****

**Chalimbana University**

**Integrity. Service. Excellence**

**DIRECTORATE OF DISTANCE EDUCATION**

***BEI 2101: ENTRENEURSHIP AND INNOVATION***

**First Edition 2018**

Chalimbana University

Private Bag E1

Lusaka

Zambia

Website: [www.chau.ac.zm](http://www.chau.ac.zm)

**Authors**

**Mrs Hope M. M.Fulumaka**

**Ms Cecilia Shindende**

**Ms EuphrasiaNg’andwe**

**Chalimbana University © 2018**

**All rights reserved**. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or otherwise without the permission of the copyright owners.

**ACKNOWLEDGEMENTS**

The Directorate of Distance Education wishes to thank Ms Hope M.M. Fulumaka, Ms Cecilia Shindende and Ms Euphrasia Ng’andwe for writing the Entrepreneurship and Innovation.

**MODULE OVERVIEW**

**Pre-requisite: None**

**Introduction**

Welcome to the course ‘Entrepreneurship and Innovation’ This course intends to equip you with entrepreneurship knowledge, behaviour, skills, innovation and creativity which are important elements for management of business enterprises. Hope you will enjoy the course and contribute positively to national development.

**Rationale**

Rapid changes are taking place in Zambia and the global environment. There is a shift from earning a living through formal employment to being innovative and earning a living through owning businesses. Acquiring entrepreneurial skills has become very essential in order to be relevant in this global and competitive business environment. Entrepreneurship and Innovation is responsive to technological advancements which has caused people to identify new needs and numerous consumer tastes seeking to be satisfied.

**Aim**

The aim of this course is to equip learners with the necessary knowledge, attitude and skills in entrepreneurship and innovation.

**Outcomes**

At the end of this course, students should be able to:

* analyse concepts of entrepreneurship and innovation
* explain forms of legal business ownership
* discuss the business transactions and financing
* explore the marketing strategies that may be employed by small businesses
* describe the business registration process
* demonstrate skills in business planning and budgeting
* exhibit skills in managing an enterprise and risks

**Summary**

The module looks at entrepreneurship and innovation and the importance of acquiring business management skills. Further, the ways in which today’s businesses can remain relevant and competitive in this dynamic, global and competitive business environment.

**Prescribed Readings**

Wilson N. & Stokes D. (2017) Small Business Management and Entrepreneurship 7th . Canada: CENCAGE Learning

Calvin R. J. (2002) Entrepreneurial Management. McGraw-Hill

Wills C., Kamweneshe B., &Sibongile M. (2016) Entrepreneurship; Owning your Future. Lusaka: Marvel Publishers

**Recommended Rreadings**

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

Farese, Shneiderlois et al, (1991) *Marketing Essentials*, Columbus: Glencoe

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

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

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

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

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

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

Rudinger, E. (1989) *Entrepreneurship*. London: consumer association Ltd.

Druker F. P. (2006) The Practice of Management. Newyork: Harper &Row Publishers

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

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

**NEED HELP?**

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

**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%**

Contents

[UNIT 1 10](#_Toc531950958)

[1.0 INTRODUCTION TO ENTREPRENEURSHIP 10](#_Toc531950959)

[1.1 Entrepreneurship in History 10](#_Toc531950972)

[1.1.1 Entrepreneurship in Zambia 11](#_Toc531950976)

[1.2 The concept and characteristics of entrepreneurship 12](#_Toc531950977)

[1.3 Who is an Entrepreneur 12](#_Toc531950978)

[1.3.1 The importance of Entrepreneurship 14](#_Toc531950979)

[UNIT 2 17](#_Toc531950982)

[2.0 THE ENTREPRENEURIAL PROCESS 17](#_Toc531950983)

2.1 Opportuninity Identification…………………………………………………………………………………………………16

[2.3. Developing a business plan 19](#_Toc531950995)

[2.4. Resource Mobilsation 19](#_Toc531950996)

[2.5. Implementation 19](#_Toc531950997)

[2.6.Growth Stage 20](#_Toc531950998)

[UNIT 3 21](#_Toc531950999)

[3.0 INNOVATION AND INVENTION 21](#_Toc531951000)

[3.1 Innovation and Invention 21](#_Toc531951016)

[3.2 The Innovation Concept 22](#_Toc531951020)

[3.3 Types of Innovation 23](#_Toc531951023)

3.4 importance of Innovation in entrepreneurship……………………………………………………………………..22

[3.5 Sources of Innovative Opportunities 25](#_Toc531951049)

[3.6 Innovation Process 27](#_Toc531951072)

[UNIT 4 30](#_Toc531951093)

[4.0 FORMS OF LEGAL BUSINESS OWNERSHIP 30](#_Toc531951095)

[4.1 Sole proprietorship 30](#_Toc531951101)

[4.2 Partnerships 31](#_Toc531951104)

[4.3 Corporations 32](#_Toc531951107)

[4.4 Corporative 33](#_Toc531951110)

[UNIT 5 35](#_Toc531951113)

[5.1 Barter Transaction 35](#_Toc531951119)

5.2 Credit Transaction…………………………………………………………………………………………………………………33

5.3 Cash Transactions…………………………………………………………………………………………………………………34

5.4 Bank Transactions…………………………………………………………………………………………………………………35

[UNIT 6 38](#_Toc531951120)

[6.0 BUSINESS FINANCING 38](#_Toc531951121)

[6.1 Important things to consider for successful financing 38](#_Toc531951125)

[6.2 Planning for capital 40](#_Toc531951126)

[6.3Sources of Equity Financing 41](#_Toc531951128)

[6.4Sources of Debt capital 42](#_Toc531951129)

[6.5 Hybrid sources of financing 43](#_Toc531951130)

[UNIT 7 45](#_Toc531951134)

[SWOT ANALYSIS AND PESTEL 45](#_Toc531951135)

[7.1 What is S.W.O.T? 45](#_Toc531951138)

7.2 Advantages of S.W.O.T……………………………………………………………………………………………………………..44

[7.3 Limitations of S.W.O.T 47](#_Toc531951148)

[7.4 What is PESTEL? 47](#_Toc531951155)

[7.5 The importance of PESTEL 47](#_Toc531951158)

[UNIT 8 51](#_Toc531951159)

 8.0 BUSINESS FINANCING………………………………………………………………………………………………………..50

[8.1 What is a Business Plan? 52](#_Toc531951164)

[8.2 Importance of the Business Plan 52](#_Toc531951165)

[8.3 Functions of a Business Plan 53](#_Toc531951166)

[UNIT 9 59](#_Toc531951220)

[9.0 BUSINESS REGISTRATION PROCESS 59](#_Toc531951221)

 9.1 Procedure of Registration………………………………………………………………………………………………………58

[9.2 Documents 61](#_Toc531951229)

[9.3 Registration Agencies 61](#_Toc531951230)

[9.4 Business Regulatory Agencies 61](#_Toc531951231)

[Unit 10 63](#_Toc531951232)

[10.1 BUDGETING **Error! Bookmark not defined.**](#_Toc531951234)

[10.2 What is budgeting? 63](#_Toc531951242)

[10.3 Objectives of budgeting 64](#_Toc531951246)

[10.4 Uses and Benefits of Budgets 64](#_Toc531951250)

[10.5.1 Benefits derived from budgeting 65](#_Toc531951251)

[10.5.2 Types of Budgets 66](#_Toc531951252)

[UNIT 11 69](#_Toc531951255)

[11.0 MARKETING 69](#_Toc531951256)

[11.1 What is Marketing? 69](#_Toc531951263)

[11.2 The Marketing Mix 71](#_Toc531951264)

[11.3 New Product Development 72](#_Toc531951266)

[11.4 Branding 73](#_Toc531951280)

[UNIT 12 75](#_Toc531951292)

[12.0 MANAGING AN ENTERPRISE 75](#_Toc531951293)

[12.1 What is Management? 75](#_Toc531951294)

[12.2 Management Functions 76](#_Toc531951295)

[12.3 Types of Planning 78](#_Toc531951296)

[12.4 Financial Management 80](#_Toc531951301)

[Unit 13 82](#_Toc531951304)

[13.0 RISK MANAGEMENT 82](#_Toc531951305)

[13.1 Definition of risk and uncertainty 82](#_Toc531951309)

[13.2 Sources of risk and uncertainty 85](#_Toc531951310)

[13. 3 Methods of Reducing Risk and Uncertainty. 85](#_Toc531951311)

[REFERENCES 89](#_Toc531951314)

#

# **UNIT 1**

----------------------------------------------------------------------------------------------------------------

## **1.0 INTRODUCTION TO ENTREPRENEURSHIP**

**Introduction**

Welcome to the first unit in this module. We shall look at the history and concepts of entrepreneurship. I will explain them in detail below;

**Learning outcomes**

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

* narrate the history of entrepreneurship
* describe the characteristics of an entrepreneur
* justify the concept of entrepreneurship
* discuss factors in entrepreneurship



Time Frame: in this unit you are expected to spend approximately

* 2 hours’ study time
* 2 hours in class

## **Entrepreneurship in History**

The historical study of entrepreneurship has been particularly concerned with understanding the process of structural change and development within economies. Business historians have focused on understanding the underlying character and causes of the historical transformation of businesses, industries and economies. Since the beginnings of history, entrepreneurship has always been ruled by the market forces known as supply and demand.

Early entrepreneurs met the needs of people by providing them with goods and services.The word "entrepreneur” datesback to the 1850’s and was first used by the French, but become popular around the 1920’s.

According to Schumpeter, an entrepreneur is willing and able to convert a new idea or invention into a successful innovation.Carlen (2016), explores how entrepreneurship can sometimes work at the expense of others. This is because entrepreneurs seize an opportunity of providing goods and services where they realise there are needs and wants to be satisfied.

### **1.1.1 Entrepreneurship in Zambia**

At independence the Zambian government introduced the Nationalization, a policy which put almost all major industries under state control. Most Zambians at that time earned their living by being in formal employment.

Due to most Zambians lacking skills to get into formal employment, many started engaging in illegal businesses of smuggling large stocks of goods, especially to neighbouring Zaire (Congo DR). This trend, lead to shortages of essential commodities because what was being produced could not meet the demand from the citizens.

The change of government in 1991came with new policies, amongst which was the liberalization of the economy. The economy changed from Nationalization to Privatization, giving freedom of buying and selling as long as the business was legal.

Most state owned businesses closed down or were sold to private foreign and local investors. The development saw a lot of people being unemployed, hence the mushrooming of small businesses all over the country. This development and technological advancement has caused people to identify new needs in the demand for goods and services on both local and global markets. This has greatly attributed to many having entrepreneurial minds of providing goods and services needed while bearing the risk which goes with the venture.

* 1. **The Concept and Characteristics of Entrepreneurship**

Entrepreneurship has been recognized as an essential ingredient of economic development for a long time in global history. However, the manner in which it has been exploited tends to vary from time to time. In France, the term entrepreneur was used in the early days for many leaders. Later, architects and builders of roads and bridges were called entrepreneurs. In the 19th century it was applied to businessmen/ traders who bought and sold goods at a profit. Many equate it with starting one’s own business. However, most economist believe it is more than that.

A number of definitions from different scholars are given below in order to establish the meaning of entrepreneurship;

* According to Joseph Schumpter (1883- 1950) entrepreneurship was viewed as a force of “creative destruction”. This is because the entrepreneur carries out “new combinations,” thereby helping render old industries obsolete.
* Golden (2014) refers to entrepreneurship as a multidimensional phenomenon and an element of economic development. It is the capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make profit.

Therefore, it can be stated that entrepreneurship is a process of developing, organising and managing a new business idea into a profitable venture that contributes to the economic development of an economy.

* 1. **Who is an Entrepreneur**

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 assembling the necessary resources to capitalise on them. Although many people come up with great business ideas, most of them never act on their ideas. Entrepreneurs do.

