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ENTREPRENEURSHIP AND COMMUNICATION

STUDY TEXT

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Table of Contents

- **ACKNOWLEDGMENT** iii
- **TABLE OF CONTENTS** v

- **CHAPTER ONE** 1
 - INTRODUCTION 3

- **CHAPTER TWO** 19
 - BUSINESS OPPORTUNITIES 21

- **CHAPTER THREE** 39
 - ENTERPRISE DEVELOPMENT AND AWARENESS 40

- **CHAPTER FOUR** 69
 - BUSINESS PLAN DEVELOPMENT 71

- **PART B**

- **CHAPTER FIVE** 97
 - EMERGING TRENDS IN ENTREPRENEURSHIP 99

- **CHAPTER SIX** 123
 - COMMUNICATION SKILLS 125

- **CHAPTER SEVEN** 143
 - BUSINESS COMMUNICATION 145

- **CHAPTER EIGHT** 177
 - IT IN BUSINESS COMMUNICATION 179
- **ANSWERS** 199
- **REFERENCES** 235
- **GLOSSARY OF TERMS** 239
- **INDEX** 249

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CHAPTER ONE



STUDY X

INTRODUCTION

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CHAPTER ONE

INTRODUCTION

► OBJECTIVES

- By the end of this chapter, a student is expected to;
- Understand the concept of entrepreneurship and its role in the economy
- Appreciate the aspect of self employment as a means of earning a living
- Understand the various types of entrepreneurs that exist in various industries
- Acquire a deeper understanding of what it takes to be a n entrepreneur and the challenges to expect

► INTRODUCTION

Entrepreneurship is a term that is used in many business disciplines. It essentially has the money making connotation as commonly understood by many. However, entrepreneurship is much more than that. It entails coming up with an idea that no one else has thought of and capitalizing on it to set up an enterprise. The chapter gives a broad description of the various forms of entrepreneurship and even the challenges the entrepreneur will go through in an attempt to make his dream come true.

► KEY TERMS DEFINED

- **Entrepreneur:** Someone who devises a new production methodology and producing output (goods or service) based on the new concept
- **Entrepreneurship:** The process of coming up with new processes or ways of achieving some set objectives. It is the process of devising a new process that will make production more efficient.
- **Self employment:** This is a concept that arises when the entrepreneur relies on revenues from his business as a source of income

► EXAM CONTEXT

A question from this chapter has not yet been tested under the new KASNEB syllabus

► INDUSTRY CONTEXT

There are many young people fresh from colleges or simply with a business mind but lacking the practical experience of running a business. The basic concepts from this chapter will provide the required information and prepare one for the challenges that lie ahead.

1.1 INTRODUCTION TO ENTREPRENEURSHIP AND COMMUNICATION

Fast forward: There is a strong link between entrepreneurship as a concept and communication as a management tool that an entrepreneurship will find indispensable

1.1.1 The concept of entrepreneurship

Any given economy needs both the government and the private sector to grow. The needs of the country cannot be feasibly catered for by the state on its own. Individuals also need to establish themselves as key components in any healthy economy. The role of the individual is what we are going to look at in the following sections.

■ Definition of Entrepreneurship

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

Who is an entrepreneur?

An entrepreneur is someone who devises a new way of looking at things and producing output out of the new concept. Given an existing technology or some kind of invention, the entrepreneur will come up with a process that will utilize the available tools and technologies to produce a good or a service that will add value to the economy and benefit both him and the society. He is one who will take the risk of the success or failure of the new venture and will also stand in to reap the rewards.

An entrepreneur takes the chance that the new idea will work and he directs all his resources towards making the process a success. The fear of failing always looms but driven by ambition and the desire to succeed, the entrepreneur sees his project to completion.

1.1.2 The concept of communication

Communication is the process of exchanging ideas amongst two or more persons. Communication achieves its objective when the parties involved understand each other.

Communication can also be defined as giving, receiving or exchanging information, opinions or ideas by writing, speech or visual means, so that the material communicated is completely understood by everyone concerned.

Communication is the process by which information is passed between individuals by means of previously agreed symbols.



What is effective communication?

Effective Communication is simply the transmission of a message to another person in such a way that the recipient interprets it exactly as the sender intends and receives at the right time. This involves:

- Correct timing
- Logical thinking
- Fluent expression
- Carefully reading and listening
- Sensitivity to the circumstances
- Choice of appropriate media, tone and style
- Obtaining feedback to check the message has been understood

Information may be the main focus of the communication. The communicator may want:

- To initiate some action
- To make his needs understood
- To share ideas, attitudes and beliefs perhaps persuading others to embrace them
- To establish and maintain links with other people, possibly to entertain them

Communication will be looked at in details in further sections of this book

1.1.3 Relationship between entrepreneurship and communication

Communication is a process in which information is shared and exchanged. It is a two-way interaction in which the entrepreneur, and whoever is being interacted with, is active participants in the attempt to solve a problem through the use of language as the proper channel of communication

In any business enterprise, the entrepreneur will need to be confident and develop a level of expertise in the skills of speaking, listening, and at times writing to customers workmates and supervisors. The entrepreneur also needs to be good in numbers such that he/she can prepare his financial statements and present them in a legible manner. He/she may also need to devise graphs and charts, using graphic illustrations to explain information. This might involve using computer-based and telecommunication equipment such as PCs, photocopiers, scanners, telephone systems, faxing equipment, etc. The entrepreneur will thus need to arm him/herself with the skills to use these tools to communicate with all the stake holders in his business.

In his/her venture the entrepreneur is likely to have employees working under him/her, as well as members working in other departments of the business. When conflicts arise, they need to be solved through conscious and effective communication. Meetings are a normal feature of the workplace, and these are accomplished through communication.

1.2 SELF EMPLOYMENT

Fast forward: The entrepreneur can make a living from applying his hard earned skills in his business. The business, if run well can enable him meet his personal needs

Self employment is a concept that has arisen as a result of entrepreneurship. The process of entrepreneurship eventually brings self employment to the fore. The entrepreneur becomes self employed when he begins to derive his livelihood from his business venture. Given that the entrepreneur bears all the risks associated with the business, then it comes as given that he has the right to enjoy all the benefits that ensue from his business venture. This success can be trickled down, not just to himself, but also to the business and others who are job seekers. In this way, not only does the entrepreneur become a self employed person, he also does something positive for the community by employing others.

An entrepreneur can make huge gains if his business is a success. At the same time, should the business experience difficulties, financial or otherwise, then the entrepreneur stands to lose a lot of his investments. This may even lead to bankruptcy.

An entrepreneur may mitigate against the risk of failure in any of the following ways.

1. Insuring his business against losses. Losses can be in the following forms
 - Burglary
 - Fire
2. Co – owning the business with a partner. This option will dilute the ownership therefore it is a step that should be taken with a lot of caution.
3. Investing in extra security in the event that the business deals in valuable products.
4. Securing the services of a risk assessment expert. This is a preventive measure and will highlight the areas of risk in the business that the entrepreneur needs to be aware of hence make vital decisions.

The entrepreneur puts himself in a safe position both for his business and himself if he does any one of the above. The list is not exhaustive; the entrepreneur can device other risk mitigating measures that are appropriate for his kind of business.

On the other hand the business venture can be a huge success if well managed. The entrepreneur can derive his livelihood from the profits of his venture. This becomes a success story especially in the current economy where many young people are losing out in the job industry even with the relevant qualifications. Self employment is so important in an economy that is still struggling to stabilize itself in a world economy that doesn't take into account the plight of many young men with the skills required to work fruitfully in any given economy.

It is important to point out that the entrepreneur needs to be prudent when appropriating the rewards of his investments, for instance some of the profits should be ploughed back into the business. This basically means that the entrepreneur needs to re-invest some of the rewards that come to the business in form of profits



The business needs to grow and capture many opportunities in its industry. Through proper planning and due diligence, the entrepreneur can devise several ways through which he can plough back his interests in an attempt to multiply future rewards. Some of the ways of re-investing among others are:

1. Opening up new branches in other locations
2. Implementing a new product design
3. Hiring professionals to manage various aspects of the venture
4. Investing in office automation processes

Opening up new branches in other locations

Depending on the location of the current set up, the entrepreneur can decide to open new outlets for his products in other regions where he has assessed sales will be high. This move also creates jobs for other people and in this way, the entrepreneur also thinks about the society his business serves.

Implementing new designs

This should come in when the entrepreneur is sure sees that his first project is doing well and there is room for more. With the resources generated from the first project, the entrepreneur can then start working on a new brand or improve the current brand. In this way he doesn't sit back and let the business thrive on the success of the first project only.

Hiring of professionals

With growth of business, the operations also become rather complex in nature. A business that is constantly growing and re-investing its interests needs to ensure that the sensitive aspects of the venture such as finance and customer needs are well managed. The entrepreneur could therefore, think of employing the services of qualified professionals to help him run the business. Here, he could hire accountants, IT specialists, a sales and marketing team et cetera.

Investing in Office Automation processes.

Addition of more capital is a sure way of expanding more so if the capital will lead to efficient ways of doing business. In the growing world of business, it has become as a necessity that a business arm itself with an ICT strategy that works. The entrepreneur can thus direct some of his expansion efforts in this area so as to keep up with the competitors.



1.3 TYPES OF ENTREPRENEURS

Fast forward: The entrepreneur, regardless of type will need to develop certain fundamental traits that will see him through the tough times that all businesses go through

There are several categories in which entrepreneurs can be classified:

1. **Adviser:** Some entrepreneurs perform an advisory role and are paid for giving such advice. This is similar to the role played by lawyers, accountants, and financial advisers.

2. **Administrator/Organizer:** These are entrepreneurs who get involved in organizing events for their clients. A fee is charged per event or based on the attendance of the event. An example is a wedding organizer whose main business is coordinating the various activities that go towards making a successful ceremony.
3. **Builders/Creators:** Artists, bakers, carpenters, and designers are examples of entrepreneurs driven to create something tangible where it did not exist before.
4. **Caretaker:** These are people entrusted to care for someone or a piece of property on behalf of the principal.
5. **Communicator/Trainer:** These are people who can transmit information or communicate in different languages. They find demand in sales, marketing, writing, training or a variety of information services.
6. **Entertainer/Host:** These are people who thrive on being with other people. They find entrepreneurial openings in the hospitality industry or service industries such as hairdressing. They may even be entertainers, actors, musicians, or singers. An example is a talk show personality in a T.V program.
7. **Investor/Owner:** If one has money to invest he/she can put the capital to work for him/her by investing in stocks, real estate or businesses.
8. **Seller:** This covers salespeople and brokers, from real estate to insurance to art. An example is a music promoter.
9. **Technologist/Engineer:** These are people who have a talent in technical disciplines such as computers, autos and engines. As an entrepreneur, one may want to explore entrepreneurial opportunities areas such as software development, engineering or technology.

1.3.1 Traits of a Good entrepreneur

There are important traits that if an entrepreneur has and strives to acquire, will make him more successful in his business. These can be grouped into three categories;

- Personal traits
- Technical traits
- Business Management traits

■ Personal Traits

Being open minded. Listen to Others

Trying new things whether it be a marketing strategy, a new business system, a piece of software or a new product/ service, can be good for the growth of the business. The entrepreneur should create a working atmosphere that nurtures and appreciates new ideas. If the staff feel as though their ideas are listened to, considered and possibly even implemented, the more likely the entrepreneur is to have some great ideas being generated!

Learning from mistakes

The entrepreneur should make a concerted effort to learn from his mistakes. He should assess why his ideas didn't work or why he lost a particular customer etc. Once he has made the mistake and is aware of the reason behind the failure, he should use it to his advantage and try a different strategy or modify the initial idea.



Perseverance

The entrepreneur should understand that great businesses take time to establish. He should persevere even if it appears that he is not making headways. He should persevere till he starts breaking even at least. This perseverance also translates into other aspects of business as well, whether it is a new marketing idea or a potential client or business lead.

Other personal attributes that will go towards making a good entrepreneur include;

- Being disciplined
- Being a risk taker
- Being persistent
- Being a visionary

■ Technical Traits

Being Professional

This entails addressing the name of people in all business correspondences, keeping a business mindset when meeting with clients or talking to them over the phone. Clients don't need to hear the intricate details of the entrepreneur's personal life. Being professional also means checking emails for spelling errors, following-up on enquiries, being punctual when meeting with clients, responding to telephone calls promptly, sending out quotes on a timely basis. But by far the most important factor about being professional is being **consistently** professional.

Create systems and adapt them as necessary

As the company grows, it may become more difficult to manage and keep track of things. A useful way to deal with this problem is to create systems within the business for any specific task that requires multiple steps or procedures. This will help to create a smooth workflow and allow the entrepreneur to keep track of things a little easier. A web designer, for example, might create a checklist for new websites.

Other qualities that are important under this category include;

- Being a team player
- Network building
- Possessing good communication skills

■ Business Management traits:

Common Courtesy.

There is nothing more frustrating than when businesses advertise in community flyers or on signboards and then never answer their phone calls (or return them) and don't bother to respond to emails. Clients should be able to at least contact the business via email and a land line number. The entrepreneur should return calls as soon as possible. If he will not be in the office, to check email for most of the day, he should set an auto-responder that lets people know when he will be checking his email and possibly include his cell phone number as well.

Get an Email address, Email Signature and Website

There is simply no excuse not to have an email address! The entrepreneur can get free email addresses from *gmail*, *Webmail* and *Yahoo*. Although an email address that reflects his business domain name looks a lot more professional, any email address will do if you he is just starting out. If he doesn't have an email address it can seriously affect the way that people perceive him as a business person, some people just won't take him seriously.

Planning and Research

The entrepreneur should do a thorough ground work before embarking on his venture. He should ensure he has done sufficient research and that this becomes a continuous process. Poorly planned businesses collapse before starting and lack of proper research kills the growth of the firm. Frequent consultations with other businessmen also help in generating ideas.

Protecting the Business

The entrepreneur should insure his equipment and computers as well as anything else that could be detrimental to his business if it were stolen, destroyed or lost. He should keep his warrantee slips on any new office purchases and make sure he does data back-ups regularly – to an external hard drive or a remote server. He should get trademarks and copyrights to protect any business ideas or concepts that are uniquely his.

Marketing the business wisely

Although many businesses rely on word of mouth advertising, it is still a good idea to merge this with an actual marketing plan. If the entrepreneur's budget allows, he should consult a professional marketing firm or start off with the basics and try to get his business as much exposure as possible through various platforms such as; a website, e-newsletter, business cards, a company brochure, vehicle branding and possibly an advert in an industry magazine.

1.3.2 Challenges of Entrepreneurship.

The challenges that entrepreneurs face may be looked at from five categories;

■ a) External Factors

Some events in the economy of a country may well be beyond the control of the entrepreneur. The cycles could adversely affect his business, to the extent of forcing him to close down. The economic cycles of recession, Boom, Depression and recovery may find the business in any stage of its own cycle. Other external factors include;

- Fluctuating interest rates
- Interruptions in supplies
- Labor market trends
- Government regulations e.g. tax laws
- Natural catastrophes



■ b) Personal factors

An entrepreneur goes through a lot of hurdles to get the business going. The going may be tough such that he may even be tempted to close the business. There are a number of risks associated with being an entrepreneur;

Financial risk

The entrepreneur may place his entire savings into the venture with the firm belief that he will earn something in return. If this does not happen, he risks losing a lot of money.

Career risk

He may have chosen to give up employment to pursue his business. He may not have a fall back plan if the business collapses, hence loss of career

Psychic risk

The entrepreneur may have to give up his social life for a while till the business stabilizes. This may adversely affect family and relations.

The collapse of the business could lead to psychological problems such as depression and/or low self esteem. The risk here is the probability of failure in the mind of the entrepreneur.

■ c) Lack of skills and experience

A business may start off well as a result of a favorable economic climate and availability of funds. An entrepreneur may well have identified a very good business opportunity and capitalize on it to generate lots of revenue. However, if the entrepreneur does not have sufficient skills to see the business through this success in a consistent manner, he stands to lead the business towards incurring losses and not meeting its obligations on time. It is advisable that the entrepreneur enrolls for courses that will sharpen his skills and help him manage the business better

■ d) Mismanagement

The entrepreneur will often employ people to assist him manage the operations of the firm. However, if these people are not trustworthy, he stands to lose a lot of money through embezzlement or pilferage of stocks. The entrepreneur himself could also be the main culprit when he draws a lot of the business resources for personal use.

■ e) Poor Business Ethics

The lack of proper business grooming could lead to unfair business practices by the entrepreneur. This comes out of practice and peer pressure. The entrepreneur could find himself in conflict with the law and may get sued by his business associates. The risk here is the loss of business reputation and the possible closure of the business under directive from the relevant government authorities.

1.4 ENTREPRENEURS' CONTRIBUTION TO ECONOMIC DEVELOPMENT

Fast forward: As a member of the community in which the business operates, the entrepreneur has certain obligations. He needs to play an active role in society

Entrepreneurs play a vital role in today's economy. This is notwithstanding the hurdles mentioned in the previous section. Most of them get through the tough times and their businesses become success stories. The success or failure of a growing business depends largely on the entrepreneur himself. However, there are factors that may be beyond his control, but if he can get around these, one way or the other, he only has himself to convince that the business can actually develop.

The economy can support the entrepreneur's venture depending on the various cycles, and the stage of growth the business happens to be in any one of these cycles. It would be the entrepreneur's hope that the period of boom finds his business just picking up so that he can be taken by the wave of growth and prosperity that will be represented by most commercial activities during these times.

As the economy grows, the business grows with it. If the economy shrinks, this will have an impact as well on the business. It is suffice to say that the growth of the business depends to a large extent on the state of the economy. In both situations, whether the business is growing or not, the entrepreneur will need to identify ways the business can contribute to the economy which supports him. This may not be his main objective, since he is in the business to make a profit. Any other requirements that do not lead to this may not be in his priority list. However, the entrepreneur's business will find itself dealing with people and other institutions. The basic role of entrepreneurs in an economy is described below;

■ Offering employment opportunities

The entrepreneur becomes a job creator if his business is growing and at the same time hiring personnel to assist in the management and running of the firm. The entrepreneur will eventually discover that he cannot run the business on his own. He will need to get assistance from other people. He will create posts that become relevant as the business grows. Other posts may not be relevant during the early stages of the business' growth. The entrepreneur needs to be careful not to overstaff his firm as he may get into difficulties when it comes to paying their salaries and wages.



■ Paying Taxes

The entrepreneur's firm whether registered as a company or not still has a legal requirement to pay its taxes and to furnish the tax authority with the relevant paper work. The entrepreneur running a sole business will need to submit all his income in a given fiscal year and the business income from his firm forms part of this. An entrepreneur running a public limited company has the responsibility of ensuring corporate taxes are paid each year and in compliance with the Companies Act and any other legislation. Other taxes that the entrepreneur should furnish the tax authorities are taxes on the sales of good to the final consumer, personal taxes on his employees and any other penalties associated with these taxes. The various forms of taxes are a source of revenue for the government

■ Social responsibility

The entrepreneur should realize that his business will go a long way in getting public approval if it is seen to be doing something positive for the local community. Regular contributions to community projects will put the business in the good books of the community. This should be clearly highlighted in the company's policy. The good will of the business stands to improve and this ensures support not only from regular customers but also the local authorities.

■ Formation of cartels

Cartels are formed by firms with the same business objectives. Theirs is to establish favorable trade terms with suppliers so that when the goods reach the final consumer, sufficient margins have been made. This helps the many small individual firms that perhaps could not have had the same bargaining power as they do when in a cartel. In a way it fortifies the relationships between the various businesses and contributes towards healthy competition. The smaller firms eventually grow and play important roles in the economy as well.

CHAPTER SUMMARY

There is a strong relationship between entrepreneurship and communication; one complements the other in a business environment. The entrepreneur needs communication facilities to facilitate his business operations.

An entrepreneur becomes self employed when he derives a substantial proportion of his livelihood from his business earnings. This makes it possible for him to meet his personal financial obligations from the rewards of his firm.

As a businessman, the entrepreneur needs to exhibit some traits that will go a long way in helping him build his empire successfully. He needs to be professional in his dealings with customers, persevering as the firm grows, be a good planner e.t.c

There are many challenges both internal and external that an entrepreneur will need to overcome for his business to grow.

Entrepreneurs play a major role in the economy. They contribute both in large and small scale to the growth of industries in the country and should therefore not be ignored by the government.

CHAPTER QUIZ

1.
 - Define Entrepreneurship
 - Define communication
 - Describe the relationship between entrepreneurship and communication
2. What attributes should an entrepreneur possess for him to run a successful business enterprise? Lists at least 5 attributes and discuss them
3. Explain some of the challenges that face an entrepreneur in his quest to establish a successful business.
4. Examine three ways through which the economy benefits from the growth of small businesses



ANSWERS TO QUIZ

1. Entrepreneurship is the process of coming up with new processes or ways of achieving some set objectives. It is the process of devising a new process that will make production more efficient.

Communication is the process of exchanging ideas amongst two or more persons. It is the process of giving, receiving or exchanging information, opinions or ideas by writing, speech or visual means, so that the material communicated is completely understood by everyone concerned.

Communication acts as a tool for the entrepreneur to advance the goals of the business. The entrepreneur will need communication tools to pass on his ideas to the people he works with and to his business associates.

- 2.
- Return Calls and Emails promptly.
 - He should be Professional in his dealings
 - He should have a knack for Planning and Research
 - He should be open minded, ready to listen to Others
 - Persevering

3.
These can either be external or internal

External – These are factors beyond the control of the entrepreneur. Examples include;

- Fluctuating interest rates
- Labor regulations against the business
- Supply interruptions

Internal – These are personal to the entrepreneur and within his control. Examples include

- Psychological fatigue – stress
- Lack of skills and competence in the field
- Mismanagement

- 4.
- Employment opportunities
 - Revenue to the Government
 - Social Responsibility
 - Formation of Cartels

EXAM QUESTIONS**QUESTION ONE**

- (a) Who is an entrepreneur? (2 Marks)
- (b) In what ways can an entrepreneur achieve his objective of being self employed? (10 Marks)
- (c) What traits should an entrepreneur possess to make it in his business? (8 Marks)

QUESTION TWO

- (a) What are the challenges inherent in running a business? (12Marks)
- (b) How can an entrepreneur contribute to the social welfare of the community in which his business operates? (8 Marks)



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CHAPTER TWO



STUDY X

BUSINESS OPPORTUNITIES

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CHAPTER TWO

BUSINESS OPPORTUNITIES

► OBJECTIVES

- By the end of this chapter, a student is expected to;
- Attain comprehensive knowledge of what a business opportunity is
- Enhance assessment skills in identifying a business opportunity
- Understand the advantages and disadvantages of business opportunities

► INTRODUCTION

A business opportunity is an outlet through which the entrepreneur expresses his new found knowledge or skill. It's a chance that an entrepreneurs utilizes after a thorough research through which he can manifest his ideas. There are many types of business opportunities that range from simple straightforward ventures to very complex setups. There are advantages and disadvantages that come along with any kind of business opportunity. An entrepreneur needs to know how to identify a viable business opportunity if he sees one. This knowledge is crucial to the future of his business. An entrepreneur needs avenues where he can link up with relevant stakeholders in the industry he has chosen. This can be achieved through Networking

► KEY TERMS DEFINED

- **Business Opportunity** – A viable business potential to create something new, i.e. a product or a service establish new markets by engaging new technologies
- **Franchise** – A business arrangement where the inventor (franchisor) develops a plan for the provision of a product or service and another, the franchisee uses the plan to avail the product or service.

► EXAM CONTEXT

This area has not yet been examined under the new KASNEB syllabus

► INDUSTRY CONTEXT

There a growing need for business entrepreneurs to be aware of the opportunities that exist in the market. This helps in the identification of viable opportunities that are in line with their abilities. A trade that does not conform to the entrepreneur's abilities would lead to an unnecessary wastage of resources.

2.1 THE CONCEPT OF BUSINESS OPPORTUNITY

Fast forward: The choice of a business opportunity should be based on the entrepreneur's skills, interests and talents

A business opportunity is a viable business potential to create something new by engaging new technologies in the industry. Entrepreneurship is a thought process. Once the entrepreneur has established in his mind what direction he wants to take for his venture, he will necessarily need to identify a specific gap that has not previously been tapped in the industry he has chosen. This requires that the entrepreneur brainstorms on the areas he is best suited. This does not disregard the fact that what he may be good at is not available for him to capitalize on at that particular moment. In this case, he will therefore consider also what is out there and can be used. Remember we mentioned earlier that entrepreneurship entails coming up with a new process that has not previously been devised, that will enable the production of goods and services in a manner that adds value to all concerned, and not just the entrepreneur himself.

A **business opportunity**, also involves the sale or lease of any product, service, equipment, etc. that will enable the purchaser-licensee to begin a business. This involves no effort on the part of the buyer to come up with a new idea, product or process. The inventor here is the licensor/seller. The seller of a business opportunity declares that he will assist the buyer in finding a suitable location or provide the product to the purchaser-licensee. This is different from the sale of an independent business, in which there is no continued relationship required by the seller

From the above, we can define a business opportunity as a gap that is available in the current economic set up, for the entrepreneur to utilize in an attempt to execute an idea borne out of extensive brainstorming and after a lot of thought.

2.1.1 Entrepreneurial Process

A business opportunity thus requires that the entrepreneur follows the following process;

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

1. Identification of strengths

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



One major disappointment that befalls many entrepreneurs is the realization that an idea that once promised so much reward and fulfillment doesn't bear the results that were expected. This happens because the entrepreneur did not look deep into his abilities before going forth with his plan.

A strength can be a talent that has been in a person since earlier days and has always manifested itself over time even in very subtle ways. One needs to identify these traits and look at their business aspects.

2. Assess his Surrounding

Once the entrepreneur has assessed his abilities, he needs to look back at what is surrounding him. This entails learning the economic trends of his surrounding and trying to project the outcome of certain events.

The entrepreneur needs to study the economy very well. This is important since the result of his study will act as a personal benchmark for him to know how far he can go in an attempt to bring in something new. The study of the economy can be achieved by reading journals and articles written by experts, studying current economic events both in his country and the world at large. For a comprehensive analysis, the entrepreneur will need to go far back, maybe five years. This of course, will depend on the nature of the economy and the growth rate. Certain events may have short term implications and some may have long term implications, so the entrepreneur needs to look at all these in perspective.

The entrepreneur will need to relate the various economic events to each other and identify a connection, if any. The world economic climate has an effect on the local economy and this will need to be studied in detail by the entrepreneur.

As part of his surrounding, the current political and social situation will also impact on the identification of a business opportunity. These form the foundation of a stable society that will support his business in future.

The entrepreneur should also assess his potential competitors. This involves analyzing the latest technologies that are in use in most businesses that he may find lucrative to engage in. He also needs to find out the availability of supplies for his business and whether these are likely to be reliable and if not, what other options exist.

3. Identification of Gaps

The result of the study above will give the entrepreneur sufficient material to identify loopholes that need to be filled. This will happen as a result of serious study and analysis. What the entrepreneur needs to ask himself is 'What role can I play to fill these loopholes?'

Once he has a solution to this basic question, the entrepreneur is well on his way to coming up with a brilliant idea. Many renowned entrepreneurs such as Steve Wozniak of Apple Inc., who made computers suited for ordinary people, identified the need for the ordinary man to be computer literate. This of course among other outcomes made many people become more efficient and productive in their work places.

4. Selection of Gaps to be filled

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

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

5. Identification of Risks and Constraints

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

6. Lay out an execution Plan

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

2.1.2 Types of Business Opportunity/ Ventures

Contrary to popular opinion, business opportunities are abundant in all kinds of economies; you just have to know where to look for it. And sometimes, you should consider creating business opportunities instead of waiting for them to come knocking at your door.

There are various types of Business Opportunity ventures:

There are all sorts of business opportunities to explore which are already present in the market, but not all of them will make a perfect match for an entrepreneur. Careful choice of an opportunity is important. Taking advantage of the wrong business opportunity can only cause the entrepreneur more financial burden

Self - Discovery

This entails creating a product for an unsatisfied need – There are a lot of unsatisfied needs in all types of markets and although taking advantage of these business opportunities promises a lot of rewards, the entrepreneur should keep in mind that they also represent greater risk. Also, he should be sure that the product or service satisfies needs and not wants because the former is for keeps while the latter simply come and go.

Re - invention

If the entrepreneur notices a particular product or service that is obviously unable to fully satisfy its target market, that situation can be immediately transformed into a business opportunity if he has an idea on how to improve it, that is. These business opportunities represent lower risks and consequently lower rewards as well compared to those associated with creating a completely new product.



Use an Existing Product for an Untapped Market – Sometimes, business opportunities are discovered not by creativity but rather because of resourcefulness. These business opportunities definitely exist, but the process of discovering them is almost akin to creating a new product to satisfy an unwanted need. The rewards, however, are just as great. One good example for this is how a Philippine company was able to make use of coconut husks – which was once the least useful of all parts of the coconut tree – by grinding and turning them into a concrete mixing compound. It soon became not only a more affordable alternative but a more environmentally friendly one as well!

Joint Venture

As they always say, two brains work better than one. And in the world of business, there are twice as many business opportunities available just as long as the entrepreneur opens his mind with others of like thinking.

Distributorship.

This refers to an independent agent that has entered into an agreement to offer and sell the product of another but is not entitled to use the manufacturer's trade name as part of its trade name. Depending on the agreement, the distributor may be limited to selling only that company's goods or it may have the freedom to market several different product lines or services from various firms

Rack jobber.

This involves the selling of another company's products through a distribution system of racks in a variety of stores that are serviced by the rack jobber. Typically, the agent or buyer enters into an agreement with the parent company to market their goods to various stores by means of strategically located store racks. The parent company obtains a number of locations in which the racks are placed on a consignment basis. It's up to the agent to maintain the inventory, move the merchandise around to attract the customer, and do the bookkeeping. The agent presents the store manager with a copy of the inventory control sheet which indicates how much merchandise was sold, and then the distributor is paid by the store or location which has the rack-less the store's commission.

Vending machine routes.

This is very similar to rack jobbing. The investment is usually greater for this type of business opportunity venture since the entrepreneur must buy the machines as well as the merchandise being vended, but here the situation is reversed in terms of the pay procedure. The vending machine operator must pay the location owner a percentage based on sales. The big secret to any route deal is to get locations in high-foot-traffic areas, and of course, as close to one another as possible. If the locations are spread far apart, you waste time and traveling expenses servicing them.

In addition to the types of business opportunities listed above, there are four other categories we should be aware of:

Dealer.

This is quite similar to a distributor but while a distributor may sell to a number of dealers, a dealer will usually sell only to a retailer or the consumer.

Trademark/product licenses.

Under this type of arrangement, the licensee obtains the right to use the seller's trade name as well as specific methods, equipment, technology or products. Use of the trade name is purely optional.

Network marketing.

This is a generic term that covers the realm of direct sales and multilevel marketing. As a network marketing agent, the entrepreneur will sell products through his own network of friends, neighbors, co-workers and so on. In some instances, he may gain additional commissions by recruiting other agents.

Cooperatives.

This business is similar to a licensee arrangement in which an existing business, such as a hotel or hardware store, can affiliate with a larger network of similar businesses, often for the sole purpose of advertising and promoting through a common identity.

2.1.3 Franchise Vs Business Opportunity ventures

A franchise is a venture where a sponsor identifies someone with an idea or a proposal and decides to fund his project and give it the financial boost it needs to start off. This takes the headache away from the sponsor as he is working with a venture that has already been thought of, such that his main role is fund provision and following up on the progress being made. The person sponsoring the franchise is called the franchisor and the one being sponsored is called the franchisee. The franchisor and franchisee could even be separate entities.

As a rule of thumb, apart from financial support, a franchisee receives more support from the parent company; he gets to use the trademark name, and is more stringently controlled by the franchisor. Business opportunity ventures, on the other hand, don't receive as much support from the parent company, generally aren't offered the use of a trademarked name, and are independent of the parent company's operational guidelines.

As we've previously noted, there are numerous forms of business opportunity ventures. Some are even turnkey operations similar to a lot of package-format franchises. These business opportunities provide everything one could possibly need to start a business. They help the entrepreneur select a location, they provide training, they offer support for the licensee's marketing efforts, and they supply a complete start-up inventory.

Unlike a package-format franchise, however, these types of business opportunity ventures aren't trademarked outlets for the parent company. The company's name, logo and how it's legally operated are left solely to the licensee. Many times the only binding requirement between the seller and the buyer is that inventory be purchased solely through the parent company. Of course, all these stipulations are outlined in the disclosure statement and contract.



Buying a Franchise

A potential investor could simply buy off a company that he sees has potential for growth instead of opening a new one to rival it. This takes away from him the headache of establishing a new business opportunity all together. He only needs to have a good bargaining power to establish himself as a potential buyer. He may have the funds to see the business through but lacking in ideas. In this case the idea of acquiring the franchise makes up for the lack of innovation that may be crippling him



2.2 HOW TO IDENTIFY A VIABLE BUSINESS OPPORTUNITY

Fast forward: Due diligence should be followed by the entrepreneur before settling down on an opportunity that will form the foundation of his future business.

In the preceding section, we outlined numerous things an entrepreneur should do to ensure that he/she chooses a venture that will be appropriate for him/her personally, and will represent a sound investment. It's quite important to cover all bases before signing a contract with the seller. The following are some strategies entrepreneurs should use to protect themselves from making wrong decisions on business opportunity ventures.

2.2.1 Guidelines for choosing a good business Opportunity

First is to make sure the business opportunity of choice complies with all business opportunity statutes. These vary from state to state. Next is to find out if the business opportunity of interest is open to buyers.

When choosing a business opportunity, an entrepreneur should keep in mind that if he buys an opportunity from a company with a sizable number of outlets that's been in business for at least three years, he'll pay more for this established concept than he would for a newer one. If he is considering a more recently established business opportunity, he should check out the parent company's history to evaluate its success and longevity in its particular field of operation.

An entrepreneur could evaluate the 'right' business opportunity using the following guidelines. These guidelines cover situations where the business opportunity is the entrepreneur's own idea and where it is an idea from a parent company under a franchise/ franchisee arrangement.

1. Making an honest evaluation of one's self and abilities.

Here, the entrepreneur will assess his areas of interests and make a decision as to what exactly he would want to do with his talents. What drives him to want to go into business is something he will want to examine more keenly and make the first decision.

2. Running the business enthusiastically.

If the entrepreneur is introducing something new into the market that is unknown to the general public, he should muster all his efforts to enthusiastically convince his potential customers of the need for the product or service he is bringing into the market. He should be able to generate excitement for the item through advertisement or other means.

3. Having complete knowledge of the product or service

The entrepreneur should carry out a thorough research into the product or service he wishes to introduce. This will enable him convince his customers and potential investors. If the arrangement is a franchise, he should consider whether the parent company will give him little or no training in technical or management know-how, in which case he should be wary of the business opportunity. If the licensor-seller has organized all the operating knowledge into a standard operating manual, he should look with favor upon this business opportunity.

4. Making a market evaluation of the product or service to be offered.

The entrepreneur should find out whether the time is right to introduce the product to the public. He should consider whether there is a need for this type of item, and what is its potential in relation to competition.

5. Finding out how many entrepreneurs have been in the business successfully for a respectable period of time.

A legitimate kind of business opportunity will attract many entrepreneurs who feel they can be successful. The entrepreneur should carry out a research to see how many successful businessmen have made it in that line of business he has decided to undertake and how many have failed for various reasons. If it is a franchise arrangement, the parent company should provide him with phone numbers of other buyers, so that he can verify that they're generally satisfied with the opportunity and that the seller is capable of fulfilling his or her promises.

6. Checking the training and experience required to run the business properly.

If running a particular line of business requires training, the entrepreneur should consider attending a course that will enable him have the relevant skills required for the business he has chosen. Questions he should ask himself include; is there a suitable curriculum of training? What is the scope of training? Does my background fit its requirements?

7. Financial strength and strong credit behind the business opportunity

Where the entrepreneur is running the business under a parent company, he should find out whether the licensor-seller will provide an escrow agreement to deliver a building, equipment, leasehold improvements, inventory, etc., as the unit is made ready for use. He should check out the bank references given by the licensor-seller and discuss the company's financial strength with the appropriate managers.

8. Visit the headquarters of the licensor-seller.

The entrepreneur should talk to the personnel and the training director of the parent company. He should visit the original prototype of the business being sold and evaluate other outlets. He should expose himself to the other outlets' products and services to determine the quality dispensed.



9. Have legal representation.

Where the entrepreneur is buying a license, he should make sure his lawyer is present. The lawyer will assist him when he is negotiating with the licensor-seller. At the very least, the lawyer should go over the contract to purchase the business opportunity and advise the entrepreneur as to whether or not he should sign it in its present condition. He or she should explain what each aspect of the contract means so that the entrepreneur understands what he is signing.

10. Return on investment.

The entrepreneur should find out what the company's profit ratio to sales is. He should relate this to time and service requirements and to the financial leverage requirements. In other words he should consider whether he can make more in another type of business. He should find out whether he can invest the same amount in another business opportunity yet operate a larger operation and get a better return on investment.

11. Research the parent company's history.

If the entrepreneur is taking on a franchise, he should find out whether the parent company is a new firm with little expertise and experience or whether it is an older firm whose regular products have satisfied customers for years.

2.2.2 Benefits of a well structured Business Opportunity

1. Less Costly.

A well thought out business opportunity, be it the entrepreneur's own brilliant idea, a franchise or a license to operate under a parent company's name will prove less costly as the foundation will have been laid and room for backing out will be available before the entrepreneur commits himself entirely. Any hidden costs will be made known in the process of laying out the overall plan.

2. Reduced Risks of failure

A well thought out business opportunity provides the entrepreneur with a firm foundation on which to establish his enterprise. This follows a thoroughly executed research into the requirements of running the business, risks involved, personal strengths and weaknesses that the entrepreneur may have to deal with

3. Ready Market

Part of the ground work involves preparing the public for the product or service that is yet to be introduced into the market. The entrepreneur will be marketing himself following preliminary studies into the customer pattern; their likes and dislikes regarding the product.

4. High level of competence

In any new business, a lot of time and money are consumed during the learning period. In a well prepared business opportunity, the entrepreneur will have taken steps to arm himself with the relevant knowledge for his line of business hence enhancing his competence.

5. Better financing options.

A business plan will be the basis for a lucrative business opportunity. The entrepreneur will have prepared a business plan which he will use to secure funds from investors. In a situation where he is dealing with a parent company, he is assured of financial support in one way or another, inform of low interest loan, for instance.

6. Professional advertising and promotion.

Most small businesspeople don't spend sufficient money on advertising. When they do, their efforts are often poorly conceived and inconsistent. A proper way of promoting the products of a business is through advertising carried out extensively following a market analysis into the trends and consumer patterns. The entrepreneur will have this as his main strength as he attempts to make his product known

7. Purchasing power.

Many times, the parent company's tremendous buying power and special buying techniques can bring products, equipment and outside services to the licensee at a much lower cost than an independent could ever get.

