,   
is of a recent origin and hence, a relatively new subject. It is still in its developing stage. So far as the meaning of management is concerned, like other socio-economic terms, it has also been defined by different authorities differently. As a result, there is no single definition on the term but many. We do not have unified views on what management is precisely. The following are a few of the important definitions of the term ‘management.’

According to Henry Fayol who is considered the father of principles of management,   
*“To manage is to forecast, to plan, to organize, to command, to co-ordinate and to   
control.”!*

In the opinion of Frederick Winslow Taylor, *“Management is knowing exactly what you   
want men to do and then seeing that they do it in the best and cheapest way.”*

Mary Parker Follett views, *“Management is the art of getting things done through   
people.”*

Peter F. Drucker opines, *“Management is a multi-purpose organ that manages a business, manages manager, and manages workers and work.”*

According to George R. Terry, *“Management is a distinct process consisting of planning,   
organizing, actuating and controlling performance to determine and accomplish the   
objectives by the use of people and resources.”*

The salient characteristics of management that flow from above definitions are:

1. Management is a purposeful activity.
2. It is getting things done in a desired manner.
3. It concerns with the efforts of people working in the enterprise.
4. It relates to decision-making.
5. It is a process consisting of various functions such as planning, organizing, leading   
   and controlling.

Management is both science and art. It is science because it has developed certain   
principles and laws. At the same time, it is an art also because it is concerned with   
the application of knowledge for the solutions of the organizational problems.

Management and administration are two words that can be used inter-changeably. In fact, the distinction so drawn between management and administration is superfluous and, thus, meaningless. As Henry Fayol opined, the two terms observe the same general principles and functions and, hence, are used interchangeably. While the term 'management' is preferred in the business, the term 'administration' in the Government organizations. In an attempt to solve the terminological problem, management is categorizedinto administrative management and operative-management. Administrative management is top level management in charge of planning function. Operative management is middle and lower level management responsible for execution of plans

In practice, more especially in small-micro business enterprise, the manager, or say, the   
owner plans as well as executes the plans. Two separate sets of people are hardly required   
to perform the two functions-administration and management. Instead, both functions   
are performed by the same set of people. It may be possible that sometimes more time   
is spent on one function and less on another and vice versa. In a way, administration and   
management are the two sides of the same coin. Obviously, it is not desirable to separate   
them from the coin.

“Management is what management does” points out the functional approach to management. No doubt, many management experts have discussed the functions of management in their own ways. However, there is no unanimity among their classification of functions of management. The chief reason for this is that different management experts have listed the functions of management on the basis of their experience in an organization.

The nature of activities varies from organization to organization. As a matter of fact, list of managerial functions has been derived based on managerial experience rather than systematic researches. Naturally, the observations of one manager of one enterprise may differ from others.

Nonetheless, all the functions listed by different management experts are broadly classified into five main functions. These are:

1. Planning,
2. Organizing,
3. Staffing,
4. Directing, and
5. Controlling.

Management in simple terms is a special skill and knowledge of how to organize elements of an organization such as planning, coordinating, supervising, controlling, and forecasting to achieve the set objectives.

## 7.2 Special Challenges in Managing Small Businesses

Problems faced by SMEs are discussed below:

1. **Problem of Finance:** Finance is regarded as “life-blood” for any enterprise whether big or small. However, women entrepreneurs suffer more from shortage of finance because, Firstly*,* women do not generally have property on their names to use them as collateral for obtaining funds from external sources. Secondly*,* the banks also consider women less credit-worthy and discourage women borrowers on the belief that they can at any time leave their business. Most entrepreneurs end up relying on their own savings, if any and loans from friends and relatives.
2. **Scarcity of Raw Material**: Most of the enterprises are faced with a problem of scarcity and high prices of raw material and necessary inputs.
3. **Stiff Competition:** Small enterprises are not able to invest a lot of money advertisement. This has caused them to face a stiff competition for marketing their products with both organized sector and other counterparts resulting in the liquidation of most enterprises.
4. **Limited Mobility:** Women entrepreneurs face problems of limited mobility in some African countries attributed to various reasons. when starting an enterprise, women may be humiliated by officials’ attitude forcing them to give up the idea of starting an enterprise.
5. **Family Ties:** In Africa, it is mainly a woman's duty to look after the family. In case of married women, have to strike a fine balance between their business and families. Their total involvement in family matters leave them with little or no energy and time to devote to their businesses. Others lack support and approval from their husbands, causing a barrier for women’s entry into business.
6. **Lack of Education:** In Africa most small entrepreneurs are womenand around three-fifths (60%) of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to the lack of education and that too qualitative education, women and some men entrepreneurs are not aware of business, technology and market knowledge. This lack of education has caused low achievement motivation among SMEs thus creating problems in the setting up and running of small business enterprises.
7. **Low Risk-Bearing Ability**: Most African entrepreneurs are less educated and economically not self-dependent. All these reduce their ability to bear risk involved in running an enterprise which is an essential requisite of a successful entrepreneur.