Researchers have invested a great deal of time and effort over the last few decades trying to paint a picture of “the entrepreneurial personality”. As such, the following is a brief summary of some of the characteristics that entrepreneur’s exhibit;

1. **Desire for responsibility**: Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources, and they use those resources to achieve self-determined goals.
2. **Preference of moderate risk.** Entrepreneurs are not wild risk takers are instead calculated risk takers. Unlike “high- rolling, riverboat,” gamblers, entrepreneurs rarely gamble. Their goals may appear to be high- even impossible- in others eyes but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable.
3. **Confidence in their ability to succeed**. Entrepreneurs typically have an abundance of confidence in their ability to succeed and are confident that they chose the correct career path.
4. **Determination**. Some people call this “grit,” the ability to focus internally on achieving a singular, long term goal. Studies show that grit is a reliable predictor of achievement and success. Successful entrepreneurs demonstrate high levels of determination, especially in the face of challenging circumstances.
5. **Desire for immediate feedback**. Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking feedback.
6. **High level of energy**. Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company.
7. **Future Orientation**. Entrepreneurs have a well-defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and ravel in their success, real entrepreneurs stay focused on the future.
8. **Serial entrepreneurs**. Those who repeatedly start businesses and grow them to a sustainable size before striking out again, push this characteristic to the maximum. The majority of serial entrepreneurs are leapfroggers, people who start a company, manage its growth until they get bored, and then sell it to start another.
9. **Skill at organizing**. Building a company from “scratch” is much like piecing together a jigsaw puzzle. Entrepreneurs know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their vision into reality.
10. **Value of achievement over money**. One of the misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, achievement seems to be the entrepreneurs primary motivating force.; money is simply a means of keeping score of accomplishments- a symbol of achievement.
	* 1. **The importance of Entrepreneurship**

Surveys show that owners of small businesses believe that they work harder, earn more money and are more satisfied than if they worked for some else. Before launching any business venture, every potential entrepreneur should consider the benefits of small business ownership. They are outlined below;

1. **Opportunity to create your own destiny**. Owning a business provides entrepreneurs the independence and opportunity to achieve what is important to them. Entrepreneurs want to call the shots in their lives, and they use their business to make that desire a reality.
2. **Opportunity to make a difference.** Increasingly entrepreneurs are starting business because they see an opportunity to make a difference in a cause that is important to them. Known as social entrepreneurs, these business builders seek innovative solutions to some of society’s most vexing problems. They use their skills not only to create profitable business ventures but also to achieve social and environmental goals for society as a whole.
3. **Opportunity to reap impressive profits.** Although money is not the motivating factor for most entrepreneurs, the profits their business can earn are an important motivating factor in their decisions to launch companies.
4. **Opportunity to contribute to society and be recognized for your efforts.** Playing a vital role in their local business systems and knowing that their work has a significant impact on the nation’s economy is yet another reward for small business managers. Often small businesses are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers and the communities they have served faithfully over the years.
5. **Opportunity to do what you enjoy and have fun at it.** A common sentiment among small business owners is that their work really isn’t work. Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. They have made their hobbies their work and they are glad they did.

1.6. **The potential drawbacks of Entrepreneurship**

Although owning a business has many benefits and provides many opportunities, anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. Some of the disadvantages of entrepreneurship include the following;

1. **Uncertainty of Income;** Opening and running business provides no guarantee that an entrepreneur will earn enough money to survive. Some small business barely earns enough to provide the owner-manager with an adequate income. In the early days of start-up, a business often cannot provide an attractive salary for its owner and meet all its financial obligations, meaning that the entrepreneur may have to live on savings. The steady income that comes with working for someone else is absent because the owner is always the last one to be paid.
2. **Risk of losing the entire investment**; Business failure can lead to financial ruin for an entrepreneur, and the small business failure rate is relatively high.
3. **Long hours and hard work**; Business start-ups usually demand long hours from their owners. In most start-ups, six-or seven-day workweeks with no paid vacations are the norm.
4. **Lower quality of life until the business gets established**; The long hours and hard work needed to launch a business can take their toll on the other aspects of an entrepreneur’s life. Business owners often find that their roles as husband or wives, fathers or mothers take a back seat to their roles as company founders.
5. **High levels of stress;**Starting and managing a business can be an incredibly rewarding experience, but it also can be a highly stressful one. Failure may mean total financial ruin, and that creates intense levels of stress and anxiety.
6. **Complete responsibility**; It’s great to be the boss, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty in finding advisors. When there is no one to ask the pressure can build quickly.
7. **Discouragement**; Launching a business is a substantial undertaking that requires a great deal of dedication, discipline and tenacity. Along the way of building a successful business, entrepreneurs will run into head long into many obstacles, which may bring about difficulties, discouragement and disillusionment.

 Activity

|  |
| --- |
| In relation to the above outlined drawbacks, reflect on the following questions1. What are some of the benefits of venturing into entrepreneurship rather than being in formal employment?
2. Account for the major economic changes that happened in Zambia after 1991.
3. How likely is the worst to happen? (am I truly prepared to launch my business).
4. What can I do to lower the risk of my business failing?
5. If my business were to fail, what is my contingency plan for coping
 |

 **Summary**

The focus in this unit was to explain the concept of entrepreneurship and its history, further, the explanation of who an entrepreneur is, their characteristics, and finallyadvantages and disadvantages of entrepreneurship.

# **UNIT 2**

**--------------------------------------------------------------------------------------------------------------------------------------**

## **2.1 THE ENTREPRENEURIAL PROCESS**

**Introduction**

Welcome to unit two! By now, you have learnt about entrepreneurship as a concept and are familiar with the characteristics that successful entrepreneurs possess. I will now take you through the entrepreneurial process and the steps that characterise it.

**Learning Outcomes**

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

* Explain the entrepreneurial process
* Describe the stages of the entrepreneurial process



Time Frame: in this unit you are expected to spend approximately

* 2hours’ study time
* 2 hours in class
	1. **The steps in the Entrepreneurial Process**

Entrepreneurship is a continuous process that needs to be followed by an entrepreneur to plan and launch the new ventures more effectively. The entrepreneurial process is presented as a set of stages and events that follow each other. Let us now look at the steps that characterises the entrepreneurial process

The stages are as follows;

* Opportunity identification phase
* Developing a business plan
* Resource mobilization
* Implementation phase
* Growth phase

Each of these phases is influenced by a number of factors such as personal characteristics, the environment and the characteristics of the innovation. The entrepreneurial process essentially brings together an opportunity, an entrepreneur or entrepreneurial team and resources.

**2.1.1 The Entrepreneurial Process**

The following illustration will help you to understand the entrepreneurial process.

From this illustration you can clearly see that the entrepreneurial process is a continuous series of interlinked stages;

**2.2 Opportunity Identification:**

* It begins with opportunity identification. At this stage the entrepreneur identifies a problem or a gap in the business environment and deliberately tries to study the opportunity to come up with a new business venture or an improvement on the existing products and services. Some entrepreneurs stumble onto their ideas by accident but are clever to spot the business opportunities they offer.

**2.3.Developing a business plan**

* After the entrepreneur has identified the opportunity, the next stage is to develop a business plan.
* A business plan is critical to the success of any new venture since it acts as a benchmark and the evaluation criteria to see if the organization is moving towards its set goals. Developing a business plan will help the entrepreneur to describe in great detail what they intend to accomplish.

**2.4. Resource Mobilsation**

* After the business plan has been created an entrepreneur can now proceed to mobilisation of resources. There are a number of financial sources from which finances for the business can be obtained. They include debt and equity sources of financing.

 Note that the equity and debt as sources of finance has been covered in unit six of this module.

**2.5. Implementation**

* You will agree with me that many people come up with creative ideas for promising new products or services, but most of them however, never take them beyond the idea stage.What sets entreprenuers appart is their ability to act on their ideas. Once funds are raised, and the employees are hired, the next step is to implement the business operations to achive the set goals.
* An entreprenuer at this stage must decide on the management struture and hierarchy that is required to solve the operational problems when they arise.

## **2.6.Growth Stage**

 At this stage, it is expected that the business has been succesfuly initiated and should therefore begin to grow. The entreprenuer should be in position to put in various means and measures that will help them to control th operations of the business. A number of strategies too should are required at this stage that will help the entreprenuer to market their products and services.

**Activity**

|  |
| --- |
| 1. Outline and explain the steps that characterise the enterprenuerial process
 |

**Summary**

We have looked at the different stages that are involved in the entrepreneurial process. They include, opportunity identification, business planning, resource mobilisation, implementation and growth. Now we shall proceed to look at innovation and invention.

# **UNIT 3**

--------------------------------------------------------------------------------------------------------------------------------------

## **3.0 INNOVATION AND INVENTION**

**Introduction**

At this stage you already know what entrepreneurship is all about, this unit explores the concept of innovation and invention. It’s important to note that, there can be no entrepreneurship without innovation.

**Learning Outcomes**

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

* explain the innovation concept in full
* outline the types of innovation
* discuss the importance of innovation for entrepreneurship correctly
* outline sources of innovative opportunities fully
* discuss the innovation process very well
* discuss the risks involved in innovation clearly
* outline the new venture creation



Time Frame: in this unit you are expected to spend approximately

* 2 hours’ study time
* 2 hours in class

## 3.1 **Innovation and Invention**

**Innovation** and **invention** are terms that usually need to be distinguished. While "invention" is the discovery of new technical knowledge and its practical application to industry, "innovation" is the introduction of new technical methods, products, sources of supply, and forms of industrial organization. In simple terms, innovation is a process of transforming an idea or invention into the actual good or service that creates value for which customers will be willing to pay for.

Entrepreneurial behaviour has been defined as study of human behaviour involved in **identifying** and **exploiting opportunities** through; **creating and developing new ventures**.

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 behaviour is seen as the behaviour that manages to combine innovation, risk taking and pro-effectiveness (Miller, 1983).

**The Innovation Entrepreneurship Framework**



 Source: Johnson & Scholes (2011) Exploring strategy 9th Edition.

## **3.2 The Innovation Concept**

The concept of innovation refers to **‘doing something differently rather than doing the same thingbetter’.** 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.

## **3.3 Types of Innovation**

Innovation 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.

There are two main types of innovation, namely, Product and Process Innovation.

**Product Innovation**

This deals with the development of a new product for example, baking biscuits from soya flour instead of the usual wheat flour. It is the innovation in the use of raw materials or in the management and structure of the organization.

Product innovation can further divide into **Basic** or **Modification**.

1. **Basic Product Innovation**

This is the introduction of a completely new product e.g. introduction of the Internet, cell phones or computers.

1. **Modification or Improvement Product Innovation**

This innovation is aimed at improving or modifying an already existing product. For example, adding a sweet fragrant perfume to Boom detergent paste or adding more features to the basic cell phone, for example the Android phone (which has features that allow more applications for sharing images, music, transfer of files etc.)

**Process Innovation**

This innovation deals with the means, method or process of producing a particular product. It is concerned with how a product is made, distributed or delivered to the markets.

There two types of Process Innovation, namely **Basic Process** and **Modification Process.**

1. **Basic Process Innovation**

This deals with introduction of a new process or means of producing a particular product or service, for example, the use of computer to assemble cars in the Car Assembly Plant instead of using humans.

1. **Modification Process Innovation**

This is the innovation which is meant to modify the existing process. For example, the introduction of a more effective and efficient type of robot to assemble cars in a car Assembly Plant.

**Addition of new ideas Innovation**

There are also other innovations which deal with additions of new ideas to either product innovation or process innovation. These are;

1. **Incremental Innovation**

This involves the continuous supply of small ideas in product or process innovation. This can be the continuous addition of features to a product. For example, continuous addition of different fragrances, colours and packaging to the existing Boom Detergent Paste.

1. **Radical Innovation**

This is the innovation which deals with the introduction of new ideas in product or process innovation which brings about major changes in an industry. It is more like Basic Innovation or modification. For example, the introduction of Face Book or use of CD’s in information technology, the introduction of computer phones, black berry phones, etc from the original basic cell phones initially invented.