2.2.3 Consequences of a poorly structured Business Opportunity

There will be consequences where the entrepreneur does not take his time in selecting a good business opportunity. He may come up with a brilliant idea but unless this good idea is effected through a worthy investment, it will remain a good idea. Some of the effects of not having a well structured plan include;

1. Lack of will power

If the entrepreneur is not convinced that his idea will sell, then no one will make the idea sell. He is the inventor who can make the business opportunity take off into a strong business

2. Mismanagement

A sponsor of a business opportunity under a franchiser/franchisee arrangement may make huge losses if he doesn't do a thorough ground work into the people he is entrusting his investments to

3. Lack of financial support.

A business opportunity without a business plan is bound t fail for lack of financial support. The entrepreneur will convince banks and other lenders of funds to support his business if he has a well prepared business plan. Otherwise, he stands to miss out on all the finances from, investors.

4. Exclusivity clauses.

The entrepreneur may be restricted to selling only the manufacturer's merchandise. If this is the case and he deviates for any reason whatsoever, he runs the risk of the licensor canceling the agreement. If he does buy from other sources, it will be very hard to hide. Most parent companies will require books to be opened for examination at pre-designated periods of time. Any irregularities will be spotted at these times. Most smart buyers of business opportunities will negotiate the point in the agreement stipulating sources of supply in case product quality is inconsistent.



5. Parent-company bankruptcy.

Another pitfall is the possibility of the parent company overextending itself and going bankrupt. While this is not as serious in a business opportunity as it would be in a franchise, the entrepreneur still runs the risk of losing the business because his property contracts may have been financed through the parent company.

The entrepreneur should carefully investigate any business opportunity he is considering. He should get a list of operators from the parent company and call them. He should have a lawyer look over any agreement drafted by the parent company and make sure he receives a disclosure statement. He should then carefully evaluate the licensor. He should not be hurried to sign the deal. The idea is to ensure a responsible company backs the business opportunity.



2.3 NETWORKING

Fast forward: Entrepreneurs of like minds need forums where they can share common interests and open room for business associations

Entrepreneurs can take advantage of the complementary nature of the various business in the economy in which they operate. Networking is one way through which this can be achieved. Networking is the process of enlarging the entrepreneur's circle of trust through negotiation. Networks can be divided into two main categories, informal and formal networks;

Informal networks

These exist where the entrepreneur makes use of his range of friends, acquaintances, and business associates to obtain resources and opportunities for his firm. This information helps the entrepreneur understand his environment better. It also helps him build a reputation and credibility for himself and his firm. The networks can be a source of sustainable competitive advantage as well as a means of procuring other resources that can be a source of competitive advantage.

Formal Networks

These are more organized forms of associations where the entrepreneur establishes mutually beneficial relationships with other business people and potential clients. The aim is to exchange business ideas, information and support.

2.3.1 Motivations of Networking

Here we shall look at what drives entrepreneurs to form networks for their businesses. The reasons are varied and each entrepreneur needs to find a partner who shares his vision, one who will compliment his business needs and objectives.

Internal Motivations

A cost cutting strategy may be reason enough to venture into networking whereby the production process avoids wasteful duplication of resources, utilizes by-products and processes, and may even allow the partners to share brands and distribution channels. Another internal motivation is the need to share new intelligence and production methods. These relationships can help a firm emulate innovative managerial practices, superior management systems and improved communication patterns.

External Motivations

This motivation drives the formal network to come up with improved current strategic positions with respect to the industry in which they belong. For instance a set of firms is more likely to be able to influence the structure of the industry's evolution than a single firm. A joint venture could also act to preempt the possible entry of new competitors thereby giving the partnership a lead that is less likely to be challenged in the industry. This will ensure customer loyalty as the venture expands its capacity to serve. Another motivation here is the acquisition of resources at better terms from suppliers. Economies of scale play a major role in getting better deals.

Strategic Motivations

Some forms of joint venture will exist not solely with the objective of deriving immediate benefits but for creative reasons, to exploit synergies, to develop new technologies or extend old ones. It could also be a room for a venture to set a toehold in a market that is not completely ready for the product or service in the offering, a product or service that needs long term credibility.

Social Motivations

Here, firms network not for purely profit oriented reasons. The firms come together to promote their own values and social agendas. A lead firm will set precedence by setting a forum where other entrepreneurs who are committed to social changes through business come together. The network is a loose collection of entrepreneurs, social activists, corporate executives and philanthropists. The network brings individuals of common purpose together for the purpose of achieving a common social goal.



2.3.2 Types of Networks

Personal Networks

This is an informal network that consists of all the direct face to face contacts that the entrepreneur has. They include friends, family, close business associates, former teachers at the university etc. In this kind of network, the entrepreneur can easily develop trust with the other parties since these are people who can vouch for him as a result of knowing him very well. Trust enables the entrepreneur to forgo all the legal formalities that guard against opportunism when getting into a business arrangement with any of these people. Trust can replace any contract that may need to be signed and save the need to incur unnecessary costs. People within a personal network have predictable behavior patterns since they know each other well. Their consistent behavior enables the entrepreneur to have a mental map of the personal network – to know who will be where and when. This will help him navigate quickly through the personal network when resources and information are needed for business purposes. Personal networks have strong ties. Such ties are formed because the relationship may have a long history, there may be family relationships or people may share a common culture, common values or common associations. Strong ties are especially important in the early stages of business formation particularly in financing and securing the initial resources for new venture creations. An example of this kind of networks is the pyramid scheme that was rampant in the country a few years ago.

Extended Networks

These are formal firm to firm relationships. The entrepreneur engages other entrepreneurs, customers, vendors and other constituents in the operating environment in boundary spinning activities. Each of these parties has a role to play in the open system under which the entrepreneur runs his operations. Extended networks become more important as the firm moves beyond the initial foundation stage. These networks contain more diversity than personal networks and consequently, more information. There is little trust between the concerned parties hence the need for formalized agreements in form of contracts. There is also more uncertainty and less predictability in these relationships. There are weak ties since the customer of a customer or the supplier of a supplier may be included in the network. This forms many indirect associations but in the end only acts to make the extended network even larger. As a result it will contain more diverse information, people, resources and channels for the entrepreneur to use. Examples of relationships that exist in this category are the cartels of firms that combine resources to benefit from economies of scales, such as bookshops importing books in bulk from abroad.

Agglomerate Networks

An agglomerate network is a formal network that is constituted by a set of indirect relationships between firms that are competitors. It serves as an information network that enables the firms to secure information about capabilities and competencies that are regarded as necessary but not sufficient for success. It requires registration for membership and members are required to pay some fee. It is regulated by by-laws that control the activities. Such a network can exist in highly fragmented and geographically dispersed environments that are populated by very small, homogeneous ventures, such as retailing and small scale farms. They are loosely coupled, voluntary and have a low task structure. No single member of the association can influence another member to do anything. Examples of this kind of network are firms that belong to an association that protects their interests, e.g. publishers belonging to the Kenya Publishers Association

Organic Networks

This is an indirect relationship between non – competing organizations. The indirectness is not in terms of the individual entrepreneur who represents the firm but in terms of the business. These relationships are not task-oriented and may consist of strong ties linkages such as friends and close associates or weak ties links. Examples here include firms that come together for a common social purpose e,g to sponsor athletes to represent the country at the Olympics



CHAPTER SUMMARY

In this chapter, we have seen that;

Business opportunities offer entrepreneurs a chance to showcase their skills and what new ideas they are bringing on board to an already existing industry.

- Various forms of business opportunities do exist and it's up to the entrepreneur to choose one. Examples include distributor, rack jobber, joint venture.
- An entrepreneur needs to undertake proper due diligence before engaging in a venture of his choice. Among the things he should bear in mind include, ensuring there is a proper legal structure in place, he has sufficient funds to start up, he needs to know his competition very well.
- The entrepreneur should assess the viability of entering into a franchise as an option to delving into unknown territories where uncertainties are common. He should understand the advantages and disadvantages of both options.
- Networking is important to any budding business as it opens up opportunities for growth and market penetration. Networks can either be formal or informal. There are various types of networks; personal, extended, agglomerate and organic.

CHAPTER QUIZ

1. Define the following
 - Business opportunity
 - Franchise
 - Networking
2. List 5 examples of business opportunities
3. What factors should an entrepreneur bear in mind when analyzing a potential business opportunity?
4. List 4 advantages and 3 disadvantages of a business opportunity as opposed to a franchise
5. List and briefly describe the two broad categories of networks.

ANSWERS TO THE QUIZ

1

- A Business Opportunity is viable business potential to create something new, i.e. a product or a service establish new markets by engaging new technologies
- A franchise is a business arrangement where the franchisor develops a plan for the provision of a product or service and another, the franchisee uses the plan to avail the product or service
- Networking is the process of enlarging the entrepreneur's circle of trust through negotiation. This can either be a formal or informal arrangement

2.

- Self - Discovery
- Re - invention
- Joint Venture
- Distributorship.
- Rack – Jobbing

3.

- He should ensure he has proper legal representation.
- He should ensure he has sufficient financial representation
- Carry out an independent survey of other owners of business opportunities sold by the parent company.
- Contact competitors
- Check the credit of the seller

4.

Advantages

- Requires a lower initial fee than a franchise.
- A proven system of operation or product.
- Intensive training programs. Better financing options.
- Purchasing power.

Disadvantages

- Poor site selection.
- Lack of ongoing support.
- Exclusivity clauses.

5.

Informal networks

These exist where the entrepreneur makes use of his range of friends, acquaintances, and business associates to obtain resources and opportunities for his firm.

Formal Networks

These are more organized forms of associations where the entrepreneur goes into a joint venture with other entrepreneur for mutual business benefit.



EXAM QUESTIONS

QUESTION ONE

- (a) Define the following;
- Business Opportunity
 - Franchise
- (4 Marks)
- (b) What thought process should the entrepreneur apply in identifying a business opportunity? (6 Marks)
- (c) Identify and briefly describe 5 types of business opportunities. (10 Marks)

QUESTION TWO

- (a) Identify 6 guidelines the entrepreneur can use in choosing a business opportunity (12 Marks)
- (b) What would drive an entrepreneur towards using his own idea to establish his business as opposed to buying a business opportunity or a franchise? (8 Marks)

QUESTION THREE

- (a) What is networking and how is it important in today's economy? (4 Marks)
- (b) What are the motivations to networking? (8 Marks)
- (c) Identify the various types of networking (8 Marks)

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CHAPTER THREE



STUDY X

ENTERPRISE DEVELOPMENT AND AWARENESS

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CHAPTER THREE

ENTERPRISE DEVELOPMENT AND AWARENESS

► OBJECTIVES

By the end of this chapter, a student is expected to;

- Know what an enterprise is.
- Understand the importance of small enterprises in an economy
- Understand what factors underlie the success of an enterprise
- Know how to manage the growth and success of a business enterprise
- Know what role the government can play in promoting enterprise development

► INTRODUCTION

In today's economic environment, the survival of big corporations has been affected by how these firms have fared on throughout their lifetimes. The early stages of any business are very important. This is the period when the firm attempts to set its foot in the industry. Many factors can be attributed to the success or failure of the business at this stage. The legal form the entrepreneur has in mind for the business also affects its future growth. There are advantages and disadvantages of various forms of business enterprises as we shall see. The role of the government in regulating the growth and supporting the upcoming businesses will also be a focus of this chapter. Finally, the various motivational theories as put forward by the renowned schools of thoughts will be discussed at length.

► KEY TERMS

Enterprise: A well organized business set up that is constituted by a manager along with a team who work together to pursue a business goal,

Industry Cycle: The sequence of growth, maturity and decline of any industry that has an impact on the success or failure of a young firm

► EXAM CONTEXT

This chapter is yet to be tested under the new KASNEB syllabus

► INDUSTRY CONTEXT

An entrepreneur needs to have information on the growth cycle of the industry in which he has decided to operate. This will have a bearing on how his business launches itself in an already established environment. The growth or decline of an industry may therefore affect the overall success or failure of a business.



3.1 ENTERPRISE DEVELOPMENT

Fast forward: Small businesses form the basic unit of the economy. Their establishment and growth is therefore important as they enter the industry.

3.1.1 What is an enterprise?

An enterprise is a well organized business set up that is constituted by a manager along with a team who work together to pursue a business goal, which essentially is to improve the economic environment in the surrounding in addition to the major objective of making profit.

A successful enterprise requires a lot of effort and boldness at the initial set up. It has to convince all the stake holders involved that it is a project that is viable and will bring rewards

3.1.2 Importance of enterprise development

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

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

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



On their side, prospective entrepreneurs need to be creative and innovative enough to put on paper ideas that have a business angle, ideas that do not just lead to their own self fulfillment but also puts the needs of the society they serve into account.

Small enterprises tend to be more effective in the utilization of local resources using simple and affordable technology. Small enterprises play a fundamental role in utilizing and adding value to local resources. In addition, development of small enterprises facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, small enterprises technologies are easier to acquire transfer and adopt. Also, small enterprises are better positioned to satisfy limited demands brought about by small and localized markets due to their lower overheads and fixed costs. Moreover, the owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation.

Through business networks, partnerships and subcontracting relationships, small enterprises have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where small enterprises and large enterprises not only coexist but also function in a symbiotic relationship



3.2 BUSINESS LIFE CYCLES AND HOW TO MANAGE GROWTH

Fast forward: The entrepreneur should learn the growth cycle of the industry and use this as a basis to regulate the growth of his own business

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

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

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

Research shows that most firms do well in industries that are just starting. Many factors can be attributed to this;

Ease of entry

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

Less competition

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

High level of innovation

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

3.2.1 The phases in the growth of a firm

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

Pre – Start Phase

This is the preliminary stage for the business. Here, the entrepreneur does a lot of ground work to assess the viability of the venture he is about to get in to. He will carry out due diligence to ensure he has taken all important factors into account before setting off the business. He will incur expenses to execute some of these important activities. He may for instance require the services of a legal representative to acquire land. He may also hire the services of a surveyor if he wants to build his own premise. If he will hire personnel to assist in running the business, he should ensure that he has sufficient funds to pay them for at least 6 months. He may need to get a loan to do this.

Start - up Stage

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



Early Growth Phase

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

Later growth phase

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

This model can be applied to the growth or otherwise of a firm. The entrepreneur thus needs to ensure that the business opportunity he has before him has a road map charted in advance and based on due diligence. This does not mean that every firm will follow the above model. The entrepreneur needs to be aware of the possible outcomes. What he needs to do to ensure that the growth of the business is well managed by a clearly defined strategy is what we shall be looking at in the next section;

3.2.2 Managing Growth

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

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

Assess the likely demand for the product

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

Identify a specific customer need that has been ignored

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

Consider the added value to the customer

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

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

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

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

Market Penetration

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

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

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

Geographical Expansion

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

Product/ Service diversification

This strategy will mitigate against the risk of losing market share when the product reaches the final stage of its life cycle. As we saw earlier, the lifecycle of a business will necessarily follow that of the product if there is no backup plan. Through product diversification, the entrepreneur will ensure that even though the product is squeezed out of the market as a result of fierce competition, others will still come up to replace it in terms of market share.

The entrepreneur should be careful not to diversify into unrelated products or services. He should choose a product or a service that can be used instead of the mainstream product or service. At the end of it all, he should not do away with the original product all together



3.3 LIMITATIONS OF ENTERPRISE DEVELOPMENT

Fast forward: There are inherent limitations in setting up a small business which the entrepreneur should be well aware of.

Unfavorable legal and regulatory framework

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

Undeveloped infrastructure

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

Poor business development services

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

Poor entrepreneurial Culture

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

Lack of Skills and competence

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

3.4 THE GOVERNMENT'S ROLE IN ENTERPRISE DEVELOPMENT

Fast forward: The Government can play a strategic role in harmonizing enterprise development in the economy by regulating industrial growth and performance.

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

Policy Formulation

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

Supporting N.G.Os

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

Establishing Linkages/ Networks

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



Political Stability

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

Economic Stability

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



3.5 AWARENESS AND MOTIVATION

First forward: There are technical issues the entrepreneur should take some time to understand before he embarks in a major investment.

3.5.1 Starting a business

An entrepreneur needs to be well versant with the law of the land, at least to the extent to which his firm will be affected. Ignorance of the law can be very detrimental to the survival of the firm and could prove costly in the end. When starting up a business, there are some important legal matters that the entrepreneur will have to deal with, no matter how much he would love to just dive in and get started. If he neglects these legal steps, he will find that maintaining the business down the road becomes much more difficult, and in some cases, impossible. It's in his best interest to take these legal aspects seriously and get them sorted out as soon as possible when starting a business. The emphasis on this section is to bring out the salient legal aspects that affect the running of a business and what the entrepreneur needs to know. The legal aspects the entrepreneur needs to be aware of are;

1. Laws that can affect the business

By looking at the legal documents which are usually available for all to see, the entrepreneur will be in a position to assess the effect of each law that is relevant to his kind of business venture. One important thing that he should be interested in, for instance is the issue of taxes. The entrepreneur should assess how the Government will tax him and his business under the various forms of business ownership. On the same note, he may also be interested in knowing the tax incentives available for his type of business. It may work in his favor in subsequent periods.

2. Laws concerning capitalization

The firm cannot survive as a business without proper capitalization, and this will include both matters of equity and debt. Equity is gained through sales of business ownership interest, such as stock shares while debt is acquired through financial loans from lending institutions. Before the entrepreneur even thinks about starting the business, he'll need to have a good relationship with his bank or an established financial institution. If he doesn't have adequate capital, the business will fail, regardless of how thorough his business plan was.

3. Law concerning the various forms of businesses

This will determine whether the entrepreneur can be sued for issues arising between the business and his customers. It is extremely important, and often neglected when starting a business, but this can actually make or break the entrepreneur during those crucial first years when the business is trying to be established and grow. The entrepreneur would not want to be left with liability issues, debt problems, or unnecessary obligations. The kind of legal entity will also determine the tax strategy that the government applies to the business. The entrepreneur should protect himself from liability issues, and he should ensure that he is not personally held responsible for any unfortunate happenings.

4. The nature of business contracts

A business contract is a legally binding agreement between two parties for an exchange of services that are of value. For a contract to be valid, an offer must be made and accepted. Using a contract in business dealings helps ensure an agreement is acted on, insofar as a broken contract could result in a lawsuit or out-of-court settlement and the payment of damages caused by the breach. The best way the entrepreneur can avoid a dispute or potential litigation, however, is to prepare a solid agreement in which he is confident he has negotiated the best terms for his business.

3.5.2 Sources of Finance

Businesses can acquire finances from various sources. These include;

Owner's Capital

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

Ploughed back profits

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



Borrowings

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

Issue of Shares

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

Overdraft

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

Bank Loan

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

Leasing

With leasing a business has the use of an asset, but pays a monthly fee for its use and will never own it. Think, of, someone setting up business as a Parcel Delivery Service, he could lease the van he needs from a leasing company. He will have to pay a monthly leasing fee, say Kshs.50,000, which is very useful if he does not wish to spend Ksh.800,000 on buying a van. This will free up capital, which can now be used for other purposes. A business looking to purchase equipment may decide to lease if it wishes to improve its immediate cash flow. In the example above, if the van had been purchased, the flow of cash out of the business would have been Ksh 800,000, but by leasing the flow out of the business over the first year would be Ksh 600,000, leaving a possible Ksh 200,000 for other assets and investment in the business. Leasing also allows equipment to be updated on a regular basis, but it does cost more than outright purchase in the long run.

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

When evaluating companies, it is most important to look at the balance of the major sources of funding. For example, too much debt can get a company into trouble. On the other hand, a company might be missing growth prospects if it doesn't use money that it can borrow.

3.5.3 Legal forms of ownership

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

■ Sole Proprietorship

This is a business owned by one person. It needs no charter, has few costs, and that person gets to keep all the money to his/her self. The problem is, of course, that a one-person business can't make as much money as a large business, the owner will have to work very hard, and if the business loses money, the loss translates directly to the owner

A sole proprietorship is generally the simplest way to set up a business. A sole proprietor is fully responsible for all debts and obligations related to his or her business. A creditor with a claim against a sole proprietor would normally have a right against all of his or her assets, whether business or personal. This is known as unlimited liability.

■ Partnership

A partnership is a relationship that exists between two or more persons carrying on a business common with a view to making profit.

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

Contents of partnership agreement

- Name(s) and address(s) of both the firm and the partners
- Capital to be contributed by each partner
- The profit sharing ratios that may be expressed as a fraction or as a percentage.
- Salaries to be paid to any partners who will be involved in the active management of the business



- Any interest to be charged on drawings made by the partners.
- Interests to be given to the partners on their capital balances.
- Procedures to be taken on the retirement or admission of a partner

■ Types of Partnership

General Partnership

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

Limited Partnership

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

■ Reasons for partnership

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

Membership

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

■ Corporation

A corporation is a legal entity that is separate from its owners, the shareholders. No shareholder of a corporation is personally liable for the debts, obligations or acts of the corporation. Directors, officers and insiders can bear some liability for their involvement with the corporation.

A corporation is identified by the terms "Limited", "Ltd.", "Incorporated", "Inc.", "Corporation", or "Corp.". Whatever the term, it must appear with the corporate name on all documents, stationery, and so on, as it appears on the incorporation document.

A corporation has legal rights and obligations of its own which are distinct from those of the individuals who either constitute its membership or management. This attribute of legal personality has received considerable judicial exposition in relation to registered companies and the overall practical effects of the decided cases may be summarized as follows:

(i) Limited Liability

The debts of the corporation are its own and a member of manager of the corporation cannot be sued on order to recover the debts. If a corporation such as a registered company is unable to pay its debts it may be wound-up and during the winding-up its members will be asked to 'contribute' what is required to pay the debts but a member cannot be asked to pay more than the amount, if any, that is unpaid on the shares held by him (or the amount he guaranteed if it is a company limited by guarantee).

(ii) Perpetual Succession

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

(iii) Owning of Property

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

(iv) Suing or being sued

Because of the legal separation between a corporation and its members, it follows that a wrong to, or by, the corporation is not a wrong to, or by, its members.

■ Formation of Corporations

A corporation may be brought into existence by

- (a) Registration
- (b) Statute
- (c) Charter

■ Types of Corporations

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

(a) Corporation Sole

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

Examples are:

(i) The Public Trustee

The Public Trustee Act, S.27(1) states that 'the Public Trustee shall be a corporation



sole by the name of Public Trustee'.

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

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

(b) Corporation Aggregate

This is a legal entity formed by at least two people and whose membership at any one time legally consists of at least two people. Examples are private and public companies registered under the Companies Act, and co-operative societies registered under the co-operative societies Act 1966 (cap.490). It has a legal personality with perpetual succession, capacity to contract, own property and sue or be sued.

The company acquires legal personality from the date of its registration by the registrar of companies. The Companies Act, S. 16 (2) provides that "from the date of incorporation ... the subscribers to the memorandum ... shall be a body corporate by the name contained in the memorandum". S.28 of the Co-operative Societies Act provides that "a society, on registration, shall be a body corporate".

(c) Statutory Corporation

This is created by an Act of Parliament and comes into existence from the date of commencement of the Act. An example of a statutory corporation is the Agricultural Finance Corporation".

Section 3(1) of the Act states that "there is hereby established a corporation to be known as the Agricultural Finance Corporation".

Section 3(3) of the Act states that "the corporation shall be a body corporate with perpetual succession and a common seal".

(d) Chartered Corporation

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

The advantages and disadvantages of the various forms of businesses discussed above can be summarized as shown below;

1. Sole Proprietorship

Advantages

- Ease of formation
- Low start-up costs
- Less administrative paperwork than some other organizational structures (such as incorporation)
- Owner in direct control of decision making
- Minimal working capital required
- Tax advantages to owner
- All profits to owner

Disadvantages

- Unlimited liability
- Difficulty raising capital
- Lack of continuity in business organization in the absence of the owner

2. Partnership

- Advantages
- Ease of formation
- Low start-up costs
- Additional sources of investment
- Broader management base
- Disadvantages
- Unlimited liability (for general partners)
- Lack of continuity
- Capital divided authority
- Hard to find suitable partners
- Possible development of conflict between partners

3. Corporation

Advantages

- Limited liability
- Specialized management
- Ownership is transferable
- Continuous existence
- Separate legal entity
- possible tax advantage (if you qualify for small business tax rate)
- easier to raise capital

Disadvantages

- closely regulated
- most expensive form to organize
- charter restrictions
- extensive record keeping necessary
- double taxation of dividends

3.5.4 Other Legal Aspects of forming a business

■ Licenses, labor laws, Workman Compensation Act, Factory Act, health and safety rules

For any business to operate in the country, the owner has to seek a license to operate the business from the local authorities. This license mandates the entrepreneur to operate the line of business for which he has registered; any other line of business would not be covered by the license agreement.

The labor laws enacted by Acts of Parliament include among others; the Workman's Compensation, and the Factory Act. There are health and safety rules that govern the work environment. The entrepreneur should familiarize himself with these rules since he will have people working under him, whose welfare he will have to protect. He should seek a certificate from the certifying bureau that assures to all employees and stake holders that the interests of the workers are well taken care of and given high priority. This should be placed in a public place in the workstations. The entrepreneur may find himself in legal battles with should he not protect the interests of the workers, especially where the workers have registered under a trade union.



■ Business contracts and tendering procedures

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

■ The tendering Process

The tendering process refers to the procedure followed in procuring services from parties external to the business in a transparent manner. Services to be procured will most often be outsourced services for which the entrepreneur does not find it worthwhile to allocate most of the business resources. These will be non – core activities such as security, transport, provision of stationery, catering e.t.c.

The process of tendering for these services will normally be given to the purchasing officer of the company. The entrepreneur from time to time will find himself doing this if the business has not grown large enough to warrant such an office. The procedure to be used in tendering for services includes;

Step 1: Identifying the need for the service

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

Step 2: Short listing of possible service providers

Based on the need, the purchasing office or the entrepreneur will identify the possible third party firms that can provide these services and get their quotations

Step 3: Selection

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

Step 4: Communication with unsuccessful applicants

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

3.5.5 Business Amalgamations

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

- Merger
- Acquisition
- Take over
- Franchise.

These are explained briefly as follows;

Merger

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

Acquisition

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

Take over

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

Franchise

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



3.6 MOTIVATIONAL THEORIES OF ENTREPRENEURSHIP

Fast forward: There are many reasons why an entrepreneur would think of starting his own business. He may also need additional incentives to stay in his line of business.

There are various theories that have been put forward by various scholars regarding entrepreneurship development. Discussing these theories will help us understand better the nature of entrepreneurship.



The emergence of entrepreneurship has brought with it immense insights that we need to appreciate. This has led to a diversity of theories that we need to examine, by looking at the schools of thought that divide entrepreneurship into specific activities

These activities may be looked at from a 'macro' or a 'micro' view.

3.6.1 The Macro view Entrepreneurial Thought:

This point of view presents a number of schools of thought which suggest that a range of **external factors** are the forces behind the entrepreneurial process. Often these **factors** are beyond the control of the individual entrepreneur;

1. Environmental School of thought
2. Financial/Capital School of Thought
3. Displacement School of thought

■ 1. Environmental School of thought-Support

The proponents of this school of thought argue that entrepreneurial desires are molded by external factors (which may be positive or negative) that affect a potential entrepreneur's lifestyle. They further argue that **institutions** and **societal values** grouped together form an **environmental framework** that strongly influences the development of entrepreneurs. Freedom and support in the work environment can also foster a manager's desire to pursue an entrepreneurial career. In addition, the social group a person belongs to often may affect the potential development of an entrepreneur

■ 2. Financial/Capital School of Thought- Capital

This school presents the view that the desire to become an entrepreneur is based on the capital seeking process; that the entrepreneurial process is about making decisions involving finances at every major point in the venture process i.e.

- a) Startup or acquisition venture stage:
In the beginning, the entrepreneur's main concern is deciding on the major sources of funds to give him a head start on the venture. He may either take up a loan or decide to save up his. The success or failure of this decision making process will lead him further to make a decision as to whether to proceed or abandon the project.
- b) Ongoing venture stage:
The financial consideration here is how to manage cash, make investments, undertake financial analysis, and evaluate the financial position of the venture. The decision to be made here is whether to increase, maintain or reduce size of the business.
- c) Decline or succession stage:
The entrepreneur will be forced at some point to investigate the future profitability of the venture. Following this analysis, he may then consider options such as corporate buyout, dissolution or succession. This decision of course, has a financial consideration.

■ 3. Displacement School of thought

This view suggests that individuals will not pursue a venture unless they are prevented or displaced from doing other activities. Factors that may force one from pursuing other ends in life include:

- i) Political factors; these may include riots, wars e.t.c and may force one to move from station to another.
- ii) Cultural factors e.g. family backgrounds
- iii) Economic factors; This could be, for instance, as a result of loss of current employment

3.6.2 The Micro view Entrepreneurial Thought

This view presents factors that are **specific to an entrepreneur** who has the ability or **control** to direct or adjust the outcome of each major influence. The following schools of thought comprise this view point.

1. The Entrepreneurial Trait School of thought
2. The Venture Opportunity School of thought
3. The Strategic Formulation School of thought

■ 1. The Entrepreneurial Trait School of thought- Traits

Following a study of successful people, it was found that they exhibited similar characteristics. Those behind this school of thought, therefore, suggest that if certain traits associated with successful entrepreneurs are established and supported early in life, this will lead eventually to entrepreneurial success. The four traits usually exhibited by successful entrepreneurs include:

- i) Creativity,
- ii) Determination,
- iii) Achievement,
- iv) Technical knowledge.

Family development and education are also important traits which contribute to the success of an entrepreneur

■ 2. The Venture Opportunity School of thought

This school of thought suggests that the ability to become an entrepreneur lies in being able to search for idea sources, develop concepts, and implement venture opportunities. The proponents further argue that creativity, market awareness, developing the right idea, at the right time, for the right market niche are the essential ingredients to entrepreneurial success. **Opportunity identification** is thus the key force behind becoming an entrepreneur

■ 3. The Strategic Formulation School of thought- Strategy

This approach to entrepreneurial theory emphasizes that the **planning process** is vital for successful venture development. The argument is that through strategic planning and formulation, an individual is able to develop an effective venture. This because he will be able to identify and make use of unique markets, unique people, unique products, and unique resources



3.7 Incentive for aspiring Entrepreneurs

Entrepreneurs would really do with a bit of encouragement for them to succeed in their businesses. This comes in the form of incentives from the local and the central authorities. The incentives could come in a form that enables them to carry on their businesses with little interference. Globally, there are some forms of incentives that can help the entrepreneur also keep up with other businesses in other countries. The incentives can come in any of the following ways.

■ Few barriers to entry

This will encourage the upcoming entrepreneurs to penetrate a specific industry with ease. Competition may be there but with few barriers that could've been set up by the already existing businesses, it becomes possible for the small firms to compete in a fair environment.

■ Tax Incentives

Businesses that are operating in certain areas or industries could do with some exemptions in the tax on inputs. This will mean that they will not collect output tax on their products but the incentive in itself will mean less administrative work

■ Better regulations

To control the growth of small firms, the government can regulate the issuing of licenses or require stringent requirements for one to get a license. This will act as an incentive for the new entrants and will create a conducive environment for healthy competition

■ Linkages

The Government through the Ministry of Finance can set up forums where investors can meet with the upcoming entrepreneurs and discuss business prospects where both parties can benefit from each other. This can be organized in form of seminars and trainings or workshops organized by the ministry concerned.

■ Low interest rates on loans

The Government could set up loan schemes through micro finance institutions where entrepreneurs with a good business prospects can get boosts for their growing ventures in the form of low interest loans. The interest subsidies will be the government investment for the upcoming business that will eventually contribute to national growth

CHAPTER SUMMARY

The success or failure of a budding business depends a lot on the maturity or otherwise of the industry in which it operates. It is easier for a business to enter an industry that has fewer barriers; one that has a conducive environment for growth and healthy competition.

Once on the inclined plane, the entrepreneur needs to know how to manage the growth of the business. Uncontrolled growth may be detrimental to the success of the enterprise.

- There are limitations that are inherent on the growth of enterprises. These range from controlled to uncontrolled factors e.g. development of infrastructure, poor entrepreneurial culture.
- The Government has a vital role to play in the growth of small enterprises. This, it does by helping promising entrepreneurs start up, encouraging support from private sector, creating a good environment where business operations are well regulated among others.
- There are important factors that any businessman should bear in mind when starting a business ranging from the legal form the business should take to ensuring there is sufficient funds to support operations. There are various advantages and disadvantages of the various forms of business.
- Motivational theories explain why entrepreneurs decide to run their own independent businesses. These could be influenced by factors both internal and external to the entrepreneurs.
- Entrepreneurial pursuit can be encouraged by the existence of incentives which could be financial or non-financial.

CHAPTER QUIZ

1. Define the term “enterprise”
2. What factors contribute to the success of firms entering a new industry?
3. List and briefly explain the various phases in the growth of a business
4. List 3 limitations to enterprise development in an economy
5. Give 4 ways through which the Government can promote enterprise development?
6. What are the various forms of business ownerships?
7. Briefly explain two schools of thoughts that try to explain the theory behind entrepreneurs.
8. How best can entrepreneurs be encouraged to pursue venture opportunities?



ANSWERS TO THE QUIZ

1. An enterprise can be described as a well organized business arrangement that is headed by a manager along with a team who work together to pursue a business objective of making profit and to improve the economic environment in its surrounding

2.

- Ease of entry
- Less competition
- High level of innovation

3.

Pre – Start Phase

This is the preliminary stage for the business. Here, the entrepreneur does a lot of ground work to assess the viability of the venture he is about to get in to. He will carry out due diligence to ensure he has taken all important factors into account before setting off the business.

Start - up Stage

At this stage, the entrepreneur has already set the business up. The business is operational despite the set backs that befall all businesses that start up at the initial stages. The entrepreneur realizes that he may need to make adjustments in order to survive.

Early Growth Phase

During this phase, the business will experience rapid growth as customer needs become the main focus for the entrepreneur. It is at this stage that he will realize there is need to gain a competitive edge in order to make more sales.

Later growth phase

This is the phase that determines whether the business has managed to meet its long term objectives and a period to assess how successful the short term objectives have been met. At this stage, the entrepreneur is more concerned about corporate governance issues and how this impacts on customer needs.

4.

- Unfavorable legal and regulatory framework
- Undeveloped infrastructure
- Poor business development services,

5.

- Policy Formulation
- Supporting Non-Governmental agencies
- Establishing Linkages/ Networks for small enterprises
- Ensuring political stability

6.

- Sole proprietorship
- Partnership
- Registered Company or Corporations

7. **Environmental School of thought-Support**

Entrepreneurial desires are molded by external factors; positive or negative that affect a potential entrepreneur's lifestyle. Institutions and societal values grouped together form an environmental framework that strongly influences the development of entrepreneurs.

8. **The Entrepreneurial Trait School of thought**

By examining the characteristics of successful people, it has been found that they exhibit similar characteristics. If certain traits associated with successful entrepreneurs are established and supported early in life, this will lead eventually to entrepreneurial success.

- Few barriers to entry. This will increase the influx of new firms.
- Tax Incentives; This will mean higher net profits.
- Better regulations; this will ward off unethical practices.
- Linkages; This will create a forum for exchanging valuable information.
- Low interest rates on loans; this will facilitate start up at an affordable cost.



EXAM QUESTIONS

QUESTION ONE

Clearly elaborate on what role the Government can play to resuscitate the declining state of enterprise development in the economy (20 Marks)

QUESTION TWO

John Kamau has won Kshs. 500,000 in the charity sweepstake. He has decided to open a hotel at the city center selling fast foods. Advise John on the various forms of business ownership and the factors he should bear in mind in choosing which form would be appropriate for his business (20 Marks)

QUESTION THREE

- a) What do you understand by the term 'Motivational theories of entrepreneurship?' (5 Marks)
- b) Proponents of various schools of thought on the motivational theory of entrepreneurship have come up with various arguments to explain why an entrepreneur would go into business. Clearly explain the various schools of thought as you understand them. (15 Marks)

MINI CASE STUDY

The following case illustrates how a university community took advantage of the resources available to set up a small enterprise. A lot could still be achieved with more research and funding. Read it carefully and discuss the questions that follow;

Kenyatta University

The School of Agriculture and Enterprise Development at Kenyatta University came into existence in 2007. The school creation was prompted by the need to develop and train scientists for innovative and practical solutions to the challenges of agriculture resources management, as well as the need to have scientists with knowledge and skills for exploiting opportunities in the agricultural sector. The current activities include getting its programmes approved in readiness for the first batch of students expected in August and September 2008.

On research being carried out by members of staff include: Developing low cost tissue culturing and preservation media; Banana and cassava as test crops with funding from Rockefeller Foundation; Linking Microcatchment water harvesting to markets through cassava: under auspices of commission for higher Education; improving farmers lives through composting of Agroforestry material under auspices of East African University council.

Questions for discussion

- What business opportunity can you identify from this mini case?
- How can the community benefit from this project?
- What kind of setbacks do you envisage in this project? Suggest ways of resolving them.



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CHAPTER FOUR



STUDY X

BUSINESS PLAN DEVELOPMENT

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CHAPTER FOUR

BUSINESS PLAN DEVELOPMENT

► OBJECTIVES

By the end of this chapter, you are expected to;

- Know what a business plan is.
- Understand the importance of a business plan to a business.
- Acquire the relevant skills on how to prepare a good business plan.
- Describe the major sections of a business plan and the type of information they contain

► INTRODUCTION

The preparation of a good business plan is essential to a business. A well prepared business plan is what sells the business not only to interested stake holders outside the business, but also to internal stakeholders including the entrepreneur himself. A business plan summarizes what the firm sets out to achieve both in the short run and in the long run. The entrepreneur should convince himself that he is in the right business. By putting this in writing, he can refer to these plans every so often as the business grows, updating it as and when the need arises. The level of importance given to business plan preparation is more important than the attention given to the actual operations of the business.

► KEY TERMS

Business plan: A detailed account of how the owners of a business plan to convert ideas and vision into a real, functioning profit center. It is a document that outlines all the steps that the business intends to follow to achieve the objectives or goals that have been set.

► EXAM CONTEXT

This chapter is yet to be tested under the new KASNEB syllabus

► INDUSTRY CONTEXT

Financial institutions like banks and other lending institutions constantly get applications for investors or for loans from upcoming entrepreneurs. For these applications to be convincing, the entrepreneur should be able to convince the institution that his venture is viable. This can be achieved through a well prepared and comprehensive business plan that articulates clearly the vision the entrepreneur has for his business, both in the short run and in the long run

4.1 DEFINITION OF A BUSINESS PLAN

A business plan is a detailed account of the conversion of the entrepreneur's ideas and vision into a real, functioning business. It is a document that sets out how the entrepreneur intends to execute the ideas he has thought of for his business. It's a written document that describes all the steps that the entrepreneur plans to carry out in opening and operating a successful business. A business plan identifies the product or service the entrepreneur will produce how he will produce it and who will buy it. It is also in the business plan that the entrepreneur identifies who he will be working with. He needs a team that will assist him win customers from competitors, increase and maintain the market share for his product. Once all this has been written, the entrepreneur will also need to come up with a convincing financial plan, that is, a budget of how the business intends to use the funds and most importantly how the investment will yield returns

4.2 IMPORTANCE OF A BUSINESS PLAN

Fast forward: A business plan records the reason for existence of the business.