In addition to above problems, the following are the other challenges faced by SMEs;

* Inadequate infra structural facilities
* Shortage of power
* High cost of production
* Social attitude
* Low need for achievement and socio-economic constraints

## 7.3 Human resources management in SME

Every owner of SME aspires to have successfully organizedenterprise which is competitive on the market and realize highprofits with employees which have high level of motivation inregard to the successful operating of the enterprise. Differencesin competitiveness between SMEs today are significantlydifferent compared to period twenty years ago. The importanceof factors such as technology, finances, production process andsimilar is diminished, whereas more important sources ofadditional and newly created value of SMEs are theiremployees with their intellectual capital/assets, skills, creativityand information. Differences between competitive SMEs inregard to appearance, quality and functionality of products aredecreasing. What differs SMEs more and more are theiremployees, i.e. their relation to clients, the way they solveproblematic situations, speed of their reaction/response,motivation, ability to learn, etc.

At the beginning of 21st century, with dizzying development of information and communication technologies, human element became the single element which thecompetition could not copy. Since employees have veryimportant role in SME which is aspiring to be distinct fromcompetition, human resources managementhas moreimportant role in planning and realization of SME’s successcompared to the past period. Strategy of human resourcesmanagement has gained importance since the employeesnow are the most important factor of development. Intellectual capital, knowledge and competence of employeescause success or failure of SME in dynamic environment.

Human resources management is potentially a businessfunction which has become a key element of the strategy ofevery SME in their efforts to establish and maintain theircompetitive edge on the market. In recent years, humanresources management gained special significance, in theoryand practice of SME management. Many SMEs are includedin skills of human resources management and they pay moreattention to development of their human potentials than ever  
before. Because of sudden changes and concrete conditions,human resources management is perceived as strategic factorinfluencing not only the success of SME but also of nations.

Human resources management relates to practice and policy necessary to execute all management tasks relating tohas to change the strategy in order to enable realizationwithin existing human resources.The main goal of human resources management isimprovement of work efficiency/output of employees instrategic, ethical and socially responsible way. It is necessaryto harmonize individual, organizational and social goals andat the same time enable realization of the strategy ofenterprise and cancel negative effects from the environment.

Monitoring and evaluation of the success of function ofhuman resources management must be continuous anddirected to control of realization of set goals. Result ofsuccessful human resources management is increase ofprofit, productivity, market share, increase of the satisfactionof clients and employees and improvement of the SME’sreputation and influence. All of the stated parameters shouldbe compared to previous situation, competition or commonstandards in certain activity/business in order to determinethe efficiency/output of the human resources function.

Monitoring of the fluctuation rate of employees, absencefrom work, salaries per employee, share of salaries inbusiness costs, cost of hiring of new employee and cost ofhuman resources management also contributes to determination of the influence of activities of human resourcesmanagement on parameters of the successful SME operation.

For successful business operation and realization of setgoals, organization of the function of human resourcesmanagement in SME is also very important. Several differentorganizational forms are possible, depending on the needsand size of enterprises. It can be organized at the level ofmanager, department, service, sector or even center.In SMEs, all managers are, in a way, human resourcemanagers considering the fact that they are also included inrecruiting, interviewing, selection and training of personnel.Also, SMEs should have manager responsible for humanresources whose task is to advise other managers (forinstance production or sale managers) during recruiting,hiring, salary determination, motivation and other activities.

Introduction and increase of availability of data base inform of software solutions for administrative affairs, on-linecatalogues for development and education/training contribute greatly to the improvement of function of humanresources management. Human resource management is critical especially when it comes to finding the right person for the job, this is known as personnel identification.