## **3.5 Sources of Innovative Opportunities**

There are a number of sources for business opportunities and they differ according to countries, businesses and even among entrepreneurs. Peter Drucker in his book, “Innovation and Entrepreneurship”, identified the following sources.

1. **The Market Environment (The Unexpected)**

The market environment is made up of consumers (for all types of products and services) and is the number one area to look for opportunities. An entrepreneur should constantly study the market to see if any particular product is in greater or lesser demand than anticipated and why? He/she must exploit this unexpected discovery into an opportunity. Sources of ideas in this environment are; adverts, Consumers, Market Trends among consumers, industry and trade contacts, wholesalers, trade shows, industry association meeting etc.

1. **The Incongruity**

The word **“incongruity”** means out of place, something that does not fit into its location or situation. This is an opportunity for the entrepreneur to find a solution for the discrepancy between what is and what should be. A hint for such can be observed from consumer complaints of unmet needs.

1. **Process Needs**

Process needs involves identifying the business’s process weak spots and correcting or redesigning them. This source of innovation comes from within the existing capabilities of doing business and not a market. An example is a restaurant business where it is discovered that people wait too long for their orders, to quicken up the speed another Chef is hired to speed up the food preparations.

1. **Industry and Market Structure Change**

Industriesand markets change continuously and so regulations pertaining to businesses. Some product lines may expand while others may shrink. It is therefore important for business firms to be on the lookout for such. Other things to watch out for are technologies and structural problems that occur from time to time (often immediately following an industry boom). All these offer an entrepreneur an opportunity to be innovative in response to the change. A good example is the recent trend of Tele-Communication Service Providers like MTN and Airtel through venders (who are entrepreneurs) slowly taking up banking services like mobile cash transfers, savings and financing in response to the changing needs of these services by communities closer to their homes.

1. **Demographics**

Increasing population, income levels, human capital (education) etc. presents an opportunity for entrepreneurs to be innovative. At present entrepreneurs is one of the largest as well as the most well to do demographic groups with disposable income. Combining demographic group data with segmentation and targeting is a powerful method of accurately meeting a target market’s desires.

1. **Changes in Perception, Meaning and Mood**

The way populations and people view life and feel about things changes over time smart business owners must pay attention to this in order to capitalize on it.

A real example can be seen in a principle called “down aging” or “life begins at 40” which refers to people over 40 wanting to look young. Industries have responded to this, most notably in the cosmetic and personal care industry which provides plenty of solutions to help these people feel younger.

1. **New Knowledge**

As the speed of technological revolution increases there will be an ever increasing number of opportunities that open up. The internet has been the most notable one in the last couple of decades but there have been other industries and opportunities coming up as a result of this revolution e.g. internet café entrepreneurs.

1. **The Environment as sources of business opportunities**

Sources of innovate opportunities evolve around the entrepreneur’s environment which is subdivided into immediate and macro environments;

* **Immediate Environment**

Innovative opportunities can be experienced through the entrepreneur’s immediate environment, that is, his/her hobbies, interest and skills. Daily experience such as; personal experience from the books, magazines, newspapers research journals, educational experiences etc. are also a good immediate source.

* **Macro Environment**

The macro environment encompasses, changes in technology, legal, social, political and economic aspects of the environment whether in recession or growth of a country, this can pose as an opportunity to entrepreneur. Other macro changes are in population, income groups, institutional, international trade, discovery of new raw materials, government incentives and policies, basic human needs etc.

## **3.6 Innovation Process**

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

**Steps for 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.

**Summary**

In this unit the emphasis is that, without innovation there can be no entrepreneurship. Since there is no market for opportunities, the entrepreneur must endeavour to **identify** the **available opportunity**, **peruse and exploit** it 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 innovation process, a procedure necessary for entrepreneurs to check the effectiveness of innovation.

**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 4**

**----------------------------------------------------------------------------------------------------------------**

**4.1 FORMS OF LEGAL BUSINESS OWNERSHIP**

**Introduction**

Once an entrepreneur makes the decision to launch a business, one of the first issues he or she faces is choosing a form of ownership. In this unit we shall focus on the different forms of business ownerships. I should mention that business ownerships are organised as sole proprietorship, partnerships, or cooperation’s. I will explain each form of business organisations in detail below;

 **Learning Outcomes**

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

* List and explain the different forms of business ownerships
* Compare and contrast the different forms of business ownership
* Explain the advantages and disadvantages of the three major forms of ownership; the sole proprietorship, the partnership and the corporation.
* Discuss the advantages and disadvantages of the corporations

 Time Frame- in this unit you are expected to spend approximately

* + 2 hours’ study time
	+ 2 hours in class

To begin with it is important for us to know that there is no one best form of ownership for an entrepreneur. What may be considered as best for one entrepreneur may not be the best for another entrepreneur. I will now take you through the main forms of ownerships that are there. They are explained below:

**4.2 Sole Proprietorship**

This is the easiest and simplest form of business ownership. As the name implies, a sole proprietor is a business owned and managed by one individual. Sole proprietorship makes up about 72 percent of all small business in Zambia (Wills, Kamweneshe& Sibongile2016). There is no distinction between the person and the business. The owner shares in the business profits and losses. Often the owner acts as a manager.

This form of business organisation is common for small retail shops, farms, service businesses and professional services such as law, medicine and public accounting. Thus the owner is personally liable for the debts of the business. If the individual is sued and losses, the business and personal property may be seized to pay obligations. The business income is taxed at the sole proprietor’s individual tax rate.

**Advantages**

* Simple to create
* Least costly form of business to begin
* Profit incentive i.e. the owner pays all the bills and also keeps all the profits to themselves.
* The entrepreneur has total decision- making authority.
* No special legal restrictions
* Easy to discontinue

**Disadvantages**

* No tax breaks for company benefits
* Unlimited personal liability
* Limited skills and capabilities
* Feelings of isolation
* Limited access to capital
* Lack of continuity of the business
* Liable for all debts incurred

**4.3 Partnerships**

A partnership is an association of two or more people who co-own a business for the purpose of making a profit. In a partnership, the co-owners (partners) share the business assets liabilities, and profits according to the terms of the previously established partnership agreement. The owners of the partnership are personally responsible for all debts of the business. Creating a partnership business is not necessarily costly. an accounting standpoint, a partnership is viewed as a business entity separate from the personal affairs of its owners. When a partner leaves or dies, the partnership ends. Usually the partners may enter into a formal or informal business agreements when setting up such a business.

**Advantages**

* Relatively easy to create
* Complementary skills
* Division of profits
* Larger pool of capital
* Ability to attract limited partners.
* Minimal government regulation
* Flexibility

**Disadvantages**

* Unlimited liability of at least one partner
* Difficulty in disposing of partnership interests.
* No tax breaks for company benefits
* Liable for debts incurred by each partner
* No continuity of business

**Assignment;**

* Research relationships between partners and at least three guidelines for the formation of partnership businesses in the Zambian context.
* Interview four local small business owners. What form of ownership did each choose? Why? Prepare a brief report summarising your findings and explain the advantages and disadvantages of their choice.

**4.4 Corporations**

The corporation is the most complex of the three major forms of business ownership. A corporation is the only type of business organisation that is recognized under the law as an entity separate from its owners. The owners are therefore not personally liable for the debts of the business and can loss no more than they have invested in the business, a concept known as the limited liability. They are mainly two types of corporations i.eprivate and public corporations. They made up of two or more people who agree to be formed into a company for the purpose of entering into business.

The importance of corporations is that their owners have limited liabilities, that is, to the extent of the capital they have contributed into the company. A corporation is able to buy and sell property, sue and be sued, and protect its owners from liability. The owners, called shareholders, are individuals who own shares of the corporation’s stock.

**Advantages**

* Owners liability to amount invested
* Company can pay for benefits and losses incurred by the business
* Business continuity
* Ability to attract capital
* Cash can be raised through sale of stock
* Transfer of ownership
* Business is a legal entity

**Disadvantages**

* More difficult to start that proprietorship and partnerships
* Double taxation
* Potential for diminished managerial incentives
* Potential loss control by the owners.

**4.5 Corporative**

A corporative is a form of business organisation owned by a group of individuals and is operated for their mutual benefit. The persons making up the group are called member’s. A worker cooperative, the most common form, is an enterprise owned and controlled by all the people working for it for mutual benefit. Cooperatives may be incorporated or unincorporated. Examples of cooperatives in Zambia include agriculture cooperatives and rural development, cooperative banking, credit unions and housing cooperatives etc.

Cooperatives are usually limited companies, cooperative societies or, partnerships.

**Advantages of cooperatives**

* Those working in cooperatives report a higher than average sense of purpose and satisfaction from work.

**Activity 4.1**

|  |
| --- |
| * Explain the advantages and disadvantages of sole proprietors, partnerships and cooperation’s.
* List the different forms of business organisation
* Compare and contrast ownership of sole proprietorship and partnership
* What are the advantages and disadvantages of corporations
 |

**Reflection**

Suppose that two of your friends are about to launch a business together with nothing but a handshake. “we’ve been best friends since primary school, “they say. What advice would you give them?

**Summary**

So far we have looked at different forms of businesses that business owners can use to establish a successful business. They include sole proprietorship, partnerships, corporations and corporative. There advantages and disadvantages also have been outlined.

# **UNIT 5**

**----------------------------------------------------------------------------------------------------------------**

**5.1 BUSINESS TRANSACTIONS**

**Introduction**

This unit looks at the different types of business transactions namely; barter, credit, cash and bank

**Learning Outcomes**

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

* Discuss the different types of business transactions precisely

 Time Frame- in this unit you are expected to spend approximately

* + 2 hours’ study time
	+ 2 hours in class

## **5.1 Barter Transaction**

A barter transaction is the exchange of goods or services, in exchange for other goods or services. Bartering benefits companies and countries that see a mutual benefit in exchanging goods and services rather than cash, and it also enables those who are lacking hard currency to obtain goods and services.

Bartering occurs when two or more parties such as individuals, businesses and nations exchange goods or services evenly without the use of a monetary medium.

While a barter economy is considered more primitive than modern economies, barter transactions still regularly transpire in the marketplace.

The illustration below is an example of barter transaction;



Mwaanga,(‎2016) ‎ The Zambian Economy

The following are the main difficulties which are found in the barter system: Double Coincidence of Wants: Owning to lack of generally acceptable medium of exchange, a difficult problem of double coincidence of wants is faced by the persons who wanted to sell and buy goods. The barter system does not provide for the direct purchase of goods since there is no common unit of account and medium of exchange (Money).

 Note that if a person grows only wheat and after his/her self-consumption, he/she wants to exchange it for an apple. He/she can do so only if the other person having apples wants wheat. If that is not the case, no exchange will take place. This problem is called double coincidence of wants.

Moreover, if they both agree to trade an apple for wheat, then the next problem is how to determine how much apple is worth one kg of wheat and vice versa. Both the individuals will argue for more of another person commodity in return of his. Therefore, exchange of goods will be limited and most of the time will not take place at all.

**5.2 Credit Transaction**

Credit transactions means any transaction by the terms of which the repayments of money loaned or loan commitment made or payment for goods, services or properties sold or leased is to be made at a future date. If a value of a transaction is not met immediately it is called credit transaction.

* 1. **Cash Transaction**

A cash transaction is where payment is made immediately. Try not to think about a cash transaction in terms of how they were paid but rather when they were paid. If you buy goods and pay using a card rather than cash, this is regarded as a cash transaction. Other examples of cash transactions are cheque payments.

## **5.4 Bank Transactions**

When you pay or receive payment for goods and services through the bank, these may be referred to as bank transaction. Examples of bank transactions are

Direct debit, standing order, cheque etc. in this modern day business, bank transactions are as good as cash transactions and are normally categorised as such, because money can be transferred immediately from one account to another for example direct debit or credit transfer. Bank transactions are important in internal trade. People are able to trade without fear of not receiving payment because they are so many options available for people to pay for goods and services e.g. the bankers draft (equivalent to a cheque but drawn in the name of the bank).