To be successful, every business will need to have a business plan. To communicate with other stakeholders, the entrepreneur will definitely need a business plan. This will enable him share his ideas with the people who will have an influence in his business. The entrepreneur has to be personally involved in this process. He has to own it and not delegate the process to some one else. He is the one who has a vision for the business, so it only makes sense that he be the architect of the business plan. It doesn't matter if he is using the business plan to seek financial resources or to evaluate future growth, define a mission, or provide guidance for running the business; he is the one who knows the most about the business. Consultants can be hired to assist in the process of formulating a business plan, but in reality, the entrepreneur must do a majority of the work. Only he can come up with the financial data, the purpose of his business, the key employees, and management styles to mention a few items. He may still choose to use a consultant, but realize that he will still need to do most of the work. If he needs further help in one area, then he may seek the assistance of the consultant.

It takes time to come up with a business plan and psychologically, it can either inspire the entrepreneur to go ahead with his plans or to bring it to a premature close. The importance of planning should never be overlooked. For a business to be successful and profitable, the entrepreneur must have a clear understanding of the business' customers, strengths and competition. He must also have the foresight to plan for future expansion. Whether it is a new business or an existing business in the process of expanding, money is often an issue. Taking time to create an extensive business plan provides him with insight into his business. This document can serve as a powerful financing proposal.



A business plan is very specific to each particular business. However, while each business needs a unique plan, the basic elements are the same in all business plans. To complete an effective business plan the entrepreneur must dedicate time to complete the plan. It requires that he be objective, critical and focused. The finished project is an operating tool to help manage his business and enable him to achieve greater success. A clearly written and attractively packaged business plan will make it easier to interest possible supporters, investors etc. A well-prepared business plan will demonstrate that the entrepreneur knows the business and that he has thought through its development in terms of products, management, finances, and most importantly, markets and competition. The plan also serves as an effective communication tool for financing proposals.

The significance of having a business plan can be summarized as follows:

■ Better understanding of the business

A business plan helps the entrepreneur appreciate the business needs of his venture beforehand. Through a well prepared business plan, the entrepreneur will be able to see clearly the problems he had not thought of earlier, so he becomes well prepared psychologically to deal with them. The business plan will help in strategy and policy formulation. Without a business plan, it becomes difficult for the entrepreneur to have a clear sense of direction. This is important because he will need to convince many people that the venture will in fact work. In addition to the well laid out strategies, the entrepreneur will also highlight the means he has prepared to achieve these objectives. The plan could be short term or long term. In summary, the process of putting a business plan together forces the entrepreneur to look at the business in an objective and critical manner.

■ Financing from financial institutions

An entrepreneur will need to secure funds for his business. Most lenders will require that he comes up with a business plan before they can consider him for financing. This has become the main reasons why most business prepare business plan. It comes as later requirement when the business needs additional cash to continue its operations. Without a business plan, an entrepreneur will find it very hard to acquire business loans.

■ A tool for management

As we have seen, it is in the business plan that the entrepreneur sets out the objectives for the business. He lays out in writing what his vision for the business is. The strategies will be both short term and long term. They need to be achievable as unachievable targets may make the business plan lose credibility. Subsequently, from time to time, the entrepreneur will be referring to the business plan to check whether the growth of the business is in line with the plan he had envisaged earlier on. If not, then he will have sufficient basis to manage the growth of the business to direct it towards the right direction

■ A tool for planning and guidance

A business plan in itself is a planning tool. The big plans are laid out and the small ones that make up the major plans are also followed up closely. The entrepreneur has set out what he needs to achieve within a give time frame so he will set out all these in the business plan. It may happen that the people he works with are unclear about the main objectives of the business. A business plan will act as a learning tool for them. They can thus contribute to the success of the business along with the entrepreneur. The business plan thus also acts as a source of guidance where the way forwards seems unclear. Planning is very important if a business is to survive. By taking an objective look at the business the entrepreneur can identify areas of weakness and strength. He will realize needs that may have been overlooked, spot problems and nip them before they escalate, and establish plans to meet his business goals.

The business plan is only useful if used well. Ninety percent of new businesses fail in the first two years. Failure is often attributed to a lack of planning. To enhance success, the plan should be well utilized. A comprehensive, well constructed business plan can prevent a business from a downward spiral as *failure to plan can mean plan to fail*

■ Highlight risks involved

The risks involved in the business are perhaps something that the entrepreneur may not want to dwell upon too much. However, for the plan to gain more credibility, the entrepreneur will have to incorporate what risks his type of business is likely to encounter. These could be financial, operational or control risks. The entrepreneur should also highlight the measures he has in place to manage the risks that he fore sees. Once an informed reader looks at the plan with all these risks highlighted, he may find it a more realistic proposal and be willing to invest.

■ Communication tool

A business plan is a strong communication tool for the business. It defines the purpose, the competition, management and personnel. It clearly identifies the vision and mission of the business to all the stake holders. The roles and responsibilities of the operational and management staff will also be clearly defined. The process of constructing a business plan can be a strong reality check if the pertinent details are not well articulated.

■ Reference Tool

A well prepared business plan offers a benchmark against which actual performance can be measured and reviewed. As has been mentioned, a business plan will tell the entrepreneur when the trend in performance tends to deviate from the laid out plan. The plan provides an ideal setup. It may need to be changed, especially when changes in the economy or in the industry warrant it. At all times the entrepreneur should keep his business at par with his targets as well as with what the competitors are aiming at and even further.

Even after preparing a business plan, the entrepreneur may find that it is necessary to review it from time to time due to changing circumstances that come to light with time. This enhances the planning process and improves the business plan. Some aspects of the business plan may become obsolete with time and may thus require updating. This may be done even once the business is up and running.



4.3 COMPONENTS OF A BUSINESS PLAN

Fast forward: A business plan will reflect the vision of the business. The structures will be as varied as the types of businesses that exist.

There is no standard approach in preparing a business plan. There are many variations on the theme of what exactly goes into a successful business plan. All the variations however have the same basic elements. These are;

1. A brief description of the business background and purpose
2. Objectives; These should be both long term and short term
3. Products and services that will be offered
4. Competition

Market analysis and marketing strategy

Development and production plan/ Operations

Management and staffing

Financial Plan; This includes current and projected financial statements

Other aspects of a business plan that may be necessary for a successful write up are;

1. Executive Summary
2. Attachments/ Supporting documentation

Following is a detailed description of each element that goes into making a business plan;

History and Background

The entrepreneur must have had a 'moment of inspiration' that led him to start the business. An idea must have been triggered by the need to fill a gap that he had identified. In this section, the entrepreneur should communicate to the readers of the business plan how the idea was born. This will also give a first impression to the investors or lenders who can then either give it thumbs up or tread cautiously.

The business plan should clearly explain how the idea will be translated into profits. This is what will give the investors a clearer understanding of the overall picture of the proposed business. If the entrepreneur succeeds in winning the attention of the investor at this stage, he stands a high chance of getting the funds he urgently needs. If this section flops, then no matter how well written the other sections of the plan are, chances are high the reader will not be motivated to read ahead.

■ Objective

The entrepreneur needs to be specific as to what exactly he targets to achieve through the business plan. Most of the times, a business plan will be used to raise start up capital. At times, the plan may be prepared to get additional finance. The objective has to be very clear to whoever is intended to be the final reader.

Annual plans are used to manage a business. Business plans are used to attract capital. But there are exceptions, and often the difference between annual plans and business plans becomes muddled. Banks and other lenders or investors may require a copy of each year's annual plan. And management may use the start-up business plan as a basis for operating the business.

The most important thing for the entrepreneur to bear in mind is keeping the primary objective of and the primary audience for the plan clear. As a rule of thumb, if the plan will be used to attract investors or lenders, this is the primary objective and outsiders are the primary audience. If the plan will help manage the business, this is the primary objective and insiders are the primary audience.

■ The Product or Service

It is important for the reader of the business plan to thoroughly understand the product or the service that is going to be provided. However, it is important to explain this section in layman's terms to avoid confusion. The entrepreneur should not overwhelm the reader with technical explanations or industry jargon that he or she will not be familiar with.

It is important to discuss the competitive advantage the product or service has over the competition. If the product is new, the entrepreneur should explain what new thing it is going to add to the present market

If appropriate, the entrepreneur should discuss any patents, copyrights and trademarks the business currently owns or has recently applied for and discuss any confidential and non-disclosure protection the business has secured.

Any barriers that that the entrepreneur has faced in bringing the product to market, such as government regulations, competing products, high product development costs, the need for manufacturing materials, etc. should be discussed

Areas that should be covered in this section include:

- Is the product or service already on the market or is it still in the research and development stage?
- If still being developed, when is the expected date of the launch?
- What makes the product or service unique? What competitive advantage does the product or service have over its competition?
- Can the product or service be priced competitively and still maintain a healthy profit margin?



■ The Competition

To the entrepreneur, understanding his competition's strengths and weaknesses is critical for establishing his product's or services competitive advantage. If he finds a competitor is struggling, he needs to know why, so he doesn't make the same mistake. If his competitors are highly successful, he'll want to identify why. He will also want to assess the need for another competitor offering the same product or service in the market.

Specific areas to address in this section are:

1. Identify the closest competitors. Where are they located? What are their revenues? How long have they been in business?
2. Define their target market.
3. What percentage of the market do they currently have?
4. How do the entrepreneur's operations differ from his competition? What do they do well? Where is there room for improvement?
5. In what ways is the business superior to the competition?
6. How is their business doing? Is it growing? Is it scaling back?
7. How are their operations similar to his and how do they differ?
8. Are there certain areas of the business where the competition surpasses him? If so, what are those areas and how do you plan on compensating?

Analyzing competitors should be an ongoing practice. Knowing the competition will allow the entrepreneur to become more motivated to succeed, efficient and effective in the marketplace.

The entrepreneur will also need to do a competitive analysis. In this section he will need to do an in-depth analysis of the competitive advantages and weaknesses of his firm. When exploring weaknesses he should include information that will help allay any concerns that may arise as to their ability to significantly hinder his success.

This section is important, especially if the company is a start-up, because the entrepreneur will, typically, be competing with established companies that have inherent advantages such as financial strength, name recognition, and established distribution channels. Through this competitive analysis, the entrepreneur will be better prepared to counter competitor moves or strengthen his own position in the market.

■ The Market

Investors look for management teams with a thorough knowledge of their target market. If a new product is being launched, the entrepreneur should include his marketing research data. If he has existing customers, he should provide an analysis of who his customers are, their purchasing habits, their buying cycle.

This section of the plan is extremely important, because if there is no need or desire for the product or service there won't be any customers. If a business has no customers, there is no business.

This section of the plan should include:

- A general description of the market
- The function that the entrepreneur is planning to capitalize on and why
- The size of the niche market. Include supporting documentation.
- A statement and supporting documentation as to why the entrepreneur believes there is a need for the product or service in the market.

- A projection of the percentage of the market that will be captured.
- What is the growth potential of the market? Include supporting documentation
- Will the firm's share of the market increase or decrease as the market grows?
- How will the growth of the market be satisfied?
- How will the goods or services be priced in the growing competitive market?

■ The Marketing Strategy

Once the entrepreneur has identified who his market is, he'll need to explain his strategy for reaching the market and distributing his product or service. Potential investors will look at this section carefully to make sure there is a viable method to reach the target market identified at a price point that makes sense.

The entrepreneur should analyze his competitors' marketing strategies to learn how they reach the market. If their strategy is working, he should consider adopting a similar plan. If there is room for improvement he should work on creating an innovative plan that will ensure his product or service leaves a mark in the minds of his potential customers. The most effective marketing strategies typically integrate multiple mediums or promotional strategies to reach the market.

■ Advertising and promotion

The entrepreneur should give a break-out of what methods and media he intends to use and why. If he has developed an advertising slogan or unique selling proposition he may mention it, but it isn't strictly necessary.

He should outline the proposed mix of his advertising media, use of publicity, and/or other promotional programs.

The entrepreneur should explain how his choice of marketing vehicles will allow him to reach his target market. He should also explain how they will enable him to best convey his product features and benefits.

He should be sure that his advertising, publicity, and promotional programs sound realistic, based upon his proposed marketing budget. Effective advertising, generally, relies on message repetition in order to motivate consumers to make a purchase. If he is on a limited budget, it is better to reach fewer, more likely prospects, more often, than too many people occasionally.

■ Sales

His sales strategy needs to be in harmony with his business strategy, marketing strategy, and his company's strengths and weaknesses. For example, if his start-up company is planning on selling products to other businesses in a highly competitive marketplace, his market entry will be easier if he relies on wholesalers or commissioned sales representatives who already have an established presence and reputation in the marketplace. If his business will be selling high-tech products with a range of customized options, his sales force needs to be extremely knowledgeable and personable.

The following are some promotional media options to consider:

- TV
- Radio
- Print



- Web
- Direct mail
- Trade shows
- Public relations
- Promotional materials
- Telephone sales
- One-on-one sales
- Strategic alliances.

Developing an innovative marketing plan is critical to his company's success. Investors look favorably upon creative strategies that will put the product or service in front of potential customers.

Once the entrepreneur has identified how he will reach the market, he should discuss in detail his strategy for distributing the product or service to his customers. Will he use mail order, do personal delivery, hire sales reps, contract with distributors or resellers, etc.?

■ Production Plan / Operations

Once the entrepreneur has had an opportunity to really sell his idea and get the attention of potential investors, the next question on his mind should be how he will implement the idea. What resources and processes are necessary to get the product to market? This section of the plan should describe the manufacturing, research and development, purchasing, staffing, equipment and facilities required for his business.

The entrepreneur will want to provide a roll out strategy as to when these requirements need to be purchased and implemented. His financials should reflect his roll out plan.

In addition, he should describe the vendors he will need to build the business. Does he have current relationships or does he need to establish new ones? Who will you choose and why?

Operations is a catch-all term used to describe any important aspects of the business not described elsewhere. If the start-up is a manufacturing concern for instance, the entrepreneur should discuss critical elements of the manufacturing process. For retail businesses, discuss store operations. Wholesalers should discuss warehouse operations.

In addition to discussing areas that are critical to operations, the entrepreneur should briefly summarize how major business functions will be carried out, and how certain functions may run more effectively than those of his competitors. He should not get into long descriptions of any business or operation practices that will not sell his business plan to financiers.

■ Management and staffing

For most investors the experience and quality of the management team is the most important aspect they evaluate when investing in a company. Investors must feel confident that the management team knows its market, product and has the ability to implement the plan. In essence, the entrepreneur's plan must communicate management's capabilities in obtaining the objectives outlined in the plan. If this area is lacking, his chances for obtaining financing are bleak.

If his team lacks in a critical area, he should identify how he plans on compensating for the void. Whether it is additional training required or additional management staff needed, he should show that he knows the problem exists, and provide his options for solutions.

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When preparing this section of the business plan he should address the following five areas:

1. Personal history of the principals:
 - a. Business background of the principals
 - b. Past experience -- tracking successes, responsibilities and capabilities
 - c. Educational background (formal and informal)
 - d. Personal data: age, current address, past addresses, interests, education, special abilities, reasons for entering into a business
 - e. Personal financial statement with supporting documentation
2. Work experience:
 - a. Direct operational and managerial experience in this type of business
 - b. Indirect managerial experiences
3. Duties and responsibilities:
 - a. Who will do what and why
 - b. Organizational chart with chain of command and listing of duties
 - c. Who is responsible for the final decisions?
4. Salaries and benefits:
 - a. A simple statement of what management will be paid by position
 - b. Listing of bonuses in realistic terms
 - c. Benefits (medical, life insurance, disability...)
5. Resources available to his business:
 - a. Insurance broker(s)
 - b. Lawyer
 - c. Accountant
 - d. Consulting group(s)
 - e. Small Business Association
 - f. Local business information centers
 - g. Chambers of Commerce
 - h. Local colleges and universities
 - i. Board of Directors
 - j. World Wide Web (various search engines)
 - k. Banker

The success of a business can often be measured by its employees. Seventy percent of consumers will go elsewhere if they don't receive prompt and courteous service. The entrepreneur must therefore, carefully consider the following questions in completing this section of the business plan:

1. What are his current personnel needs (full or part-time)? How many employees does the firm envision in the near future and then in the next three to five years?
2. What skills must employees have? What will their job descriptions be?
3. Are the people needed readily available and how will he attract them?
4. Will they be paid salaries or hourly wages?
5. Will there be benefits? If so, what will they be and at what cost?
6. Will he pay overtime?



Financial Data

At the heart of any business operation is the accounting system. It is important to have a certified public accountant establish accounting system before the start of business. At times there is a tendency for the entrepreneur to do it himself. An incredible number of businesses fail due to managerial inefficiencies. Leave it to the trained professional to help in the area of accounting and legal matters. If the business can't afford a public accountant to establish the books, then it is undercapitalized. The entrepreneur needs to secure additional resources before starting.

One of the first steps to having a profitable business is to establish a bookkeeping system which provides data in the following four areas:

- Balance Sheet/ Statement of Financial Position - indicates what the owner's equity is at a given point (the balance sheet will show assets, liabilities and retained earnings).
- Income Statement/ Statement of Comprehensive Income - also called the profit and loss statement is used to indicate how well the company is managing its cash, by subtracting disbursements from receipts.
- Statement of Cash Flows - this projects all cash receipts and disbursements. Cash flow is critical to the survival of any business.
- Break-Even Analysis - is based on the income statement and cash flow. All businesses should perform this analysis without exceptions. A break-even analysis shows the volume of revenue from sales that are needed to balance the fixed and variable expenses.

If the goal of the business plan is to obtain financing, the entrepreneur will be required to generate financial forecasts. The forecasts demonstrate the need for funds and the future value of equity investment or debt repayments. This exercise is critical in obtaining capital for the business. To obtain capital from lending institutions he must demonstrate the need for the funding and his ability to repay the loan.

The forecast generated should cover a three to five-year period. This is a period in which realistic goals can be established and attained without much speculation. Forecasts should be broken down in monthly increments.

Projections and forecasts are an integral part of the financial portfolio. The entrepreneur should carefully and accurately state his assumptions. Honesty is the best policy! Over-optimism and over-inflation can lead to failure.

Other relevant Information

Executive Summary

Executive summaries should be short and concise—one page is ideal. It should cover the following points:

1. Strategy overview. The entrepreneur should start with a brief overview of his business strategy. If his business will be based, at least initially, on a particular product or service, he should describe this in the introductory paragraph.
2. Strategy logic. In the next paragraph or two, he should explain why his strategy makes sense or why his product or service has promise. Is he entering a fast-growing market or providing a unique product or service that distinguishes his business from existing businesses?

3. Business development. Next, he should describe the stage his business is in.
 - Is it already generating sales?
 - Has he done test marketing?
 - Is a prototype developed?
 - Has market research been performed?
4. Staffing. The entrepreneur should name the key people in his organization and describe, briefly, what special talents, expertise, or connections they will bring to the business.
5. Financial objectives. If his plan is being developed to raise capital, he should be clear about the amount of capital he is seeking and how he plans to use investor or lender funding.
6. Business organization. He should describe the form of business organization he will take and where the company will be located.

The entrepreneur should ensure to keep his summary short and easy to understand. He should avoid technical jargon and details. He should not try to summarize all of the different major elements of his plan. He should focus on the key elements that he think will be of most interest to his audience.

Supporting Documentation

The entrepreneur must include any documents that lend support to statements made in the body of his company's business plan. The following is a list of some items for his consideration. Note that this list is not complete and may vary depending on the stage of development of his business.

1. Resumes
2. Credit information
3. Quotes or Estimates
4. Letters of Intent from prospective customers
5. Letters of Support from credible people who know you
6. Leases or Buy/Sell Agreements
7. Legal Documents relevant to the business
8. Census/Demographic data



CHAPTER SUMMARY

- A business plan is a documented plan of action that an entrepreneur should have as a pre-requisite for his business venture. This plan sets out in specific terms what he envisions for the firm (the goals) and how he intends to achieve those goals.
- The business plan should therefore be well prepared. A lot of thought and preparation should be put into ensuring that a well balanced business plan is prepared that is realistic and can convince any stakeholder of the business of what the business is all about.
- Some of the uses of a business plan are as follows:
 - To attain an understanding of the business. This is for external and internal users
 - To obtain financing
 - To act as a management tool
- There is no specific structure that a business plan should adopt. There are varied formats that may be adopted, but the following main features should always be there
 - A brief description of the business background and purpose
 - Objectives;
 - Products and services
 - Competition
 - Market analysis and marketing strategy
 - Operations
 - Management and staffing
 - Financial Plan
 - Executive Summary
 - Supporting documentation

CHAPTER QUIZ

1. What is a business plan?
2. Why is it important that an entrepreneur prepares a good business plan?
3. List and explain 5 uses that an entrepreneur may have for his business plan
4. What are the components of a business plan?
5. What is a marketing strategy?
6. In staffing, what should the entrepreneur bear in mind while preparing the business plan?
7. What is contained in an executive summary?

ANSWERS TO THE QUIZ

1. A business plan is a detailed account of how the entrepreneur plans to convert his ideas and vision into a real, functioning business. It is a document that outlines all the steps that the entrepreneur intends to follow to achieve the objectives or goals he has already envisioned for his business.
2. A good business plan articulates the entrepreneur's vision for his business. It confirms his understanding of the business. With the business plan, the entrepreneur has a road map of how he will convert the visions he has to a profitable business. This plan, if well prepared will convince all the parties who matter to support the entrepreneur.
3. A business plan can help the entrepreneur;
 - Better understand the business
 - Obtain financing from financial institutions
 - Use it as a tool for management
 - Use it as a tool for planning and guidance
 - Highlight risks involved
4. The basic components of a business plan include;
 - A brief description of the business background and purpose
 - Objectives;
 - Products and services
 - Competition
 - Market analysis and marketing strategy
 - Operations
 - Management and staffing
 - Financial Plan
 - Additional sections
 - Executive Summary
 - Supporting documentation
5. A marketing strategy refers formal plan on how a product or a service can reach a targeted market. The onus is on the entrepreneur to chart out a way forward for his product to reach the intended customer and clearly set this procedure out in the business plan Potential investors will look at this section carefully to make sure there is a viable method to reach the target market identified at a price point that makes sense.
6.
 - Personal history of the person(s) to be hired:
 - Work experience
 - Duties and responsibilities to be assigned
 - Salaries and benefits
 - Resources available to his business



7.

- Strategy overview
- Strategy logic
- Business development
- Human resources
- Financial objectives
- Business organization

EXAM QUESTIONS

QUESTION ONE

Define the term "Business Plan"

(3 Marks)

Describe the various components of a business plan

(12 Marks)

QUESTION TWO

Whose responsibility is it to prepare the business plan? Why is this so important? (5 Marks)

Clearly explain 5 benefits that an entrepreneur stands to gain from a well prepared business plan. (10 Marks)

SAMPLE BUSINESS PLAN (ADAPTED)

SECTION ONE: THE BUSINESS PROFILE

Description of My Business

I plan to market a complete line of bathroom accessories including soap dishes, toothbrush holders, coat hooks, and towel bars. The product line will be designed in my home office and manufactured and packaged in China.

Targeted Market and Customers

My customers will be discount department store chains with good credit ratings and reputations for prompt-payment. These will include Albertson's, Costco, Fleming, Wal-Mart, K-Mart, Target, and selected others.

Growth Trends In This Business

This information will need to be targeted to your own intended product. Can you document from trade sources the anticipated rate of growth of your industry? If industry sources are not available, you will need to give a logical explanation as to the trend and potential of your intended market. This segment will provide you and your backers with information as to whether the market for your product is growing or shrinking.

Pricing Power

I will not initially enjoy pricing power in marketing Widget accessories. Discount chains will be primarily interested in price. In order to achieve lower costs than my larger competitors I plan to do the following: _____.



My ultimate goal is to build a line so unique and promote it so effectively that consumers will be willing to pay a premium. My long-term objective is to build a market that is not entirely based on price. My unique features will include: _____.

SECTION TWO: THE VISION AND THE PEOPLE

The Vision

I have a long-term plan to be in business for myself and to utilize the specialized business knowledge I have gained. The business relationships I have developed include vendors, discount chain buyers and manufacturing resources. They are: _____, _____, _____. (List and explain in detail how they will help you).

The reasons that I feel my plans are realistic are: _____. I am the right person to pursue this opportunity because: _____.

There are special market conditions that are favorable to my getting started at this time. They are: _____.

The People

Work Experience Related To My intended Business

My work experience has been as follows:

1995 – 1998 Position _____ at _____ Co. Describe your work

Responsibilities in detail: _____

1998 – 2006 Product Manager at ABC Imports Co. Describe your work

Responsibilities in detail: _____

I have included a list of work references and character references as Exhibit A

I have personal contacts in Hong Kong and Singapore who are ready to assist in the design, production, and packaging of the WIDGET line. Two large discount chains have encouraged me to make presentations to them.

Personal Background and Education Credentials

EDUCATION CREDENTIALS:

My education includes: _____ grade School, graduation from _____ high school (class of ____).

My higher education includes a _____ degree earned in _____ at _____, _____ year.

In _____ school I participated in the following activities (student council, student body officer, sorority/fraternity, clubs, etc.) I have also taken the following courses and seminars: My Own Business Internet Course, _____, and _____.

My hobbies are: _____

My ongoing education includes subscriptions to the following professional journals: Wall Street Journal, Plastics World, etc.

I belong to the following professional and service organizations: National Association of Importers, Rotary Club, etc.

SECTION THREE: COMMUNICATIONS

Computer and Communications Tools

I plan to take advantage of all the computer and communications tools presently available to establish myself on the same level playing field as my large competitors. Following are the tentative specifications and budget for this equipment.

Resource Requirements:

Communications

Enter a description of all communications equipment.

Enter a budget for all communications equipment.

Telephones

Enter a description of all telephone equipment.

Enter a budget for all telephone equipment.

Computers

Enter a description of all computer equipment.

Enter a budget for all computer equipment.

Internet

Enter a description of necessary Internet providers.

Enter a budget for Internet access.

SECTION FOUR: ORGANIZATION AND INSURANCE

Business Organization

I plan to form a corporation for my business. It is my intention to grow Widget into a large firm with international relationships. The initial and ongoing costs of operating as a corporation will be a necessary business expense. Also, since a properly run corporation will afford me some limits of liability, I feel this is the right form of business for me. I intend to depend on my attorney to handle all aspects of setting up the corporation and maintaining proper corporate records.



Professional Consultants

I feel it is important that my team of professional advisors be in place before I start in business. Here is a list of these professionals:

Attorney: Suzie Catchum

Accountant: Norman Numbers

Insurance Agent: Paul Premium

Banker: Douglas Deepockets

E-Commerce Consultant: Mary Smith

Other: _____

Other: _____

Licenses

My Widget Corporation will require the following licenses. I will need to research the requirements for my own location and circumstances:

1. City Hall: This could include the business license department, planning department, building department, health department, etc.
2. Norman Numbers, my accountant will give me advice on federal, state and local reporting and licensing requirements.
3. My lawyer, Suzie Catchum, will provide me with a checklist

Insurance

I plan to use the services of Paul Premium, my insurance agent. My insurance policies and limits of coverage are as follows:

Mr. Premium will provide me with a tabulation of all insurance policies and limits of liability.

SECTION FIVE: PREMISES

Location Criteria

During my start-up phase of approximately 6-12 months, I plan to operate out of my home office. Once my business is established, my initial office requirement will be approximately 1,000 square feet with two private offices and a secretarial area. My office criteria will include:

1. Convenience to my home.
2. A short-term lease of 1 - 2 years with two 1-year options.
3. A lease provision that the landlord provide me expansion space as required with a Kick-out clause if expansion space is not available.
4. Office layout including tenant improvements provided by the landlord. See Exhibit "C".
5. Lawyer review of the lease.
6. Use of the Lease Check-off list that is attached as an exhibit.

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The use of these location criteria will gain me experience in handling much larger leases for space in the relatively near future. Future growth plans include warehousing of merchandise. I will be incurring large lease obligations that will be carefully reviewed. Location studies will include:

- Space requirements
- Future requirements
- Site analysis study if needed (attach)
- Demographic study if needed (attach)
- Lease check-off list (attach)
- Estimated occupancy cost as a % of sales
- Zoning and use approvals

SECTION SIX: ACCOUNTING AND CASHFLOWS

Accounting

My knowledge of accounting is: _____. (If you are deficient in basic accounting knowledge, then state how you intend to gain this needed know-how.)

My accountant: I plan to work with Norman Numbers.

Accounting and payroll software programs: I will be using the following systems: _____.

Method of accounting: I will use the accrual method of accounting since this is generally required by the Internal Revenue Service for businesses dealing with manufacturing and inventory.

Business records: I will keep Widget accounts and records separate from my personal records.

Tax issues: My accountant, Mr. Numbers, will help me set up records for payments of social security tax, estimated income tax payments, payroll taxes and state withholding and sales taxes. My federal employer identification number (FEIN) is: _____. My state identification number is: _____.

Internal controls: Mr. Numbers will also help me set appropriate controls for handling funds in my business including inventory policy and controls. Purchasing, capital acquisitions and signing of checks will not be delegated.

Quarterly returns: Taxes will be paid in the appropriate time frames. Mr. Numbers will help me set up resale permit records for reporting to my state franchise tax board.

Bank account reconciliation: Bank accounts will be reconciled on a monthly basis.

Balance sheet: Attached is a separate exhibit of my starting balance sheet. Included is a schedule of equipment and fixtures needed that will appear on my balance sheet.

Income statements: Attached are my projected income statements for the first six months and one year.



Cash Flow Planning

Attached is an exhibit of my one-year cash flow analysis including estimated sales, all costs and capital requirements. I have included a checklist of all expense items for input into my cash flow projections

Analysis of Costs

Attached is an itemized cost-breakdown of each individual Widget product that will be in my initial line. My initial target mark-up will be _____%.

Internal Controls

My accountant, Norman Numbers, is experienced in my type of business, which includes international trade. He will help me set up a system of internal controls to make sure that Widget Corporation will receive all of its' income without any of it being siphoned off by waste, fraud, dishonest employees or carelessness.

This will include an inventory policy including who can sign for goods and services and who controls the release of goods and services out the door. Included in the internal control policy will be the requirement that the only person authorized to sign purchase orders, make capital acquisitions and sign checks will be I personally.

SECTION SEVEN: FINANCING

Financing Strategy

My requirements for start-up capital are as follows:

Attached is a list of expenses for which I will require either start-up capital or financing. These items include buying supplies, getting a computer, equipment and fixtures, tooling, travel expenses and start-up overhead expenses. These expenses are included in my monthly cash flow projection to indicate the ongoing requirements for cash.

My sources of cash for starting my business are as follows. I have provided a spreadsheet showing all of the sources of start-up equity capital.

My sources of financing for starting my business are indicated in the following spreadsheet. While I will not be depending on banks for financing, there will be other resources available to me such as leasing of equipment and fixtures, credit from suppliers, mortgage financing, etc. My referrals include the following helpful contacts to lending institutions: my accountant, the Small Business Administration, friends, relatives, etc.

I am prepared to make presentations to potential lenders. My presentation kit includes this business plan, my personal financial statement and personal tax returns. I will be prepared to be specific in my needs for financing, the payback program and my sources of repayment. I will furnish potential lenders a cash flow projection showing sources of repayments and I will be conservative in my forecasts.

SECTION EIGHT: E-COMMERCE

E-Commerce Plans

A website focusing on business-to-business E-commerce will be an important tool in my overall marketing program. I plan to build and install the www.widgetcorp.com website, which I have already registered. This will permit my discount department store customers to have access to my product line and to order (and reorder) merchandise via this website. I plan to hire Mary Smith of Smith E-Commerce Consulting Company to design, install and maintain this site.

The features of the www.widgetcorp.com site will include:

- It will be easy to use with good navigational features and prompt loading.
- The site will provide useful content including detailed information about all items in my product line.
- Purchasing procedures on a B-to-B basis will be designed and implemented.
- I intend to use the site to generate client feedback to help improve every aspect of my product line, operation and business procedures.

E-Commerce Budgeting

The budget for design, implementation and start-up of the E-Commerce site will be _____. This is based on a firm contract with Mary Smith of Smith E-Commerce Consulting Company. The estimated monthly maintenance cost to support the site will be

\$ _____.

E-Commerce Competition

The use of business-to-business e-commerce has become standard in my industry and is an important marketing tool. It is my intention to maintain a website that will project the image of a fresh and dynamic resource to my customers. I plan to keep abreast of the website developments of my competitors and to constantly improve my site.

SECTION NINE: ACQUISITIONS

Due Diligence Procedures for Acquisitions

I may have opportunities to acquire businesses in the future. In order to position myself to investigate acquisitions intelligently, the following “due diligence” process will be adhered to.

I will use a team of experts to give specific advice on the various components of the acquisition:

- Attorney
- Accountant
- Banker
- Broker
- Equipment supplier
- Other business owners



The following information will be required:

1. Sellers records and verification of revenues
2. Current financial statements
3. Cash deposit records
4. Supplier bills
5. Financial comparisons of similar businesses
6. Other _____

Valuation analysis will include:

- Basis for valuation: appraisals, etc.
- Method of purchase: stock, assets, etc.
- If a franchise, interview with randomly selected franchisees
- Evaluation of predictable future earnings
- Status of seller's motivation to sell
- Sources of acquisition financing
- Inspection of seller's personal and business tax returns
- Evaluation of leases and contracts
- Quality of improvements
- Quality and size of inventory. Obsolete merchandise?
- Condition of receivables
- Status of payables
- Status of verified order backlog
- Evaluation of customer relationships and goodwill
- Evaluate government approvals and licenses
- Status of pending litigation
- Other _____

SECTION TEN: MARKETING

Marketing Plan

I plan to focus all initial marketing efforts on establishing a beachhead at one large discount department store chain. I will personally be responsible for the contacts with the appropriate buyers. My complete line will be presented as a package including display accessories that tie into the merchandising policies of each chain. Initially my price structure will be based on a maximum markup of _____% in order to provide a strong price incentive. I will be depending on the combination of fresh styling, quality and price to break into this market.

Advertising and Promotion Plans

Short Range Plan (6 to 12 months): Initially my advertising and promotion will be done on an entirely personal basis without any budget for paid advertising. My customers require personal visitation by the CEO's of their vendors. It will be my plan to limit my advertising budget to personal travel expenses in making these presentations and follow-up presentations.

Mid Range Plan (12 – 36 months): To establish brand recognition at the retail level, I plan to budget _____% of my sales to joint advertising with my discount department store customers. I will solicit presentations from local advertising agencies.

Long Range Plan: I plan to aggressively build brand recognition and loyalty by budgeting _____% of sales, which will be allocated between space advertising in trade journals, appropriate consumer magazines and joint advertising with my customers.

Training Policies

Initially I will personally handle sales to my discount department store customers. As my business expands, I intend to begin marketing to smaller retailers. I will hire sales associates who can gain the confidence of smaller buyers who want to deal with vendors that are knowledgeable and helpful. To achieve these qualities I will look for the following characteristics in marketing employees. People who:

- Like what they do
- Are quick learners
- Project a pleasant and positive image
- Like people and relate well to them
- Are helpful to customers and follow associates
- Are ambitious and seek to grow in responsibilities

I will follow a checklist in hiring marketing associates:

- Have a hiring policy in place including written salary structure, commission compensation and perks.
- Create job descriptions for everyone.
- Conduct ongoing marketing meetings.
- Have written policies and procedures on handling customer complaints.
- Maintain clear guidelines for pricing policies and handling customer's inquiries

The Competition

My principal competitor is Colossal Plastics Company. I have included a list of all major competitors in this business and a brief sketch including to whom they sell. (Provide a tabulation of these competitors).

How I Plan to Take Advantage of Competitors' Weak Points

My biggest competitor is Colossal Plastics Company, which has a 20-year history of success and has gained strong brand-recognition. But they have developed a large overhead structure, which I will not have. They are also slow to make changes and upgrades to their line of products. I plan to overcome their leadership with fresh new designs, artwork and attractive packaging and to be priced very competitively. I intend to continually introduce additions and refinements to the line.

Also, my end-user profile is for younger families who are not impressed by old-line brand names. Operating with a very low overhead, I believe I can gain a foothold in this market. A similar profile of my other principal competitors is enclosed indicating their weak spots and how I plan to capitalize on these deficiencies.

Adopted from www.myownbusiness.org



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STUDY TEXT

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CHAPTER FIVE



STUDY X

EMERGING TRENDS IN ENTREPRENEURSHIP

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CHAPTER FIVE

EMERGING TRENDS IN ENTREPRENEURSHIP

► OBJECTIVES

By the end of this chapter, you are expected to:

- Understand the ethical issues the entrepreneur should bear in mind as he sets his business
- Describe the obligations the entrepreneur has to the various stake holders of the business
- Explain why it is so necessary that the entrepreneur does not ignore environmental issues
- Identify the emerging issues in business and define the various ways of achieving efficiency in business.
- Explain how the entrepreneur can apply the new business models to his advantage

► INTRODUCTION

An ethical approach to doing business has proved to play a vital role in shaping the growth of a business and to building the profile of the entrepreneur. The public needs to know that their interests are being addressed by the entrepreneur as he also strives to ensure that the business is making profits. The entrepreneur cannot ignore this noble call from the public, who constitute parties with a stake in the business. New ways of doing business are coming up. The entrepreneur should keep abreast with technology that is being used by fellow entrepreneur in other parts of the world. He should appreciate how globalization has made it possible for the business community worldwide to share ideas and various approaches to doing business.

► KEY TERMS

Ethics: A study of the moral issues and values that form the basis of human behavior in society.

Code of Ethics: A prescribed set of rules that a person or an organization associates with in all circumstances on ethical matters. It is the minimum level of ethical behavior that is the person/organization attests to

Social Responsibility: Duty owed to society for any activity carried out within its precincts.

E-commerce: The process of conducting business electronically.

Globalization: The process by which local, regional or national phenomena become integrated on a global scale.

► EXAM CONTEXT

This area has not yet been tested under the new KASNEB syllabus

► INDUSTRY CONTEXT

The entrepreneur cannot afford to ignore the realities affecting the economy and the steps he should take to ensure the business is keeping abreast with the dynamism affecting the business environment. The society's perception of what the business is doing and how it is taking into account its interest is very important and the entrepreneur should internalize the concerns in the management of the business.



5.1 ETHICAL ISSUES IN BUSINESS

The entrepreneur will be forced to deal with ethical issues from time to time in his business. This basically requires that the knowledge of right and wrong should be clear to him and the people he works with, bearing in mind that the interests of the business take priority.

Ethics refers to a set of principles prescribing a behavioral code that explains what is good and right or bad and wrong. It outlines moral duty and obligations. (Koratko and Hodgetts, 2004),

Ethics is the study of moral issues and values. Ethics involves choosing between right and wrong. A person who behaves ethically is one who operates in an upright and honest manner. Different cultures have different perceptions on ethics. In some countries, the society may not look down upon giving bribes in business, yet in others, this may be taken as a serious offense that warrants law enforcement. Other common types of unethical behavior are;

- Theft
- Falsification
- Embezzlement
- Stealing supplies
- Manipulating suppliers
- Failure to withdraw a defective product from the market place



5.1.1 Code of Ethics

A code of ethic outlines the protocol that should be followed in an organization on ethical matters. It's is a guideline to all the employees on how they should handle and report matters on moral issues, especially where the customers are concerned. It is the minimum level of ethical behavior that is demanded by the organization. An individual may of course have his own code of ethics. This needs to be in line with that of the business.