Entire procedure of personnel identification takes placethrough following three phases:

1. Identification of personnel  
2. Evaluation of personnel  
3. Selecting personnel

In the evaluation phase, identification, evaluation andchecking of desired knowledge, traits, skills and characteristics which are considered relevant for realization of taskson certain position in the enterprise, are carried out.

Competitive advantageof SME should be based on quality of its employees whichincludes human resources management in realization of thestrategy of SME. Human resources management as carrier ofthe knowledge and skills in management of human resourceshas to be strategic partner that will contribute to thepreparation and realization of strategic plans of the SME.

## 7.4 Marketing Strategies in SMEs

## What is Marketing?

People always think of marketing as selling and advertising. No wonder every day we see and hear a lot of commercial advertisement on television, radio, newspapers, magazines, billboards, etc. However, selling and advertising are only a part of marketing.

Marketingis defined as the process of identifying customers, their needs and wants, and providing them with the product or service to satisfy them at a profit. It is a process responsible for identifying, anticipating and satisfying customers’ requirements profitably.

Adcock, Halborg & Ross (2001) defines marketing as “the study of exchange processes especially those associated with the provision of goods and services”.

**What is a Market?**

The word market has two different meanings;

* A market is a physical place where people meet to buy and sell. For example, a fish market, salaula market, stock exchange market.
* In Marketing, market also means people or other businesses, willing to exchange their offerings (product or service) with those and are willing to pay for them. It’s not just a physical place but any space or time where exchange of offerings is made with something of value.

## The Marketing Mix

This is a set of controllable, tactical marketing tools used by a company in its overall planning marketing strategy. It is one of the major concepts in modern marketing and involves everything the firm can do to influence the demand for its product. The many possibilities can be collected into four groups of variables known as **“The 4 Ps”;** Product, Price, Place and Promotion.

Modern marketing considers the above 4 P’s as the traditional marketing mix (that is; Product, Price, Place and Promotion). They have also been considered too restrictive for the planning of service delivery. This has led to the re-evaluation of the traditional mix by the inclusion of **People***,* ***Process*** and ***Physical evidence.*** The marketing mix is now referred to as **“The 7 Ps”.**

**THE7 P’s**

|  |
| --- |
| **P**LACE |
| **P**ROMOTION |
| **P**RODUCT |
| **P**RICE |
| **P**EOPLE |
| **P**ROCESS |
| **P**YSICAL EVIDENCE |

**Figure 5**

* **Product**; Means the goods and services or combination the company’s offerings to the target market. This product should meet the expectations of the customers, as far as quality, size, packaging and brand name are concerned. So before the product can be made, the company should understand the needs of its target customers.
* **Price**; This is the amount of money customers must pay to obtain the product. The price should take into consideration the total cost per unit plus a mark-up. However, it’s vital to take into consideration the expected response from the customers as they need to get value for whatever money they part away with. So prices should be within acceptable limits by the customers. Furthermore, the prevailing market prices are also supposed to be taken into consideration as you can kick out yourself from the market due to over pricing or eat into your profits (pricing by far below the market price).
* **Place**; This includes company activities that make the product available to target customers. There are several methods that you can use and some of them are; selling directly to end users or you can employ intermediaries (middlemen). The essence is that your product should be taken to a point where it is convenient for your customers to buy it.
* **Promotion;** This means activities that communicate the merits of the product and persuade target customers to buy it. Companies come up with integrated market communications, which is a carefully integration and coordination of the companies channels to deliver a clear, consistent, and compelling message about the organization and its product.
* **People;** These are the actual people (potential customers) who will buy the commodities. Strategies such as market segmentation can be applied in order to ensure that the right product reaches the right people at the right time.
* **Process;** The process covers the period between production and distribution. Companies need to apply the best production processes that are cost effective but also efficient, the finished product must also use the quickest channel of distribution to satisfy the customer through timely delivery of goods.
* **Physical Evidence;** These are the actual results of market research and evidence of customer satisfaction. Feedback must be received after customers have consumed or used the product, the information can be used to make adjustments or improvements on the product/service.

## 7.5 Financial Management in SMEs

Quality financial management offers many benefits to you as a business owner. Financial management includesbudgeting, bookkeeping, projections, financial statements, and financing, which forms the foundation for reaching your goals throughsound business decisions.