**Summary**

This unit looked at the different types of transaction, that is cash, bank, credit and barter transactions. In the next unit, we shall look at business financing.

**Activity**

|  |
| --- |
| Discuss the limitation of the barter transactions and why they are no longer applicable in the modern business world  |

.

# **UNIT 6**

**----------------------------------------------------------------------------------------------------------------**

**6.1 BUSINESS FINANCING**

**Introduction**

We now shift our focus to the different ways of business financing. Basically, there two major types of business financing that is; Equity sources of financing and Debt sources of financing. I will explain the different types of financing in depth below.

**Learning outcomes**

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

* describe the differences between equity capital and debt capital and the advantages and disadvantages of each.
* discuss the various sources of equity capital available to entrepreneurs.
* describe the various sources of debt capital and the advantages and disadvantages of each.

Time Frame

In this unit you are expected to spend approximately

* + 2 hours’ study time
	+ 2 hours in class

**6.2 Important things to consider for successful financing**

Let us begin by looking at the concept of capital. Basically, capital is the money that a business owner puts into his or her business in order to establish it. We can also state that capital is a crucial element in the process of creating new ventures, yet raising the money to launch a new business venture has always been a challenge for entrepreneurs.

Unfortunately, many banks tend to shy away from giving loans to start–ups, while venture capitalists are looking for ever larger deals, private investors have grown cautious, and making a public stock offering remains a viable option for only a handful of promising companies with good track records and fast growing-futures. The result has been a credit crunch for entrepreneurs looking for small to moderate amounts of capital (Murombedzi, Mungwangwa&Chivandikwa 2015).

However, it’s still possible for entrepreneurs to access finances to start up their business but it calls for proper and adequate financing.

Let us now look at some of the important “secrets” to successful financing entrepreneurs should consider when searching for capital needed to finance their businesses;

* Choosing the right sources of capital for a business can be just as important as choosing the right form of ownership or the right location**.** Entrepreneurs must weigh their options carefully before committing to a particular funding source. It is important that they align themselves with a source that fit their needs.
* The money is out there; the key is knowing where to look. Entrepreneurs must do their homework before they set out to raise money for their ventures. The need to understand which sources of financing are best suited for the various stages of the company’s growth and then taking the time to learn how those sources work is essential to success.
* Raising money takes time and effort. Sometimes entrepreneurs are surprised at the energy and the time required to raise the capital needed to feed their cash-hungry, growing businesses. The process usually includes lots of promising leads, most of which turn out to be dead ends. Meeting with and presentations to lots of potential investors and lenders can crowd out the time needed to manage a growing company.
* Creativity counts. Although some traditional sources of funds now play a lesser role in small business finance than in the past, other sources of financing are taking up the slack. To find the financing for their businesses demands, entrepreneurs must use much creativity in attracting financing as they did in generating ideas for their products and services.
* The internet puts at entrepreneur’s fingertips vast resources of information that can lead to financing; use it. The internet often offers entrepreneurs, especially those looking for relatively small amounts of money, the opportunity to discover sources of funds that they otherwise might miss.
* Be thoroughly prepared before approaching potential lenders and investors. In the hunt for capital, tracking down leads is tough enough; don’t blow a potential deal by failingto be ready to present your business idea to potential lenders and investors in a clear and concise convincing way. That, of course, requires a solid business plan and a well-researched elevator pitch- and those of its competitive edge to win over potential investors and lenders.

**6.3Planning for capital**

Becoming a successful entrepreneur requires one to become a skilled fund-raiser, a job that usually requires more time and energy than most business founders realize.

**Capital** is any form of wealth employed to produce more wealth. It exists in many forms in a typical business, including cash, inventory, plant, and equipment. Entrepreneurs have access to two different types of capital: equity and debt.

**Equity Capital versus Debt Capital**

**Equity Capital**

Equity capital represents the personal investment of the owner (or owners) in a business and is sometimes called **risk capital** because these investors assume the primary risk of losing their funds if the business fails.

If a venture succeeds, however, founders and investors share in the benefits which can be quite substantial. To entrepreneurs, the primary advantage is that it does not have to be repaid like a loan does.

The primary disadvantage of equity capital is that the entrepreneur must give up some part of the ownership in the business to outsiders. Entrepreneurs are most likely to give up significant amounts of equity in their businesses in their start-up phase than in any other. To avoid having to give up control of their companies early on, entrepreneurs should strive to launch their companies with the least amount of money possible.

**Debt Capital**

This is the debt that the entrepreneur borrows and must repay with interest? Very few entrepreneurs have adequate personal savings to finance the total start-up costs of a small business. Many of them must rely of some form of debt capital to launch their companies. Lenders of capital are more numerous than investors, but small business loans can be just as difficulty (if not more difficulty) to obtain. In addition, because lenders consider small business to be greater risk than big cooperate customers, they require higher interest rates on loans to small companies because of the higher risk.

## **Sources of Equity Financing**

 The following include some of the sources of equity financing;

* **Personal Savings**. The first place entrepreneurs should look for start-up money is in their own pockets. It is the least expensive source of funds available. ‘The sooner you take outside money the more ownership in your company you will have to surrender, “warns one small business expert.
* **Friends and Family members**. Although most entrepreneurs look to their own bank accounts first to finance a business, few have sufficient resources to launch their businesses alone. Entrepreneurs can turn to their friends and family members who might be willing to invest in (or lend to) a business venture. Because of their relationship with the founder, these people are most likely to invest. Often they are more patient and are likely to meddle less than other investors.
* **Crowd Funding**. This is a method of raising capital that taps the power of social networking and allows entrepreneurs to post their elevator pitches and proposed investment terms on specialized websites and raise money from ordinary people who invest. Normally the amount that is sought by these entrepreneurs is small.
* **Private investors (Angels).** These are wealthy individuals often entrepreneurs themselves who invest in business start-ups in exchange for equity stakes in the companies. In many cases, angels invest in businesses for more than purely economic reasons- for example, because they have personal interest or experience in the particular industry and they are willing to put money into companies in their early stages.
* **Venture Capital Companies**. These are private, for profit organizations that assemble pools of capital and then use them to purchase equity positions in young businesses that they believe have high-growth and high- profit potential, producing annual returns of 300 to 500 percent within five to seven years. An example of such companies in Zambia is Kukula Capital and Zambia Venture Capital Fund who invest in small vibrant companies.
* **Corporate Venture Capital**. Large corporations have gotten into the business of financing small companies and invest in business for both strategic and financial reasons. More than 300 large corporations across the globe including Google, BMW, Amazon etc. invest in small companies, usually companies that are in later stage of growth and because of their maturity are less risky. Young companies not only get a boost from the capital injections from the large companies give them but also stand to gain many other benefits from the relationship such as technical expertise, distribution channels, and marketing know-how and provide introductions to important customers and suppliers.
	1. **Sources of Debt capital**

There are various sources of debt capital. They are as follows;

* **Commercial Banks.** Commercial banks are the very heart of the financial market for small businesses, providing the greatest number and variety of loans to small companies. Banks tend to be conservative in their lending practices and prefer to make loans to established small businesses rather than to high-risk start-ups. Unfortunately for entrepreneurs, turbulence in the financial markets has caused banks to tighten their lending standards, making it more difficult for small businesses, even established ones.
* **Short-Term Loans.** Short term loans extended for less than one year, are the most common type of commercial loan banks make to small companies. These funds are typically used to replenish the working capital account to finance the purchase of inventory, boost output, finance credit sales to customers, or take advantage of cash discounts.
* **Intermediate- and Long- Term Loans**. Intermediate- and long-term loans are normally secured by collateral and extend for a period of one year or longer. Commercial banks grant these loans for constructing buildings, purchasing real estate and equipment, expanding a business and other long term investments. Loan repayments are normally made monthly or quarterly.
* Small Business Lending Companies. Small Business lending companies (SBLCs) make only intermediate- and long term guaranteed loans. They specialize in loans that many banks would not consider and operate on a nationwide basis. Most SBLCs loans have terms extending for at least 10years.

**6.7 Hybrid sources of financing**

This is the type of finance that partakes some characteristic of both debt and equity. It is the financial security that possess the characteristics of both debt and equity. The different types of hybrid financing include the following; convertible debentures, warrants, options, hybrid financing and preference capital.

The purpose of hybrid financing is to offer the investors the combination of positive factors of both debt and equity instruments. Equity instruments give the sense of ownership to the holder, and a residual claim over the cash flows while the debt instruments are issued to raise capital in the firm that could be used in this development

 **Assignment**

Carry out more research more on the types of hybrid financing sources listed in this unit.

**Activity 5.1**

|  |
| --- |
| 1. Why is it difficulty for most small business owners to raise the capital needed to start, operate, or expand their ventures?
2. What is capital?
3. Who is an Angel investor?
4. Describe the various sources of debt capital and the advantages and disadvantages of each.
5. Discuss the various sources of equity capital available to entrepreneurs.
6. Describe the differences between equity capital and debt capital and the advantages and disadvantages of each.
 |

**Reflection**

Imagine you are a business owner in need of capital injection for your business. Consider all the sources of debt and equity financing that have been explained in this unit, which one do you think would suit your business needs best and why. Try as much as possible to reflect on the advantages and disadvantage of each source of financing in relation to your business.

**Summary**

In this unit we have covered the sources of business financing that are available to entrepreneurs who would like to set up their own businesses, or expand their product lines and services. In the next unit we shall look at the SWOT Analysis as a tool for scanning the environment for gaining competitive advantage.

#

# **UNIT 7**

**---------------------------------------------------------------------------------------------------------**

## **SWOT ANALYSIS AND PESTEL**

**Introduction**

Having looked at the different forms of business transactions and sources of finance in the previous two topics, you are now ready to explore some strategic tools used to position your business well as gain competitive advantage. This unit will focus on SWOT and PESTEL as tools used for strategic positioning of the business in its environment.

**Learning Outcomes**

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

* define S.W.O.T
* state the advantages of S.W.O.T
* identify the limitations of S.W.O.T
* explain PESTEL
* outline the importance of PESTEL

Time Frame

In this unit you are expected to spend approximately

* + 2 hours’ study time
	+ 2 hours in class

## **7.1 What is S.W.O.T?**

The acronyms **SWOT** stands for **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. By definition, Strengths and Weaknesses are considered as internal factors over which a business has control, while Opportunities and Threats are external factors of a business beyond its control.

Through strategic planning the entrepreneur decides what he/she wants to do with his/her business enterprise. This is done through Marketing Planning which involves deciding on marketing strategies that will help the enterprise attain overall strategic objectives.

The main section of the plan presents a detailed SWOT analysis of the current marketing situation as well as potential threats and opportunities. **SWOT** is a marketing tool used to analyse or scan the internal and external environmental conditions of a business. It can also be used in predicting/forecasting the changing trends within the business environment and can be useful as a decision-making tool. (Peter Doyle and Philip Stern: 2006)

Below is an illustration of a SWOT analysis.

 Positive Negative

|  |  |  |
| --- | --- | --- |
| **Internal** | **Strengths**Internal capabilities that may help a company reach its objectives. These include human competencies, process capabilities, financial resources, products/services, goodwill, brand loyalty etc. | **Weaknesses**Internal limitations that may interfere with a company’s ability to achieve its objectives. Examples are; depreciating machines, insufficient research and development facilities, narrow product range, poor decision-making etc. |
| **External** | **Opportunities**External factors that the company may be able to exploit to its advantage. Opportunities may arise from market, competition, industry, government and technology | **Threats**Current and emerging external factors that may challenge the company’s performance. Example are; changing technology, increasing competition, price wars, reducing industry profits, competitors etc. |

## **7.2 Advantages of S.W.O.T**

SWOT Analysis helps strategic planning in the following manner;

* It is a source of information for strategic planning.
* Builds organization’s strengths.
* Reverse the organization’s weaknesses.
* Maximize its response to opportunities.
* Helps to overcome organization’s threats.
* Helps in setting of objective for strategic planning.
* It helps in knowing the past, present and future so that using past and current data, future plans can be made informatively.