Businesses, large and small are faced with every type of ethical questions that range from simple to very complicated ones. The entrepreneur will need to study this area critically. He should research on what organizations in his industry have as their code of ethics, or if at all they value this aspect of business management. Once he has done this, he should consult experts in the field who may advice him on the minimum requirement for his type of business, as far as ethical matters are concerned. Consequently, the entrepreneur will need to devise a code that he believes will serve the interests of his business well. He should also find proper channels of communicating this to his employees, both new and old. It is something that he may consider placing in the organization's permanent file that may be accessed by all stake holders.

5.1.2 The Value of Ethics in Business

Business and ethics have always been considered as two separate and unrelated things. This however, is not the case. This view has changed dramatically over the years. Businesses have now realized that it pays to act ethically.

It has been felt that for a business man to be successful, then acting honestly may not be the wisest thing to do. An entrepreneur should simply concentrate on making profits and ensuring his business grows steadily. The view is that acting ethically may hurt the profits.

Research shows that acting ethically actually does increase revenues. Acting ethically attracts clients due to the confidence they have in a company's products and services. Suppliers will also be more willing to transact with a business that has high moral values.

Honesty is also reflected in the branding of products. Consumers will be willing to buy from a business that places all the relevant information on the product label so that the customer knows exactly what he is consuming. Repeat customers are created by well manufactured and branded products. The entrepreneur will want to establish an ethical workplace for several reasons;

- He wants to do the right thing and he wants to inspire his employees to do the same.
- He wants to serve as a role model
- He wants to be proud of the way he conducts himself and he wants others to be proud of his business.
- Ethical behavior is good for business because it gains the trust of customers
- Employees are more likely to act ethically if they see the business owner acting in an ethical manner.
- Acting ethically reduces the possibility of being sued

5.1.3 Enforcing the Code of Ethics

A business can encourage employees to adhere to a company's code of ethics in the following ways

- Reviewing the relevant laws and regulations pertaining to the business.
- Reviewing which values produce highly ethical and successful people or products.
- Identifying the top five to ten ethical values that are high priorities within the organization.
- Composing a code of ethics for the business. Within the code, an attempt should be made to associate two example behaviors with each value
- Including wording that indicates that all employees are expected to conform to the values stated in the code of ethics.
- Making sure there are no double standards and that management sets a good example by following the same code of conduct the employees must follow.

5.2 SOCIAL RESPONSIBILITY

In his business, the entrepreneur is not a single player. He needs to interact with other parties for there to be any meaningful business. These are the stake holders in his business and the manner in which he treats them has a lot of impact on the success or failure of the business. The entrepreneur has a responsibility to his customers, suppliers, investors, creditors, the government and the community at large. He should ensure that the business as an entity meets its end of the bargain when it comes to fulfilling the promises and objectives it set out to achieve. This is what is commonly referred to as Social Responsibility. It is an aspect of business management that should not be ignored by the entrepreneur.



Many firms have seen the importance of taking this aspect of business management seriously in recent years. It is a new and difficult area of consulting, one which addresses fundamental business concepts and purposes and the increasingly complex relationships of business firms with their environment. It is an area that is value-laden and controversial, where businesses have to face diverse and even conflicting interests, requirements, recommendations and pressures. It is an area the importance of which has grown considerably over the last two decades and will continue to grow in future years. Firms that accept that the landscape for the social role of business is changing confront a difficult series of operational challenges. They must make up for the deficiency in existing knowledge, competency, and systems around social responsibility management and begin to develop their capabilities. They are keen to get reliable and balanced guidelines on how to act. They increasingly appreciate help from consultants in facing both policy and operational issues related to their social roles, functions and relationships, especially if consultants demonstrate their ability to help in preventing conflicts and crises. Part of the consultants' role is to convince clients that social responsibility is becoming more and more an important part of business fundamentals. Consultants are called to help their clients define the most appropriate manner in which their business should relate to stakeholders, and take into account issues that are typically the province of the public and civil sectors. Both facets require consultants to first persuade, and then guide their clients into unmapped territory and untraditional roles. Consultants have no less of an agenda than to redefine the concept of "business as usual". Who then should the entrepreneur be responsible to? The following section examines the various stakeholders;

5.2.1 Responsibility to Customers

The entrepreneur's attention should be focused on his customers at all times. These are the stake holders whose influence on the business is most crucial. The entrepreneur can ensure that his customers' interests are well taken care of by;

Treating them with respect

This is important from the moment the customer walks into his shop or makes a call to the moment the transaction is completed

Act honestly

The entrepreneur should not always put the interests of the business way ahead of everything else even to the point of being dishonest. The customer deserves to know the truth at all times regarding the product or service been provided. He should help the customer make the right purchasing choice. He can do this by providing all pertinent information regarding the use of the product, the entrepreneur should ensure that this information is available to the customer, either as a label or a separate brochure. This is a legal requirement, in case there are dangers in using the product in a particular way.

Be objective about the product's success

The entrepreneur should not exaggerate about the good points of the product or service. Customers notice this and may not come back if what the entrepreneurs tells them about the product does not meet their expectations.

Be fair in handling disputes

Customer complaints will always be there in any kind of business. What the entrepreneur needs to do to achieve amicable relationship with his clients is to be as cool headed as possible when it comes to dispute handling. He should listen to all sides of the issue before deciding on his course of action. If he handles the situation badly, he risks losing a customer.

5.2.2 Responsibility to Suppliers

The entrepreneur needs his suppliers so he can get a continuous supply of commodities for his customers. He therefore needs to establish good relations with the supplier at all times

Treat them with respect

The entrepreneurs should established good relations with the supplier and train all his employees to do the same. Each supplier is a stake holder in the firm no matter what value their supplies are in any given trade period. If they are treated with respect, they in turn will treat the entrepreneur and his business with respect. This applies whether it is a simple phone call or an actual visit to or from their premises.

Refuse to participate in dishonest schemes

It is the entrepreneur's duty to act honestly in all dealings with the suppliers. This means that he should not initiate deals that involve the concealment of information either to the authorities or to any other third party. At the same time, the entrepreneur should not engage in unfair business practices as proposed by a supplier. This will enable him create a good reputation and his business associate will feel comfortable dealing with his business.

Give them time to fill their order

The entrepreneur should give the supplier time between making an order and having the same delivered. He should not make last minute orders and expect the supplier to deliver in record time. This is good business practice and shows respect for the suppliers' system of delivery. Orders should be made in good time and if there are possibilities of the need for emergency supplies, this should be pre arranged between the entrepreneur and the supplier.

Handle disputes fairly

In cases of disputes, the entrepreneur should calmly listen to the supplier's side of the story. A consensus meeting should be arranged where the two parties, plus a mediator, if the need arises can sit and iron out the differences amicably. The possibility of losing business on either party should be the overriding concern and an arrangement not to stifle trade should be worked out between the concerned parties.

Let the current supplier know the reason for change to another

It may turn out that a supplier for one reason or another is unable to meet the demands of the entrepreneur. Should this happen, the entrepreneur's main concern should be that his business operations are not adversely hampered by this. He may be forced to look for another supplier who can meet his demand. Once a decision is reached, it is good business practice to inform the current supplier of this in writing. This letter will be preceded, of course with prior communication on the dissatisfaction of the entrepreneur with respect to services delivered by the supplier, in which case the supplier will be given ample time to improve his quality of service.

**Do not return back goods damaged in your care**

The entrepreneur should ensure that all goods being returned to suppliers for credit due to damage or not meeting his order are bona fide returns. This means that they are valid returns and not part of his old stock.

5.2.3 Responsibility to Creditors**Honor Credit Policy**

The riskiest business for lenders of funds is the inability of the borrower to meet his end of the obligation. Lenders will expect the entrepreneur to adhere to the credit period as outlined in the credit policy. This document will normally be sent to the entrepreneur and he will be required to sign it before accepting the funds or the credit facility. The entrepreneur should strive to stick to the terms as much as possible and if there is a possibility of departing from the arrangement, proper communication should be done and in good time.

Acknowledge all correspondence

It is good business practice to acknowledge communications with creditors, whether in writing or email. These will normally be reminders to meet obligations or notices of lapse in credit period that was extended. The entrepreneur may not be in a position to act on the communication at a given moment. Proper communication as to his inability to do the same is a sign of courtesy.

5.2.4 Responsibility to Investors**Return on Investment**

The entrepreneur is a steward/ agent of the investors. He has been entrusted with funds and given the task of using them to yield the expected returns by investing properly. He therefore needs to constantly update the investors on how the business is doing. This will assist them make a decision as to whether to invest more or give the business more time to grow.

Financial Statements

The entrepreneur has the duty of informing the shareholders about the financial position of the business. This he can achieve by preparing financial statements (Statement of comprehensive income and statement of financial position). The entrepreneur should free himself from any bias in the preparation of the financial statements. The shareholders and any potential investor would need the financial statements so as to make informed investing decisions.

5.3 ENVIRONMENTAL ISSUES IN BUSINESS

Major business corporations have been on the war path with environmental lobby groups, mostly Non – Governmental bodies, over the issue of environment conservation. This has sparked debates as to whether most entrepreneurs and executives give due importance to issues concerning the physical environment in which their businesses operate or whether their main motive is wealth maximization at the expense of a sound environment. Most executives in large firms are concerned in cutting down on their internal costs of production. This in turn has resulted in external costs increasing as a result of waste management strategies that attempt to pass on the cost hurdle to other parties. In the end, it is the environment that bears the brunt of profit maximization objectives of the business. This may not apply to all corporations but more often than not, all players in the business world have something to do with this.

One main cause of the disparity between the two warring groups mentioned above is the timescales that forms the basis of their respective objectives. While most businesses want to record high profits within a relatively short period of time, the environmentalists have long term plans for the environment. The environment conservation measures have long term implications and this does not go very well with the profit maximization objectives of a growing firm.

To resolve the conflicts, there has to be some consensus between the environment support groups and the business community. The entrepreneur is a stake holder in these deliberations and should take an active role in resolving the conflicts. The N.G.Os with help from the government can facilitate dialog in the following ways;

- Encourage upcoming businesses to take social responsibility seriously and even have this as part and parcel of their short term and long term business objectives.
- Encouraging top management in the corporations to have environment conservation as one of the important matters under their social responsibility objective. This ensures that policy formulation regarding this matter will be given the importance it deserves.
- Involving all individuals in the business community in the environment conservation exercises that are organized from time to time. This also includes the top management and directors of major companies. Once they lead by examples, their employees and budding entrepreneurs will borrow a leaf from their involvement.
- Clarify roles and responsibilities regarding environmental protection by developing an organized structure to deal with environmental protection matters, defining environment-related procedures, etc.
- Strive to alleviate burden on the environment in all aspects of business activities - from product research and development and design to procurement of raw materials, manufacture, transport, usage, servicing and disposal - through pollution prevention, conservation of resources, energy saving, waste reduction, reuse and recycling.
- Strive to develop and provide advanced, highly reliable, wholly proprietary technologies and products that will contribute to solving environmental and energy problems.



- Strive continuously to improve and enhance environmental protection activities not only by fully complying with environmental laws and regulations but also, when necessary, by establishing, implementing and evaluating independent standards and setting environmental goals and targets.
- In the performance of business activities overseas and exportation of products, pay full heed to impact on the local natural and social environments and strive to protect those environments; also, become actively involved in technological cooperation overseas in matters of environmental protection.
- As part of the annual report to shareholders, registered companies should be required to give a report on its social responsibility activities and include a report on measures taken to prevent environment pollution in addition to the pro active measures taken to conserve the same.

This forum can be organized by the N.G.Os or by the government through the relevant ministry that is in charge of environment conservation.

In any business, the motto often goes something like "We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society."- A business should thus believe and have as its primary purpose to contribute to society through its research and development, manufacturing and other business activities. Accordingly, in the performance of its business activities the company should embrace the awareness that it is an integral member of society and, in all aspects of its business activities, it will strive to reduce burden on the environment and shall devote its comprehensive technological capabilities to the development of technologies and products that will protect the environment, as its way of contributing to the development of a sustainable society.



5.4 EMERGING TRENDS

5.4.1 E – Commerce

E – Commerce also known as Electronic Commerce consists of the buying and selling of products or services over electronic systems such as the Internet and other computer networks. The amount of trade conducted electronically has grown extraordinarily with widespread Internet usage. The use of the internet in conducting trade in this manner is spurring and drawing on innovations in electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems. Modern electronic commerce typically uses the World Wide Web at least at some point in the transaction's lifecycle, although it can encompass a wider range of technologies such as e-mail as well.

The entrepreneur, in considering whether this is the path he wants to take, should arm himself with all the pertinent facts about E-Commerce. He should carry out extensive research into the trends in external markets and assess how this pattern is taking effect in the local economy.

E - Commerce has grown tremendously in the last few years, with retailers offering on line shopping tripling in 1998 alone. The Internet has offered merchants a method of reaching new markets and new customers, and customers have found E - Commerce an effective way of researching and purchasing goods without the hassles of crowds, parking and checkout lines. One fact that cannot be argued against is that things are *constantly* changing and will continue to do so into the foreseeable future. Change has become the one constant rule in E - Commerce and probably will be for some time to come.

A large percentage of electronic commerce is conducted entirely electronically for virtual items, i.e. products that do not have a physical aspect attached to them, such as shares in the stock market. However, most electronic commerce involves the transportation of physical items in some way. Online retailers are sometimes known as e-tailers and online retail is sometimes known as e-tail. Almost all big retailers have electronic commerce presence on the World Wide Web.

Electronic commerce that is conducted between businesses is referred to as business-to-business or B2B. B2B can be open to all interested parties (e.g.. commodity exchange) or limited to specific, pre-qualified participants (private electronic market). Electronic commerce that is conducted between businesses and consumers, on the other hand, is referred to as business-to-consumer or B2C. This is the type of electronic commerce conducted by companies such as Amazon.com. This model could be useful to an entrepreneur who wants to open an on line bookshop.

Electronic commerce is generally considered to be the sales aspect of e-business. It also consists of the exchange of data to facilitate the financing and payment aspects of the business transactions.

■ E-Commerce Features

E-commerce software ranges from affordable, off the shelf packages designed for small business owners, to fully customizable software for larger firms. E-commerce software typically offers user design tools, integrated with other utilities such as inventory control, accounting, sales and purchasing, web-based reporting and robust security features to ensure secure financial transactions and customer privacy

Off the shelf software seem to work for the small business owner or entrepreneur. This software provides an affordable way to open an on line sales channel. Web-based user design tools, shopping cart templates and built-in support for secure transactions make it possible to get a business up and running in a matter of days.

Why should an entrepreneur be concerned about E-Commerce? The following section examines the benefits he is likely to receive;

- More exposure, more profit.
Marketing a product or a service via the Internet provides direct company exposure 24 hours a day, 365 days a year all over the world. This gives the company a better chance to earn more profit by providing the means to reach more customers.



- **Reduces company expenses**
Setting up and maintaining an e-commerce web site is more economical than setting up a retail outlet or maintaining a large office. The company no longer needs to spend so much on promotional materials or installation of expensive equipment to be used for customer service, nor does it need to hire more personnel to do the inventory duties. An online database keeps the purchasing history of the company and the customers. A single person can retrieve the database to check purchasing histories easily. It can also reduce operations cost, as the employees can electronically share and access data, preventing the need for multiple printings.
- **Information sharing between business Partners and other businesses**
E-commerce provides an effective way to exchange business information with partners, as it is Internet-based. E-commerce also allows companies to buy the goods and services presented by other online companies (suppliers) - known as business-to-business (B2B). An entrepreneur's customers are also likely to benefit from E-Commerce in the following ways;
 - **Convenient and time-saving shopping**
The e-market is open 24 hours, every day. There is no need for the customers to travel, wait in long lines or even carry an item back home. A click on the product and your credit card information (for Electronic Fund Transfer) are all it takes to purchase an item and have it delivered. Aside from credit cards, customers can also choose from a variety of convenient payment.
 - **Better choices.**
Aside from the opportunity to visit a wide variety of on-line shops, e-commerce allows customers to check complete information about a certain product. In addition to that, there are no sales persons pressuring the customer into buying a product.
 - **Cheaper prices.**
Going on-line reduces company expenses. As a result, customers can buy items from many on-line companies at lower prices than offered by traditional stores.
 - **Customer satisfaction.**
The Internet provides real-time, interactive communication. The company utilizes these features of the Internet to quickly respond to customer queries, thus providing better customer service and greater customer satisfaction.

■ The Entrepreneur's interest

The entrepreneur thinking about trading through E – Commerce should carry out a feasibility study to see whether the project can generate a return on investment. It is important that the entrepreneur is not carried away with the hype of technology. The need for this technology should translate into positive returns after a while.

The entrepreneur is likely to increase sales as he will be running parallel systems for a while before going full scale into e-commerce, should he decide to do this. He will need to get an Internet Service Provider (ISP) to host the e-commerce site. The ISP will facilitate the creation of an Internet presence of the business. This may be one of the set up costs the entrepreneur should be prepared to incur. The entrepreneur should also bear in mind the security issues as he goes into e-commerce. E-Commerce exposes the business to the Internet where all sorts of data traverse. Some of this data may pose a threat to the business in the sense that confidential information may be picked up by a third party and used maliciously for personal gain.

5.4.2 Business Outsourcing

Outsourcing is one of the emerging business opportunities that have arisen in the recent past. It involves an organization taking out of its hands functions and processes that are not core to its mainstream activities or reason for existence and entrusting these tasks and operations to an entity that has the capabilities and expertise to carry them out more efficiently.

Outsourcing can also be defined as the process of subcontracting a process, such as product design or manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering cost or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labor, capital, (information) technology and resources.

Business process outsourcing (BPO) is a form of outsourcing that involves the contracting of the operations and responsibilities of a specific non – core business functions (or processes) to a third-party service provider. The main motive for Business Process Outsourcing is to allow the company to invest more time, money and human resources into core activities and building strategies, which fuel company growth.

The entrepreneur, in fact, doesn't need to justify outsourcing. They might even have to justify work done internally, that could easily be outsourced.

The global market today is highly competitive and ever-changing. A business must focus on improving productivity and yet, cut down costs. Therefore, a lot of tasks that use up precious time, resources and energy, are being outsourced. BPOs, or the units to which work is being outsourced, often are flexible, quicker, cheaper and very efficient.

Business Process Outsourcing helps free up a firm's capital and reduce costs. The functions or processes being outsourced range from manufacturing to customer service to software development and much more.

BPO is typically categorized into back office outsourcing - which includes internal business functions such as human resources or finance and accounting, and front office outsourcing - which includes customer-related services such as contact center services.

BPO that is contracted outside a company's country is called offshore outsourcing. BPO that is contracted to a company's neighboring (or nearby) country is called nearshore outsourcing.



5.4.3 Globalization

Globalization refers to the process by which local, regional or national phenomena become integrated on a global scale. The term 'Globalization' is often used to refer to economic integration of countries. In this, national economies are unified into the international economy through trade, foreign investments, capital flows, migration, and the spread of technology. This process is usually recognized as being driven by a combination of economic, technological, socio - cultural, political and biological factors. The term can also refer to the transnational dissemination of ideas, languages, or popular culture.

A United Nations organ, ESCWA has written that globalization "is a widely-used term that can be defined in a number of different ways. When used in an economic context, it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour...although considerable barriers remain to the flow of labour...Globalization is not a new phenomenon. It began in the late nineteenth century, but its spread slowed during the period from the start of the First World War until the third quarter of the twentieth century. This slowdown can be attributed to the inward looking policies pursued by a number of countries in order to protect their respective industries.. However, the pace of globalization picked up rapidly during the fourth quarter of the twentieth century

The entrepreneur can use this emerging trend to his benefit and for the future profitability of the business. By analyzing what other businesses are doing and how they are managing the effects of economic cycles in various countries, he can put himself in context and see to what extent the world economic reality is impacting on his business operation.

After the Second World War, nations realized the need to unite in the major areas that affect economic growth. These were countries in Europe that had seen the adverse effects of the World War. The consequences of disagreements among nations can lead to very catastrophic financial distressed as witnessed after the war. This could have been avoided had there been mechanisms to address differences in economic realities in the affected countries. As a means towards unification, several institutions were established to manage and control the flow of economic goods between countries. These institutions include the International Bank for Reconstruction and Development (the World Bank), and the International Monetary Fund.

Globalization has also since been facilitated by advances in technology which have reduced the costs of trade, and trade negotiation rounds, originally under the auspices of the General Agreement on Tariffs and Trade (GATT), which led to a series of agreements to remove restrictions on free trade.

Since World War II, barriers to international trade have been considerably lowered through international agreements - GATT. Particular initiatives carried out as a result of GATT and the World Trade Organization (WTO), for which GATT is the foundation were aimed at promoting free trade and include:

- Elimination of tariffs; creation of free trade zones with small or no tariffs
- Reduced transportation costs, especially resulting from development of containerization for ocean shipping.
- Reduction or elimination of capital controls
- Reduction, elimination, or harmonization of subsidies for local businesses
- Creation of subsidies for global corporations
- Harmonization of intellectual property laws across the majority of states, with more restrictions

- International recognition of intellectual property restrictions (e.g. patents granted by China would be recognized in the United States)

Cultural globalization, driven by communication technology and the worldwide marketing of Western cultural industries, was understood at first as a process of homogenization, as the global domination of American culture at the expense of traditional diversity. However, a contrasting trend soon became evident in the emergence of movements protesting against globalization and giving new momentum to the defense of local uniqueness, individuality, and identity, but largely without success

■ Measuring globalization

Economic globalization can be measured in different ways. These ways center on the four main economic flows that characterize globalization:

- Goods and services, e.g. exports plus imports as a proportion of national income or per capita of population
- Labor/people, e.g. net migration rates; inward or outward migration flows, weighted by population
- Capital, e.g. inward or outward direct investment as a proportion of national income or per head of population
- Technology, e.g. international research & development flows; proportion of populations (and rates of change thereof) using particular inventions (especially 'factor-neutral' technological advances such as the telephone, motorcar, broadband)

As globalization is not only an economic phenomenon, a multivariate approach to measuring globalization is the recent performance index . The index measures the three main dimensions of globalization: economic, social, and political. In addition to three indices measuring these dimensions, an overall index of globalization and sub-indices referring to actual economic flows, economic restrictions, data on personal contact, data on information flows, and data on cultural proximity is calculated. Information on these studies can help the entrepreneur better understand his customers and predict their consumer patterns. The entrepreneur can use the indices to project how globalization will impact on sales given that what happens in other countries have an indirect impact on his business.

■ Effects of globalization

Globalization has various aspects which affect the world in several different ways such as:

- Industrial - emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies. Particularly movement of material and goods between and within national boundaries. This acts to expand the entrepreneur's scale of trade across the boundary.
- Financial - emergence of worldwide financial markets and better access to external financing for borrowers. As these worldwide structures grew more quickly than any transnational regulatory regime, the instability of the global financial infrastructure dramatically increased, as evidenced by the financial crises of late 2008. An entrepreneur running a multinational company would have been worst hit by this phenomenon.



- Economic - realization of a global common market, based on the freedom of exchange of goods and capital. The interconnectedness of these markets, however means that an economic collapse in any one given country could not be contained.
- Political - some use "globalization" to mean the creation of a world government which regulates the relationships among governments and guarantees the rights arising from social and economic globalization. Politically, the United States has enjoyed a position of power among the world powers; in part because of its strong and wealthy economy. With the influence of globalization and with the help of The United States' own economy, the People's Republic of China has experienced some tremendous growth within the past decade. If China continues to grow at the rate projected by the trends, then it is very likely that in the next twenty years, there will be a major reallocation of power among the world leaders. China will have enough wealth, industry, and technology to rival the United States for the position of leading world power. A lot of supplies from China will prove cheaper for a local entrepreneur and this trend may be of interest to him/her.
- Informational - increase in information flows between geographically remote locations. Arguably this is a technological change with the advent of fiber optic communications, satellites, and increased availability of telephone and Internet.
 - Language - the most popular language is English.
 - About 35% of the world's mail, telexes, and cables are in English.
 - Approximately 40% of the world's radio programs are in English.
 - About 50% of all Internet traffic uses English.
- Competition - Survival in the new global business market calls for improved productivity and increased competition. Due to the market becoming worldwide, companies in various industries have to upgrade their products and use technology skillfully in order to face increased competition.
- Ecological - the advent of global environmental challenges that might be solved with international cooperation, such as climate change, cross-boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species. Since many factories are built in developing countries with less environmental regulation, globalism and free trade may increase pollution. On the other hand, economic development historically required a "dirty" industrial stage, and it is argued that developing countries should not, via regulation, be prohibited from increasing their standard of living.
- Cultural - growth of cross-cultural contacts; advent of new categories of consciousness and identities which embodies cultural diffusion, the desire to increase one's standard of living and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture". Some bemoan the resulting consumerism and loss of languages.
 - Spreading of multiculturalism, and better individual access to cultural diversity (e.g. through the export of Hollywood and Bollywood movies). Some consider such "imported" culture a danger, since it may supplant the local culture, causing reduction in diversity or even assimilation. Others consider multiculturalism to promote peace and understanding between peoples.
 - Greater international travel and tourism. WHO estimates that up to 500,000 people are on planes at any time.]
 - Greater immigration, including illegal immigration
 - Spread of local consumer products (e.g. food) to other countries (often adapted to their culture).
 - Worldwide fads and pop culture such as Pokémon, Sudoku, Numa Numa, Origami,

Idol series, YouTube, Orkut, Facebook, and MySpace. Accessible to those who have Internet or Television, leaving out a substantial segment of the Earth's population.

- Worldwide sporting events such as FIFA World Cup and the Olympic Games.
- Incorporation of multinational corporations in to new media. As the sponsors of the All-Blacks rugby team, Adidas had created a parallel website with a downloadable interactive rugby game for its fans to play and compete.
- Social - development of the system of non-governmental organizations as main agents of global public policy, including humanitarian aid and developmental efforts.
- Technical
- Development of a global telecommunications infrastructure and greater trans border data flow, using such technologies as the Internet, communication satellites, submarine fiber optic cable, and wireless telephones
- Increase in the number of standards applied globally; e.g.. Copyright laws, patents and world trade agreements.
- Legal/Ethical
- The creation of the international criminal court and international justice movements.
- Crime importation and raising awareness of global crime-fighting efforts and cooperation.
- The emergence of Global administrative law.

■ Negative effects

It is too easy to look at the positive aspects of Globalization and the great benefits that are apparent everywhere, without acknowledging several negative aspects. They are often the result of globalized corporations and the delocalization of economies that were once self-sustaining.

Globalization has indeed played an important role in creating an enabling environment for growing businesses. The increasing pace at which international economies are being integrated over the last couple of years has given rise to a lot of optimism for upcoming entrepreneurs. Countries such as China and India which were very poor not more than 20 years ago have benefited a lot from Globalization.

However, pundits are not so quick to give this phenomenon a green bill of health without looking at the adverse effects that globalization has had in certain areas. These are among the focus of their arguments;

Sidelining of local industries

Agriculture and industries in developed and even developing countries have been sidelined in the interest of keeping a breast with what is happening elsewhere. Competitive advantage no longer plays a major role in deciding what an economy should focus on. This has affected areas such as the Midwest United States



Sweatshops

It can be said that globalization is the door that opens up an otherwise resource poor country to the international market. Where a country or nation has little material or physical product harvested or mined from its own soil, an opportunity is seen by large corporations to take advantage of the “export poverty” of such a nation. Where the majority of the earliest occurrences of economic globalization are recorded as being the expansion of businesses and corporate growth, in many poorer nations globalization is actually the result of the foreign businesses investing in the country to take advantage of the lower wage rate: even though investing, by increasing the capital stock of the country, increases their wage rate. An example of this is the oil exploration activities that have been taking place in Kenya.

Cultural effects

The internet breaks down cultural boundaries across the world by enabling easy, near-instantaneous communication between people anywhere in a variety of digital forms and media. The Internet is associated with the process of cultural globalization because it allows interaction and communication between people with very different lifestyles and from very different cultures. Photo sharing websites allow interaction even where language would otherwise be a barrier. The internet has however brought with it a wave of new culture that has not gone very well with the more conservative communities. Through the internet, young people have adopted a lifestyle that likens to that of their peers in the western countries, jeopardizing the importance given to traditional / cultural values. This clash has led pundits to discourage the use of the internet beyond what they consider necessary.

Unbalanced Exchange

Globalization has been seen to favor the western countries more than their counterparts in developing countries. The opening up of markets abroad has seen an inflow and outflow of economic, political and cultural values between nations. However, developing countries have found themselves on the receiving ends of most of these values, somehow creating a demand for more. The end analysis is that most developing countries have taken it upon themselves to solve most of their problems by copying what is done outside and in most cases this has had a financial implication

5.4.4 Trade fairs/exhibitions

A trade fair is an exhibition organized so that companies in a specific industry§ can showcase and demonstrate their latest products, service, study activities of rivals and examine recent trends and opportunities. Some trade fairs are open to the public, while others can only be attended by company representatives (members of the trade) and members of the press, therefore trade shows are classified as either "Public" or "Trade only". They are held on a continuing basis in virtually all markets and normally attract companies from around the industry. The entrepreneur will find that attending these events give him many ideas on how to improve his business. He will meet other entrepreneurs in the same industry who share a lot in common with him. Trade fairs also act as avenues to establish business networks and linkages that is so important to a growing industry

Trade fairs often involve a considerable marketing investment by participating companies. Costs include space rental, design and construction of trade show displays, telecommunications and networking, travel, accommodations, and promotional literature and items to give to attendees. In addition, costs are incurred at the show for services such as electrical, booth cleaning, internet services, and drayage (also known as material handling). The entrepreneur should thus carry out a cost benefit analysis of attending such events, in as much as they are of value to his business.

Consequently, local authorities often promote trade shows as a means of economic development through the promotion of the *jua kali* sector

Exhibitors attending the event are required to use an exhibitor manual to order their required services and complete any necessary paperwork such as health and safety declarations.

An increasing number of trade fairs in many other countries are happening online, and these events are called virtual tradeshow. They are increasing in popularity due to their relatively low cost and because there is no need to travel whether you are attending or exhibiting.



CHAPTER SUMMARY

- Ethics refers to the knowledge of right and wrong. The entrepreneur should observe a code of ethics in his business and encourage his staff to do the same. This is a written set of rules on what is morally acceptable and what is not, in the work environment. All employees should be familiar with this code and put it into practice.
- The entrepreneur owes a duty of responsibility to all parties who have a direct impact on his business. These include his staff, customers, suppliers, the government etc. He should undertake his obligation at all times without passing on the responsibility to third parties.
- We have seen that the entrepreneur should not operate as sole business man, without regard to what is happening in his surroundings. This comes in the wake of the tremendous growth in world economies that seem to affect all nations at the same time.
- The emerging trends in industries have affected the manner in which business is carried out. Technology and business models that have been devised and applied successfully in developed countries have given a boost to businesses in developing countries to keep pace.

CHAPTER QUIZ

1. Define the following terms
 - Ethics
 - Code of conduct
 - Social responsibility
 - E-Commerce
 - Globalization.
 - Trade fair
2. Who are the stakeholders to which the entrepreneur owes a duty as he runs his business?
3. Give three ways through which the entrepreneur can ensure he doesn't harm the environment whichever line of business he decides to pursue.
4. What does the entrepreneur need for him to set up an online shop?
5. List 3 areas through which globalization has impacted on the way the entrepreneur does his business?
6. Give 3 positive and 3 negative effects that globalization has had in the today's economy
7. What is the importance of the following to an entrepreneur?
 - Outsourcing
 - Trade Fairs

ANSWERS TO THE QUIZ

1.
 - Ethics is the study of moral issues and values. It is the study of morality as applied to human behavior and involves choosing between right and wrong.
 - A code of ethic is a set of rules that should be observed in an organization on ethical matters. It's is a guideline to all the employees on how they should handle and report matters on moral issues, especially where the customers are concerned and in relating to each other.
 - The social responsibility of an entrepreneur refers to his duty of care to the people who play a role either directly or indirectly in shaping the growth of business. He should ensure that the business as an entity meets its responsibilities to thirds parties in fulfilling the promises and objectives it set out to achieve.
 - E-commerce is a new technology that facilitates the buying and selling of products or services over electronic systems such as the Internet and other computer networks. The merchant (entrepreneur) gets to transact with his customer over the Internet
 - Globalization refers to the process by which local, regional or national phenomena become integrated on a global scale.
 - A trade fair is an exhibition organized so that businesses in a specific industry can showcase and demonstrate their latest products, service, study activities of rivals and examine recent trends and opportunities. It acts as a linkage forum for small businesses.
2. Stake holders in the entrepreneur's venture include;
 - Employees
 - Customers
 - Suppliers
 - The Government
 - Investors
 - The general public
3.
 - Provide for waste disposal facility at the business premise
 - Discourage smoking around the business premise by both staff and customers
 - Participate in environment clean up within the community regularly
4.
 - A computer with Internet access
 - A website – It should facilitate online shopping.
 - Internet Service Provider – An ISP will host the website onto the internet for people to view the products
5.
 - Industry – Globalization has opened up new markets and greater access to a variety of goods and services.
 - Financial – This has meant that the entrepreneur, with adequate support can obtain financial leverage through the international community.
 - Economic – The entrepreneur can have a big market share as economies open up to the international community.



6.

Advantages

- Enabled industrial growth due to influx of more efficient production processes
- Opened up markets for products only sold in niche markets
- It has opened doors to the influx of technological advancements in different walks of life

Disadvantages

- In certain countries, it has led to the sidelining of indigenous industries
- The loss of cultural values as a result of globalization has been not been well taken by conservatives.
- Some nations have benefited financially more than others in the name of globalization

7.

Outsourcing

The entrepreneur will benefit in the following ways;

- He will focus more on the core functions of the business
- The third party firms are experts in their respective fields hence the entrepreneur will benefit from quality service.
- In the long run, it is cheaper to outsource non-core functions.
- The entrepreneur can use the savings from outsourcing to invest in the business.

Trade Fairs

The entrepreneur will benefit from trade fairs in the following ways;

- They provide a forum to show case his goods and services hence market himself.
- Trade fairs offer the entrepreneur a chance to link up with other traders and build mutually beneficial relationships.
- Potential investors attend trade fairs to 'scout' for potential investments to sponsor. The entrepreneur may benefit from this.
- Through trade fairs, the entrepreneur will be in a position to assess his competition. This will come out from other similar entrepreneurs in the industry show casing their products.

EXAM QUESTIONS**QUESTION ONE**

What is Social Responsibility as applied in entrepreneurship? (3 Marks)

To whom does the entrepreneur owe a duty of obligation in meeting the ends of his business? (9 Marks)

What process should the organization follow in enforcing a code of ethics in the work environment? (8 Marks)

QUESTION TWO

Describe how the entrepreneur can utilize the following emerging trends to increase the scale of operations for his business.

- (a) E – Commerce (5 Marks)
- (b) Business Outsourcing (5 Marks)
- (c) Globalization (5 Marks)
- (d) Trade Fairs (5 Marks)



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CHAPTER SIX



STUDY X

COMMUNICATION SKILLS

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CHAPTER SIX

COMMUNICATION SKILLS

► OBJECTIVES

By the end of this chapter, you are expected to;

- Understand the communication process and various modes of communication
- Identify the various components that make up a communication system
- Identify the advantages and disadvantages of the various media of communication
- Know what communication skills are essential for the entrepreneur to acquire
- Identify the barriers to effective communication

► INTRODUCTION

The entrepreneur will deal with all sorts of business associates in the course of running his business. At the same time, he will interact a lot with his employees, giving them instructions on what he expects from them as far as meeting their individual goals is concerned. The entrepreneur should ensure that he is working with a team that shares his vision for the business. This ensures that there is no one holding the course behind. For this to be effectively accomplished, it is important that the ideas the entrepreneur has are well communicated to his staff. There are various means of doing this, as we shall see in this chapter. The entrepreneur is not just the boss who gives instructions and expects them to be followed to the letter. He should also be a good listener. He should develop skills that will enable him have a good working relationship with all the people he deals with, both internal and external to the business. He will also need to identify barriers that may hinder the communication process and address them. Effective communication, a vital tool in running the business, is a two way process and should not be ignored by the entrepreneur.

► KEY TERMS

Communication: This is the process of exchanging ideas amongst two or more persons. It is the process of giving, receiving or exchanging information, opinions or ideas by writing, speech or visual means, so that the material communicated is completely understood by everyone concerned.

Communication Channel: The route that a message will traverse before it reaches its intended destination.

Receiver: This is the desired destination of the message that is intended to action. The receiver can either be a person or a location that has been identified in advance

Sender: This is the originator of the message or information that needs to be sent to a predetermined destination. The sender can be a person or a machine at a particular location.

► EXAM CONTEXT

This area has not yet been tested under the new KASNEB syllabus

► INDUSTRY CONTEXT

The entrepreneur will be seeking business from the network he will have established as a result of interacting with other entrepreneurs in his industry. For him to succeed in this, he should develop good relations with all his business associates. Effective communication is important in helping him achieve this end. He will also be looking for essential communication skills from his staff and this may be an important criterion for recruiting his staff.

6.1 THE COMMUNICATION PROCESS

Fast forward: Any communication system should have a sender, a receiver and a channel through which the message traverses.

Effective communication is a two-way process. Messages are sent by the Transmitter (Tx) and received by the Receiver (Rx) who sends back some form of confirmation that the message has been received and understood.

The sender needs to decide how to transmit the message.

The particular route or path via which the message is sent connecting the sender and receiver is called the **channel of communication**. Examples would include postal, telecom or computer systems. The entrepreneur will need to identify a channel that is most appropriate for his type of business. He will need to carry out a feasibility study to choose a channel that will be economical to install and maintain. The tool or instrument used is the **medium** e.g. gesture, picture, letter, report, telephone conversation etc.

The choice of media will depend on:

1. The time necessary to prepare and transmit the message considering its urgency.
2. The complexity of the message. What channel will enable it to be most readily understood.
3. The distance the message is required to travel and in what condition it must arrive.
4. The need for a written record e.g. confirmation of transactions, legal documents.
5. The need for interaction or immediate exchange e.g. question and answer, instant feedback etc.
6. The need for confidentiality
7. The need to distribute the information widely and quickly
8. Sensitivity to the effect of the message on the recipient. The need for tact, personal involvement, etc
9. Cost, in relation to the above factors, for the best possible result at the least possible expense.



6.1.1 Advantages and Disadvantages of Some Media

Written Communication

Here the information to be communicated is written down on paper. The sender and receiver should both be in a position to read and write. Written communication can take any of the following forms;

1. Letter
2. Memorandum
3. Report
4. Minutes
5. Press Release

Advantages

- Provides Written Record
- Can be used to communicate complex ideas
- Provides analysis and evaluation
- Spreads information to dispersed receivers.
- Can confirm oral reports
- Forms basis of contracts or agreement

Disadvantages

- Can take time to produce
- Can be expensive
- Communication tends to be informal and distant
- Can cause problems of interpretation
- Instant feedback not possible
- Takes time for opinions, ideas or views to be exchanged.