BudgetingCreating a budget is the first place to start with your financial management practice. A budget is a list of all your (monthlyor yearly) expenses, organized by categories. A budget is a tool that helps you:

* Track all your business expenses
* Plan for the future
* Economize when you need to
* Plan for expansion
* Make a profit

Once you create a budget, use it to compare what you’ve budgeted with your actual expenditure.

Book-keepingBook-keeping is the organized process of tracking all income and expense transactions. Book-keeping is a criticalcomponent of financial management, which leads to better business decisions regarding financing, taxes, owner’s draw,and retirement.

Cash FlowCash flow can be defined two ways:

Balance of cash received less the amount of cash paid out over a period of time.

Moving cash in or out of a business

## Cash Flow Projection

A cash flow projectionis a financial statement that tries to show how cash is expected to flow in and out of a businessover a future period of time. A cash flow projection is used to see if projected cash receipts (in flows) will be sufficient tocover projected cash disbursements (out flows). A business can be profitable and still run out of cash. As an investmentbanker might say, “Cash flow projections provide the visibility needed to avoid liquidity problems.” In other words, acash flow projection is a tool to help you manage your cash so you can pay your bills on a timely basis and keep the doorsof your business open.

A cash flow projection is a great tool for setting sales goals and for planning for expenses to support those sales. A relateduse for a projection is to determine your breakeven point during a start-up or expansion phase. If you need to plan for alarge expenditure, such as an equipment purchase or move to a new location, a cash flow projection is the perfect tool.  
Similarly, if you have a seasonal business with large inventory purchases, a projection can help you have the cash on handto make a large inventory investment when you need it.  
A P&L statement can mask cash shortages if you use accrual accounting. A cash flow projection helps you see the cashstatus of your business now and plan into the future. A cash flow projection is a good way to prepare and plan for yourfinancing needs and is often a required part of a business loan application.

## Profit and Loss (P&L) Statement

The P&L statement is the best tool for knowing if your business is profitable. A P&L statement measures revenue (alsocalled sales or income) and expenses over a month, quarter or year. With it you know if you have made a profit (and howmuch) or if you have incurred a loss.  
The most important financial management report is the P&L statement. A P&L statement will reflect your businessdecisions on the basic buying and selling process. A P&L will tell you how well you are managing your business andprovide information on how to grow your business.

**Basic Formula for P&L Statement  
+** Sales  
**–** Cost of Goods Sold  
**=** Gross Profit  
**–** Overhead  
**=** Net Profit

## The importance of financial Management

* Financial management is one of your main avenues to success as a business owner. It is the way youknow if you are making a profit.
* Financial management helps you decide what you can afford in terms of store or officelocation, inventory purchases, employees, and equipment. You need sound financial information to set your prices andselect your vendors.
* Financial management gives you the tools to plan for overall business growth, for diversification ofyour product lines, or for reaching new markets.
* Financial management helps you decide which products, services, andmarkets are profitable. Effective financial management gives you tools to chart your course into the future, adjust yourdirection when needed, and help you find your way through challenging times.If your business growth requires financing (loans), financial management provides the information to know how muchyou can afford for your business.
* Financial management gives you not only the documentation needed for a loanapplication, but also helps you discuss your business circumstances with a lender in terms that improve your ability toqualify for the loan.

# Important Factors to remember about Financial Management

1. Financing is getting the money you need to start, operate or grow your business. Before borrowing money foryour business, develop a business plan to help determine whether your business can afford a loan. If you need toborrow money, take time to comparison shop for the best loan option.
2. Start financial management with a budget.
3. Sound bookkeeping is the basis for all financial management.
4. Cash flow projections will help you to see cash shortages even when accrual accounting may mask theseshortages.
5. A Profit & Loss (P&L) statement is the best tool for knowing if your business is profitable.

It cannot be over emphasizedthat, human resource management not only helps to build the image of a business but also helps to bring about efficiency in the operations because the right people will be employed to do the job they are qualified for.

summarySummary

Congratulations you have finally come to the end of this module unit where we looked the definition management, thechallenges of managing an enterprise, functions of management and other the aspects of management, such as human resource, marketing and financial management.

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| --- |
| **Activity**   1. Define management 2. Identify the challenges faced by SMEs in Zambia. 3. Describe marketing in your own words. 4. Explain the marketing Mix. 5. State the importance of financial management in a small business. |

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