## **7.3 Limitations of S.W.O.T**

Despite the merits of SWOT Analysis, it has some limitations which are beyond the control of management. These include:

* Price increases.
* Inputs/raw materials
* Government legislation
* Economic environment
* Searching a new market for the product which is not having due import restrictions; etc.

## **7.4 What is PESTEL?**

The acronyms **PESTEL** stand for **P**olitical, **E**nvironmental, **S**ocial, **E**conomic and **L**egal (including Cultural). By definition **PESTEL** is a tool used to study the nature of change in the macro-environment and its impact on the organizational marketing strategies.

It is important to understand the macro-environment because; it helps to recognize the marketing impact of change of in the business environment and be in position to respond. It also helps the organization to be alert to the fact that the nature of the changing environment is actually the change in the organization its self. (Graham J.H, Nigel F. P & Brigitte N; 2008).

## **7.5 The importance of PESTEL**

As already stated above, PESTEL is used by businesses to make strategic marketing decisions in response to the ever changing business macro-environment.

In trying to discuss the importance of PESTEL, we’ll look at each element one by one and how it may affect the business.

* **Economic and Political environment**

The interplay between the two makes it difficult to discuss separately. A political change can create an economic effect and likewise the economic change can call for a political change. Economic policies like the rate of interest, taxes, subsidies etc. are politically motivated because they are dictated by the government. It is therefore important for an entrepreneur to understand the political and economic environment to as to make the right decisions concerning the type of business to venture in and what adjustments to make to their existing business. Other political factors are civil wars, political allies, type of government system (this has a direct bearing on the type of economic system) etc.

* **Social and Cultural environment**

The changing economic environment brings about a continuous change in social attitudes and values and this has implications for marketing management of a business firm. For example, demographic change, market segmentation, gender, age, patterns of lifestyle etc. the entrepreneur needs to understand the social and cultural environment if they have to remain relevant in the society in which their business is placed. Understanding the social and cultural environment also helps businesses to be responsive to the needs of their customers and be flexible to make changes in their service delivery if needs arises. Customers may become increasingly demanding for products and services, they would also demand and expect reliable and durable products with quick and efficient services at reasonable prices. Failure to adapt to these changes may mean decline of a business.

* **Legal environment**

The legal environment is largely affected by the political environment especially in our country Zambia and other developing countries. The government sets the legal frame work in which the businesses should operate business. For instance, the business registration processes, obtaining a Tax Payers Identification Number (TPIN), payment of taxes, establishment of business regulatory bodies like PACRA, Zambia Revenue Authority (ZRA), Consumer a Competition Protection Commission (CCPC) etc. The business firm must understand the legal framework in which to operate their businesses or else they may always face legal implications or even withdrawal of their Trading License. It is important for a business to adhere to all the regulations pertaining to the business they are engaged in.

* **Technological environment**

The latter part of the twentieth Century has seen a lot of technological changes and development and these have greatly impacted on how businesses are run in virtually every industry. In Zambia and other developing countries, technological advancement has not yet made such an impact as compared to developed countries. However, ways of running businesses have greatly improved due to mechanized systems in various sectors especially in the service providers such Telecommunications and Banking. The retail sector has also made use of Electronic Business (E-Business). Most retailers advertise and sale goods via internet, most people can now obtain foreign goods through On-line Shopping. Technological advancement has led to more and efficient and effective ways of serving customers, for example the fast food businesses, bakeries, government departments (through SMART Zambia) etc. Products are more available and potential consumers are aware of them, businesses too can now operate cost effectively due to technology (Graham J.H, Nigel F. P & Brigitte N; 2008).

Globalizations of markets are all as a result of technological advancement and as the world becomes global, it is important that businesses are ready to adapt to new methods of running businesses so as to remain relevant on the market.

**Summary**

The unit looked at how SWOT and PESTEL can be used to bring about competitive advantages to businesses and the importance of analysing the environment of where one conducts their business.

**Case study**

|  |
| --- |
| Nchiminya works for Nthanzi Bottlers, a Zambian company that manufactures soft drinks and currently operating locally. She has just been given a position of Marketing Manager in the company and they wish to extend their market to Zimbabwe by opening a distribution outlet. Outline how she can use PESTEL to enter the Zimbabwean market. |

# **UNIT 8**

**8.0 BUSINESS PLANNING**

**Introduction**

Congratulations! Imagine you have just worn yourself a lottery worth K50,000.00. cash? Immediately you decide to set up a grocery business in your neighbourhood because your neighbour Mr Bwalya seems to be doing so well in it. Within no time your business is up and running.

**Reflection**

Before we go into the details of this unit, I would like you to think about some of the consequence that you, as a new business owner will have to encounter in the long run after setting up this business. Think about the advantages and disadvantages that would characterise this move that you have taken? What is the probability that this new business you have just set up will succeed?

Often many entrepreneurs’ set up business of this kind without any prior planning or proper investigation as to whether the business will succeed or not. As such, this unit is very critical to the success of a new venture as it will focus on the aspect of business planning. I urge you to read and follow me through this exciting unit.

**Learning outcomes**

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

* Define a business plan
* Explain why every entrepreneur should create a business
* Describe the elements of a solid business plan.
* Describe the keys to making an effective business plan presentation

**Time Frame**

You are expected to spend approximately

* + 2 hours’ study time
	+ 2 hours in class

**Activity**

|  |
| --- |
| Explain why every entrepreneur should create a business plan and the benefits of creating one. |

**8.1 What is a Business Plan?**

**Scarborough (2014), defines**a business plan is a written summary of an entrepreneurs proposed business venture, its operational and financial details, its marketing opportunities and strategy, and its manager’s skills and abilities. There is no substitute for a well-conceived business plan, and there are no shortcuts to creating one.

The plan serves as an entrepreneur’s road map on the journey towards building a successful business. As a small company’s guide book, a business plan describes the direction the company is taking, what its goals are, where it wants to be, and how it’s going to get there. The plan is written proof that an entrepreneur has performed the necessary research, has studied the business opportunity adequately, and is prepared to capitalise on it with a sound business model.

## **8.2 Importance of the Business Plan**

Entrepreneurs are creative and innovative people who often find it easy to come up with an idea or a new business concept or approach. Business success, however, requires much more than just a great new idea. Once entrepreneurs develop an idea for a business, the next step is to define the business model they will create and subject it to a feasibility analysis to determine whether they can transform the idea into a viable business. A business model will define the process a company will use to generate sales and a profit (Scarborough N. M. (2014). Once this has been achieved, the next step is to develop a business plan.

A well-conceived and factually based business plan increases the likelihood of business success. For decades, research has proven that companies that engage in business planning outperform those that do not. Unfortunately, many entrepreneurs never take the time to develop plans for their businesses, and the implication of the lack of planning are all too evident in the high failure rates that small companies experience.

**8.2 Functions of a Business Plan**

Basically a business serves two essential functions:

* It guides an entrepreneur in charting the company’s future course of action and devising a strategy for success. The plan provides a battery of tools; a mission statement, goals, objectives, market analysis, budgets, financial forecasts, target markets and strategies to help the entrepreneur run a company successfully.
* The second function of the business plan is attracting lenders and investors. Applying for loans or attempting to attract investors without a solid business plan rarely attracts needed capital. Rather, the best way to secure the necessary capital is to prepare a sound business plan enabling an entrepreneur to communicate to potential lenders and investors the potential that the business opportunity offers.

**8.3 Elements of a Business Plan**

It is important for entrepreneurs to note that every business plan is unique and therefore it must be tailor made, (Wilson N. & Stokes D, 2017). The elements of the business plan may be standard but the way entrepreneurs tell their stories should be unique. According to Scarborough (2014) a business plan ranges from 20 to 40 pages in length. The following include the elements of a business plan

**Title page and Table of Contents.**

A business plan is a professional document which should contain a title page with a company’s logo, and addresses as well as the names and contact information of the company’s founders. A copy number of the business plan as well as the date on which it was issued should be shown on the title page.

A table of contents that includes page numbers should be included as it helps readers to easily locate the particular sections of the plan they are most interest in.

 **Executive Summary**

An executive summary is a synopsis of the entire plan, capturing its essence in a capsulized form. It should be concise, with a maximum of two pages. It is a written version of what is known as the “elevator pitch”. An elevator pitch must answer the natural question that anyone who reads or hear it asks: so what? The following five-part framework helps entrepreneurs develop a meaningful elevator pitch:

* Context. What does your company do in easy to understand words?
* Benefit. What benefit does your company offer customers?
* Target customers. For whom does your company provide the benefit?
* Point of differentiation. How is your company different from other companies providing similar products, services, or solutions?
* Clincher. Can you leave the listener or reader with a memorable, bottom-line sound bite about your company?

**Vision and Mission Statement**

A mission statement expresses in words an entrepreneurs vision for what his or her company is and what it is to become. It expresses the company’s purpose and defines the direction in which it will move.

**Company History**

This section should describe the when, and how the company was formed, how it has evolved over time, and what the owner envisions for the future. It should highlight the successful accomplishments of past objectives, such as prototypes, earning patents, achieving share targets, or securing long term customer contracts. This section also should describe the company’s current image in the market place.

**Business and Industry Profile**

This section should provide information with an overview of the industry or market segment in which the new venture will operate. Industry data such as market size, growth trends and the relative economic and competitive strength of all the major firms in the industry all set an understanding of the viability of the product or service.

**Goals and Objectives**

This section should contain a statement of the company’s general business goals and then work down to narrower definition of its immediate objectives. Goals are broad range statements of what a company plans to achieve in the future that gives all direction. Objectives are short term, specific performance targets that are attainable, and controllable.

**Business strategy**

This section outlines the methods the company can use to satisfy the key success factors required to thrive in the industry. The entrepreneur must explain how they plan to gain competitive edge on the market.

**Description of the company’s product or service**

An entrepreneur should describe the company’s overall product line, giving an overview of how customers use its goods or services. The emphasis of this section should be on defining the unique characteristics of the company’s products or services and the benefits customers get by purchasing them.

**Marketing strategy**

Creating a successful business depends on an entrepreneur’s ability to attract new customers who are willing and able to spend real money to buy its products and services. Every entrepreneur must therefore describe the company’s target market and its characteristics. A marketing strategy should address the following:

* Who are my company’s target customers, (age, gender, income level, and other demographic characteristics)?
* Where do they live, work and shop?
* How many potential customers are in my company’s trading area?
* Why do they buy? What needs and wants drive their purchase decisions?
* What can my business do to meet those needs, wants, and habits, what should be the basis for differentiating my business in their minds?
* Proving that a profitable market exists involves two step: documenting market claims and showing customer interest.

**Documenting Market Claims**

This section should provide facts about the sales potential of a product or service. Results of market surveys, customer’s questionnaires, and demographic studies lend credibility to an entrepreneurs frequent optimistic sales projections.

**Showing customer interest**

An entrepreneur might offer a prototype or an actual product to several potential customers to get written testimonials and evaluations to show potential investors. This is important to providing convincing investors that a significant group of target customers actually need or want a company’s good or service and are willing to pay for it.

Other pertinent areas that should be addressed by this section includes;

advertising, market size and trends, location of the business, pricing and distribution channels of the products and services.

**Competitor analysis**

Failure to asses’ competitors successfully make entrepreneurs to appear to be poorly prepared, naïve, or dishonest, especially to potential lenders and investors. This section of the business plan should demonstrate that the entrepreneur has an advantage over its competitors.