Oral Communication

In oral communication, the two or more parties communicating with each other have to use words to communicate. The importance of good listening skills becomes vital in this mode of communication. Some of the ways in which oral communication can be carried out include;

1. Face-to-face
2. Interview
3. Meetings
4. Public address
5. Oral presentation
6. Telephone calls
7. Conferences

Advantages

- There is Physical proximity
- Allows for instant exchange of ideas
- Feedback immediate
- Easier to persuade

Disadvantages

- More difficult to control when a large number of people are involved.
- Lack of time to think things out
- Sometimes no written record of what was said.

■ Visual Communication

Communication here is achieved by means of drawn images and representations of real life objects. These images are presented to the audience for them to apply their visual skills to decipher the message

1. Non-verbal e.g. gestures, posture
2. Diagrams
3. Charts/Graphs
4. Tables
5. Film

Advantages

- Reinforces oral communication
- Simplifies written or spoken word
- Quantifies – provides ideas in number form
- Illustrates techniques and procedures
- Provides visual record.

Disadvantages

- May be difficult to interpret without written or spoken word.
- Can be costly and expensive to produce
- May be costly to distribute
- Does not always allow time for evaluation

■ Computerized Communication

Here there is involvement of ICT infrastructure to facilitate communication between two or more parties. These machines cost a lot of money and are mostly used by medium scale to large businesses. Examples include;

1. Fax
2. Telex
3. Teleconferencing
4. Computer conferencing

Advantages

- Speed of transmission. Takes a few seconds to connect large areas.
- Versatile - Fax can transmit text, graphics, artwork, photographs.
- Accuracy
- Feedback-Allows for almost simultaneous exchange of information and responses.

Disadvantages

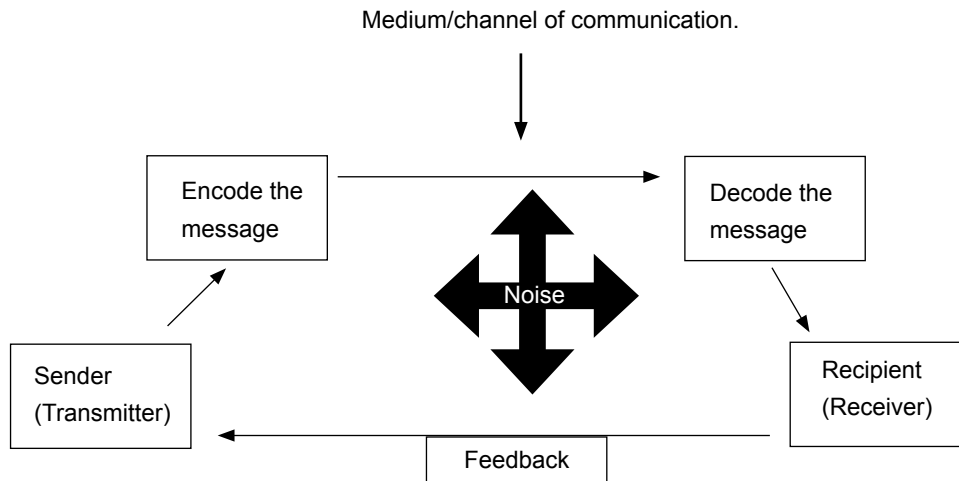
- Costs – could be quite high.
- Faxed messages not readily accepted for legal purposes – but telexes are.



- Instant delivery can cause upsets if sender does not pause to think and sends messages in a moment of anger.

6.1.2 Stages in the Communication Cycle

The following diagram represents the communication model that is used to explain the stages involved in the communication cycle



Sender

This is the originator of the message. He is the person who releases the information for the intended recipient from one end of the communication system. He is the one who **conceives the message**: The sender should consider the recipient carefully and aim the message to suit the recipient's specific needs.

Before releasing the message, it has to be **encoded**. This involves putting the information into an appropriate form suitable to the sender, the recipient and the purpose. This means choosing whether words will be sufficient, whether a printed record and/or graphics are necessary.

In selecting the appropriate channel aspects such as speed, cost, quick receipt, printed record, confidentiality, etc must be considered while choosing the telecommunication method.

Receiver

This is the intended recipient of the message. At his end the message will be **decoded**. This involves putting the message in a format that will be understood by the receiver. The same rules used in encoding it are the same ones that will be used to decode the message. When a message arrives in the office, it is important to ensure that they are routed promptly and are given the attention they deserve. It is also important for the Sender to have ensured that the recipient will understand the language and vocabulary used.

Interpret the message: This is where the recipient interprets the message. It is important to ensure that the correct message is received. Distortion of the message may occur if the sender has not carefully encoded the communication, in which case the recipient will interpret the message differently from how it was intended.

Feedback: Feedback must be provided from the Recipient. For successful communication, the response of the recipient must be the one intended by the sender.

■ Channels

For people to be able to communicate with each other there must be some sort of communication between them - a path through which the medium can travel. Such connections between people, making communication possible, are called channels of communication.

In olden days, the communication channel was a path. This is a track along which a messenger would walk or run to deliver a message. From paths, there developed roads, railways, sea, air routes, Post Office services etc.

Channels of communication are not just over distances. When two people are in the same room a channel of communication opens as soon as one starts to speak. If the person you are talking to considers that the matter you are raising is not his concern, your attempt to open up a channel of communication will fail.



6.2 ESSENTIAL COMMUNICATIONS SKILLS

Fast forward: Certain essential skills are important for the communication process to achieve its purpose.

Everybody working for an organization has to know what he is supposed to be doing and how to do it. People work better if they know why they are doing something, so management needs to explain their policy to them. Most organizations also recognize that the most committed and loyal response comes from employees who have had an opportunity to shape policy, to decide how a job should be tackled how equipment ought to be selected etc.

Thus efficient systems need to be established by the entrepreneur to test employee's reactions. Through this process it will be possible to assess the essential communication skills and how they contribute to the success of his business

6.2.1 The importance of conveying the message

Effective communication is all about conveying your messages to other people clearly and unambiguously. It's also about receiving information that others are sending to you, with as little distortion as possible.

Doing this involves effort from both the sender of the message and the receiver. And it's a process that can be fraught with error, with messages muddled by the sender, or misinterpreted by the recipient. When this isn't detected, it can cause tremendous confusion, wasted effort and missed opportunity.

In fact, communication is only successful when both the sender and the receiver understand the same information as a result of the communication.



By successfully getting the message across, the sender conveys his thoughts and ideas effectively. When not successful, the thoughts and ideas that are actually sent do not necessarily reflect the sender's thoughts, causing a communications breakdown and creating roadblocks that stand in the way of the sender's goals – both personally and professionally.

In spite of the increasing importance placed on communication skills, many individuals continue to struggle, unable to communicate their thoughts and ideas effectively – whether in verbal or written format. This inability makes it nearly impossible for them to compete effectively in the workplace, and stands in the way of career progression.

Being able to communicate effectively is therefore essential if an entrepreneur wants to build a successful career. To do this, he must understand what his message is, what audience he is sending it to, and how it will be perceived. He must also weigh-in the circumstances surrounding his communications, such as situational and cultural context.

The entrepreneur should learn the skills needed to effectively communicate with all those he comes into contact with. There are common communication traits that all successful entrepreneurs use in their daily interactions with others. Because they are common they can integrate them into their style of communications to become more effective and successful.

Part of the entrepreneur's role is having tough conversations. When there is bad news or change, these conversations should be delivered directly and respectfully. Important as these types of communications are, they are frequently not handled well.

These tough conversations can be an opportunity to show appreciation, build morale, and help people positively move through challenging times and situations—if your managers have the skills.

The following are some of the essential communication skills that the entrepreneur should be familiar with. The list is not exhaustive but can be used as a guideline

6.2.2 Communication Skills

Effective Listening

To be a good listener is as important as being a good speaker. Speaking in itself is useless unless someone is prepared to listen to us. Listening is not something that happens to us whether we like it or not. It is an active process. We choose to listen or not to listen.

This explains how we can have a conversation while the radio is blasting loud. It also explains why some of us are very bad at remembering names, dates, times of meeting etc. It is mainly because we did not listen well enough.

Being a good listener is one way of earning the respect and affection of those you are with every day. At work, slack listening means that you do not fully understand the instructions given to you or the information you have requested. You will distort telephone messages, misunderstand customer complaints etc. A high standard of listening efficiency is required whenever you are receiving information.

Listening is not about just nodding one's head in understanding while the other person is talking. No, true listening requires that you maintain eye contact with the one you are listening to. Make your eyes are not looking side to side or over the other's shoulder, but instead are focused on the eyes and face of the person you are talking with. The listener does this with the intention of understanding exactly what the other person has to say. When you really listen to people, not only do you get to know them, but they might provide you with some information to help you farther along toward future success.

As the other person is speaking the listener will, during the other person's pauses, paraphrase what he has heard. Paraphrasing is repeating, to the one you're communicating with, what you just heard them say, but in your own words. Paraphrasing clarifies that you understand what the other person means. This is engaging and interactive communication skill and every successful person uses it.

■ Body Language

In addition to the ability to listen, effective communicators possess excellent non-verbal communications, or body language. As one is communicating with another, the posture should be relaxed. The hands should be free, maybe at the side, but seldom kept in the pockets. The hands should not be tightly wrapped around each other in a closed gesture, nor should they scratch the head, arms or face while they are either listening or talking. All those things make the listener nervous

Effective communicators have a posture which is erect, but yet relaxed. They don't stand stiffly, nor do they slouch over while either standing or sitting. In a sitting position, legs can be crossed or comfortably side-by-side.

■ Tone of Voice

The tone of voice should be even. Also, one should be very careful in the words chosen to express oneself. The communicator should take his time as he speaks so as not to use wrong or inappropriate language. The person communicating should have a good command of language and knows how to use it effectively

■ Interactive

One should not assume they know everything and therefore should be very inquisitive, even when communicating with others. This means they ask questions, truly interacting with others. They know that others possess knowledge too. Asking questions educates them, and successful people know the value of being educated. It helps them make better decisions and choices in their life and work.



6.3 BARRIERS TO EFFECTIVE BUSINESS COMMUNICATION

Fast forward: There are inherent limitations, both interpersonal and technical in the communication process which should be eliminated for there to be effective message conveyance.

Certain psychological and physical barriers between people may distort the communication process and cause misunderstanding and confusion.

Hierarchical barriers

Communication between superiors and subordinates tend to be rather cautious. The superior wishing to maintain authority and the subordinate protecting himself from criticism. A formal and rigid line relationship may funnel the process of communication too narrowly, restricting the dissemination of information.

Educational/Social Background

Differences sometimes cause feelings of inferiority/superiority. Differences in educational standards could also hinder understanding of some information.

Age, Sex, Culture

Natural differences may affect outlook and perception.

Language

Misunderstanding and incorrect interpretation may result from the use of inappropriate or ambiguous language. This is especially the case where technical and specialist language is used.

Background Knowledge

Lack of expertise or knowledge of a subject may impair understanding.

Manner/Tone

Tone, gestures, facial expressions and mannerisms may convey disapproval, disbelief, aggression etc.

Preconceived Judgment

Either party may already have made up his mind about the outcome or made judgments on the topic. He will therefore be unreceptive or only hear what he wants to hear.

Personality clashes

Guarding of one's own area of work may affect objectivity and the degree of co-operation given.

Perception

Sometimes people view situations in a completely different light. This affects their understanding or acceptance of the matter at hand.

Poor Listening

Inattention results in lack of knowledge and misconceptions.

Lack of Time

Executives may always be 'too busy' to talk except by appointment. This leads to a feeling of remoteness and lack of involvement.

Physical Surroundings

Lack of privacy could inhibit free discussion. Visual/oral distractions or poorly arranged furniture could do the same.

Distance

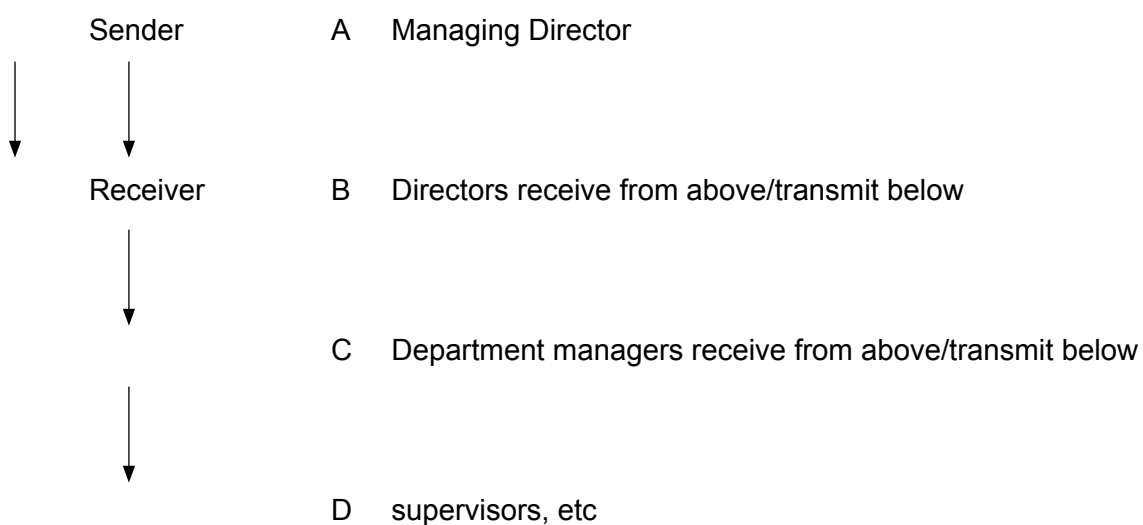
Where offices are spread out, it is often impracticable to communicate verbally except by telephone. Closed doors also inhibit would-be communicators.

Self-esteem

People may be afraid to speak their mind in case they expose a weakness.

Chain Distortion

As information passes along a communication chain it is affected by coding/decoding distortion. People on the chain are constantly changing from the receiver's role to the sender's role and vice versa



Each time an Rx switches to the Tx role he has to re-code the message. Sometimes the media is changed. It is inevitable; there will be distortion of the message.



Suspicion

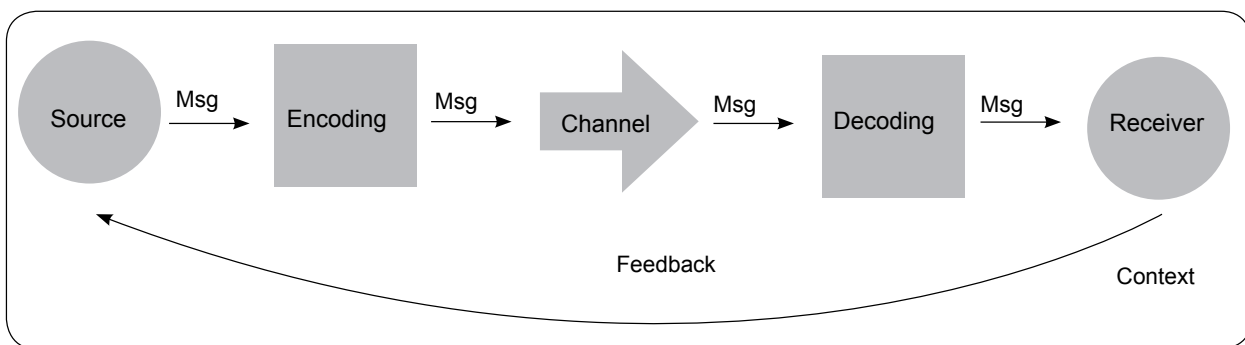
In a vertical chain distortion occurs because of suspicion aroused by the differences in rank between those on the chain. Thus a new system introduced by management intended to improve productivity and possibly reduce workload may come out at the bottom looking like a reduction of privileges. By the time these feelings from the bottom are expressed to top management it could come out as “workers being unnecessarily stubborn” and produce the reaction. “They have no choice!” It is not difficult to see how quickly management and workforce can get out of step with each other this way.

Noise

Noise is any unwanted signal. Noise, in this context, is constituted by buzzes on the telephone line or public address system, physical noise from traffic, heavy machinery, manual typewriters or even other people talking. It could be distractions such as the fact that you have a headache, or received very bad news that morning or had a quarrel with a close friend. All types of noise reduce the efficiency with which we communicate.

6.3.1 The Importance of Removing Barriers

Problems with communication can pop-up at every stage of the communication process (which consists of the sender, encoding, the channel, decoding, the receiver, feedback and the context – see the diagram below). At each stage, there is the potential for misunderstanding and confusion.



■ Removing Barriers at All These Stages

To deliver messages effectively, the communicator must commit to breaking down the barriers that exist within each of these stages of the communication process.

Let's begin with the message itself. If a message is too lengthy, disorganized, or contains errors, the message is likely to be misunderstood and misinterpreted. Use of poor verbal and body language can also confuse the message.

Barriers in context tend to stem from senders offering too much information too fast. When in doubt here, less is oftentimes more. It is best to be mindful of the demands on other people's time, especially in today's ultra-busy society.

Once one understands this, he needs to work to understand his audience's culture, making sure he can converse and deliver his message to people of different backgrounds and cultures within his own organization, in his country and even abroad

To be an effective communicator and to get the point across without misunderstanding and confusion, the goal should be to lessen the frequency of problems at each stage of this process, with clear, concise, accurate, well-planned communications. We follow the process through below:

At the Source

As the source of the message, one needs to be clear about why he is communicating, and what he wants to communicate. One also needs to be confident that the information he is communicating is useful and accurate.

On the Message

The message is the information that one wants to communicate.

While Encoding

This is the process of transferring the information to be communicated into a form that can be sent and correctly decoded at the other end. The success in encoding depends partly on one's ability to convey information clearly and simply, but also on the ability to anticipate and eliminate sources of confusion (for example, cultural issues, mistaken assumptions, and missing information.)

A key part of this is knowing one's audience: Failure to do this will result in delivering messages that are misunderstood.

On the Channel

Messages are conveyed through channels, with verbal channels including face-to-face meetings, telephone and videoconferencing; and written channels including letters, emails, memos and reports.

Different channels have different strengths and weaknesses. For example, it's not particularly effective to give a long list of directions verbally, while one can quickly cause problems if he gives someone negative feedback using email.

While Decoding

Just as successful encoding is a skill, so is successful decoding (involving, for example, taking the time to read a message carefully, or listen actively to it.) Just as confusion can arise from errors in encoding, it can also arise from decoding errors. This is particularly the case if the decoder doesn't have enough knowledge to understand the message.

At the Receiver

The message is delivered to individual members of your audience. No doubt, the sender has in mind the actions or reactions he hopes his message will get from this audience. One should keep in mind, though, that each of these individuals enters into the communication process with ideas and feelings that will undoubtedly influence their understanding of the message, and their response. To be a successful communicator, one should consider these before delivering the message, and act appropriately.



On the Feedback

The audience will provide feedback, as verbal and nonverbal reactions to the communicated message. One should pay close attention to this feedback, as it is the only thing that can give confidence that the audience has understood the message. Should there be a misunderstanding, at least one has the opportunity to send the message a second time.

On the Context

The situation in which the message is delivered is the context. This may include the surrounding environment or broader culture (corporate culture, international cultures, and so on).

Solving personal barriers

The entrepreneur should be aware that despite ensuring that the above technical hitches are prevented from happening, there are other personal barriers that may force him to get involved in a different way as the head of his organization. He may use the following strategies in solving the problems;

Open door policy

This policy ensures that the employees are free to come to him and present any problems they may be having in their work place. The entrepreneur should develop an approachable character and should not be too autocratic.

Giving employees their space

The entrepreneur should also strive to give his employees space from which to operate. He should not be too overbearing in demanding to know what they are doing each and every second of their work time. He should give them the independence they need to deliver results. This comes after assessing their work attitudes and knowing how each employee works.

Open day/ Out of the office activities

From time to time, the entrepreneur can organize outdoor activities like sports, staff parties, environmental cleanup exercises with the community e.t.c. This facilitates interactions across the management hierarchy in an informal set up. He should also encourage them that they should not fear victimization once they resume work sessions.

Knowing how to listen

Most importantly, the entrepreneur should be a good listener. He should not assume that he has the answers to all the problems the employees may have. Some problems may simply require good empathetic listening.

Code of ethics

The entrepreneur should ensure he has a code of ethics in place that is fair to all employees. This is a set of rules that the staff are expected to follow as guideline on how to handle ethical issues at the work place. For instance, the entrepreneur should consider whether barring office relationships is likely to affect the work attitudes of his staff.

CHAPTER SUMMARY

- The communication process involves a sender of a message relaying some information (message) to a predefined receiver. This is effectively achieved through a chosen communication channel. The receiver responds by acknowledging receipt (feed back)
- The entrepreneur should choose a communication media that suits his type of business.
- Effective listening is an important communication skill that the entrepreneur should strive to acquire. Other important communication skills include; using the right tone of voice, knowing how to use body language, being interactive.
- There are barriers to effective communication in the work place and with external business associates that the entrepreneur should also strive to alleviate

CHAPTER QUIZ

1. Define the following terms as applied in communication
 - Sender
 - Receiver
 - Communication medium
 - Communication channel
 - Encode
 - Decode
2. Identify 4 communication media the entrepreneur can choose from in setting up his communication system.
3. Describe the communication model, identifying the various components involved in the process
4. List 3 essential communication skills that the entrepreneur should strive to acquire.
5. Identify four barriers to effective communication that the entrepreneur is likely to be faced with



ANSWERS TO THE QUIZ

1. **Sender**

This is the person who comes up with the message. He is the one who instigates the communication session by releasing the information for the intended recipient from one end of the communication system.

Receiver

This is the intended recipient of the message. The receiver would be a predefined party. This ensures that the message does not land in the wrong person's hands.

Communication Medium

This refers to the communication tool that has been used to transmit the message. It refers to the communication gadget that has been chosen. Examples include letter, telephone, picture etc

Communication Channel

This is the route that the message will traverse before it reaches its intended destination. Examples include email, postal service, telecom, I etc

Encode

This refers to the process of hiding the meaning of a message before sending. It ensures that only the recipient can get the information contained in the message.

Decode

At the recipient's end, the meaning of the message will have to be revealed using the same set of rules that were used to conceal the meaning of the message.

2.

- Letter – This can either be hand delivered or sent by post
- Picture – This can be used as a learning tool or information tool
- Telephone – Telephone conversations can be used to relay information
- Email – Through the internet, messages can be sent and received

3. The communication model refers to the system that ensures communication takes place. It refers to the interaction of several components that work together to ensure that a message reaches its intended destination and feed back is relayed back to the sender. The components involved include

- Sender
- Encoder
- Communication Channel
- Decoder
- Receiver
- Feedback

4. Essential communication skills

- Good listening

- Right tone of voice
- Use of body language
- Being interactive

5.

- Noise in the communication channel
- Hierarchical barriers in the work place
- Educational /Social Background
- Language barrier
- Personality clashes



EXAM QUESTIONS

QUESTION ONE

- (a) Define the following terms;
- Communication Channel (2 Marks)
 - Sender (2 Marks)
 - Receiver (2 Marks)
 - Encoding (2 Marks)
- (b) Using a diagram explain what the communication model is, clearly identifying the components that make up the model. (12 Marks)

QUESTION TWO

- (a) What are barriers to effective communication (5 Marks)
- (b) What is meant by the term 'effective listening'? Describe how this skill may be acquired and developed. (10 Marks)
- (c) Clearly explain 5 essential communication skills the entrepreneur should strive to acquire (10 Marks)

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CHAPTER SEVEN



STUDY X

BUSINESS COMMUNICATION

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CHAPTER SEVEN

BUSINESS COMMUNICATION

► OBJECTIVES

By the end of this chapter, you are expected to:

- Appreciate the vital role that communication plays in business management
- Understand the importance of formality in business correspondence
- Identify the necessary skills required to write a formal letter.
- Appreciate the key role played by postal and courier services in the business operation
- Have learnt about what it takes to make a good business presentation

► INTRODUCTION

Communication skills applied in the right way in business can bring the business to a whole new level of carrying out transactions. In as much as it is a non – core aspect of the business management, the organization needs to put in place mechanisms that will ensure the efficient and smooth relations with customers who are the major stake holders in the business. Communication channels with them need to be without barriers that may impact negatively on the business. A lot of importance should be given to writing of formal letters, sending business parcels and making presentations. The organization should ensure employees are well equipped with the relevant communication skills especially those who deal with external parties from time to time.

► EXAM CONTEXT

A question from this area is yet to be examined under the new KASNEB syllabus

► INDUSTRY CONTEXT

New ways of doing business are emerging and the organization needs to keep abreast with the new trends. Communication is one of the major aspects of business operations. For the business to excel in its relations with external parties, more so its customers, it has to put a lot of emphasis on the quality of its communication infrastructure. Over and above this, the employees should appreciate what is required of them when they represent the organization either within or outside the business premise as it has a lot of impact on how the organization is perceived from outside.

7.1 MEETINGS AND INTERVIEWS

Fast forward: Meetings and interview are formal office events that should be prepared and executed professionally

Meetings have for many years been used as a means of making decisions, of spreading information or a means of resolving a particular problem.

However, like most communication channels, meetings are also a potential source of communication breakdown. They may become unproductive, costly and a waste of time.

When they are organized and run efficiently, they make a useful contribution to communication and decision-making. The physical proximity of people seated round a table creates a special type of relationship among those present which no form of written exchange or electronic substitutes is able to produce. A lot depends on the communication skills of the participants.

Functions of Meetings

Meetings may be held for any one of the following reasons:

- To consult, exchange views and discuss matters of common interest.
- To negotiate e.g. wages.
- To inform staff about new work procedures or update them on other current developments.
- To make decisions democratically.
- To solve problems by pooling expertise.
- To plan or monitor progress e.g. production.
- To investigate occurrences e.g. accidents.
- To make recommendations e.g. to an executive.

7.1.1 Types Of Meetings

The term 'meetings' ranges from the informal exchange of ideas between a few people to the very formal statutory meeting governed by rules and procedures that are laid down.

Informal Meetings

Though informal meetings are held more often than formal meetings, there are no set procedures laid down for running them and are therefore harder to plan and control. They are called at a short notice either by means of a note or simply by word of mouth. Such meetings do not usually have an agenda. Informal notes may be taken and circulated and decisions are taken by consensus or by the person running the meeting after considering the views of the participants.



No formal protocol or meeting terms are used and the person leading the meeting acts as chairperson or group leader, conducting it as the circumstances demand.

■ Formal meetings

Are held after the people entitled to attend have been notified in writing some time before the meeting. There may be a rule which says how much notice has to be given before a meeting can take place. The notice is usually accompanied by an agenda. They are conducted according to the procedures and rules laid down in the constitution, statute, standing orders, by-laws etc.

Formal protocol and meeting terms are used. Decisions are reached by voting after motions are proposed and seconded and recorded in minutes. Formal meetings are conducted by officials who usually include the chairman, secretary and treasurer. Formal meetings are normally constituted by;

Annual General Meetings

These are held once a year to elect officials and a committee, to receive reports and to give members an opportunity to speak. In clubs it is usual for each member to have a vote while at company meetings the voting shareholders are allowed to vote according to the number of voting shares they hold. A shareholder who cannot attend an AGM may vote by proxy - authorize another to vote for him.

General Committee Meetings

Once the committee has been elected, they may meet at General Committee Meetings where day-to-day affairs are discussed.

Subcommittee Meetings

These are meetings consisting of members of a general committee who have been given a particular task to perform which does not require the attention of all committee members e.g. to arrange for a social function.

Extraordinary General Meetings

These are held to discuss matters, which cannot wait until the next AGM e.g. the committee resigning suddenly, the company in financial difficulties etc.

7.1.2 Interviews

An Interview is a formal way of recruiting personnel into an organization. Interviews are carried out by the human resources function of the organization. The human resource manager is in charge of staffing in the organization and the onus is on him/her to schedule interviews as and when the organization needs human resources. The human resource manager would normally have an assistant who will schedule the interviews according to the needs set out from management or according to the calendar that has been set before hand - It may be a policy that on a particular date in the year there is a recruitment exercise that is carried out by the human resource office. Whichever the policy in the organization is, interviews will be carried out in a formal manner as it has to be in line with the vision the organization has on its staff image.

The purposes of employment interviews are: -

- a) To assess the personality of the applicant.
- b) To check on factual data in the application.
- c) To give the applicant information about the job.
- d) To assess the applicants suitability for the job.
- e) To assess the most suitable candidate for the job.

■ Preparation for interviews

There is no predefined protocol on how an organization should conduct its interviews. Organizations will align its recruitment policy on its corporate strategy. The following procedure would normally be followed by management in planning for interviews;

Identify the need for extra manpower

This would normally be the function of the supervisor in charge of a specific section in the organization. Given that he understands the nature of work that should be done within a predefined time frame, he will allocate duties in a manner that will enable him send timely report to his immediate management. If he discovers that he is unable to achieve this, he will raise concern over the need for extra personnel by reporting to his manager.

Justification for extra manpower

The department manager will then require the supervisor to write a report that will justify the need to hiring extra personnel. This is the report that will be sent to the human resource manager.

Duties and Responsibility

Once the report is received by the human resource manager, a list of duties and responsibilities will be drafted according to the job designation the new employee is coming to be identified with

Advertisement

For the purpose of transparency, the job vacancy will be announced publicly through the appropriate media. The minimum qualifications will also have been identified by the human resources. This is based on the selection program the organization has for various levels of job assignment in the organization.

Selection

Applications will be subjected through the selection process. Applicants who are successful on paper will be contacted for interviews. It is good management practice to contact unsuccessful applicants and inform them of the fact that they were not short listed. The short listed candidates will be called in for interviews on a pre determined date and time. The human resource manager together with his team will ensure that the date has been freed of any other commitments and that all the relevant people who will seat in the interview panel are informed of the meeting in good time.



■ The Interview Process

On the date of the interviews, all the panelists are expected to be at their stations. A room will have been identified and the relevant documentation availed for each panelist. This meeting need not take too much time, but a lot will depend on the following factors;

Urgency to fill the vacancy

The more urgent the position needs to be filled; the more urgent the interview process will be carried out. Mission critical jobs that cannot be left without attention will warrant urgent recruitment; hence the interview process is likely not to take too much time

Number of applicants short listed

If the number of successful applicants is very many on the interview day, it then follows that the interview exercise will take much time

Nature of the job

There are some jobs that, due to the sensitive nature of the work involved, the interview process has to be very thoroughly executed. The need to get the 'right man' for the job may require that many areas of the interviewee's qualifications be scrutinized.

Number of employees required for a given post

Some posts require that two or more people work as a team. This may warrant double or even triple recruitment and may call for more time.



7.2 BUSINESS CORRESPONDENCES; LETTERS, MEMOS, CIRCULARS

Fast forward: Written business documents, whether circulating within or outside the organization should be treated with a lot of professional care.

There will be need for communication both within and without the organization. This communication is important to achieve the short term and long term objectives of the firm. Correspondences within the organization will circulate across the management hierarchy, both horizontally and vertically. Correspondences without the organization will be with suppliers, customers, the government and other external stake holders of the organization.

7.2.1 Within the organization

Communication within the organization will be both formal and informal. What determines the level of formality and the communication media used depends on various factors;

The degree of importance

A warning letter would be considered more serious than communication on 'who called or came to visit while you were away'

The urgency of communication

Urgent information may be communicated by telephone rather than on letter due to the fact that the information may be of no use by the time it reaches the recipient.

The amount of information that needs to be passed across

Detailed information would be more appropriately communicated in a formally written letter rather than through a memo.

The difference in seniority between the sender the receiver of information

Communication between the CEO of the organization and his driver will hardly warrant any written material. Correspondence between the CEO and the Finance Director will warrant more attention hence an email or a memo would do.

The size of intended recipients

Information that needs to be communicated to all members of staff will normally be done on email and will, in most cases be official communication. This may be information that is likely to affect the whole organization and requires that everyone in the organization be aware of the changes, e.g. the resignation of the CEO.

7.2.2 Without the Organization

Correspondences with parties outside the organization will more often than not be formal. This is because the organization would like to protect its interests at all times when communication with external parties where its business is concerned. In most cases, business correspondence with outside parties is restricted to senior personnel of the organization.

Correspondence may be with any of the following parties;

Customers

Correspondences with customers will be very common especially of the organization is a commercial one. Goods and services will be sold to a wide range of customers; some in cash and others on credit. Reminders will be sent to credit customers on the debts that are due and the date by which the money should be paid.

Suppliers

Suppliers will be communicated with from time to time on matter to do with the goods and services supplied by them to the organization. Information on excess supplies, shortage or the supply of wrong product will be communicated formally to the supplier

Government Agency

The government will be concerned with the legality of the organization's operations and whether or not it is meeting its tax obligations. The organization, through the finance office will furnish the tax authorities with the relevant documents needed for verification purposes by the tax authority.



Financial Institution – Banks and other lending institutions

The organization through the company secretary will write letters to its bank for many reasons, some of which may include; requesting for overdraft facility, requesting for ad hoc statement. These letters will be formal and could be sent through email.



7.3 REPORT WRITING; TYPES, STRUCTURE AND USES OF REPORTS

Fast forward: Report-writing skills are essential for effective business communication

7.3.1 Reports and their purposes

Reports are formal communications that are usually intended to initiate a decision or action by the person or group receiving the report. Their main purpose is to keep management up-to-date with relevant developments within and outside the organization - so that they can make decisions based on accurate facts, expert advice and well-considered opinion.

Reports are meant to be USEFUL. There should be no such thing as “information for information’s sake” in an efficient organization. Information is stored in files and retrieved for a purpose.

Reports may be used:

1. To summarize investigations into causes and effects of problems or trends and to recommend solutions e.g. the reason for a fall in sales.
2. To provide statistical or financial summaries e.g. monthly sales reports.
3. To record decisions made at a meeting.
4. To supply information for legal purposes e.g. accident reports.
5. To monitor progress e.g. in building work, in implementing a new scheme.
6. To look into the feasibility of introducing new procedures, making new products, changing machines.

The ultimate purpose of any report is to provide the foundation for decisions to be made and action taken. The function of a new report is thus to present facts and perhaps make a recommendation. The report has to give the person to whom it is presented sufficient information to enable him to take suitable action.

There is an obligation on the part of the report writer to communicate information in an unbiased way. The writer knows more about the subject matter of the report than the reader. It is important that this information should be presented impartially, without any feelings/emotion or writers' attitude standing out. This is so that the reader can make his own judgment.

7.3.2 Types of Reports

Written reports fall into two classes. They may be either routine or special reports.

■ Routine Reports

Many of the reports made in business are routine and deal with matters that periodically recur:

1. The reports of Marketers to their sales manager
2. Periodical reports of departmental managers on the work of their departments
3. Reports made at committee meetings
4. The Chairman's annual report at shareholders meetings

They conform to a certain established pattern. Presentation of a report of this kind creates no special problem. Many of them are in fact made on pre-designed forms that greatly simplify the work of preparing and presenting them.

■ Special Reports

These are different and are not submitted as a matter of general practice. They are once-only reports, called for to provide information on matters of particular interest and concern.

1. They could be reports that are no more than replies to requests for information needed to bring an executive up to date with developments OR
They could involve pro-longed investigating undertaken for the purpose of helping to shape business policy.
2. They may be in summary form and consist of only a single sheet or they may be detached and extend over many pages.
3. They may be made by individuals or by groups of people.
4. They may be made by lay members of staff or by specialists – committees specially appointed to investigate issues of wide ranging significance.

7.3.3 Style and report writing

■ Style

1. Objectivity and factual

The style of a report should be factual and objective. Even in a report to persuade as well as inform, subjective value judgments and emotions should be kept out of the content. If bias is recognized, it will undermine the credibility of the report and its recommendations. Even when opinion is presented, it should be in an informed and balanced way.

In formal reports impersonal constructions should be used instead of 'I', 'We' etc, which carry personal and possibly subjective associations.



The first person should be replaced with third person:

NOT**BUT**

I found that

It became clear that.....

We found that

(Your name) found that.....

Investigations revealed that

2. Ease of understanding

Avoid technical language and complex sentence structures for non-technical users. The reader may not share the technical language of the writer. The content of report - its technical matter, its detail, length, presentation and the language used in it - should all be influenced by who will read it.

3. Organized Layout

The material will have to be logically organized, especially if it is leading up to a conclusion or recommendation. Relevant themes should be signaled by appropriate headings. The layout of the report should display data clearly and attractively. Figures and diagrams should be used with discretion, and it might be helpful to highlight key figures within large tables.

4. Display techniques

Various display techniques may be used to make the content of a report easy to identify and digest. The relative importance of points should be signaled, each point should be referenced and the body of the text should be broken up to be easy on the eye. These things may be achieved as follows:

(a) Headings

Spaced out or enlarged CAPITALS may be used for the main title. Important headings, say sections of the report, may be in CAPITALS. Underlining or *italics* may be used for sub-headings.

(b) References

Each section or point in a formal report should have a code for easy identification and reference.

I	II	III	IV	V	May be used to reference main section headings.
A	B	C	D	E	

1	2	3	4	5	May be used to reference subsections
---	---	---	---	---	--------------------------------------

(a)	(b)	(c)	May be used to reference points and sub-points with appropriate indentation.
(i)	(ii)	(iii)	

Alternatively, a 'decimal' system may be used (as for the Dewey Decimal Classification System in libraries).

1. Heading 1
 - 1.1 Subheading 1
 - 1.1.1 Point 1
 - 1.1.2 Point 2
 - 1.2 Subheading 2 etc.

(c) Spacing

Intelligent use of spacing separates headings from the body of the text for easy scanning and also makes a large block more attractive and 'digestible'.

Language and Readability

Reports should be written in ordinary clear English. Care should be given to the choice of words -some words have a slang or emotional meaning or other special associations, and such words should be avoided if possible.

Spelling and grammatical mistakes should be avoided. These give the report user a poor initial impression of the report writer's ability and might undermine his confidence in the content of the report.

Figures should not be confusing. If the report includes large tables of figures, key figures should be highlighted.

The report must be readable. Even when it has been asked for, you cannot be sure that it will be read. The use of bright colorful language adds interest to a report and makes it more readable.

To say:

"There were many who disagreed with the proposal, but others greeted it with approval" is dull

"There was a lively and controversial discussion on the proposal" is both brighter and shorter.

It is not enough for presentation to be clear, it must be attractive – in a form and in terms that capture attention.

7.3.4 Report-Writing Checklist

■ Purpose:

Is the purpose of the report made clear, more particularly as shown in the title, introduction and summary?

■ Information:

Does the report give all the information required by the terms of reference?

- Does it meet the needs of the reader?
- What questions are likely to arise in his mind?



- Which of these has the report anticipated?
- Has any irrelevant information been included?
- Is the technical level of the information appropriate?

■ Introduction

Does the introduction explain the scope of the report?

Does it define the limits of the report?

■ Accuracy

- Are all the statements accurate?
- To what degree?
- Have sources and authentication been provided?
- Are there any possible ambiguities?

■ Structure

- Is the subject arranged in the appropriate logical sequence?
- Is the sentence structure clear?
- Are the paragraphs of reasonable length in relation to the length of the report?
- Does the paragraphing reflect the development of the information and ideas?
- Has the right balance been struck between the various parts of the report?
- Are the appendices needed?
- How appropriate are they?
- What reference to them is made in the body of the report?
- Are all the main points clearly made?

■ Style

- Is the report free from pompous phrases and clichés?
- Is the approach positive rather than negative?
- Does it hold the interest of the writer himself throughout his re-reading of it?

■ Display

- Is there reasonable economy of paper and expression?
- Are conclusions and recommendations arranged neatly and clearly?
- Are the various sections summarized sufficiently for the reader?
- Are the headings and sub-headings right?
- Have visual aids been introduced where appropriate?

■ Language

- Is the report free from grammatical errors?
- Is the vocabulary too abstract?
- Are any meaningless phrases introduced?
- Is the pace the right one? Too fast? Too slow?
- Is the report trying to accomplish too much?

- Is the tone adopted towards the reader the right one?

■ Illustrative Matter

- Does each diagram convey its meaning clearly?
- How well is the association between text and illustration established?
- Do the illustrations give the essential minimum of explanatory wording?
- Are the tables used mentioned in the text of the report?

7.3.5 Format

The purpose of reports and their subject matter varies widely, but there are certain generally accepted principles of report writing that can be applied to most types of reports.

1. Title

The report should have a title, and the title should be:

- Explicit – that is, the title should indicate clearly what the report is about.
- Brief. The title should be as short as possible, while at the same time being explicit.

2. Identification of Report Writer, Report User and Date

Reports should indicate clearly whom they are directed at, who has written them and the date of their preparation.

3. Confidentiality

If the report is confidential this fact must be printed at the top of the report.

4. Contents Page

If the report is extensive, it should open with a list of contents by a section, paragraph, number, etc.

5. Terms of Reference

The introductory section of the report should explain why the report has been written. The terms of reference should explain not only the purpose of the report but also any restrictions on its scope. Timescale is important and it should be specified in the terms of reference. “The report was to be handed in by 27th June 20...”

6. Sources of Information

If the report draws on other sources for its information, these sources should be acknowledged in the report. Alternatively, if the report is based on primary research the nature of fact-finding should be explained.

7. Sections

The main body of the report should be divided into sections. The sections should have a logical sequence, and each section should ideally have a clear heading.



8. Appendices

To keep the main body of the report short enough to hold the reader's interest, detailed, explanations, charts and tables of figures should be put into appendices. The main body of the report should make cross-references to the appendices in appropriate places.

9. Report Summaries

Long reports should be summarized in brief. However, as suggested already it is better to keep the main report itself brief, with the detail in appendices, and so a report summary would not be necessary.

The format of a written report varies considerably. Some may be short and set out on a single sheet of paper; others may run to hundreds of pages. Some may be produced in paragraphs of continuous prose; others may be displayed under a series of headings, sub-headings with table and diagrams. The choice of format depends on many things.

I. The Short Format Report

The report is used in formal reporting situations, mainly internal where middle or senior management reports to senior or top management.

It will be split into logical sections as below:

1. TERMS OF REFERENCE
2. PROCEDURES
3. FINDINGS
Main Section Heading
Main Section Heading
Main Section Heading
First Sub-Heading of Section 3.3
Second Sub-Heading of Section 3.3 etc
4. CONCLUSIONS
5. RECOMMENDATIONS
First Main Recommendations
Second Main Recommendations

Title

For this kind of report, at the top (or on a title page) should be the title of the report. This is its subject, who has prepared it, for whom it is intended, the date of completion and the status of the report (confidential or urgent).

Terms of Reference

Here is laid out the scope and purpose of the report. What is to be investigated, what kind of information is required, whether recommendations are to be made etc.

Procedure

This outlines the steps taken to make an investigation, collect data or put events into motion.

Could be: Telephone calls were made, documents/files consulted, computer files accessed, visits of the site/observation, interviewing personnel, etc.

They should be briefly described, with the names of other people involved.

Findings

The information itself is set out, with appropriate headings and sub-headings. Findings will usually be written in descending order of importance, where the most important comes first. The content should be complete, but concise and clearly structured.

Conclusions

This section allows for a summary of main findings – if the report is lengthy and complex. This is particularly helpful to those who may wish to read the entire report.

Recommendations

If asked to so in the terms of reference, the writer of the report may suggest the solution to the problem investigated so that the reader will be able to make a decision if necessary.

■ II. The Short Informal Report

The structure of the informal report is less developed. It is shorter and less complex so it does not require elaborate referencing and layout. Its sections may have various titles but three sections may be considered as below:

Background Or Introduction Or Situation

This sets the context of the report. Include everything that will help the reader to understand the rest of the report.

- The reasons why it was requested
- The current situation
- Any background information on people and things that will be mentioned in the following sections

This section may contain the equivalent of Terms of Reference and Procedure.

Findings Or Analysis Of The Situation

Here is set out the detailed information gathered, narrative of events or other substance of the report. It may be organized as a series of continuous prose paragraphs, it may have sub-headings or numbered lists.

Generally the input of this section is not sufficiently complex to justify a highly schematized, indented layout.

Action Or Solution Or Conclusions

In this last section the main points of the report are summarized as conclusions and any actions required. Recommendations or means of solving a problem are outlined.



Thus the conclusions and recommendations are combined here.

■ III. The Long Formal Report – Report in Tabular Form

This format is used for high-level, extensive reports. Could be 50 or hundreds of pages.

Principal Components

- Title Page
- Contents, pages
- Synopsis of findings
- Terms of Reference
- Procedure
- Sectionalized Findings
- Conclusion
- Recommendations.
- Appendices
- Bibliography

A schematic arrangement in which the material is classified and grouped under headings and sub-headings greatly simplifies the reader's task. He can see at a glance what the different sections are about; pass quickly over those that do not concern him and concentrate on those that do.

A TABLE OF CONTENTS makes his task easier still. It gives him a bird's eye view of the subject matter covered as well as a close-up of sections that specially interest him.

With very lengthy reports it is also helpful to prepare a SUMMARY of the findings, conclusions and recommendations consisting of no more than a single page.

Capitals, numerals, lettering, underscoring and indenting are all employed as devices for presenting the different items with varying degrees of emphasis. The numbering and lettering scheme adopted will depend on the house-style.

■ Reports in letter form

Short reports could also be in the form of a letter addressed to the person at whose request the report is made. The mechanical structure will not differ from that of the ordinary business letter and the report should be signed and dated as such.

Subject matter will be arranged in the following order:

- Subject-heading
- A reference to the request for the report

This is in the first paragraph and does not need a sub-heading.

- The methods of investigation used
- The findings
- The conclusions drawn and recommendations made if they have been asked for

Conclusions and Recommendations could be under the same sub-heading or separated depending on the needs of the reader.

■ V. The Memorandum Report

This format is used for internal reports especially within and between departments.

An ordinary memo may be used for flexible, informal reports. Apart from the convenient title headings, there are no particular requirements for structure, headings or layout. The writer may consider whatever is logical, convenient and attractive for the reader.

MEMORANDUM	
CONFIDENTIAL	
To _____	Ref _____
From _____	Date _____
Subject _____	

■ Forms and reports

Some commonly prepared reports have certain standard content requirements and can therefore be pre-printed with appropriate format and headings and filled in when needed.

Examples: An accident report form; a damaged goods report (for incoming orders found faulty); personnel profile e.g. C.V.

Forms are useful because:

- i. They help collect data in standardized procedures
- ii. They ensure that all the information needed is provided by the form-filler.
- iii. They sequence the data in a preferred priority
- iv. They provide handy sources of reference
- v. They can act as computer data input sources
- vi. They ensure a uniformity and consistency of approach in dispersed offices e.g. bank branches, insurance branches or government offices.
- vii. Clerical staff can be readily trained to vet accurate completion of forms
- viii. New policies may be readily designed to meet new or revised policies and procedures.

■ Design of Forms

Guidelines on a Good Form Design

1. The function and reference number of the form should be clearly shown at the top e.g. Application Form
2. The name of the organization should appear at the top if it is to be used externally.
3. The overall design should be uncomplicated and functional, not forbidding to the eye of the form filler, and convenient for retrieval purposes. Therefore make use of lines, boxes to assist clarity and quick location of information.



SURNAME	ADDRESS
FIRST NAME	
DATE OF BIRTH	TELEPHONE NUMBER

MY POLICY NUMBER IS									
---------------------	--	--	--	--	--	--	--	--	--

- The wording should be clear and concise
- Sufficient room should be allowed for the information requested, but too much space also gives a false impression of what is required. When calling for information that can be very variable in length – such as a person's qualifications – the space allowed should cater for the average.
- Instructions should be clear and near the top e.g. COMPLETE IN BLACK PEN ONLY.
- The form should allow for a minimum of information to be installed e.g. YES/NO answers or ticks in boxes.

It is an advantage to state alternatives in the form – for the person completing to delete as appropriate, or to tick or cross the appropriate box. This method simplifies completion and ensures clear answers, is economical of space and simplifies the task of the person extracting the information from the completed form.

Examples:

SIZE		COLOUR	
Small	<input type="checkbox"/>	Red	<input type="checkbox"/>
Medium	<input type="checkbox"/>	Blue	<input type="checkbox"/>
Large	<input type="checkbox"/>	Green	<input type="checkbox"/>

PLEASE TICK BOX

I enclose cheque/postal order/cash* to the value of Ksh _____

* Delete as appropriate

- The information should be presented logically.
- Important information should be highlighted.
- Where copies are required, colour coding should be used. E.g. top copy to customer (white); second copy (pink) to purchasing department; third copy (yellow) to accounts, etc.
- The form meets the requirements for typewritten entries and computer output.
- Any part of the report not intended for completion should be kept clearly separated and marked. For instance, it can be marked "**FOR OFFICIAL USE ONLY**"
- Forms to be used in a factory or out-of-doors should be made from suitable sturdy paper. Likewise forms that will be posted overseas should be on thin paper, so as to reduce the costs of airmail postage.

14. Related items should be grouped together on the form, separated from other areas (with boxes, etc) and arranged in a logical sequence, so the user can identify them quickly.
15. Lastly, it is important not to forget to monitor these forms from time to time. If the form is not really needed, get rid of it.

After designing a form, produce a test model of the firm. Try it on close colleagues first. Ask them to criticize it constructively and make any necessary amendments. Print the forms for use and check the first users' responses. Did they understand what was needed? Were any parts left uncompleted? If so, why?

7.3.6 Control of Forms

It is very common for people to hold larger stocks of forms than they actually need to avoid running out. This is wasteful and it uses up unnecessary paper and space and there is the possibility that forms will become obsolescent as requirements change.

Many organizations centralize the design and control of forms within the Organization and Methods (O & M) Department or within the Administrative Department. A specimen copy is kept in a register with details of date designed, purpose and type of paper etc. They are reviewed regularly and a check is kept on issues so that departments don't overstock.

■ Annual reports

An annual report of a company is important to all who are working for it, investing in it or selling to it. It contains:

i. The report of the Certified Public Accountant

This is what will show if the company conforms with generally accepted accounting principles.

ii. Letter from Chairman

This should reflect the personality and well being of the company. It is usually addressed "to our shareholders". Here the chairman should say how his company fared that year. But more important he should tell WHY certain things happened.

The chairman's letter should give insights into the company's future and its stance on economic or political trends that may affect it. When the chairman uses words such as

"Despite the _____" OR "Except for _____" it is a sign of problems.

The chairman's report will also show what is new in each line of business. It should show that management is getting the company in good shape for the coming years.

ii. Statement of Financial position/ Balance Sheet

This shows how the company stands at a single point in time. On the left are assets everything the company owns. Things that can quickly be turned into cash are current assets.

On the right are liabilities - everything the company owes. Current liabilities are the debts due in one year, which are paid out of current assets.



The difference between current assets and current liabilities is net working capital, a key figure in an annual report.

If working capital shrinks, it's a sign of trouble.

Shareholder's Equity

It is the difference between total assets and liabilities.

Long-term debt

High and rising debt, relative to equity is not a problem for a growing business. But it shows a weakness in a company that's leveling out.

Statement of Comprehensive Income/ Income Statement

Shows how much the company made or lost over the year.



7.4 POSTAL AND COURIER SERVICES

Fast forward: Postal and courier services are non-core activities that can be outsourced in scales that depend on the nature and business needs of the organization.

Business communication with people outside the organization will more often than not be of a formal nature, since it has a lot of impact on the way the organization presents itself to the outside environment. Letters and parcels to be delivered to customers or suppliers will have to be sent through the channels the organization has deemed appropriate. The choice of which channel of delivery to use depends on the nature of the organization. Today, most business correspondences are carried out over the Internet. E-commerce, email, video conferencing e.t.c are all technology that have come up in recent years to relieve organizations of the hassles of passing messages across through the old traditional methods.

The procurement process, for instance, can be done by email till the goods are delivered. Larger organizations will employ the use of electronic data interchange to facilitate business transactions from inception to conclusion. For a growing business, postal and courier services will be used in the following areas;

- Responding to invitation to tenders
- Sending cheque payments to suppliers
- Delivering goods to customers
- Sending business documents to customers e.g. invoices, statements e.t.c
- Responding to customer queries
- Applying for a bank loan

7.4.1 Postal services

Postal services have been in use since the olden days when people started doing business. There has been tremendous development in this industry. Initially, the state controlled postal services. Over the decades, private institutions have taken up the challenge and many small businesses have been opened up to offer the service. Certainly, this brings with it a decent level of professionalism in the industry, which has been lacking in the past.

One of the important challenges to postal and courier services, both public and private, is competition from other communications services such as facsimile, electronic-mail, and data networks, particularly in the business-to-business market segment.

However, other segments such as business-to-private and private-to-private mail may be less affected by new communications technologies, so long as public postal services are run in an efficient and customer-oriented manner and as access to postal services remains more widely available to residential customers than in-home computer terminals.

Traditionally, postal services have been in use in the following areas;

1. Postal services related to letters consisting of pick-up, transport and delivery services of letters, newspapers, journals, periodicals, brochures, leaflets and similar printed matters, whether for domestic or foreign destinations;
2. Postal services related to parcels consisting of pick-up, transport and delivery services of parcels and packages, whether for domestic or foreign destinations;
3. Post office counter services rendered at post office counters, e.g. sales of postage stamps, handling of certified or registered letters and packets, and other post office counter services;
4. Other postal services which includes mailbox rental services, "poste restante" services, and public postal services not elsewhere classified

7.4.2 Courier Services.

Courier services are also equally important in business as it is through courier that letters, parcels, goods and services get delivered to customers; for instance, parcels that are fragile get delivered in the desired state. Courier will be very important especially for a business that deals a lot with door to door servicing of customer orders. Courier services may be local or international and for this reason, the choice of a service provider is important as it will determine the scale of activities that the contracted party will be able to carry out on behalf of the business. An organization may choose to use courier as opposed to postal services due to the following reason;

1. Need for urgency and efficiency in delivery – courier is generally faster
2. Nature of commodity – fragile product may call for extra care in handling
3. Customer preference – A customer may prefer courier to postal

Most courier companies are privately owned. The demand for high quality service as a competitive aspect of business has led to many businesses to value the quality of this service as rendered by suppliers. An inefficient service provider may make a client lose business, and for this reason, the organization needs to be careful in selecting the people they wish to undertake this service on its behalf. Most courier firms also double up to offer postal services. Examples include EMS, DHL,



Relation to other services/sectors

The relation between postal and courier services is that the latter represent a subset of postal-type services. Postal and courier services are dependent on physical means of delivery, particularly air and road transport services. Road transport may be a significant means of delivery of parcels and other items within geographic regions or contiguous countries, and air transport is the predominant means of delivery among distant locations.



7.5 PRESENTATION: PLANNING, ORGANIZING AND DELIVERING BUSINESS PRESENTATIONS

Fast forward: The success of a business presentation depends on the amount of preparation put into the whole exercise.

Presentations constitute an important aspect of doing business. The entrepreneur needs to learn how to give good presentations as these skills can help him convince investors to invest in the business. Presentations may also be required where the entrepreneur is in the business of consultancy. Here, how he makes his presentation determines whether or not the customer gets value for money.

Along with computer literacy, professional presentation skills are becoming a new survival skill in the workplace. People enjoy presenters who are inviting, engaging and informative.

Developing and delivering business presentations, just like most functions in business, are standard and are a learned skill. One should strive to learn the formula, practice the skill and eventually will gain the competency.

Here are some of the fundamentals of presentations that can help in developing the skill

7.5.1 Planning the Presentation

In creating the presentation, one should think like a reporter and answer the "who, what, why, how, and where" questions.

Who will attend--and how many? The content of presentation should be aimed at the audience, and the choice of visuals to meet the needs of the presenter's group. Visuals need to be visible to everyone.

What is the purpose of the presentation? Is it to explain a plan or project; to tell people what to do--and how; report on what's been done; get support for an idea; define or solve a problem; gain consensus for a decision; provide training; or encourage motivation.

Why are they there? Is attendance mandatory? Any time anyone attends a meeting, they will always be asking themselves, "What's in it for me?" Be sure you answer that question for them.

What information is needed to support the purpose of the presentation? How will it be presented? One should keep his points short, concise and understandable to the audience. Visuals could be used to clarify and reinforce the message.

Where is it going to take place? The room that the presentation is in will have an impact on how one presents. Will a projector or flip charts be needed? Will there be need for a microphone? What about a riser (podium)?

7.5.2 Format

A presentation will have an OPENING which will capture audience attention and lead into the presentation topic. Then, a BODY which has a series of points with each point beginning with a statement of fact followed by supporting material. The presentation then ends with a CLOSING which contains a review (or summary), and a call to action (or a memorable statement).

In timing the presentation, an ideal breakdown would be:

- Opening - 10 to 20 percent of the total time allocated
- Body - 65 to 75 percent
- Closing - 10 to 20 percent

It is encouraged that each point the presenter makes be clearly stated, illustrated and supported. The presenter should act as though the audience is not at all familiar with the topic; he should not assume they know anything. He should avoid jargon but devote a similar amount of time to each main point; otherwise the audience may consider it less important. Points should be arranged in a logical order.

7.5.3 Tips for Successful Presentations

- Plan the timing
- Make points clear
- Speak clearly
- Use visuals that can be seen by all
- End the presentation on time

■ Building Confidence

Nervousness is healthy--it shows that the presentation is important. Knowing as much as one can ahead of time will give confidence. One should rehearse until he is comfortable with the material.

Here are some additional tips on how to control nervous jitters:

1. The presenter should realize that people want him to succeed.
2. Relax. The presenter should take a deep breath. When getting nervous, he should breathe shallowly. If he concentrates on breathing deeply, he will get enough air to speak and ease the panic.
3. The presenter should use good posture. The presenter should realize that he has more power and energy when he stands erect with weight balanced equally on his feet.
4. The presenter should concentrate on the message, not on how he is coming across.
5. He should use eye contact. This will help the audience know that the presenter is speaking to them, not at them. He should find a few supportive faces and hold their eyes as he makes a point.



6. He should turn nervousness into positive energy.
7. He should not apologize.
8. He should forget perfection.
9. He should learn to laugh at himself. The problems that occur during presentations are funny (equipment doesn't work, one trips, one discovers a gob of toothpaste on his clothing).
10. The presenter should build in appropriate humor (not jokes), those funny things that happened on the way to the meeting room.
11. He should use anecdotes to bring the statistics, facts, and figures that need to be delivered to drive them home.

■ After the Presentation

Once a presentation has been delivered, the presenter should ask a trusted colleague in the audience to give him feedback afterward. If the feedback shows that he needs help, the presenter should hire a private presentation skills coach.



7.6 ETHICS IN COMMUNICATION

Fast forward: Ethical considerations have to be put in place when handling communication tools within the organization.

As mentioned earlier, ethics is the study of morality of acts. It is the realization of good and evils in the acts of man. Ethics refers to a set of principles prescribing a behavioral code that explains what is good and right or bad and wrong. It outlines moral duty and obligations. (Koratko and Hodgetts, 2004),

Ethics is the study of moral issues and values. Ethics involves choosing between right and wrong. A person who behaves ethically is one who operates in an upright and honest manner. Different cultures have different perceptions on ethics. In some countries, the society may not look down upon giving bribes in business, yet in others, this may be taken as a serious offence that warrants law enforcement.

Questions of right and wrong arise whenever people communicate. Ethical communication is fundamental to responsible thinking, decision making, and the development of relationships and communities within and across contexts, cultures, channels, and media. Moreover, ethical communication enhances human worth and dignity by fostering truthfulness, fairness, responsibility, personal integrity, and respect for self and others. We believe that unethical communication threatens the quality of all communication and consequently the well-being of individuals and the society in which we live

When it comes to communication, specifically in business, there is no limit to the number of ethical issues that may impact on the reputation of the business. The use of technology in the work place is intended to reduce the amount of work and increase efficiency. However, if used badly, the same tools we adopt to make work easier may be the same tools that if abused may bring the moral question of rightness or wrongness to the fore for debate. As mentioned in chapter five, there is need for a code of conduct in the work environment that will act as a benchmark for all employees who from time to time are faced the this moral dilemma in using the tools of trade.

The internet, for instance is full of erroneous and even dangerous information that is difficult for people without a scientific education or training to interpret in context, particularly given the uncertainties inherent in the scientific process. Those interpreting science for the public, whether journalists, educators or other communicators, should use peer review as a benchmark. Guidelines in the use of communication technology in business may be summarized as follows;

■ Developing an ethical culture

This should start from top management and drill down to the lowest level of staff in the organization. Management has to show its interest in ensuring that ethics is valued and an ethical way of behavior is adopted in using the communication tools in the office. The use of the telephone for instance should be associated by courtesy and good manners. A directors or manager who always shouts on the phone in all conversations in front of his employees does not give a good example.

■ Employee Training

If management gives the issue of ethics the importance it deserves, then the necessity of ensuring that all employees are indoctrinated into this aspect of the organization culture should come as no surprise. It may be necessary to incorporate this requirement in the interview process

■ The use of a code of Ethics

This is simply a guideline on how to use the tools of trade in an ethical manner at the work place when pursuing the ends of the organization. For each tool in the work place, such as the Internet that will be used for sending emails for instance or doing transactions, there should be a policy to ban the use it for tasks not related to the job.

■ Use of Internet filters

The use of Internet filters blocks certain sites considered inappropriate for anyone to view from being accessed within the organization's internet.

■ Open Forums

Management should promote the sharing of information, opinions, and feelings when facing significant choices while also respecting privacy and confidentiality of the members of staff



■ Freedom of expression

Freedom of expression should be encouraged when it comes to moral issues. People should be able to speak out where they feel their rights are being violated or something is happening in the work place with moral implications that needs to be addressed by whoever is concerned. The management should encourage the courageous expression of personal convictions in pursuit of fairness and justice.

■ Confidentiality

Management should ensure that personal information pertaining to its employees is kept confidential at all times. This touches on the human resource office and appraisal reports.

CHAPTER SUMMARY

- There are many events in the business environment that constitutes the non - core activities. These activities need to be given due attention in order to facilitate efficient running of the organization. Communication and other business correspondences constitute part of the non – core activities.
- Meetings in the organization should be well organized. Formal meetings should be minuted and planned well in advance following adequate preparations.
- Communication within and without the organization should be done professionally as the image of the organization will be impacted by the manner in which this is done.
- Reports are written to summarize an event or to account for a particular phenomenon that has implication on the business. Formal reports should be well written, given the fact they the information contained therein is sensitive to the business and can have serious implication if it's incorrect or wrongly written
- Postal and courier services are what enables an organization communicate effectively and professionally with outsiders. Depending on the nature of the business and distance to be covered among other factors, the choice of which mode to use should be done very carefully.
- Business presentations skills are essential to everyone working in the organization. Acquisition of these skills gives the entrepreneur confidence in representing himself when dealing with customers and other business stakeholders
- Ethics in communication is a management issue that should not be ignored. The top management should lead by example in enabling an environment where moral values are upheld. This will facilitate the adoption of an ethical culture in the organization where everyone feels comfortable in his job.

CHAPTER QUIZ

1. What is business communication?
2. What are the main types of meetings and what are they designed to achieve?
3. What are the main functions of reports?
4. Identify types of reports that you know
5. What constitutes the format of a report?
6. For what purpose would an organization require postal and courier services?
7. To make a good presentation, identify 6 pointers that can be useful to an amateur presenter.



ANSWERS TO THE QUIZ

1. Business communication applies where the essential communication skills acquired are applied in the process of carrying on business. It encompasses both personal and infrastructural aspects that go into making correspondence in the business environment efficient and effective.
2. Meetings can either be formal or informal. The main functions of meetings are;
 - To consult, exchange views and discuss matters of interest to all who are present.
 - To negotiate terms e.g. better working conditions at the office
 - To inform staff about new work procedures or update them on other current developments.
 - To make decisions democratically.
 - To solve problems by pooling expertise.
 - To plan or monitor progress e.g. production.
 - To investigate occurrences e.g. accidents.
 - To make recommendations e.g. to an executive.
3. Reports are written to accomplish the following:
 - To account for the problems that occur or trends and to recommend solutions e.g. the reason for a fall in sales.
 - To give an account on the usage of funds and other resources e.g. monthly financial or sales reports.
 - To record decisions made at a meeting in the form of minutes
 - To supply information for legal purposes e.g. accident reports.
 - To monitor progress e.g. in building work, in implementing a new scheme.
 - To look into the feasibility of introducing new procedures, making new products, changing machines.

4.

Routine Reports

These are reports on recurring events in the organization and are the more common type.

Special Reports

These are different and are not submitted as a matter of general practice. They are once-only reports, called for to provide information on matters of particular interest and concern.

5. There is no standard format for report writing. It is the purpose of the report that determines its structure. The following are the general areas that constitute a general report:
 - i. Report Title
 - ii. Identification of Report Writer, Report User and Date
 - iii. Confidentiality clause
 - iv. Contents Page – This breaks the contents into major topics
 - v. Terms of Reference
 - vi. Sources of Information

- vii. Main body divided into sections as per the content page
 - viii. Appendices
 - ix. Report Summaries
6. Postal and courier services would be useful in the organization for the following reasons
- Responding to invitation to tenders
 - Sending payments to suppliers and other lenders.
 - Delivering goods and services to customers
 - Sending business documents to customers e.g. invoices, statements e.t.c
 - Responding to customer queries
 - Corresponding with the bank or other financial institutions
- 7.
- i. Composure. This is necessary so as to deliver information coherently. One should learn to relax and breathe before making the presentation. If one concentrates on breathing deeply, he gets enough air to speak and ease panic.
 - ii. Posture. There is more confidence when standing erect with weight balanced equally on the feet.
 - iii. Focus. The presenter should concentrate on the message, not on how he is coming across.
 - iv. Eye contact. This will help the audience know that the presenter is speaking to them, not at them. The presenter should find a few supportive faces and hold their eyes as he makes a point.
 - v. Humor. He should mention those funny incidents that happened on the way to the meeting room.
 - vi. He should use anecdotes to bring the statistics, facts, and figures that he needs to deliver to drive them home.



EXAM QUESTIONS

QUESTION ONE

With technology integration and the web's high speed environment which forces constant collaboration, an organization must react in real time to its strategic changes. This will only be possible if it exploits new Internet technologies.

Successful e-companies share fundamental principles that have proved critical to their success in the global marketplace.

You have been requested by the Managing Director of your organization to carry out a study of business transformation on the Internet in order to identify several important factors common to their success in the business world. Your report will be tabled at the next board meeting. You obtain the following information from various sources through Internet.

- The most successful organizations are being pushed by their top management to exploit new Internet technologies.
- Understanding e-commerce is a key to success in today's globalizing economy, where rules formulated in distant capitals have an increasing impact on cross-border trade and competition in home markets.
- Businesses have been swift in realizing the opportunities provided by the web and have developed websites in order to advertise and sell products and services, promote corporate images and; to provide information (especially public services).
- Advantages in using the web include a reduction in the cost of advertising, cheaper and easier provision of information, the lack of a need to maintain a shop front, the ease of crossing geographical boundaries and the absence of a middleman.
- The web's high-speed environment forces tight cross-functional integration across all the company's business divisions and functions and will also force management to acquire IT skills as well as business skills to lead such change.
- Businesses are using intranets for the internal display of company manuals covering employment and other procedures; easily updated internal news and information services, company catalogues; and project notice boards (to which project participants can add information and comments to be seen by all).
- Intranets enable employers to talk with and challenge one another, share ideas and create new knowledge fostering experimentation with new ideas, products and services before they are launched.
- The network also extends to customers through the use of extranets for enhancing customer relationships and managing its supply-chain.
- Companies can generate over 50% of their total revenue on-line with about 40% of unit volume shipped directly to customers without the company ever touching the product.
- Putting the customer in the driver's seat makes business sense, especially given the one-to-one marketing focus that is becoming the hallmark of electronic commerce.
- Many companies, not only welcome you by name on their sites (if you have previously purchased a product), but also remember your preferences and uses intelligent data-mining software to suggest related products and services.

0728 776 317

- They make you feel at home on their sites, so much so that you don't mind doing some 'work' for them such as order entry which saves their time and money.
- The Internet is uncharted territory and successful internet companies are continually experimenting.
- While the market will be the final judge, the important lesson is that companies are taking risks to become more efficient than they are now.
- The manager from an internet start-up advised, "in our organization, failing is acceptable, failing to learn from failure is not acceptable."
- Successful companies hire not only the best, but the right kind of people who accept an environment of rapid change, aggressive growth, are optimistic and like to have fun while working hard.
- Rewards in terms of very high on-line sales accounting for more than 50% of total sales are driving most companies in the direction of e-commerce.
- The question 'to be or not to be on the internet' is no longer relevant – the real question has become how to develop a successful Internet strategy.
- Organizations that do not make this transition will fail, they will become irrelevant, or cease to exist.
- The use of Internet and the Web will continue to grow in importance for business as new applications are exploited and the number of people able to access the internet increases.

Required:

- (a) Using as much of the foregoing information as you need, and inventing any additional minor details as appropriate, write a report to the Managing Director which will be presented for discussion during the next board meeting. (25 marks)
 - (b) In what main sections would you format a formal written report and what is the purpose of each of these sections? (15 marks)
- (Total: 40 marks)

QUESTION TWO

- (a) What advice would you give to a colleague who has been requested to make a short presentation to the board of directors on application of an innovative management technique?
Your advice, in form of a checklist should include how to prepare and deliver a presentation. (10 marks)
- (b) The success of a meeting depends on the enthusiasm, creativity, commitment and active participation of each person attending a meeting. Explain the role of a participant:
 - (i) Before the meeting
 - (ii) During the meeting (10 marks)



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CHAPTER EIGHT



STUDY X

IT IN BUSINESS
COMMUNICATION

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CHAPTER EIGHT

IT IN BUSINESS COMMUNICATION

► OBJECTIVES

By the end of this chapter, you are expected to:

- Explain how ICT has affected business communication in recent years
- Identify the various technologies that have revolutionized how business communication is carried out.
- Understand how the IT strategy of a business can be aligned with the overall business strategy
- Explain the challenges the entrepreneur may face in trying to automate his business
- Appreciate ethical issues that should be considered when communicating.

► INTRODUCTION

The world is becoming a global village with communication taking place at the speed of light from one corner of the earth to the other. This has greatly been impacted by the speedy growth of businesses that have embraced Information Technology (IT) in their operations. The tremendous growth in trading activity has also necessitated the need for improved methods of coping with increased usage of resources to ensure efficiency in production. As an investment, the entrepreneur should be assured of the returns once the IT infrastructure has been put in place. This calls for an extensive feasibility study depending on the nature of technology and the magnitude of operations to be automated. The entrepreneur should assess the importance of automation as a competitive edge for the business. His conviction is what will drive him to support IT in his business as a management tool. Once he is convinced, he should give his full support towards making this investment yield returns, either in the long run or in the short run. This chapter focuses on the technical details of the various forms of IT infrastructure the entrepreneur may find useful to his business.

► KEY TERMS

Information Technology (IT): The enabling mechanism, which facilitates the processing, and flow of this information as well as the technologies used in the physical processing to produce a product or provide a service. Includes telecommunications, computers and automation technologies

Internet: This is the name given to the technology that allows any computer with a telecommunications link to exchange information with any other suitably equipped computer. Information on the target computer is viewed using a Browser such as Internet Explorer or Netscape.

IT governance: Management methodology applied on IT applications within the organization's hierarchy.

► EXAM CONTEXT

A question from this section is yet to be tested under the new KASNEB syllabus

► INDUSTRY CONTEXT

Every business in the current world economy needs to be up to date with the current technologies that are in use. This should be done with respect to the nature of business the business is undertaking. The use of IT not only gives the business a competitive edge over competitors but also attracts the most skilled work force. Technology is dynamic hence the need to be always on the lookout for emerging trends in business. The accountant should also be well acquainted with the use of technology as employers will be looking for this skill as a basic requirement

8.1 EMERGENCE OF IT IN BUSINESS

Fast forward: Information Technology has impacted on all aspects of doing business today.

In the wake of the 21st century, the use of technology in business has become as essential as the profit making objective. Businesses have started incorporating IT in their corporate strategies strategy as a way of embracing technology in their business operations. Globalization has fueled the increasing adaptation of new technologies in most business crossing industries that are interdependent. In the chain of trade, most firms have been forced to adopt IT policies that comply with those that their business associates have adopted. Business as we know it today would, in many cases, be impossible to transact without IT. One example from the banking industry is cheque processing. It's been said that without information technology systems, to process all the cheques handled in Kenya manually would take a human staff the size of the entire working population of the country

Taking a look at a broad spectrum of information technology, the impact on business is vast. I.T. is affecting nearly every facet of human endeavor, and that effect is to speed up, to simplify the process of work, of innovation, of scientific exploration. Everything is speeding up, for instance in writing this book, I could be speaking, and my computer is writing it down for me. My productivity, my ability to transfer my thoughts into text has probably trebled or possibly quadrupled. That is one small example of the affect of software on productivity.

The rate of change, in IT, is exponential. What does this mean? It means that we now have the capacity to do what we did in the previous 100 years, within 20 years if we had to do it again. But in 10 years time, we could do the same 100 years in just 7 years. What it means is, every slight, every minimal improvement in IT, speeds the whole process up, and that is what is happening now, and it is hidden from most people.

IT is well used in most facets of life ranging from home appliances to industrial applications. These two areas that affect our life view IT in differing levels of importance. The difference here stems from the fact that the functional IT to be found as feature enhancement in cars, phones,



kitchen appliances and entertainment systems comes pre-packaged and is rarely the primary purchase motivator. Business IT, on the other hand, must serve the business and it is usually extensively configurable. This means that someone must take ownership of the function. The organization's management needs to assess the level of importance it gives to IT as a major capital investment. The management of the organization should take a systematic approach to adopting IT as an investment given the cost implication and the fact that it is intended to drive the organization to meeting its objectives.

8.1.1 Guidelines on computerization

■ Decide what to Computerize

The first issue for the entrepreneur to face as the potential purchaser of a business IT system is the question of functional analysis. What the system will do, how this will be achieved, what will it cost and what will it save all must be addressed.

Most businessmen tend to act rashly in making major decisions like capital investment, in order to be seen to be decisive. Instead of undertaking a full analysis of the project, they make quick decisions where a lot is at stake. This should never be the case with the entrepreneur. The spectacular failure of government department IT projects is clear evidence of this.

■ Involve the Stakeholders

In order to achieve a clear understanding of what is to be achieved both sponsors and stakeholders need to be appraised of the aspirations and implications of any systems to be rolled out. There is little to be gained by the entrepreneur from hiding the potential impact in order to move a project along towards a point of no return. The hope that the inevitable will be accepted is often thwarted with painful consequences.

■ Avoid Planning for Failure

Expectations must be clearly defined and Service Level agreements should be set beforehand. This is an agreement between the entrepreneur's firm and the provider of the IT resource to guarantee the client that he is entitled to a minimum level satisfaction in quality of service provided. Penalty clauses may be included, but it must always be appreciated that failure with fiscal compensation is still failure and it will still adversely impact business. The best strategy is to plan for success and ensure thorough preparation.

■ Keep the Benefits in Focus

If all this is starting to look discouraging, the entrepreneur should think about the benefits to be gained. A well functioning system delivers improved economy, that is to say he will get to choose between reduced costs and improved performance and that makes all the difference in a competitive world. This does not mean that every entrepreneur needs to become an IT expert.

■ IT as a Business Tool

For success in implementing IT, what is needed is the perception of IT as a business tool and an understanding that good craftsmen choose their tools carefully, use their tools carefully and always look after their tools. Good craftsmen also know when to invest in new tools. Knowing the business and learning what tools to use to improve the business is paramount.

■ Keep Control

The secret is to remain in control at all times. The entrepreneur should avoid the temptation to overreach and only seek to implement what is fully understood.

In order to achieve this it will be necessary for the entrepreneur to analyze and document each affected process. This is best done by engaging the skills and knowledge of the current process operatives for in-house functions and seeking out the experiences of others for new or unfamiliar processes.

8.2 THE IT STRATEGY AND THE BUSINESS STRATEGY

Fast forward: For successful implementation of IT, the corporate strategy should have a place for automation of business operations.

Every organization has a set of predefined objectives that are crucial for its long term growth. There are broad plans that the management or entrepreneur has designed for the future along with a time frame within which these plans should be accomplished. These broad plans that can also be broken down into smaller plans are called objectives. Corporate governance is concerned with the ethical behavior by those charged with governance in ensuring the organization's resources are being used to meet the said objectives. This is called 'creating and presenting shareholder's wealth.' Management will come up with a laid out plan on how the objectives can be realized

From corporate governance flows the organization's direction, from which in turn come business activities that consume resources and aim at achieving business objectives. Results from these activities are measured and reported on against business objectives.

Controls built within the organization to check on management's performance provide assurance of compliance to governance and best practices, and hence ensuring that:

- Goals are achievable
- Risks are properly addressed; and
- Organizational resources are properly utilized.

IT can be taken as one of the means of achieving the major goals of the company. It can act as a broad platform for the management to fulfill their obligations to the shareholders. At the same time, IT on its own needs to be discussed separately as one of the main strategies.



The adoption of technology has created a critical dependency on IT to initiate, record, move and manage transactions, information and knowledge. IT is no longer an enabler of business strategy, but an integral part of it. IT governance aims at aligning IT with business, by ensuring that information and related technology endeavors are directed to the:

- Achievement of business objectives
- Opportunities presented by technologies are exploited to delivery
- Business value;
- IT resources are used responsibly; and
- IT risks are managed appropriately.

8.2.1 IT governance

IT governance is the responsibility of the Board of Directors and executive management. To be successful with IT governance, organizations must:

- Gain and maintain support from management;
- Focus on and achieve the right goals that have been set by management
- Minimize time to value. This ensures that the investment can result in efficiency;
- Overcome cultural changes

The IT strategy articulates the enterprise's intention to use IT for some or all of approved reasons, based on business requirements. Linkage to the business aims is essential for IT to deliver recognizable value to the enterprise. When formulating the IT strategy, the enterprise must consider:

Business objectives and the competitive environment;

Current and future technologies and the costs, risks and benefits they can bring to the business;

The capability of the IT organization and technology to deliver current

and future levels of service to the business, and the extent of change and investment this might imply for the whole enterprise;

- Cost of current IT and whether this provides sufficient value to the business; and
- The lessons learned from past failures and successes.