**Description of the management team.**

This is considered to be the most important success factor of a business venture. The quality of a company’s management team, their qualifications and expertise adds credibility to the venture and boost investors over perception of the company.

**Plan of operation**

An organisational chart that describes the business key jobs and the qualifications of people should be occupying them should be included under this section.

**Pro forma (Projected) Financial Statements.**

One of the most important sections of the business plan is an outline of the proposed company’s financial statements of the proposed venture. For an existing company lenders and investors use past financial records to judge the health of the company and its ability to repay loans or generate adequate returns. As such the owner should submit audited and certified financial statements at least for the past three years. In case of a start-up entrepreneur, monthly projected financial statements at least for the following year should be submitted.

**The Loan or Investment Proposal**

This section should state the purpose of the financing, the amount requested for and the plans for repayment or, in the case of an investor an exit strategy. The entrepreneur should also specify the planned use of the funds, for example, if they are meant for business expansion or purchase of assets etc.

Another important strategy is also the repayment schedule for the loan which should also be included.

**Assignment**

|  |
| --- |
| 1. Assume that you are a member of a team of entrepreneurial students competing in a prestigious business competition. Outline your team’s strategy for winning your business.
2. Describe the elements of a solid business plan
 |

 **Summary**

In this unit we have covered a very interesting topic of the business plan. You have learnt about the functions of a business plan, what a business plan is and the elements of a business plan.

#

# **UNIT 9**

**---------------------------------------------------------------------------------------------------------**

## **9.0BUSINESS REGISTRATION PROCESS**

**Introduction**

Congratulations for coming this far. This unit highlights the process of registering a business, documents required, registration agencies and business regulation agencies.

**Learning Outcomes**

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

* Describe the business registration process
* Identify the documents used for business registration
* Discuss the various agencies involved in business registration
* Elaborate on the various business regulations and agencies

**Time Frame**

In this unit you are expected to spend approximately

* + 2 hours’ study time
	+ 2 hours in class

## **9.1 Procedure of registering a business**

Registering your business requires the following steps

* Choose a Business Structure
* Pick a Business Name
* Register with the State
* Register with registration agencies
* Obtain Business License(s)

They are explained below;

* **Choose a Business Structure**

Before you can set out to register your business at any level (county, state or federal), you first have to decide which type of business you want to register such as, Sole Proprietorship, Corporation, Partnership or Limited Liability Company (LLC).

* **Pick a Business Name**

In order to register any type of business, you also have to choose a business name. Most states, Zambia included, do not allow two businesses to operate in the state with the same name. Because of this, it is wise to choose a couple of backup names in case your first choice is already in use. If you are registering a corporation, it is a requirement for the business name to carry one of the following designations: Incorporated, Corporation, Company, Inc., Corp. or Co.

* **Register with the State**

You can obtain the application that pertains to your business structure from the Patents and Companies Registration Agency (PACRA) and from the office of the registrar of companies. Depending on the business structure, you may have to supply supplemental documentation with the application. For example, a corporation requires the Articles of Incorporation and a partnership requires a Partnership Agreement.

Present your payment receipt and filled application form to the supervisor at the PACRA desk for approval. Upon receiving your signed Certificate of Registration from the PACRA desk, fill to apply for tax registration (ZRA). Submit the Application form at ZRA and NAPSA.

* **Register with other registration agencies**

The Zambia Revenue Authority (ZRA) requires business enterprises to obtain a Tax Payers Identification Number (TPIN). Depending on the type of business, other notable agencies includes; local government authorities, ZPPAZ etc.

* **Obtain Business License(s)**

Obtain business license(s). The types of business licenses you need depends on the type of business you’re opening and the city, county and state.

## **Documents**

**Documents Required for Company Registration**

* A copy of the Memorandum and Articles of Association (MAA) for the company. The following are the contents of the MAA; A duly completed incorporation form that includes the following, company name, registered address, brief description of business activities, particulars of shareholders, directors and company secretary and liability of members.
* Trading Licence for private limited companies
* Partnership Deed or Partnership Agreement for partnership

## **9.3 Registration Agencies**

The following are some of the registration agencies in zambia ;

* Patents and Companies Registration Agency (PACRA)
* Zambia Revenue Authority (ZRA)
* Zambian Collateral Registry (for movable property registration system)
* Public Procument Agency of Zambia (PPAZ)
* Local Government Authorities
* Zambia Development Agency (ZDA)

## **Business Regulatory Agencies**

A regulatory agency (also regulatory authority, regulatory body or regulator) is a [public authority](https://en.wikipedia.org/wiki/Public_benefit_corporation) or [government agency](https://en.wikipedia.org/wiki/Government_agency) responsible for exercising autonomous authority over some area of human activity in a [regulatory](https://en.wikipedia.org/wiki/Regulation) or [supervisory](https://en.wikipedia.org/wiki/Supervisory) capacity. An independent regulatoryagency is a regulatory agency that is independent from other branches or arms of the government.

Regulatory authorities are commonly set up to enforce safety and standards, and/or to protect consumers in markets where there is a [lack of effective competition](https://en.wikipedia.org/wiki/Imperfect_competition) or the potential for the undue exercise of [market power](https://en.wikipedia.org/wiki/Market_power).

Examples of regulatory agencies that enforce standards in Zambia include;

* Zambia Information Communications and Telecommunications Authority (ZICTA)
* Zambia Medicines Regulatory Authority (ZAMRA)
* Drug Enforcement Commission (DEC)
* Zambia Bureau of Standards (ZBS)
* Consumer and Competition Protection Commission. CCPC

**Assignment**

|  |
| --- |
| Carry out a research on the list of Business Regulatory Bodies in Zambia, outlining the areas they regulate.  |

**Summary**

The unit covered, the business registration procedure, documents used in business registration, the registration agencies and finally Business Regulatory Agencies.

# **UNIT 10**

**----------------------------------------------------------------------------------------------------------------**

**10.1 BUDGETING**

**Introduction**

In this unit we examine the budgetary process as a tool for management planning and control process and looks at what a budget is and the uses of a budget.

**Learning outcomes**

By the end of this unit, students are expected to:

* Explain what a budget is
* Outline the uses of a budget
* Describe the different types of budgets
* Prepare different types of budgets

**Time Frame**

In this unit you are expected to spend approximately

* + 2 hours’ study time
	+ 2 hours in class

**10.1 What is budgeting?**

Management control is needed if organizations are to achieve their objectives. Once the objectives of an organization have been agreed, plans need to be drawn up so that the objectives can be met. When a plan is expressed quantitatively (i.e. in numbers – monetary amounts or quantities) it is known as a ‘budget’ and the process of converting plans into budgets is known as ‘budgeting’ (Scarborough, 2014)

A budget is a comprehensive financial plan setting forth the route for achieving the financial and operational goals of an organization. It is a plan expressed in quantitative, usually monetary terms covering a specified period of time, usually a year. Even a business will benefit from preparing a formal written plan for its future operations including the expected levels of sales, expenses, net income, and cash receipts and cash layouts as this helps to set the targets at the set standards against which performance can be measured.

All economic entities including businesses, churches, universities, government agencies and even individuals engage in some sort of budgeting. The use of a budget is a key element of financial planning and control. Managers compare the actual costs with the budgeted amounts and take corrective action as necessary.

**10.2 Objectives of budgeting**

When budgets are being prepared, two principal objectives must be uppermost in the mind of top management. Budgets exist in order to implement:

* Planning. This means a properly coordinated and comprehensive plan for the whole business. Each part must interlock with the other parts.
* Control. Just because a plan is set down on paper does not guarantee that the plan will be followed automatically and that there will be no deviations from it. Control is needed to ensure a plan is followed and control is exercised via the budgets, thus the term ‘budgetary control’.
	1. **Uses and Benefits of Budgets**

A budget is an important planning and control instrument. some of its uses are outlined below;

* It serves as an aid in making and coordinating short-range plans.
* It serves as a means of for communicating plans to the various responsibility center managers. For organizational plans to be successfully implemented, they must be understood. Therefore, communications is required in order to understand how to produce the desired goods and services, using what methods, people and equipment and materials to be purchased etc. Examples of information to be communicated include; cost on wages, advertising, maintenance costs, hours of work and desired quality levels.
* It is used as a bench mark for controlling ongoing activities in an organization since the managements control purpose is to attain the desired results. A carefully prepared budget is the best possible standard against which to compare the actual performance. A comparison of actual performance provides attention to where action may be needed.
* An analysis of the variance between actual and budgeted results do the following;
* Helps identify a problem that needs attention
* Reveal any exploitable opportunity not predicted in the budget or
* Reveal that the original budget was un realistic in some way.
* The budget is used as a basis for evaluating the performance of the responsibility centers and their managers in that monthly variance from the budgets are used for control purposes during the year. The comparison of the actual and budgeted results for the entire year is frequently a major factor in the year end evaluation of each responsibility center and its manager.
* Budgets also are used as a force for motivating managers and employees to work towards the objectives of their responsibility centers and hence towards the overall goals of the company.
	1. **Benefits derived from budgeting**

The budgeting process is also referred to as financial forecasting, (Calvin, 2002). There are a number of benefits that are derived from the budgeting process including the following;

* **Enhancing managerial perspective**.

It helps managers to consider all the aspects of a company’s internal activities and make estimates of future economic conditions, including costs, revenue, interest rates, demand for the company’s products and completion. Thus it increases managements awareness of the company’s external environment.

* **Advance warning of problems**.

Since a budget is future focused, it provides advance warnings to management about financial problems that may arise. For example, the budget would show that the company selling cold drinks will run short of cash during the summer months. As such, to counter this indication, management would either borrow or reduce on its expenditure in advance.

* **Coordination of activities.**

A budget preparation process provides a platform for management to coordinate the activities of the various department of the organization. For example, the production department should budget to produce the quantity of goods that the sells department is able to sell.

* **Performance evaluation**.

The budget shows the expected output, that is, the revenue to be earned or units to be produced as well as the expected costs and expenses. This is used as yard stick with which each departments actual performance may be measured.

**Activity 13.5.1**

|  |
| --- |
| 1. What is a budget?
2. Briefly explain the uses and benefits of a budget
 |

**10.4 Types of Budgets**

There are a number of budgets that are used in organisations. However, in this module will we will focus on the four main types of budgets that include the following; Master Budgets, Capital Budget, flexible (variable) budget, Zero Based Budgets, Incremental Budget, (Wills, Kamweneshe,&Sibongile 2016)

* **Master Budgets**

This is a complete budget package of an organisation consisting a number of interrelated budgets that summarise all the activities of the business. It is not a single document but a number of related budgets, which are put together to form a ‘master budget’.

The elements or contents of a master budget varies according to the size and nature of the business. For example, a typical master budget for a manufacturing company may include the following elements; operating, capital and the budgeted financial.

Operating budgets include a number of centre budgets related to production and sales. These include the following budgets: sales forecast, production schedule, manufacturing cost budget, cost of goods sold budget and operational expense budget.

* **Capital budget**

A capital budget is essentially a list of what management believes to be the worthwhile projects for the acquisition of plant assets, develop new product lines r acquire subsidiary companies. It reflects the short and long term planning for changes and of all fixed assets and is known as capital investment. Since capital investments are usually relatively large, this large, this budget is just as important as the sales budget during the compilation of the master budget.

The proposals for capital expenditures come from all sections of the organisations and they are screened at different levels. Only the attractive one’s flow up to the top and appear in the final capital expenditure budget. The estimated cash outflows are shown by quarters or by years so that the cash required in each period can be estimated.

* **Flexible (Variable) Budgets**

At times, the budgeted sales or production activity may turn to be different from the actual environment. If the actual level of activity is substantially different from original level budgeted, then performance may be difficult to evaluate. A flexible budget is the answer to this problem.

A flexible budget shows the planned behaviour of costs at various volumes levels. It is usually expressed in terms of a cost volume relationship and can be adjusted easily to show the budgeted revenue, costs and cash flows at different level of the activity. For example, a change in volume lessens the usefulness of the original budget, a new budget may be prepared quickly to reflect the actual level of activity for the period.