8.3 PRACTICAL ASPECT OF VARIOUS TECHNOLOGIES

Fast forward: Technologies should be adopted based on business needs of the organization at all times

8.3.1 Staff Location Systems

The pace at which commerce and industry move today is largely due to technological advances in the field of communications. It is now possible for a businessman to hold telephone conferences with groups of people located in different cities and if their phones are linked to a television, to see them as well.

Typed messages can be sent and received by telex, copies of documents can be transmitted to distant locations within seconds using fax, remote branch terminals can communicate with mainframe computers at head office etc.

■ Intercom

A device which enables communication to take place between two or more locations without interfering with the main telephone system. Extensions are called by pressing a button. It may incorporate a flashing/buzzing sign to attract immediate attention. It saves movement between offices and frees hands during talking and listening.

■ Public Address System

These are useful where it may be necessary to make public announcements. They can be invaluable in cases of emergency e.g. fire. The system operates through loudspeakers connected to a microphone. The disadvantages are that when used frequently it can be ignored; it is the cause of distractions and irritation; the person making the announcement may not have a clear voice. The benefits are the ability to communicate with a large number of people quickly; there is no need to repeat the message to several persons as with memos or the intercom. It is useful when you do not know the exact location of the person to be contacted.

■ Paging Systems

A variation of the use of the public address system. The intention is to call the particular individual to the phone or particular location to be given a message e.g. airport, reception.



■ Beeper System

Where executives are constantly on the move and yet may need to be contacted when out of the office they may be issued with personal radio receivers which fit into the pocket. These "beeps" send out high-pitched audible sounds when activated from a central point e.g. the switchboard. When the holder of the "beep" picks up the signal they are requested to report to the nearest phone. They are widely used by doctors and by executives in large organizations.

Advantages

1. They do not cause as much disturbance as the public address systems.
2. They enable confidential messages to be relayed once telephone contact has been made.
3. They cover a wider distance (e.g. up to 20km).

Disadvantages

1. The beeper is rendered useless if it is forgotten in the briefcase. It should be worn
2. A restricted area is covered-not as much as the public telephone network.

■ Radio Paging

It operates over a much wider area than the beeper (nationwide). There are 'tone only' beepers which merely beep, signaling to subscribers the need to contact a relevant number; or sophisticated models which incorporate a LED (light emitting diode) which can display a brief message.

■ Bells and Buzzers

A system of bells or buzzers can be installed. Each person on the 'call list' has a code of so many long and so many short buzzers-similar to the Morse code. They tend to be noisy and disturbing and not a very accurate method of communication. With a coded buzzer everyone must stop and listen carefully to the signals to discover whether it is his particular call sign.

■ Lighted Signals

To overcome the disturbance caused by sound signals, a system of lights may be used. There are three such methods:

1. The first uses a code which is a combination of any of the numbers which light up consecutively on an indicator. Up to 80 coded signals can be transmitted on such a system.
2. The second method is a clock on which the figures are illuminated either singly or in a combination to indicate members of the staff called.
3. The third system is a series of coloured lights only. Each member of staff who may be paged is allocated a combination of still and/or flashing colours e.g. yellow still and red flashing.

Disadvantages

1. They require coded signals.
2. A large number of signal stations may be required to locate a person wherever he may be.
3. The signal is not so insistent as a bell or buzzer.

8.3.2 Telex and Facsimiles

■ Telex

A teleprinter is a machine which resembles a typewriter with a telephone dial. It is capable of reproducing messages transmitted from a distant teleprinter over telephone lines, thus combining the speed of a telephone with the authority of the written word. The printed copy of the messages is produced on teleprinters at both the sending and receiving subscribers' installations. Calls may be made to any telex subscriber within the country or abroad.

The service is available day and night and messages may be transmitted to a subscriber even though his teleprinter is unattended, provided it is switched on. The message is even available for attention when the operator returns to the machine.

To send a message

1. A correspondent is called by dialing his telex number
2. The operator must then wait until the correspondent's answer back code appears on her teleprinter.

Every telex subscriber is given an answer back code for identification purposes. These codes and telex numbers are contained in the Telex Directory.

3. On receipt of the correspondent's answer back code, the operator sends her own code and then proceeds to send the message.
4. When she has finished she repeats her answer back code and then waits to see the correspondent's code to confirm that the full message has been transmitted.

Punched tape increases the speed and flexibility of communication. The message is previously prepared on punched tape and checked for accuracy.

The punched tape is then fed through the machine for transmission, instead of manually keying in the message. Typical transmission speeds are 70 words a minute—twice the normal speed of an operator. Messages can be proofread before transmission to ensure accuracy.

The advent of Information Technology gave a large boost to telex communication systems and current telex systems resemble a desktop PC rather than the typewriter appearance of earlier teleprinters.

The user may either opt for a dedicated telex terminal or may incorporate a telex facility into a networked computer terminal. By employing electronic text preparation and editing techniques telex messages may be prepared, edited and checked prior to transmission by means of VDU. Such messages may be kept on electronic file until a later transmission time and then dispatched automatically.

The new electronic teleprinters have many additional facilities which include:

1. Memories which store messages and send them automatically when required.
2. Ability to keep calling an engaged number until the line is free.
3. Advanced editing facilities similar to word processing.
4. Optional disk storage and visual display unit.



The advantages of telex are:

1. Speed
2. Reliability of written communication
3. 24-hour service
4. Ability to receive messages outside office hours
5. Foreign languages can be translated at leisure before replying.
6. Most businesses are telex subscribers.

■ Fax (Facsimile Transmission)

Fax refers to a system of transmitting exact copies of documents quickly and accurately over telephone lines to another fax terminal.

Facsimile means that an exact and faithful reproduction of text, photographs or graphic images is produced, the appearance of which is like a photocopy of the original.

Facsimile is a process of scanning, encoding and reconstructing. It involves converting digital signals to analogue for telephone transmission (most of the existing telephone networks are still analogue) and back to digital via built-in fax modems.

A facsimile transmitter accepts paper documents and passes them over an electronic scanner which encodes every least printed item-text, numbers, diagrams etc. into electronic signals. These digital signals are then converted into analogue signals and are transmitted to a fax address (entered as part of the transmission process). The receiving fax machine may be located anywhere in the world and connected by telephone lines, cables or radio/satellite networks.

The modem of the receiving fax machine decodes the analogue signals received into digital signals which the fax machine decodes into the same pattern of text or images of the original and prints it out onto a roll of paper which is loaded into the machine and guillotined into an appropriate size.

Distance is no object and charges are based on the time taken to transmit the message. In order to save costs or avoid busy transmission times, most fax systems allow the user to 'stack' a number of messages for onward transmission until a predetermined transmission time, say overnight. At the appropriate moment a timer is activated to set the transmission sequences into operation. This function is usually set up at the end of the office day when no further messages are to be sent by normal means.

Special Features of Fax

1. Status Reports e.g. after every 50 transmissions. It lists the number of calls made, their date, time and transmission duration, their destination and number of copies transmitted. This provides a means of monitoring fax bills.
2. Storage of addresses-up to 100
3. Auto-dialing-using the keyboard on the machine to dial the number
4. Auto re-try when lines are busy
5. Delayed send-to use cheap times for transmission.
6. Group codes-to send multi-destination transmissions.
7. Security features-requiring a keyed in password at the receiving end so that only a designated person may receive an incoming message.
8. Reduction and enlargement facilities.
9. Improved paper quality. Plain paper is used.

10. Error detection and correction. Automatic cut-off after a certain level of error is reached.
11. Fine mode transmission-improves the quality of the copy, but is slower.

Fax machines come in various sizes and in various levels of sophistication. The linking of fax into microcomputers (PC-fax) is an area of high activity.

Early in the history of fax there were compatibility problems between one manufacturer's machine and another but they now conform to international industry standards.

Advantages of Fax over Telex

1. Easier to use-as simple as a photocopier. No lengthy training is required to operate the machine.
2. Faster in terms of preparation (no keying in).
3. Flexibility-accepts graphs, diagrams, handwriting.
4. It is possible to transmit a signed copy of the original document to give it authenticity.
5. Better quality end product.
6. Errors are eliminated, as no intermediate treatment is necessary.
7. Faster transmission of documents is possible, considering the many special features available.
8. It offers a 24-hour service.

Disadvantages

1. Increasing volume of information being transmitted. Personnel may be unable to cope
2. Costs of equipment and development are high
3. Legal implications – faxed message does not have legal currency.
4. Messages once dispatched are irretrievable. Badly phrased messages can cause upsets.

8.3.3 Electronic Mail

Electronic mail is the term used to describe a range of electronic transmission services but is commonly applied either to a company's mailbox system operated via its own computer or to one of the services provided by internet service providers (ISPs).

As an intra-company facility, electronic mail can improve message sending and help eliminate the need for a considerable amount of paper, particularly where many staff have personal computers on their desks. A message is keyed in and addressed by code to relevant mailbox users. It is then received by the host computer and held in memory storage until accessed by the addressee who may then read it, transfer it to personal storage, forward it to someone else, reply to it via the mailbox system, print it out for hard copy retention purposes or delete it altogether.

E-mail is normally incorporated in Local Area Networks or may be provided by a public service.

E-mail uses a central switching centre which is responsible for renting mailboxes to subscribers and acting as the public telephone network link. In addition, digital PABX telephone exchanges provide access to Local Area Networks, mainframe computer terminals, word processors, telexes, microcomputers, electronic printing equipment and electronic mail stations.



When a message is created on a sender's system it is addressed to a remote mailbox and is transmitted by telephone line to the mailbox service operator and forwarded to the receiver. The receiver enters a personalized code via the keyboard on his terminal, which allows messages to be read on a video screen.

It is necessary for a subscriber to 'log in' to the system by entering the relevant user-ID which consists of 3 letters identifying the user group followed by 3 digits identifying the member of the user group. A password must also be entered, which is not displayed for security purposes. If the user-ID and the password are accepted the user is allowed to use the system.

Each user of the system is allocated a 'mailbox' which is a segment of the computer's internal memory that stores messages. Each mailbox is labeled by the user's ID. The input of the command 'mail' connects the user to the electronic mail system. The computer then expects the user to enter a command.

Either 'send', 'read' or 'scan'.

When 'send' is entered the computer indicates that it requires the user the IDs of the recipients of the message to be sent.

The 'read' command allows the user to read the whole of the message, but 'scan' lists only the sender of the message, the time, date, and a single line describing the message content. If no messages are stored for the user the response to a 'read' or 'scan' command is the message: "No mail at present". Messages may be sent to a number of people without a physical reproduction of them. This would allow all nodes in a LAN to receive the same messages if it was relevant for them to do so. A reply can also be attached to a message for automatic transmission back to the sender of the original message.

Electronic mail systems commonly include these features:

Incoming Mail

1. Flagging up the arrival of an incoming message construction of a directory of incoming mail by date/time of arrival.
2. Indication of what mail has not been read by user.
3. Facility to store or discard incoming mail.
4. Facility for reading mail on monitor, sending it on to only another LAN user, making a hardcopy of message for reference outside LAN.
5. Displaying a 'flag' on the monitor to indicate arrival of an urgent incoming email message while the user is operating another package.

Outgoing Mail

1. Ability to set up predetermined groups of message recipients and send the same email message to all e.g. all Heads of Department or all staff working in Personnel.
2. Facility to check whether recipient may/may not have a message.
3. Ability to set up a 'bring forward' system for emailed messages with action requests.
4. All outgoing messages are electronically filed for user reference.
5. Facility to send a created file with an email message to another LAN user.
6. Ability to put a 'destroy' message deadline on outgoing mail. It erases messages as soon as their relevance has expired.

Advantages of Email

1. Speed of message delivery.
2. Cost effectiveness particularly with rise in postal charges.
3. Time saving.

4. Prevents interruptions.
5. Paper saving.
6. Efficient in that it enables flexible working-from home or even abroad.
7. Enables individuals to have better control and management of their own time.
8. Facilitates wide message distribution where used intra-company.
9. Can provide a useful written/memory held record when used as an alternative to a telephone call.
10. Enables messages to be date-activated which ensures that they are delivered automatically to pre-determined future dates.

Disadvantages of E-Mail

1. Initial expense of installation.
2. Staff reluctant to use it.
3. The need to train staff in its use if they are to maximize its potential.
4. Systems breakdowns.
5. The likelihood of receiving 'junk mail'.
6. The possibility of unauthorized access to the system.
7. Internally they are not suited to the preparation and transmission of lengthy documents.
8. Can invite information overload.
9. Does not alleviate poor communication habits.
10. Can encourage time wasting-exchange of personal and nonsense messages.

8.3.4 Electronic Conferencing

One of the ways in which executive time is taken up is in attending meetings. Studies indicate that managers spend 50% of their time either attending meetings or travelling to and from meetings. Increasingly, conferences are taking place, both nationally and internationally, by means of telecommunication links. The following systems could be used.

■ Audio Conferencing

Audio conferencing makes it possible for two or more groups of people located in different parts of a country or in some other country to be linked simultaneously by telephone.

It is an economic and flexible way to run meetings, update staff or run training courses without the expense and disruption of face-to-face meetings.

Where technical matters are being discussed, simultaneous transmission of graphic information, engineering data or pictures can be achieved by the use of facsimile equipment or computer terminals.

■ Video Conferencing

Video conferencing is the linking of groups of people in different locations by sound and vision. Although it is an expensive method of communication, it provides the advantage of a face-to-face meeting without the wear-and-tear of travel. It also saves travelling and accommodation costs and makes better use of people's time. Any documents, models or technical drawings being discussed can be shown close-up on the TV monitors



■ Computer Workstation Conferencing

It is possible to interlink remotely located computer workstations. Here a personal computer user may interact with a central coordinator who sends out information to a 'circle' of users – for example displayed screens of written data. Each circle member may key in comments and responses viewable by all, or may 'converse' with an individual participant of the conference circle in privacy.

This communication system is a very effective way of supplying open learning and training.

■ Interactive Software Conferencing

With this system a PC user can dial up a colleague(/s) across the world and, with contact established, transmit a screen – displayed, software application – say a graph, chart or document – which may be updated, modified or altered by any of the participants, as they converse over the phone.

Advantages

1. Saves travel time.
2. Quickly arranged live meetings are possible.
3. Participants can see and hear one another and enjoy graphics support.
4. Meetings tend to be briefer and better organized due to cost factor.
5. Permanent recording can be made.
6. Easier access to essential files/staff is required.
7. Participants are less tired and so work more effectively.
8. It is easier to maintain confidentiality as opposed to meeting in a hotel.

Disadvantages

1. Such meetings may be more difficult to chair.
2. Some participants may be camera shy.
3. Face-to-face pre-meeting contact is lost.
4. Technical problems/breakdowns may occur.
5. Inconvenience of going to a confraction centre (a confraction centre is a regional studio set up with teleconferencing facilities. Charges are based on say, an hourly basis. Private links may be set up between private organizations. They would need to buy or hire the equipment).
6. Equipment costs in setting up a private service.

■ Data Storage and Retrieval

An essential part of the Office Manager's task is to supervise office services, which include the storage of information and its retrieval.

With the growing use of the computer to store, rearrange and transmit data without the need to print it out on paper, perhaps the time will come when the traditional methods of filing documents will disappear. However even if the office were to become fully automated, it is unlikely that paper would disappear entirely. Besides, since the disks would still have to be stored and retrieved and the principle of classifying and indexing applied in much the same way as for paper documents, the supervisor or Office Manager will still need to know the rules for the conventional filing systems.

Having worked in an office and seen some of the systems in operation, it will help the reader to understand the basic principles.

■ Essential Principles

Safe storage and speedy retrieval are the basic requirements of any filing system. To be effective, it should of course, suit the needs of the organization and the people using it, but there are certain essential requirements which are common to most. These are that the system is:

- a) **Easily** accessible both in terms of location and equipment
- b) **Compact**, taking up the minimum of office space
- c) **Safe** and secure, providing protection for valuable and confidential documents
- d) **Adaptable**, so that it can meet future needs such as expansion
- e) **Logical**, providing a system of classification with a quick means of reference
- f) **Simple** to operate and understand

In a good system, the information should be arranged or classified in such a way that the user can locate a document automatically from its description, and ensure that the documents are returned to the correct file after use. Therefore one should know the main methods of classifying documents.

- Alphabetical according to name
- Numerical in serial (or consecutive) order, e.g. 356, 357, 358
- Geographical according to place names e.g Nairobi comes before Narok subject
- Chronological (or date) order e.g. 14/3 comes before 18/4

Apart from these, there are the more sophisticated systems such as :

- Alpha-numerical
- Decimal
- Terminal digit

Retention Policy

This means the period of time that documents and files should be kept on a current system before they are either destroyed or transferred to reserved storage. It is necessary to have a policy, as if there isn't one, documents could be stored for longer.



CHAPTER SUMMARY

- Information Technology has been the driving factor behind business process automation. There has been tremendous growth in the usage of IT in businesses, especially in carrying out transactions. IT has become second nature to businesses regardless of the industry of operation.
- Before automating the core operations, the management should first carry out a feasibility study of the whole project. IT should be able to fit well in the organization's strategy without holding back the key operations.
- The IT strategy is part of the corporate strategy and the two should always work together. The process of incorporating the IT strategy in the overall business strategy is a sign of management's commitment in the automating operations.
- Examples of automation in communication include; among others;
 1. Telex and Facsimiles
 2. Fax
 3. Electronic Mail
 4. Electronic Conferencing
 5. Audio Conferencing
 6. Video Conferencing
- All these constitute efficient means of conveying information from one party to another through sophisticated communication channels. An organization should only automate those aspects of communication that are in line with its overall strategy.

CHAPTER QUIZ

1. What value would IT add to business operations?
2. What has led to the increased adoption of IT in businesses today?
3. Why should management look closely into its own corporate strategy before investing in IT?
4. List 4 ways in which the Internet revolutionized the mode of transactions today?
5. Why has the Fax become more popular than Telex in the offices?
6. Define the term, electronic mail (e-mail) and describe its usefulness to business communication.
7. Write brief notes on Electronic Conferencing.
8. In its attempt to promote ethical behavior in the use of communication tools in the organization, list 3 guidelines that management can use to achieve this end.

ANSWERS TO THE QUIZ

1. Information technology is one aspect of management that if well applied can assist in the achievement of the laid out corporate objectives. If used wrongly, e.g. adopted before undertaking feasibility study, it may well result in the organization missing the mark on attaining its corporate goals. A systematic approach should be used in embracing IT.
2. The increased use of Information Technology in today's businesses has been fueled by the increased level of trading activity in all parts of the world. Businesses have become so interdependent and this is regardless of their geographical locations. Globalization has turned the business circles into a small village where information is passed from one corner to another in a split second. Due to the interdependencies existing in businesses, associates have been forced to design policies that are in line with their counterparts who have embraced IT, in an effort to streamline their modes of transactions to what is best practice.
3. The corporate strategy is what the organization exists to do. This should be the underlying basis of all business undertakings in the organization. Anything that is not in line with the achievement of these objectives should not be the focus of management. Information Technology, as we have seen is an important aspect in management of business today. An organization's management should critically focus on its corporate goals and assess to what extent the adoption of IT will lead to the said goals. IT is only one aspect of the organization's strategy; other strategies should be considered as well.
4. The use of the Internet has made it easy for businesses to carry out transaction in more efficient and effective ways. This has been applied through the following technologies
 - Electronic Commerce; through e-commerce, buying, selling and payment for goods and services can take place
 - Electronic Mail; this has facilitated correspondence and the sending of attachments
 - Video conferencing; trade partners in separate regions can transact visually
 - Electronic Data Interchange – Business documents can be exchanged in the process of doing trade.
5. The facsimile transmission has become more popular than the telex for various reasons.
 - The facsimile is more user friendly than the telex. It is easier to use than the telex
 - There is no lengthy training required to operate the facsimile machine. With the telex, the operator has to prepare the text-by typing it on the teleprinter.
 - The fax is very flexible. Whereas the telex message will have to be typed, the fax accepts graphs, diagrams, handwriting etc. It is invaluable to architectural or engineering firms which may need to communicate a message with a drawing, sketch etc.



- It is possible to transmit a signed copy of the original document with the facsimile. This gives it authority and authenticity.
 - With the facsimile the end product is usually better quality than that of telex.
 - With the facsimile, errors are eliminated (e.g. typing errors), as no intermediate treatment is necessary. Fax like the telex, offers a 24-hr service so messages can 'queue' up to be transmitted when costs are low e.g. evening hours.
 - The fax is faster in terms of preparation. No keying-in is required.
6. Electronic mail is the term used to describe a range of electronic transmission services but is commonly applied either to a company's mailbox system operated via its own computer or to one of the services provided by internet service providers (ISPs). As an intra-company facility, electronic mail can improve message sending and help eliminate the need for a considerable amount of paper, particularly where staff have personal computers on their desks. A single message may be sent simultaneously to many recipients. Email has a high-speed send/receive cycle. It has direct input and retrieval from the keyboard; virtually instant dispatch and retrieval; other files can be attached to email messages and is easy to download and instant responses can be sent
7. One of the ways in which executive time is taken up is in attending meetings. Studies indicate that managers spend 50% of their time either attending meetings or travelling to and from meetings. Increasingly, conferences are taking place, both nationally and internationally, by means of telecommunication links. The following systems could be used.
- Audio conferencing makes it possible for two or more groups of people located in different parts of a country or in some other country to be linked simultaneously by telephone.
 - Video conferencing is the linking of groups of people in different locations by sound and vision. Although it is an expensive method of communication, it provides the advantage of a face-to-face meeting without the wear-and-tear of travel. It also saves travelling and accommodation costs and makes better use of people's time. Any documents, models or technical drawings being discussed can be shown close-up on the TV monitors
- 8.
- Developing an ethical culture
 - Employee Training
 - The use of a code of Ethics

EXAM QUESTIONS**QUESTION ONE**

- (a) In relation to electronic communication, what are the advantages of a website to an organization and its customers? (8 marks)
- (b) What are the advantages of using Internet for communication? (5 marks)
- (c) Identify five problems that may arise from the use of the Internet. (5 marks)
- (e) List and briefly explain the items required to access the Internet. (2 marks)

QUESTION TWO

- (a) What are the advantages and disadvantages of using e-mail over telephone or the postal system? (7 Marks)
- (b) Differentiate between a Corporate Strategy and an IT strategy (4 Marks)
- (c) Why is it important for management to align the IT strategy to the Corporate Strategy? (4 Marks)



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SUGGESTED SOLUTIONS TO EXAM QUESTIONS

CHAPTER ONE

QUESTION ONE

(a) An entrepreneur is an individual who sets out to come up with a concept that has not been tried before in producing goods or services and using this concept to his advantage to gain an edge in the industry.

(b)

Geographical expansion

This strategy certainly helps the entrepreneur to assert his presence in the industry as a supplier. Depending on the location of the current set up, the entrepreneur can decide to open new outlets for his products in other regions where he has assessed sales will be high. This move also creates jobs for other people and in this way, the entrepreneur also thinks about the society his business serves.

Innovation

To cope with increasing competition, the entrepreneur cannot sit back and enjoy the glory of his first success; he needs to forge ahead with new designs for his product line. This comes in when the entrepreneur sees that his first work is doing well and there is room for more. With the resources generated from the first project, the entrepreneur can start working on a new brand or improve the current brand. In this way he doesn't sit back and let the business thrive on the success of the first project.

Staffing

The hiring of professionals to handle the core aspect of the business is vital to a growing business. With the rapid expansion of the business, the operations also become rather complex in nature. A business that is constantly growing and re-investing its interest needs to ensure that the sensitive aspects of the venture such as finance are well managed. The entrepreneur will, here think of employing the services of qualified professionals to help him run the business. Here, could think of accountants, IT specialists, a sales and marketing team et cetera.

Incorporating Information Technology

IT has become relevant to all businesses today. Investment in more capital is a sure way of expanding more so if the capital will lead to efficient ways of doing business. In the growing world of business, it has come as a necessity that a business arms itself with an ICT strategy that works. The entrepreneur can direct some of his expansion efforts in this area so as to keep up with the competitors

(c)

Be Professional

This entails addressing the name of people in all business correspondences, keeping a business mindset when meeting with clients or talking to them over the phone. Clients don't need to hear the intricate details of the entrepreneur's personal life. Being professional also means checking emails for spelling errors, following-up on enquiries, being punctual when meeting with clients, responding to telephone calls promptly, sending out quotes on a timely basis. But by far the most important factor about being professional is being **consistently** professional.

Common Courtesy

There is nothing more frustrating than when businesses advertise in community flyers or on signboards and then never answer their phone calls (or return them) and don't bother to respond to emails. Clients should be able to at least contact the business via email and a land line number. The entrepreneur should return calls as soon as possible. If he will not be in the office, to check email for most of the day, he should set an auto-responder that lets people know when he will be checking his email and possibly include his cell phone number as well.

Be open-minded. Listen to Others

Trying new things whether it be a marketing strategy, a new business system, a piece of software or a new product/ service, can be good for the growth of the business. The entrepreneur should create a working atmosphere that nurtures and appreciates new ideas. If the staff feel as though their ideas are listened to, considered and possibly even implemented, the more likely the entrepreneur is to have some great ideas being generated!

Learning from mistakes

The entrepreneur should make a concerted effort to learn from his mistakes. He should assess why his ideas didn't work or why he lost a particular customer etc. Once he has made the mistake and is aware of the reason behind the failure, he should use it to his advantage and try a different strategy or modify the initial idea.

Perseverance

The entrepreneur should understand that great businesses take time to establish. He should persevere even if it appears that he is not making headways. He should persevere till he starts breaking even at least. This perseverance also translates into other aspects of business as well, whether it is a new marketing idea or a potential client or business lead.

Marketing the business wisely

Although many businesses rely on word of mouth advertising, it is still a good idea to merge this with an actual marketing plan. If the entrepreneur's budget allows, he should consult a professional marketing firm or start off with the basics and try to get his business as much exposure as possible through various platforms such as; a website, e-newsletter, business cards, a company brochure, vehicle branding and possibly an advert in an industry magazine.



QUESTION TWO

(a)

Lack of skills and experience

It is important for the entrepreneur to gain competence in his field. Without this attribute, he may find himself in a situation where he cannot do anything but let the business collapse due to lack of information and experience. It can be a very trying moment for the entrepreneur.

Mismanagement

The entrepreneur should be aware that big businesses are successful because of the trust the owners put on their staff. Once this trust is violated, the business can easily end up in ruins. Poor staffing methodology can be a cause of mismanagement

Poor Business Ethics

This comes as a challenge due to the low level of importance given to it by entrepreneurs. Not appreciating the consequences of unethical practice can be the cause of business failure. The entrepreneur may well spend time trying to fix the wrong problem while still being unethical.

Fluctuating interest rates

This has a direct bearing on the finance cost of the business. If the entrepreneur finds it more expensive to acquire loan to expand, he may not achieve the goals of his business, in which case he will find it challenging to reach the untapped market.

Interruptions in supplies

Un-cooperative suppliers could be the cause of stress to the entrepreneur. If he cannot get his supplies on time, it means that goods will not be produced on time for the waiting market hence lost revenues.

Labor market trends

An entrepreneur whose production process is labor intensive will from time to time face the challenge of a striking work force and an unrelenting trade union which advocates for workers' rights. This can be disruptive to operations.

Natural catastrophes

The consequences of natural calamities, when they occur, are unavoidable and can be disruptive to operations, not to mention loss of business.

Financial risk

Where an entrepreneur places the entire of his savings into the venture with the firm belief that he will earn something in return, he risks losing a lot of money if this does not happen.

Career risk

He may have chosen to give up employment to pursue his business. He may not have a fall back plan if the business collapses.

Psychic risk

The entrepreneur may have to give up his social life for a while till the business stabilizes. This may adversely affect family and relations.

The collapse of the business could lead to psychological problems such as depression, low self esteem. The risk here is the probability of failure in the mind of the entrepreneur.

(b)

Offering employment opportunities

The entrepreneur contributes to economic development when he becomes a job creator. The growth of the industry will translate to growth of business and consequently demand for more workforce. In an ideal economic environment, this is a cycle that should enable the production resources to be fully utilized

Paying Taxes

The government has as part of its sources of revenue, taxes charged on businesses. This is based on the profits made by the businesses. If profits are good, then it means the government also generates more revenue that can be used for national development.

Social responsibility

This responsibility ensures the entrepreneur plays an active role in his physical environment. Regular contributions to community projects will put the business in the good books of the community. This should be clearly highlighted in the company's policy. The society benefits from improved amenities and care.

Formation of cartels

The formation of cartels helps the many small individual firms that perhaps could not have had the same bargaining power as the cartel. In a way it fortifies the relationships between the various businesses and contributes towards healthy competition. The smaller firms eventually grow and play important roles in the economy as well.



CHAPTER TWO

QUESTION ONE

(a)

A business opportunity is a viable business potential to create something new, i.e. a product or a service. It also entails establishing new markets by engaging new technologies.

A franchise is a business arrangement where the inventor (franchisor) develops a plan for the provision of a product or service and another, the franchisee uses the plan to avail the product or service. The franchiser grants rights to manufacture or distribute a product to the franchisee in return for royalties.

(b)

The entrepreneur should assess his ability to tackle each of the following issues;

Be able to identify his strength

This entails doing a self assessment and knowing his strong points. These strong points are what he will utilize to get himself started on something new

Assess his surrounding

This means taking a step backwards and analyzing the industry of his choice to see who else doing or attempting what he has in mind

Identify gaps that may be tapped

He will need to be very keen to spot the areas that have potential for invention and innovation and plan to capitalize on them

Select one of the gaps identified based on his strengths.

The entrepreneur cannot do everything all at once, despite having the capabilities to do so. He will select one specific area among many to invest in.

Identify the risks and constraints involved.

The entrepreneur will also need to carry out a risk assessment or appoint an expert to do this for him. This will determine what kind of fall back plan he should have.

Lay out an execution plan

Planning is the most important part of this thought process. The entrepreneur should take time to lay out a comprehensive plan for his venture

(c)

Self - Discovery

This entails taking a risk and identifying a need that is not being fulfilled. The entrepreneur will assess the environment to spot this phenomenon before moving on.

Re - invention

This entails taking something that has been done by someone else and improving on it by focusing on what had previously been left out. It basically means coming up with an improved product. The risks here are less than in self-discovery.

Use an Existing Product for an Untapped Market

This entails creating a need for a product that was not in existence before. The entrepreneur becomes resourceful by simply making use of by-products or waste products of a previous production process to create demand for a new product.

Joint Venture

Two or more people with the same idea can combine efforts to come up with a new invention that can resolve an existing problem. The arrangement would normally be terminated after the objectives have been attained.

Distributorship

Refers to an independent agent that has entered into an agreement to offer and sell the product of another but is not entitled to use the manufacturer's trade name as part of its trade name. Depending on the agreement, the distributor may be limited to selling only that company's goods or it may have the freedom to market several different product lines or services from various firms.

QUESTION TWO

(a)

Know your strengths and weaknesses

This basically means taking stock of the positive qualities for business that the entrepreneur possesses and thinking of how to put it to good use. He would rather keep off business opportunities where by his skills will not be put to good use.

Running the business enthusiastically

The entrepreneur should take up the challenge of introducing something new in the market with optimism. He should not be put back by a cool reception to the new idea.

Knowing the product/ service

The entrepreneur should seek as much assistance as possible from the parent company. This will ensure he knows what he is doing for the company in terms of knowing the product or service.

Carrying out a market assessment

The entrepreneur should seek out the reaction of the market to the new product he is about to introduce. He should assess whether the public can actually do without the product and if so, is he still willing to take the risk?

Contacting previous buyers of the opportunity

A legitimate business opportunity will even provide you with phone numbers of other buyers, so you can verify that they're generally satisfied with the opportunity and that the seller/parent company is capable of fulfilling his or her promises.

**Need for training**

The entrepreneur should find out whether dealing with the product or service requires further training and if so, he should find out the scope of training required

Rate of Return

The entrepreneur should find out whether with the resources he has, he can still make more in another investment. He should calculate the rate of return using statistical method like Net Present Value technique to assist him in making the decision.

Check with current operators

This entails calling up entrepreneurs who have taken up the opportunity to find out how they are fairing and what problems they are encountering.

(b)

Capital investment in lower

The entrepreneur will eventually discover that having his own start up capital will be cheaper than paying someone else for his idea. By paying to acquire a franchise, the entrepreneur would actually be investing his money the risk undertaken by the third party

Site selection

The majority of franchise operations are consumer-oriented retail operations which rely on good location, visibility and easy access to the establishment. Most buyers of business opportunities casually accept the locations chosen for them. This may work against the entrepreneur's plans for the business. Working on his own, the entrepreneur has the freedom to pick his own site of choice. Having a better location could translate into lots of sales over a couple of years.

Lack of ongoing support

There is usually no requirement for the franchise seller to offer ongoing support of any kind. If the seller decides not to supply information or guidelines that could help the entrepreneur once he is in operation, he may not have much recourse available to him.

Exclusivity clauses

The entrepreneur may be restricted to selling only the franchiser's merchandise. If this is the case and he deviates for any reason whatsoever, he runs the risk of the licensor canceling the agreement. If he does buy from other sources, it will be very hard to hide. Most parent companies will require books to be opened for examination at pre-designated periods of time. Any irregularities will be spotted at these times. Most smart buyers of business opportunities will negotiate the point in the agreement stipulating sources of supply in case product quality is inconsistent.

Parent-company bankruptcy

Another pitfall is the possibility of the parent company overextending itself and going bankrupt. The entrepreneur still runs the risk of losing the business because his property contracts may have been financed through the parent company.

QUESTION THREE

(a)

Networking refers to the process of establishing business contacts with whom the entrepreneur can benefit from the relationship. It is the process of enlarging a business' circle of trust through negotiation. It can either be informal or formal.

Importance

Entrepreneurs can take advantage of the complimentary nature of the various business in the economy in which they operate. Networking is one way through which this can be achieved.

This information helps the entrepreneur understand his environment better. It also helps him build a reputation and credibility for himself and his firm. The networks can be a source of sustainable competitive advantage as well as a means of procuring other resources that can be a source of competitive advantage.

(b)

Internal Motivations

This needs come from within the organization. The objective of cost reduction can be greatly enabled through networking where production processes avoid wasteful duplication of resources, utilize by-products and processes, and may even allow the partners to share brands and distribution channels

External Motivations

This motivation drives the joint venture to come up with improved current strategic positions with respect to the industry in which they belong. A set of firms is more likely to be able to influence the structure of the industry's evolution than a single firm. A joint venture could also act to preempt the possible entry of new competitors thereby giving the partnership a lead that is less likely to be challenged in the industry.

Strategic Motivations

A strategic motivation to networking can be driven by long term objectives shared by the partners e.g. to exploit synergies, to develop new technologies or extend old ones. It could also be a room for creating a presence in a market that has not yet been born, but chances are high that once the demand is created, there will be high returns.

Social Motivations

Firms come together to achieve objectives that are common to both but without the profit making element. The firms come together to promote their own values and social agendas.

(c)

Personal Networks

This is an informal network that consists of all the direct face to face contacts that the entrepreneur has. They include friends, family, close business associates, former teachers at the university etc.

**Extended Networks**

These are formal firm to firm relationships. The entrepreneur engages other entrepreneurs, customers, vendors and other constituents in the operating environment in boundary spinning activities. Each of these parties has a role to play in the open system under which the entrepreneur runs his operations.

Agglomerate Networks

An agglomerate network is a set of indirect relationships between firms that are competitors. It serves as an information network that enables the firms to secure information about capabilities and competencies that are regarded as necessary but not sufficient for success.

Organic Networks

This is an indirect relationship between non – competing organizations. The indirectness is not in terms of the individual entrepreneur who represents the firm but in terms of the business. These relationships are not task-oriented and may consist of strong ties linkages such as friends and close associates or weak ties links.

CHAPTER THREE

QUESTION ONE

Policy Formulation

The Government has the resources that can facilitate enterprise development. Having a law making organ within its structure, it can, through an act of parliament, formulate policies that will enhance the creation and establishment of small businesses. This should be done while putting the interest of the small business owners first. Policy documents that address various areas and even geographical locations should be set with the objective of ensuring equitable chances to all stake holders.

Giving a boost to supporting institutions

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

Creating forums for networking

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

Maintaining political Stability

The Government can work hard at ensuring the politics of the land do not adversely affect the economy, at least where small businesses are concerned. There is always bound to be political interference where the business environment is concerned raising questions as to the main issue that needs to be addressed.

Fiscal Policies

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



QUESTION TWO

The various forms of business include:

Sole Proprietorship

This is a business owned by one person. It needs no charter, has few costs, and that person gets to keep all the money to his/her self. The problem is, of course, that a one-person business can't make as much money as a large business, the owner will have to work very hard, and if the business loses money, the loss translates directly to the owner

A sole proprietorship is generally the simplest way to set up a business. A sole proprietor is fully responsible for all debts and obligations related to his or her business. A creditor with a claim against a sole proprietor would normally have a right against all of his or her assets, whether business or personal. This is known as unlimited liability.

Partnership

A partnership is a relationship that substitutes between two or more persons carrying on a business common with a view to making profit.

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

Corporation

A corporation is a legal entity that is separate from its owners, the shareholders. No shareholder of a corporation is personally liable for the debts, obligations or acts of the corporation. Directors, officers and insiders can bear some liability for their involvement with the corporation.

A corporation is identified by the terms "Limited", "Ltd.", "Incorporated", "Inc.", "Corporation", or "Corp.". Whatever the term, it must appear with the corporate name on all documents, stationery, and so on, as it appears on the incorporation document.

A corporation has legal rights and obligations of its own which are distinct from those of the individuals who either constitute its membership or management. This attribute of legal personality has received considerable judicial exposition in relation to registered companies and the overall practical effects of the decided cases may be summarized as follows:

Factors to Consider in selecting a suitable form of business include:

Taxation

The entrepreneur should assess how the Government will tax him and his business under the various forms of business ownership. On the same note, he may also be interested in knowing the tax incentives available for his type of business. It may work in his favor in subsequent periods.

Sources of additional funds

The startup capital is not enough to ensure growth. The firm cannot survive as a business without proper capitalization, and this will include both matters of equity and debt. Equity is gained through sales of business ownership interest, such as stock shares. Before the entrepreneur even thinks about starting the business, he'll need to have a good relationship with his bank or an established financial institution. If he doesn't have adequate capital, the business will fail, regardless of how thorough his business plan was.

Liability

This will determine whether the entrepreneur can be sued for issues arising between the business and his customers. It is extremely important, and often neglected when starting a business, but this can actually make or break the entrepreneur during those crucial first years when the business is trying to be established and grow. The entrepreneur should protect himself from liability issues, and he should ensure that he is not personally held responsible for any unfortunate happenings.

The nature of business contracts

For every major transaction the entrepreneur enters into, he should endeavor to have the backing of a signed agreement. The best way the entrepreneur can avoid a dispute or potential litigation, however, is to prepare a solid agreement in which he is confident he has negotiated the best terms for his business.