* **Zero Based Budgets**

The zero based budgeting process is a process where in deciding the revenue and costs associated with a budget, the cost estimates are built from scratch i.e. from zero. Starting from zero base means the process does not take into account the current levels of costs as a starting point for the purposes as is customary with the normal budgetary process.

An effective zero based review of an expense center involves asking basic questions about each significant activity of the center such as:

* Should this activity continue to be performed?
* Is it too much/too little being done?
* Should it be done internally, or should it be contracted to an outside
* There is a more efficient way of obtaining the desired results?
* How much should it cost?

Zero based budgets are appropriate in governmental and non-government agencies, which tend to have high discretional costs. They are also useful for expense centres having a high proportion of discretional costs.

**Group activity**

|  |
| --- |
| 1. Review the types of budgets covered in this unit and discuss their advantages and disadvantages.
2. Research further on the other types of budgets that may have not been covered in this unit and present them to your group members.
3. Discuss the significance of the budgeting process to small business owners.
 |

**Summary**

After covering this unit, you now know and understand budgeting. As much as possible we have discussed what a budget is, objectives of budgeting, uses and benefits derived from budgets, benefits derived from budgeting. In the next unit we shall focus on the concept of marketing. I encourage you to proceed to the next unit.

# **UNIT 11**

**--------------------------------------------------------------------------------------------------------------------------------------**

## **11.0 MARKETING**

**Introduction**

This unit will discuss the importance of marketing in entrepreneurship and will cover the following topics; marketing plan, the market mix elements (four Ps), branding and new product development.

**Learning Outcomes**

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

* + Define marketing
	+ Explain the Marketing Mix
	+ Discuss the importance of Branding in Marketing
	+ Deliberate New Product Development

Time Frame; you are expected to spend approximately

* Study time 2 hours
* Study time 2 hours

## **11.1 What is 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.

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.

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

In addition, marketing is also defined as the management process responsible for identifying, anticipating and satisfying customers’ requirements profitably

**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.

**Key Marketing concepts**

* **The Production Concept;**under this concept, enterprises focused on increasing output in order to achieve economies of scale and lower unit cost of production.
* **The Product Concept**; this concept worked on the assumption that if an enterprise could manufacture a better product, customers would be enticed to buy it no matter what.
* **The Selling concept**; the selling concept sought to embark on more promotional activities and involved assisting sales people to be very aggressive in order to ensure higher sales that the enterprise wanted.
* **The Marketing Concept**; this is the philosophy that holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.
* **Societal Marketing Concept**; is the idea that a company’s marketing decisions should consider consumer’s wants and the company requirements.

## **11.2 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.

**THE FOUR P’s**

|  |
| --- |
| **PRODUCT** |
| **PRICE** |
| **PLACE** |
| **PROMOTION** |

* **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, its 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 be employing 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.

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 distribution*.***

## **11.3 New Product Development**

New product development is a vital part of the marketing policy for all companies and organizations. It represents one of the key means by which corporate renewal is achieved, a future secured. As it is future future-directed activity it affects the whole company and should support corporate objectives and strategies.

Marketers (entrepreneurs) have a major role to play in product development because it is part of the marketing strategy, and a route to both increased competitiveness and customer satisfaction

The most obvious case for product development is the strategic need to innovate and change in response to, or preferably somewhat ahead of, market change.

While companies will innovate at different speeds, and with vary in success, some will appear more competitive and forward- thinking in their product development activities and others more reactive and conservative.

In business, product development is an undertaking concerned with opportunity-seeking though conservative estimates would indicate that at least 50 percent and up to 70 percent, of new products fail within their launch year.

Entrepreneurs must ensure that a succession of new products is coming on-stream, to cover the commercial ground lost through the demise of older products at the other end of the product life cycle. The rationale for product development varies among companies; the following include some of the strategic objectives that companies follow;

* To increase or defend market share
* To develop or enter a new market share.
* To maintain a lead position as an innovator
* To diversify into new product markets, as a strategic hedge against over-dependence on a limited product range.
* To exploit distribution strengths
* To make productive use of slack resources, e.g. in sales or production capacity, or perhaps to remedy seasonal or cyclical clips in activity
* To exploit the company experience in working with a new technology or new materials, or otherwise commercialize spin-offs and by products of the company’s endeavours.

## **11.4 Branding**

**A brand** is a distinct image that differentiates one offering from another. The aim is to differentiate the goods of one manufacturer from those of others, even though they are basically the same (i.e. used for the same of purpose). Product differentiation aims at earning and creating goodwill of customers so that they become brand conscious and be loyal to only one brand.

A brand is not a product that just happens to have high awareness, nor is it just a recognizable name or logo, although these are present. It is so much more; it is a powerful stimulus that conjures up a complex image and level of expectation about itself and what it can do for a consumer.

**Branding** means selling of goods under the **Trade Mark, Logo** or **Brand Name** of the manufacturer, the wholesaler or retailer. The trade-mark is clearly displayed on the package or container.

Branded goods are of uniform size, weight and quality and sometimes prices. They are often beautifully packed and are advertised a great deal.

The strength of a brand is reflected in four ways

* **Brand awareness**; how many customers ‘know ‘or are familiar with the brand
* **Brand belief**; qualities attributed to the brand
* **Brand associations**; this is anything directly or indirectly linked to the brand in the mind of the customer.
* **Brand loyalty**; the critical issue is how many customers remain loyal to a brand, resisting incentives to change to a competitive offering.

**Summary**

The unit looked at marketing, how the marketing mix can be used in strategic marketing planning, the new product development and finally branding and its role in marketing.

**Activity**

|  |
| --- |
| 1. Describe marketing in your own words.
2. What is branding?
3. Explain the marketing Mix.
4. State the importance of new product development for a business.
 |

# **UNIT 12**

--------------------------------------------------------------------------------------------------------------------------------------

## **12.0 MANAGING AN ENTERPRISE**

**Introduction**

Congratulations for having come this far, so much has been covered and now you’re ready to look at how to manage an enterprise, the aspects of planning and financial management. An entrepreneur needs to acquire the adequate skills of management to be successful, hence the importance of this unit.

**Learning Outcomes**

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

* Define management precisely.
* Explain the management functions clearly.
* Discuss the types of planning.
* Deliberate issues of financial management.

**Time Frame:**

 you are required to spend approximately

* 2 hours’ study time
* 2 hours in class

## **12.1 What is Management?**

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 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.

A number of scholars have tried to define management; the prominent ones are cited below:

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.”

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

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

The following are the characteristics:

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

## **12.2 Management Functions**

“The model entrepreneur has all-round competency in the key management functions.” David S. & Nick W. (2017:63). Discussed below are the five main functions of management:

1. **Planning**

Planning is the starting point of every activity if it has to be successful. Planning can be defined as a pre-determined course of action to accomplish the set objectives; it is
today's projection for tomorrow's activity. Planning helps a business organization to attain its set objectives and sets up the best procedure for reaching them. It involves decision making as to what is to be done, how it is to be done, when it is to be done, where it is to be done, by whom it is to be done and so on. Thus, planning includes determination of objectives, setting rules and procedures, determining projects, setting procedures, policies and strategies, budgeting, etc. Planning ensures a smooth and effective completion of activities.

1. **Organizing**

Organizing involves dividing work into different parts, grouping of various activities and positions into departments, assigning such positions to the managers and delegating authority to each manager to accomplish the work in a planned manner. Thus, the organizing function can be viewed as a tool to translate plans into realities.

1. **Staffing**

Staffing involves manpower planning and manpower management. It includes preparing inventory of personnel available, requirement of personnel, sources of manpower selection, their selection, remuneration, training and development and periodic appraisal of personnel working in the enterprise. Staffing function is performed by every manager of the enterprise. The personnel department facilitates managers in their staffing function by providing, for example, appraisal forms. However, staffing function is a complex and difficult function because it relates to the selection of those persons who are properly qualified and mentally rich for business requirement.

1. **Directing**

The functions like planning, organizing and staffing are merely preparations for doing the work, while the directing function actually starts the work. The directing is concerned with guiding, teaching, stimulating and actuating the members to work efficiently. Directing involves telling the employees what and how they have to do. Once the employees are oriented to their jobs, they need continuous guiding, communicating, motivating and leading. Directing concerns, the total manner in which a manager influences the action of his/her subordinates. It is the final action of a manager in getting others to act after all preparations have been completed.

1. **Controlling**

Controlling is the last function of management. It is a means to see whether the activities have been or being performed in conformity with the plans or not. Thus, controlling is comparison of actual results with the targets and objectives, identification of variation between the two, if any, and taking corrective measures so that objectives set are achieved. Controlling is the process of checking to determine whether or not, proper progress is being made towards the objectives and goals and acting if necessary to correct any deviation.

## **12.3 Types of Planning**

An entrepreneur as a manager must be strategic in planning for his business. Being strategic refers to the determination of the purpose and basic long term objectives of an organization. This involves adoption of different courses of action, with proper allocation of resources. Others say a strategy is a means to achieve an organization’s missions and objectives.

Have you ever heard the saying 'Those who fail to plan, plan to fail'? While this may not apply to all facets of life, this is certainly true in business. Managers find themselves planning for all sorts of things. So much so, that planning is one of the major functions of management. In doing so, a manager can be certain that he or she is working toward some organization goal.

There are basically three main types of planning of planning discussed below;

1. **Strategic Plans**

To best understand the relationship between the different types of plans, let's start at the top. **Strategic plans** are designed with the entire organization in mind and begin with an organization's mission. Top-level managers, such as CEOs or presidents, will design and execute strategic plans to paint a picture of the desired future and long-term goals of the organization. Essentially, strategic plans look ahead to where the organization wants to be in three, five, even ten years. Strategic plans, provided by top-level managers, serve as the framework for lower-level planning.

For example, if the strategic plans is achieving growth, improving productivity and profitability and boosting return on investments, Strategic plans also need the involvement of the so that each level of the organization plays a significant role in achieving the goals being [strategically planned](https://study.com/academy/lesson/what-are-strategic-plans-in-business-definition-examples-quiz.html) for.

1. **Tactical Plans**

Now that you have a general idea for how organizational planning evolves, let's look at the next level of planning, known as tactical planning. **Tactical plans** support strategic plans by translating them into specific plans relevant to a specific area of the organization. Tactical plans are concerned with the responsibilities and functions of lower-level departments to fulfill their parts of the strategic plan.

For example, when the manger in middle management learns that the top management’s strategic plan is to increase productivity, they begin to think about possible tactical plans to ensure that happens. Tactical planning might include things like testing a new process that has been proven to shorten the amount of time it takes produce a product/service or even considering ways to better delivery routes for the products. As a tactical planner, there’s needs to create a set of calculated actions that take a shorter amount of time and are narrower in scope than the strategic plan is but still help to bring the organization closer to the long-term goal.

1. **Operational Plans**

**Operational plans** are done at the bottom level; they are the plans that are made by frontline, or low-level, managers. All operational plans are focused on the specific procedures and processes that occur within the lowest levels of the organization. Managers must plan the routine tasks of the department using a high level of detail.

The frontline manager is responsible for operational planning would include things like scheduling employees each week; assessing, ordering and stocking inventory; creating a monthly budget; developing a promotional advertisement for the quarter to increase the sales of a certain product or outlining an employee's performance goals for the year.

Operational plans can be either single-use or ongoing plans. **Single-use plans** are those plans that are intended to be used only once. They include activities that would not be repeated and often have an expiration. Creating a monthly budget and developing a promotional advertisement for the quarter to increase the sales of a certain product are examples of single-use planning.

×

**Unlock Content**

Over 75,000 lessons in all major subjects

Get access risk-free for 30 days,
just create an account.

[Try it risk-free](https://study.com/academy/plans.html)

*No obligation, cancel anytime.*

**Want to learn more?**

*Select a subject to preview related courses:*

* [**Math**](https://study.com/academy/subj/math.html)
* [**History**](https://study.com/academy/subj/history.html)
* [**English**](https://study.com/academy/subj/english.html)
* [**ACT/SAT**](https://study.com/academy/goal/act-and-sat-prep.html)
* [**Science**](https://study.com/academy/subj/science.html)
* [**Business**](https://study.com/academy/subj/business.html)
* [**Psychology**](https://study.com/academy/subj/social-science.html)
* [**AP**](https://study.com/academy/goal/transferable-credit/credit-by-exam/ap-exams-advanced-placement.html)
1. **Contingency Plans**

Even the best plans can fail, especially in today's fast-paced, chaotic business environment, and as such, it is important for managers at all levels to engage in contingency planning. **Contingency plans** allow a manager to be flexible and change, by providing an alternative course of action, which can be implemented if and when an original plan fails to produce the anticipated result. Having a contingency plan might seem like extra work, but much like a reserve parachute when skydiving, it's better to have it and not need it than to need it and not have it.

## **12.4 Financial Management**

**Financial management** focuses on ratios, equity and debt. Financial managers are the people who will do research and based on the research, decide what sort of capital to obtain in order to fund the company's assets as well as maximizing the value of the firm for all the stakeholders. It also refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. The significance of this function is not seen in the 'Line' but also in the capacity of the 'Staff' in overall of a company. It has been defined differently by different experts in the field.

The term typically applies to an organization or company's financial strategy, while [personal finance](https://en.wikipedia.org/wiki/Personal_finance) or [financial life management](https://en.wikipedia.org/wiki/Financial_life_management) refers to an individual's management strategy. It includes how to raise the capital and how to allocate capital, i.e. capital budgeting. Not only for long term budgeting, but also how to allocate the short term resources like [current liabilities](https://en.wikipedia.org/wiki/Current_liabilities). It also deals with the dividend policies of the shareholders.

**Summary**

In this unit, we discussed management the four functions of management that allows a manager to develop and implement strategic action steps aimed at reaching an organizational goal. We also looked at planning and three major types of planning, which include **operational, tactical and strategic planning**.

**Activity**

|  |
| --- |
| Outline the types of planning and how they can be applied in a fast food business enterprise. |

 **UNIT 13**

**--------------------------------------------------------------------------------------------------------------------------------------**

**13.0 RISK MANAGEMENT**

**Introduction**

Congratulations! you are now in the final unit of this module. We shall discus the concept of risk management and uncertainty, sources of risk, and methods of reducing risk and uncertainty.

**Learning Outcomes**

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

* Define risk and uncertainty surrounding businesses
* Identify sources of risk and uncertainty
* Describe methods of reducing risk and uncertainty

 Time Frame; you are expected to spend approximately

* + 2 hours’ study time
	+ 2 hours in class

**13.1 Definition of risk and uncertainty**

According to the definition a risk is the possibility that an event will occur and adversely affect the achievement of an objective. Therefore, risk itself has the uncertainty.

Risk management is the process of identifying any potential threats that may occur during the investment process and doing anything possible to mitigate or eliminate those dangers.

Risk management is the identification, evaluation, and prioritization of [risks](https://en.wikipedia.org/wiki/Risk) (defined in [ISO 31000](https://en.wikipedia.org/wiki/ISO_31000) as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities. Risk management can help managers have a good control for their risk. Each company may have different internal control components, which leads to different outcomes.

**What Is Uncertainty**?

Uncertainty is a situation which involves imperfect or unknown information. It applies to predictions of future events, to physical measurements that are already made, or to the unknown. Uncertainty arises in partially observable and/or unpredictable environments, as well as due to ignorance, avoidance, or both. It arises in any number of fields, including insurance, philosophy, physics, statistics, economics, finance, psychology, sociology, engineering, metrology, meteorology, ecology and information.

Risk management to be effective should:

* create [value](https://en.wikipedia.org/wiki/Value_%28economics%29) ; resources expended to mitigate risk should be less than the consequence of inaction
* be an integral part of organizational processes
* be part of decision making process
* explicitly address uncertainty and assumptions
* be a systematic and structured process
* be based on the best available information
* be tailor able
* take human factors into account
* be transparent and inclusive
* be dynamic, iterative and responsive to change
* be capable of continual improvement and enhancement

be continually or periodically re-assessed

 There are different risks involved in entrepreneurship and some of them are:

* **Business Risk;** the risk regarding the choice of business venture in which to invest.
* **Operating Risk**; these are risks which come as a result of the operating activities of an enterprise such as raw materials, time management, human resources used, as well as type of management applied.
* **Financial Risk**; this is the risk associated with the extent to which the firm has been financed using borrowed money for investment.

In terms of risks, entrepreneurs can be grouped in three forms namely;

1. **The risk averse**; those who avoid risks
2. **The risk indifferent**; those who take up risks according to the expected return on the investment.
3. **The risk taker**; these are the ones who are prepared to take risks no matter what. The greater the risk the higher the return. Schumpeter says, ‘Remember, the higher the mountain, the better the view’
4. **Risk of failure**; entrepreneurs are also concerned about whether their businesses will succeed or not. This is a threat because even when the entrepreneur has worked very hard, business may still fail, meaning that the major causes of failure are external factors to the entrepreneur. They are forces exerting pressure on the business such as business cycles, interest rates, inflation, labour unrest and government regulations.
5. **Risk of losing all the capital one had invested**; research shows that about 24% of new firms fail in their first few years of doing business, while 51% fail within four years. Entrepreneurs whose business fail lose their investment and may even have to look for more funds to clear debts accumulated during the business’s short life span.

The following diagram summarises risk management elements;



**13.2 Sources of risk and uncertainty**

Risks can come from various sources including uncertainty in financial markets, threats from project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, [natural causes and disasters](https://en.wikipedia.org/wiki/Act_of_God), deliberate attack from an adversary, or events of uncertain or unpredictable [root-cause](https://en.wikipedia.org/wiki/Root_cause).

**13. 3 Methods of Reducing Risk and Uncertainty**.

If you've been in business for decades, you understand that circumstances change and unforeseeable events occur. While you can't read the future, you can make smart choices to prepare well for it. Not only will this provide you peace of mind, but you're more likely to respond quickly and effectively when trouble strikes.

**What Causes Uncertainty?**

As much as we desire control and predictability, uncertainty is a permanent fixture in business. While conditions may seem unfair at times, it's important to remember that most people are exposed to the same effects. A brief look at various facets of business shows that at least three uncontrollable factors can have a profound effect on your operations:

**Economic conditions**. If the recent recession taught us anything, it's that small mistakes compounded over time and across the nation can have drastic consequences. When an entire nation's economy hits a rough patch, this may require companies to cut back on resources, hiring, and expenditures. Have a plan in place.

**Illness**. Whether it's a flu bug traveling through the office or a more serious global issue like the Cholera outbreak, illness is something you can't plan for but it can [lead to serious consequences.](http://dallasforeclosurelawyers.com/ebola-cause-another-foreclosure-meltdown-us/)

**Shifts in consumer behaviour**. One reason many businesses eventually have to close up shop is that consumers demand change. A product that satisfies a need or addresses a pain point in the present may not do the same in six months, a year, or five years.

Several risk management [standards](https://en.wikipedia.org/wiki/Technical_standard) have been developed including the [Project Management Institute](https://en.wikipedia.org/wiki/Project_Management_Institute), the [National Institute of Standards and Technology](https://en.wikipedia.org/wiki/National_Institute_of_Standards_and_Technology), actuarial societies, and ISO standards.

Strategies to manage threats (uncertainties with negative consequences) typically include avoiding the threat, reducing the negative effect or probability of the threat, transferring all or part of the threat to another party, and even retaining some or all of the potential or actual consequences of a particular threat, and the opposites for opportunities (uncertain future states with benefits).

**Procedure of risk management**

For the most part, these methods consist of the following elements, performed, more or less, in the following order.

* Identify and characterize [threats](https://en.wikipedia.org/wiki/Threat)
* assess the [vulnerability](https://en.wikipedia.org/wiki/Vulnerability) of critical assets to specific threats
* determine the [risk](https://en.wikipedia.org/wiki/Risk) (i.e. the expected likelihood and consequences of specific types of attacks on specific assets)
* identify ways to reduce those risks
* prioritize risk reduction measures
* Preparing for Uncertainty: Practical Tips
* By nature, not all future events can be fully prepared for, but you can equip your company with the tools necessary to fend off potential threats by developing specific plans for certain situations. Here are some practical tips designed to help your company prepare for the unknown:
1. **Stay in the now**. It's easy to get caught up in your own little world or bubble, but that's an important trap to avoid. One of the best ways to combat financial uncertainty is to [stay abreast](http://articles.bplans.co.uk/writing-a-business-plan/planning-in-times-of-uncertainty/403) of economic indicators. By educating yourself on the general state of the economy, what decisions are being made at the national level, and how economic forecasts might affect your industry, you can put yourself a step ahead of others.
2. **Prepare for multiple outcomes**. It's wise to stop assuming the most likely outcome will turn up at the conclusion of every situation. A successful company [prepares for multiple outcomes](http://www.fastcompany.com/1824457/6-strategies-dealing-uncertainty-business) regardless of what's expected. Foresight enables you to respond effectively in all circumstances. The best way to prepare is to include all departments and employees in the planning process. You'll get fresh, unique perspectives that are more likely to result in critical and innovative thinking.
3. **Consistently review**. A forward-thinking company understands the value of analysis. Are you consistently reviewing your business plan to ensure it is current? This is a particularly helpful way to combat changes in consumer demands. If your business plan is still addressing the needs of customers as they were five years ago, the odds are it's out of date and in danger of extinction.
4. **Build relationships**. In times of real trouble, is a computer going to help you regain solid footing? It's possible, but unlikely. What you really need is support from peers and partners. The best investment you can make for future stability is relationship building. Whether it's tough times in a struggling economy, a lack of resources, or changes in demand, healthy business relationships can help you weather the rough patches.

.

Activity

|  |
| --- |
| 1. Define risk and uncertainty
2. Outline the sources of risks and uncertainties surrounding businesses
3. Discuss the available support systems which an entrepreneur can put in place by to enhance risk management.
 |

**Summary**

Well done! Finally, you have reached the end of this module. In this final unit we looked at risk and uncertainty and how it affects businesses. You've heard it being said many times: the only certainty in life is change. This is particularly true in business, where unpredictably has been at an all-time high in the past decade. Therefore, as an entrepreneur one must be ready to face risk and uncertainties that may arise during the course of their business life.

# **REFERENCES**

Adcock D., Halborg A., Ross C. (2001) Marketing Principles and Practice 4th Ed. Harlow: Pearson Education Limited.

Calvin R. J. (2002) Entrepreneurial Management. McGraw-Hill

Druker F. P. (2006) The Practice of Management. Newyork: Harper &Row Publishers

Golden, C. (2014) Human Capital, Handbook of Cho Metrics, Harvard University

Gygrave, W. D. (2004) The entrepreneurship Process. In W.D. Bygrave and A. Zacharakis (Eds). Theory and Practice, 23(3), 29-46

Murombedzi C. J., Mugwangwa A. &Chivandikwa J. N (2015). Marketing Management. Harare: The Zimbabwe Open University

Nuwagaba Alfred (2015) Enterprises (SMEs) in Zambia. International Jounal of Economics, Finance and Management. 2011-2015 vol 4. No.4 September 2015[ http//www.ejournalofscience.org]

Scarborough N. M. (2014) Essentials of Entrepreneurship and Small Business Management. 7th ed. Harlow England

Wills C., Kamweneshe B., &Sibongile M. (2016) Entrepreneurship; Owning your Future. Lusaka: Marvel Publishers

Wilson N. & Stokes D. (2017) Small Business Management and Entrepreneurship 7th Canada: CENCAGE Learning