QUESTION THREE

(a)

These are theories that have been put forward by various scholars regarding entrepreneurship development. The emergence of entrepreneurship has elicited a lot of reactions from scholars in the field. This has led to a diversity of theories that consequently form the basis of the various schools of thought that attempt to explain this phenomenon. These have been divided into two broad categories

The macro view entrepreneurial thought

1. Environmental School of thought
2. Financial/Capital School of Thought
3. Displacement School of thought

The micro view entrepreneurial thought

1. The Entrepreneurial Trait School of thought
2. The Venture Opportunity School of thought
3. The Strategic Formulation School of thought

(b)

The macro view entrepreneurial thought:

According to this school of thought, factors beyond the control of the entrepreneur constitute the reasons for going into business. This point of view presents a number of schools of thought which suggest that a range of **external factors** are the forces behind the entrepreneurial process. The constituents of this school of thought are:

- Environmental School of thought
- Financial/Capital School of Thought



- Displacement School of thought

1. Environmental School of thought-Support

The proponents of this school of thought argue that entrepreneurial desires are molded by external factors (which may be positive or negative) that affect a potential entrepreneur's lifestyle. They further argue that **institutions** and **societal values** grouped together form an **environmental framework** that strongly influences the development of entrepreneurs. Freedom and support in the work environment can also foster a manager's desire to pursue an entrepreneurial career. In addition, the social group a person belongs to often may affect the potential development of an entrepreneur

2. Financial/Capital School of Thought- Capital

This school presents the view that the desire to become an entrepreneur is based on the capital seeking process; that the entrepreneurial process is about making decisions involving finances at every major point in the venture process i.e.

(a) Startup or acquisition venture stage:

In the beginning, the entrepreneur's main concern is deciding on the major sources of funds to give him a head start on the venture. He may either take up a loan or decide to save up his. The success or failure of this decision making process will lead him further to make a decision as to whether to proceed or abandon the project.

b) Ongoing venture stage:

The financial consideration here is how to manage cash, make investments, undertake financial analysis, and evaluate the financial position of the venture. The decision to be made here is whether to increase, maintain or reduce size of the business.

c) Decline or succession stage:

The entrepreneur will be forced at some point to investigate the future profitability of the venture. Following this analysis, he may then consider options such as corporate buyout, dissolution or succession. This decision of course, has a financial consideration.

3. Displacement School of thought

This view suggests that individuals will not pursue a venture unless they are prevented or displaced from doing other activities. Factors that may force one from pursuing other ends in life include:

- i) Political factors:
- ii) Cultural factors:
- iii) Economic factors

The micro view entrepreneurial thought

Here, the proponents argue that the entrepreneur is more or less in charge of determining his success or failure in business. Factors within his control can be attributed to whether or not his vision yields returns. This view presents factors that are **specific to an entrepreneur** who has the ability or **control** to direct or adjust the outcome of each major influence. The following schools of thought comprise this view point. The constituents of this school of thought include;

1. The Entrepreneurial Trait School of thought
2. The Venture Opportunity School of thought
3. The Strategic Formulation School of thought

1. The Entrepreneurial Trait School of thought- Traits

Following a study of successful people, it has been found that they exhibit similar characteristics. Those behind this school of thought suggest that if certain traits associated with successful entrepreneurs are established and supported early in life, this will lead eventually to entrepreneurial success. The four traits usually exhibited by successful entrepreneurs include:

- i) Creativity,
- ii) Determination,
- iii) Achievement,
- iv) Technical knowledge.

Family development and education are also important traits which contribute to the success of an entrepreneur

2. The Venture Opportunity School of thought

This school of thought suggests that the ability to become an entrepreneur lies in being able to search for idea sources, develop concepts, and implement venture opportunities. The proponents further argue that creativity, market awareness, developing the right idea, at the right time, for the right market niche are the essential ingredients to entrepreneurial success. **Opportunity identification** is thus the key force behind becoming an entrepreneur

The Strategic Formulation School of thought- Strategy

This approach to entrepreneurial theory emphasizes that the **planning process** is vital for successful venture development. The argument is that through strategic planning and formulation an individual is able to develop an effective venture. This is because he will be able to identify and make use of unique markets, unique people, unique products, and unique resources



CHAPTER FOUR

QUESTION ONE

(a)

A complete report prepared by the entrepreneur that lays out the major business objectives and a detailed strategy of how the objectives will be met. It's a document that is prepared by the owner of the business since he knows the business better than anyone else. The report outlines all the steps that the business intends to follow to achieve the objectives or goals that have been set.

(b)

Description of the business background

This section provides the reader with the genesis of the business idea; how it came about, perhaps following a moment of inspiration on the entrepreneur. It outlines the history of how the idea came about. It is an important section as it may or may not convince the potential investors.

The business plan should clearly explain how the idea will be translated into profits. This is what will give the investors a clearer understanding of the overall picture of the proposed business. If the entrepreneur succeeds in winning the attention of the investor at this stage, he stands a high chance of getting the funds he urgently needs. If this section flops, then no matter how well written the other sections of the plan are, chances are high the reader will not be motivated to read ahead.

Objectives

The reason behind preparing the business plan should be clear to the reader and most importantly, to the entrepreneur himself. If he is raising funds to start the business, then this should not be confused with funds required for expansion, for instance.

The most important thing for the entrepreneur to bear in mind is keeping the primary objective of and the primary audience for the plan clear. As a rule of thumb, if the plan will be used to attract investors or lenders, this is the primary objective and outsiders are the primary audience. If the plan will help manage the business, this is the primary objective and insiders are the primary audience.

Products and services

Here, the entrepreneur should clearly explain what he plans to bring into the market. Most important is ensuring the reader understands what product or service he is putting his money into. This will give the entrepreneur an indication of the market perception of the product or service.

It is important to discuss the competitive advantage the product or service has over the competition. If the product is new, the entrepreneur should explain what new thing it is going to add to the present market

Competition

The entrepreneur will need to carry out an analysis of other firms in the industry to find out how they have managed in the past. He needs to know their weaknesses and strengths to know better how to benchmark himself.

The entrepreneur will also need to do a competitive analysis. In this section he will need to do an in-depth analysis of the competitive advantages and weaknesses of his firm. When exploring weaknesses he should include information that will help allay any concerns that may arise as to their ability to significantly hinder his success.

This section is important, especially if the company is a start-up, because the entrepreneur will, typically, be competing with established companies that have inherent advantages such as financial strength, name recognition, and established distribution channels

Market analysis and marketing strategy

If a new product is being launched, the entrepreneur should include his marketing research data. If he has existing customers, he should provide an analysis of who his customers are, their purchasing habits, their buying cycle.

This section of the plan is extremely important, because if there is no need or desire for the product or service there won't be any customers. If a business has no customers, there is no business.

Once the entrepreneur has identified who his market is, he'll need to explain his strategy for reaching the market and distributing his product or service. Potential investors will look at this section carefully to make sure there is a viable method to reach the target market identified at a price point that makes sense.

Development and production plan/ Operations

Following a successful presentation of the business plan to the potential investors, the next question on his mind should be how he will implement the idea. What resources and processes are necessary to get the product to market? This section of the plan should describe the manufacturing, Research and Development, purchasing, staffing, equipment and facilities required for his business.

Management and staffing

Most investors have placed a lot of importance on corporate governance as a key aspect in successfully managing a business. Investors must feel confident that the management team knows its market, product and has the ability to implement the plan. In essence, the entrepreneur's plan must communicate management's capabilities in obtaining the objectives outlined in the plan. If this area is lacking, his chances for obtaining financing are bleak.

If his team lacks in a critical area, he should identify how he plans on compensating for the void. Whether it is additional training required or additional management staff needed, he should show that he knows the problem exists, and provide his options for solutions



1. Financial Plan; This includes current and projected financial statements

Other aspects of a business plan that may be necessary for a successful write up are:

Executive Summary

This is a brief summary of the business plan laying out the key aspects. The summary is used for presentation to potential investors who may have little time to thoroughly go through the detailed plan. It may also be used as a preamble to the major presentation so that the reader may familiarize himself with what the entrepreneur is trying to pass across.

Attachments/ supporting documentation

The entrepreneur must include any documents that lend support to statements made in the body of his company's business plan

QUESTION TWO

Whose responsibility is it to prepare the business plan? Why is this so important? (5 Marks)

Clearly explain 5 benefits that an entrepreneur stands to gain from a well prepared business plan.

(a)

The entrepreneur has the sole responsibility for preparing the business plan. He is accountable for the thorough preparation and presentation of the plan to the readers. He has to own the process of preparing the plan and not delegate it to some one else. He understands the vision for the business, so it only makes sense that he be the architect of the business plan. It doesn't matter if he is using the business plan to seek financial resources or to evaluate future growth, define a mission, or provide guidance for running the business; he is the one who knows the most about the business. Consultants can be hired to assist in the process of formulating a business plan, but in reality, the entrepreneur must do a majority of the work. Only he can come up with the financial data, the purpose of his business, the key employees, and management styles e.t.c. He may still choose to use a consultant, but at the same time he should realize that the bulk of the work lies on him. If he needs further help in one area, then he may seek the assistance of an expert in the respective field.

(b)

A means of raising funds

Whether it be start up capital or funds required for expansion, an entrepreneur will find the business plan quite resourceful. Most lenders will require that he comes up with a business plan before they can consider him for financing. This has become the main reasons why most business prepare business plan. It comes as later requirement when the business needs additional cash to continue its operations. Without a business plan, an entrepreneur will find it very hard to acquire business loans.

Can help him understand his business better

The entrepreneur should be the first to understand the intricate details of his business before any one else. If he doesn't have a thorough understanding, it will be difficult to explain it to third parties. A business plan helps the entrepreneur appreciate the business needs of his venture before hand. Through a well prepared business plan, the entrepreneur will be able to see clearly the problems he had not thought of earlier, so he becomes well prepared psychologically to deal with them.. The business plan will help in strategy and policy formulation. Without a business plan, it becomes difficult for the entrepreneur to have a clear sense of direction. This is important because he will need to convince many people that the venture will in fact work.

Management Tool

In the business plan, the entrepreneur puts in writing what his vision for the business is. The strategies will be both short term and long term. They need to be achievable as unachievable targets may make the business plan lose credibility. Subsequently, from time to time, the entrepreneur will be referring to the business plan to check whether the growth of the business is in line with the plan he had envisaged earlier on. If not, then he will have sufficient basis to manage the growth of the business to direct it towards the right direction

A tool for planning and guidance

A business plan in itself is a planning tool. The big plans are laid out and the small ones that make up the major plans are also followed up closely. The entrepreneur has set out what he needs to achieve within a give time frame so he will set out all these in the business plan. It may happen that the people he works with are unclear about the main objectives of the business. A business plan will act as a learning tool for them. They can thus contribute to the success of the business along with the entrepreneur. The business plan thus also acts as a source of guidance where the way forwards seems unclear. Planning is very important if a business is to survive. By taking an objective look at the business the entrepreneur can identify areas of weakness and strength. He will realize needs that may have been overlooked, spot problems and nip them before they escalate, and establish plans to meet his business goals.

A toll for risk analysis

The risks involved in the business are perhaps something that the entrepreneur may not want to dwell upon too much. However, for the plan to gain more credibility, the entrepreneur will have to incorporate what risks his type of business is likely to encounter. These could be financial, operational or control risks. The entrepreneur should also address the measures he has in place to manage the risks that he fore sees. Once an informed reader looks at the plan with all these risks highlighted, he may find it a more realistic proposal and be willing to invest.

Communication tool

A business plan is a strong communication tool for the business. It defines the purpose, the competition, management and personnel. It clearly identifies the vision and mission of the business to all the stake holders. The roles and responsibilities of the operational and management staff will also be clearly defined. The process of constructing a business plan can be a strong reality check if the pertinent details are not well articulated.

**Reference Tool**

A well prepared business plan offers a benchmark against which actual performance can be measured and reviewed. As has been mentioned, a business plan will tell the entrepreneur when the trend in performance tends to deviate from the laid out plan. The plan provides an ideal setup. It may need to be changed, especially when changes in the economy or in the industry warrant it. At all times the entrepreneur should keep his business at par with his targets as well as with what the competitors are aiming at and even further.

CHAPTER FIVE

QUESTION ONE

(a)

The entity concept as applies in business means that the entrepreneur and the business are not one and the same person. However, actions taken by the entrepreneur in his own capacity have a direct impact on how the public perceives the business. In this respect, the entrepreneur should have an interest on how his business is perceived by the people it purports to serve in society. There are many stake holders in the industry ranging from direct customers, business associates, the government and its organs e.t.c. To all these parties, the business owes a duty of care for each action taken by the owners. Social responsibility is therefore the response given to these parties by the entrepreneur through his business enterprise.

The entrepreneur owes a duty of obligations to a variety of stake holders who have an interest in the firm. Some of these include;

Customers

The customer is the most influential stake holder of a business. It is through the customer that the business can justify its reason for existence. The entrepreneur can ensure that his customers' interests are well taken care of in the following ways;

- Treating them with respect. This shows how much they mean to the business
- The entrepreneur should ensure the customer has all the relevant information to make an informed decision to do with purchasing a product or service. Dishonesty can ruin a business reputation to an extent that it may never recover its good will
- The entrepreneur should be objective and truthful about the success of his products or service. He should not exaggerate about the good points of the product or service.
- He should be fair in the manner in which he handles disputes. Customer complaints will always be there in any kind of business. What the entrepreneur needs to do to achieve amicable relationship with his clients is to be as cool headed as possible when it comes to dispute handling.

Suppliers

The entrepreneur needs his suppliers so he can get a continuous supply of commodities for his customers. He therefore needs to establish good relations with the supplier at all times

- He should uphold ethical business practice. It is the entrepreneur's duty to act honestly in all dealings with the suppliers.
- He should be patient with the supplies in waiting for deliveries. The entrepreneur should give the supplier time between making an order and having the same delivered.
- Should the entrepreneur refuse to take up the suppliers' products for one reason or another, it is good business practice to inform the supplier this in writing.

**Creditors and lenders of funds**

- The entrepreneur should honor the credit policies of creditors and act accordingly in meeting financial obligations. If he foresees difficulties, he should communicate with the financiers in good time.
- It is good business practice to acknowledge communications with creditors, whether in writing or email

Investors

- The entrepreneur needs to constantly update the investors on how the business is doing. This will assist them make a decision as to whether to invest more or give the business more time to grow.
- The entrepreneur should ensure the financial statements are prepared on a timely basis for the regular meetings held with the other stakeholders. He should free himself from any bias in the preparation of the financial statements.

(b)

A business can encourage employees to adhere to a company's code of ethics in the following ways

- **Review relevant law pertaining to the business**
The management should check what regulations are in place to regulate or to assist employers in establishing a code of ethics in the work place. This will ensure that the code is not out of context with the legal requirements.
- **Reviewing which values produce highly ethical and successful people or products.**
This entails assessing the effects of the ethic codes that are in place and checking what impact, if any they have on productivity
- **Identifying the top five to ten ethical values that are high priorities within the organization.**
This will give management an indication on what ethical values they need to foster to enhance greater productivity and better interpersonal relationships.
- **Composing a code of ethics for the business.**
Within the code, an attempt should be made to associate two example behaviors with each value. This will make the ethic codes more relevant to the individual work of every employee.
- **Putting in writing the requirement that the code is for all employees to adhere to.**
This entails including wording that indicates that all employees are expected to conform to the values stated in the code of ethics.
- **Ensuring there are no bias to anyone**
This entails making sure there are no double standards and that management sets a good example by following the same code of conduct the employees must follow. This ensures that the code of ethics is applied uniformly across all levels of management

QUESTION TWO

(a)

E-commerce includes all business activities and processes occurring over the Internet. It enables network-based alliances and partnerships to swiftly share business information. It also provides a convenient means by which to purchase goods and services offered by a company. The e-commerce community is an electronic marketplace (e-market), where all stages of the production and consumption cycle take place electronically.

An entrepreneur may benefit from e-commerce in the following ways:

- **More exposure, more profit.**
Marketing a product or a service via the Internet provides direct company exposure 24 hours a day, 365 days a year all over the world. This gives the company a better chance to earn more profit by providing the means to reach more customers.
- **Reduces company expenses**
Setting up and maintaining an e-commerce web site is more economical than setting up a retail outlet or maintaining a large office. The company no longer needs to spend so much on promotional materials or installation of expensive equipment to be used for customer service, nor does it need to hire more personnel to do the inventory duties. An online database keeps the purchasing history of the company and the customers. A single person can retrieve the database to check purchasing histories easily. It can also reduce operations cost, as the employees can electronically share and access data, preventing the need for multiple printings.
- **Information sharing between business Partners and other businesses**
E-commerce provides an effective way to exchange business information with partners, as it is Internet-based. E-commerce also allows companies to buy the goods and services presented by other online companies (suppliers) - known as business-to-business (B2B).

(b)

Outsourcing is a contractual agreement whereby an organization hands over control of part or all of the functions to an external party. The organization pays a fee and the contractor delivers a level of service that is defined in a contractually binding service level agreement. The contractor provides the resources and expertise required to perform the agreed service. Outsourcing is becoming increasingly important in many organizations. The entrepreneur should well understand the benefits that can accrue to him and his business should he take up this management aspect to handle the non-core business needs. Some of these benefits include:

- It will provide him with the opportunity to focus on a business' core activities
- He can now concentrate on increasing his profit margins
- There will be a lot of cost savings that will act as a competitive strategy.
- There is a lot of flexibility with respect to both organization and structure

Some of the services that can be provided by thirds parties include;

- Postage and courier services
- Transport and security
- Catering and cleaning services
- IT installation and maintenance



(c)

Globalization is a phenomenon that describes how local, regional or national realities become integrated on a global scale. The term is often used to refer to economic integration of countries. In this, national economies are unified into the international economy through trade, foreign investments, capital flows, migration, and the spread of technology. This process is usually recognized as being driven by a combination of economic, technological, socio - cultural, political and biological factors. The term can also refer to the transnational dissemination of ideas, languages, or popular culture. The entrepreneur can derive benefits for his business using this phenomenon in the following ways;

Increased market share

The emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies has opened up more opportunities for the entrepreneur to sell his products. The movement of material and goods between and within national boundaries can also boost the entrepreneur's range of products.

Source of financing

The entrepreneur can take advantage of the emergence of worldwide financial markets and better access to external financing for borrowers.

Access to more information

With globalization comes an increase in information flows between geographically remote locations. Arguably this is a technological change with the advent of fiber optic communications, satellites, and increased availability of telephone and Internet. The entrepreneur can use the information he collects to plan for his business growth and identify opportunities

Positive effects of competition

Survival in the new global business market calls for improved productivity and increased competition. Due to the market becoming worldwide, companies in various industries have to upgrade their products and use technology skillfully in order to face increased competition.

(c)

A trade fair is an exhibition organized so that entrepreneurs with like minds and belonging in a specific industry can showcase and demonstrate their latest products, service, study activities of rivals and examine recent trends and opportunities. Some trade fairs are open to the public, while others can only be attended by company representatives and members of the press. They are held on a continuing basis in virtually all markets and normally attract companies from around the industry. The entrepreneur can benefit from trade fairs in the following ways;

New Ideas

The entrepreneur will find that attending these events give him many ideas on how to improve his business. He will meet other entrepreneurs in the same industry who share a lot in common with him.

Networking

Trade fairs also act as avenues to establish business networks and linkages that is so important to a growing industry.

Advertising

the existence of his products. He can get direct orders or get contacts to prospective customers.

Recruitment

The entrepreneur can also attract skilled personnel who normally attend such events looking for job opportunities



CHAPTER SIX

QUESTION ONE

(a)

Communication Channel: This is the route that a message will traverse as it travels from the source to the destination.

Sender: This is the originator of the message or information that needs to be sent to a predetermined destination. The sender can be a person or a machine at a particular location.

Receiver: This is the desired destination of the message that is intended to action. The receiver can either be a person or a location that has been identified in advance

Encoding: This entails converting the plain meaning of the message by applying a set of arithmetic formulae. The intention is to hide the message context such that should it end up in the wrong hands, the recipient will make no sense from it unless he has the decoding formula

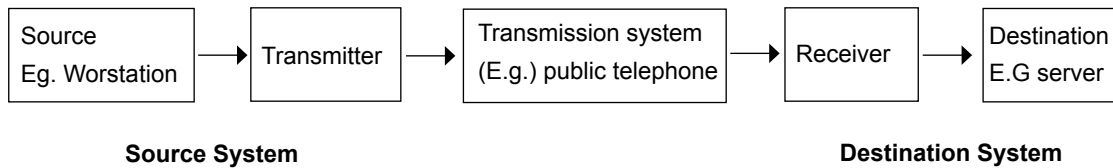
(b)

1. A communication model provides a graphical illustration of the communication process from inception to the receiving end. It provides a better understanding of what takes place in the communication process

A typical communications system consists of:

- **Source System**
This is the point that generates data to be transmitted. It comprises the computer or workstation that is used to generate the data that is to be sent. Within the source system, is a device that prepares the message, giving it a format that can be relayed through the communication network. This is what is called the transmitter. It converts data into transmittable signals
- **Transmission system**
This is the communication channel. It is the channel that is used to carry the data. Depending on the communication system, it could be a telephone wire, a fibre optic cable or wireless media.
- **Destination System**
This is a set of computers that have been arranged at the receiving end of the communication system to receive and sort out the data that arrives. It comprises the receiver, which converts received signal into data and the workstation or server computer that stores the information.

This can be diagrammatically represented as shown below



QUESTION TWO

(a) Most barriers to communication are interpersonal. These include;

- **Status Problem**

Communication between superiors and subordinates tend to be rather cautious. The superior wishing to maintain authority and the subordinate protecting himself from criticism. A formal and rigid line relationship may funnel the process of communication too narrowly, restricting the dissemination of information.

- **Educational/Social Background**

Differences sometimes cause feelings of inferiority/superiority. Differences in educational standards could also hinder understanding of some information.

- **Language Barrier**

Misunderstanding and incorrect interpretation may result from the use of inappropriate or ambiguous language. This is especially the case where technical and specialist language is used.

- **Background Knowledge**

Lack of expertise or knowledge of a subject may impair understanding.

- **Manner/Tone**

Tone, gestures, facial expressions and mannerisms may convey disapproval, disbelief, aggression etc.

- **Rivalry/Jealousy**

Personality clashes or guarding of one's own area of work may affect objectivity and the degree of co-operation given.

(b)

Effective listening refers to the process of applying one's full faculties to the presenter or speaker either on a one on one basis or as part of an audience. To make effective listening possible, several positive approaches can be made.

- First, pick out the dominant theme of the person speaking. What thoughts are uppermost in his mind? In what frame of reference should his words be taken?
- You listen better by actively concentrating. Try to ensure that there are no interruptions such as telephone calls. Avoid distractions like noise, poor seating etc.



- Make eye contact and use body language. This encourages the speaker and helps him assess how well/badly the message is getting home.
- Ask open-minded questions like “Tell me about.....” and probe for more information e.g. “In what way do you feel...”; “Could you give an example?”
- When a communication is badly conveyed, one must still make the effort to register the message. There is a tendency to dismiss out of hand a topic where the content appears to be too advanced or too detailed. This should be avoided. In fact, the more unfamiliar the subject-matter the more likely the speaker is to find himself wrestling with difficulties of expression but this should not put off the listener.
- Try to receive the whole of what is said, not merely compliments and pleasant messages but even those items which are not pleasing or contain adverse comment on your actions or opinions.
- Rid yourself of the habit of picking out one point made by the speaker and dwelling on it while he is continuing with others, which you will miss. There is a sense of proportion and balance in listening as in speaking.
- You will also find it beneficial to form better listening habits by repeating back what the speaker has said to show you are trying to understand and that you are interested.
- Take only very brief notes as this can impair your listening.

(c)

Effective Listening

To be a good listener is as important as being a good speaker. Speaking in itself is useless unless someone is prepared to listen to us. Listening is not something that happens to us whether we like it or not. It is an active process. We choose to listen or not to listen.

Body Language

As one is communicating with another, the posture should be relaxed. The hands should be free, maybe at the side, but seldom kept in the pockets. The hands should not be tightly wrapped around each other in a closed gesture, nor should they scratch the head, arms or face while they are either listening or talking. All those things make the listener nervous.

Tone of Voice

The tone of voice should be even. Also, one should be very careful in the words chosen to express oneself. The communicator should take his time as he speaks so as not to use wrong or inappropriate language. The person communicating should have a good command of language and knows how to use it effectively.

Interactive

An effective communicator does not assume they know everything and therefore are very inquisitive, even when communicating with others. This means they ask questions, truly interacting with others. They know that others possess knowledge too.

CHAPTER SEVEN

QUESTION ONE

INTERSWIFT COMPANY LIMITED

REPORT ON SUCCESSFUL BUSINESS TRANSFORMATION ON THE INTERNET

TERMS OF REFERENCE

To carry out a study of business transformation on the Internet in order to identify several important factors common to their success in the business world as requested by Mr. Michael Monet, Managing Director on 11 November 2000.

PROCEDURE

1. Internet research including visiting web sites of successful businesses.
2. Interviews held with managers of companies that have successfully transformed themselves on the Internet.

FINDINGS

1. Internet Research

Businesses have been swift in realizing the opportunities provided by the web and have developed websites in order to advertise and sell products and services, promote corporate images and; to provide information (especially public services).

The web's high-speed environment forces tight cross-functional integration across all the company's business divisions and functions and will also force management to acquire IT skills as well as business skills to lead such change.

Many companies, not only welcome you by name on their sites (if you have previously purchased a product), but also remember your preferences and uses intelligent data-mining software to suggest related products and services.

2. Interviews

The most successful organizations are being pushed by their top management to exploit new Internet technologies.

Understanding e-commerce is a key to success in today's globalizing economy, where rules formulated in distant capitals have an increasing impact on cross-border trade and competition in home markets.

Advantages in using the web include a reduction in the cost of advertising, cheaper and easier provision of information, the lack of a need to maintain a shop front, the ease of crossing geographical boundaries and the absence of a middleman.

Businesses are using intranets for the internal display of company manuals covering employment and other procedures; easily updated internal news and information services, company catalogues; and project notice boards (to which project participants can add information and comments to be seen by all).

Intranets enable employers to talk with and challenge one another, share ideas and create new knowledge fostering experimentation with new ideas, products and services before they are launched.



The network also extends to customers through the use of extranets for enhancing customer relationships and managing its supply-chain.

Companies can generate over 50% of their total revenue on-line with about 40% of unit volume shipped directly to customers without the company ever touching the product.

Putting the customer in the driver's seat makes business sense, especially given the one-to-one marketing focus that is becoming the hallmark of electronic commerce.

The manager from an internet start-up advised, "In our organization, failing is acceptable, failing to learn from failure is not acceptable."

Successful companies hire not only the best, but the right kind of people who accept an environment of rapid change, aggressive growth, are optimistic and like to have fun while working hard.

Rewards in terms of very high on-line sales accounting for more than 50% of total sales are driving most companies in the direction of e-commerce.

CONCLUSION

1. The Internet is uncharted territory which successful Internet companies are continually experimenting.
2. While the market will be the final judge, companies are taking risks to become more efficient than they are now.
3. The question 'to be or not to be on the Internet' is no longer relevant – the real question has become how to develop a successful Internet strategy.
4. Organizations that do not make this transition will fail; they will become irrelevant, or cease to exist.
5. The use of Internet and the Web will continue to grow in importance for business as new applications are exploited and the number of people able to access the Internet increases.

MAUREEN AKINYI

INFORMATION TECHNOLOGY MANAGER

QUESTION TWO

(a)

1. Consider the audience (board of directors) – how many; what will their attitude be; how much will they know already; how will they compare with you in education and intelligence?
2. Consider the purpose of the talk.
3. Collect and assemble the necessary material – from previous knowledge or experience, from discussions with others, from documents and reference works. This material should be organized.
4. Ensure that beginning arouses interest and that the ending is carefully thought out. The presentation should be short.
5. Prepare a list of the principal topics of the presentation to ensure that notes are not constantly referred to.

(b)*Role of participant before the meeting:*

The participant once he receives the notice and agenda of the meeting should block out the date of the meeting from the diary and ensure that he has all the documents required for the meeting. For example, for an annual general meeting, he should ensure that the Directors' Report was enclosed in his notice and agenda. He should prepare himself and identify the particular issues he wants to raise at the meeting. If any research needs to be done, he should ensure it is carried out in advance. If he is supposed to make a presentation he should ensure he is well prepared and the paper delivered before the meeting for circulation to the members. If he cannot attend the meeting, he should pass his apologies, fill in a proxy (if necessary) and forward anything that was required of him in advance before the meeting.

During the meeting

On the day of the meeting he should attend early enough and ensure that he is seated by the time the meeting begins. He should ensure that he has a supply of writing paper and that he has signed the attendance register. He should contribute only when he is given an opportunity to contribute and he should ensure that he conducts himself in an orderly manner. If he is a speaker, he should ensure that he speaks within his allotted time, if he is chairing the meeting he should ensure that he is running the meeting in a fair and orderly manner and adhering to the relevant law/rules.

**CHAPTER EIGHT****QUESTION ONE****(a)**

Advantages of a website to an organization and its customers:

The internet is a rich source of information, a link to the world, an educational tool, etc. Organizations, individuals, schools, etc have gone on-line to experience this medium.

- Websites maintained by organizations are accessed by the vast majority of people all over the world who access the Internet.
- It creates publicity of the organization not just locally but also on an international level.
- Any special offers can be placed on the website and customers can get to know of special offers from accessing the website within the confines of their homes.
- Websites also allow easier purchasing such as orders being placed from the web site.
- With a website, various customers can join a mailing list where the organization will email relevant information to its customers.
- If the organization already has a dedicated lease line, email is much cheaper and faster as compared to surface mail.

(b)

The Internet can be considered advantageous in various facets of life some of which include:

1. As an educational tool, the Internet can be used to carry out research and learn a lot of valuable information
2. As a tool for trade. Through E-Commerce, the entrepreneur can find himself in untapped market where he can set his business empire
3. As a communication tool. The world has been turned into a village as a result of the Internet. Distance is no longer a hindrance to communication.

(c)

Problems arising from the use of the Internet

- Viruses – a lot of viruses are introduced into the Internet and if not detected and cleaned may have the effect of destroying the organizations database or crashing the computers.
- Misuse by employees – spend a lot of time surfing instead of working.
- Accessing undesirable web sites such as pornographic sites.
- Security: hackers can hack into the database of organizations and steal vital information or corrupt the database.
- Unnecessary spam/junk mail will also end up being sent which leads to waste of time as employees read or the junk mail that has been sent to their in boxes.

(d)

Items required for accessing the internet

A computer, a modem, a phone line and an account with an internet service provider. One can also access the internet from cyber cafés, various branches in libraries, etc.

QUESTION TWO

(a)

Advantages and disadvantages of e-mail over telephone or postal system:

As an intra-company facility, electronic mail can improve message sending and help eliminate the need for a considerable amount of paper, particularly where staff have personal computers on their desks. A single message may be sent simultaneously to many recipients.

Email has a high-speed send/receive cycle. It has direct input and retrieval from the keyboard; virtually instant dispatch and retrieval; other files can be attached to email messages and is easy to download and instant responses can be sent.

Other advantages are:

- Speed of message delivery.
- Cost effectiveness particularly with rise in postal charges.
- Time saving.
- Prevents interruptions.
- Paper saving.
- Efficient in that it enables flexible working-from home or even abroad.
- Enables individuals to have better control and management of their own time.
- Facilitates wide message distribution where used intra-company.
- Can provide a useful written/memory held record when used as an alternative to a telephone call.
- Enables messages to be date-activated which ensures that they are delivered automatically to pre-determined future dates.

(b)

The corporate strategy refers to the means through which the organization's management has devised to meet the overall objectives for the business. This is the route through which the organization will achieve the targets, both long term and short term that the management has set. It is the obligation of top management to review the strategy every so often to ensure that the organization is still on course to achieving its objectives which are in fact the reasons for the firm's existence.

The Information Technology (IT) strategy is part of the corporate strategy. As an organization that is slowly embracing IT, management needs to take a keener interest on how IT can be used to further the business objectives. In this sense, a lot of attention needs to be given to this investment. For this reason, IT strategy needs to be devised and aligned with the major corporate strategy so that the two work together for the benefit of the entire firm.



(c)

The IT strategy would be redundant if the interest of the business was not the major overriding concern for management. After setting the overall objectives for the firm, it would be the management's responsibility to ensure that all resources are geared towards meeting the objectives. IT resources are at the disposal of management and the IT management staff also report to top management. With this in mind, both Top management and IT management need to have the same vision for the firm and work towards achieving the targets that have been set, failure to which every investment that has been placed on the IT infrastructure will have been a waste. It would mean that, no matter how sophisticated the technology is, if the usage is not in line with the attainment of corporate objectives, then it is the same as not investing in IT all together. It would mean that IT has been brought in to meet other objectives that are not the firm's.

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GLOSSARY OF TERMS



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GLOSSARY OF TERMS

Automation: The process of computerizing operations in an attempt to reduce paper work by embracing Information Technology.

Awareness: The process is imparting entrepreneurs with information about relevant facts that have direct impact on their business plans.

Body Language: Non-verbal correspondence that is exhibited through physical body expressions.

Business Life cycle: Phases that a business undergoes from inception till natural death or closure. This is affected by the growth or otherwise of the industry.

Business Objective: A specific goal that the owner(s) of a business have set as the target for their operation over a given period of time. It could be long term or short term.

Business Opportunity: A viable business potential to create something new, i.e. a product or a service and establishing new markets by engaging new technologies

Business plan: A detailed account of how the owners of a business plan to convert ideas and vision into a real, functioning profit center. It is a document that outlines all the steps that the business intends to follow to achieve the objectives or goals that have been set.

Cartels: These are business associations formed by firms within an industry, with the same business objectives of ensuring favorable trade terms with suppliers so that when the goods reach the final consumer, sufficient margins have been made.

Code of Ethics: A prescribed set of rules that a person or an organization associates with in all circumstances on ethical matters. It is the minimum level of ethical behavior that is the person/organization attests to.

Communication Channel: The route that a message will traverse before it reaches its intended destination.

Communication media: The physical materials that are used to transmit data between sender and receiver.

Communication: This is the process of exchanging ideas amongst two or more persons. It is the process of giving, receiving or exchanging information, opinions or ideas by writing, speech or visual means, so that the material communicated is completely understood by everyone concerned.

Competition: The existence of rivalry amongst business to secure a larger market share through strategized sales and marketing plans. Healthy competition takes place in a controlled environment.

Corporation Aggregate: A legal entity formed by at least two people and whose membership at any one time legally consists of at least two people.

Corporation Sole: A legal office that is constituted by a single individual at any one time, who is assigned specific tasks. The tasks are specific to the office and can be discharged by anyone else who subsequently occupies the office.

Corporation: A business entity that subsists in its own capacity as a legal person with rights and obligations

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Courier: The sending of message or parcel from one location to another using an identified third party

Decoding: Reformatting the data received into a readable format at the receiving end of the communication channel. The receiver must use the same formula as the sender to decode

Distributorship: Refers to a business arrangement where an independent agent enters into an agreement to offer and sell the product of another but is not entitled to use the manufacturer's trade name as part of its trade name

E-commerce: The process of conducting business electronically.

Economic development: A process of gradual improvement in general welfare of the country in terms of its main sources of revenues and infrastructure.

Electronic Conferencing: The use of Information Technology facilities to carry out meetings without having to meet physically. The attendants can be miles apart but can still correspond using either visual or audio aids. i.e. video conferencing or audio conferencing respectively

Electronic mail: Electronic transmission of messages via the Internet. It is commonly applied either to a company's mailbox system operated via its own computer or to one of the services provided by internet service providers

Encoding: The process of applying a formula to format data to be transmitted into a set of unique characters that cannot be translated by any unauthorized person along the communication channel.

Enterprise Development: The process of enhancing growth of small scale business by providing a conducive environment for entrepreneurs to establish their businesses.

Enterprise: A well organized business set up that is constituted by a manager along with a team who work together to pursue a business goal,

Entrepreneur: Someone who devises a new production methodology and producing output (goods or service) based on the new concept

Entrepreneurship: The process of coming up with new processes or ways of achieving some set objectives. It is the process of devising a new process that will make production more efficient.

Ethics: A study of the moral issues and values that form the basis of human behavior in society.

Executive Summary: A structured summary of the business plan that highlights the key issues that prospective investors or providers of funds will find relevant for their decision making

Extended Networks: These are formal firm to firm relationships. The entrepreneur engages other entrepreneurs, customers, vendors and other constituents in the operating environment in boundary spinning activities

Franchise: A business arrangement where the inventor (franchisor) develops a plan for the provision of a product or service and another, the franchisee uses the plan to avail the product or service.

Globalization: The process by which local, regional or national phenomena become integrated on a global scale.

Hierarchical barriers: Communication barriers that exist between superiors and subordinates in an organization. It is a situation where the superior wishes to maintain authority and the subordinate is protecting himself from criticism.



Industry Cycle: The sequence of growth, maturity and decline of any industry that has an impact on the success or failure of a young firm

Information Technology (IT): The enabling mechanism, which facilitates the processing, and flow of this information as well as the technologies used in the physical processing to produce a product or provide a service. Includes telecommunications, computers and automation technologies

Intercom: A device which enables communication to take place between two or more locations without interfering with the main telephone system.

Internet filters: A software utility that blocks certain sites considered inappropriate for anyone to view from being accessed within the organization's internet.

Internet: This is the name given to the technology that allows any computer with a telecommunications link to exchange information with any other suitably equipped computer. Information on the target computer is viewed using a Browser such as Internet Explorer or Netscape.

IT governance: Management methodology applied on IT applications within the organization's hierarchy.

Joint Venture: A business arrangement where two or more parties join resources to pursue a business venture, which is terminated upon attainment of the desired objectives

Market penetration: Attempts made to secure a certain scale or percentage of the market by applying appropriate strategies

Marketing Strategy: A laid out plan on how to ensure produced goods and service reach the targeted customer.

Motivation: Creating an enabling environment that will provide incentive for more individuals to set up their own business ventures.

Networking motivations: This refers to what drives entrepreneurs to form networks for their businesses. The reasons are varied and each entrepreneur needs to find a partner who shares his vision, one who will compliment his business needs and objectives.

Networking: This is the process of enlarging a business' circle of trust through negotiation. It can either be informal or formal.

Noise: Unwanted signal along the communication channel. It is constituted by buzzes on transmission line if it's a telephone link.

Oral Communication: Correspondence where the parties concerned have to share information by word of mouth.

Outsourcing: The decision to contract out necessary services to a third party. The activities are normally non-core to the business mainstream operations.

Overdraft: A facility provided by the bank for a person to draw more funds than are actually available on the account holder's name.

Parent Company: A company that has an arrangement with another, usually a smaller one. The parent company has an interest or a share in the smaller company for distributorship or direct sales.

Partnership: A business relationship that is run by two or more persons carrying on a business common with a view to making profit.

Perpetual Succession: The continued existence of the business regardless of the presence or otherwise of the owners. Applies to a Limited Liability Company.

Personal Networks: This is an informal network that consists of all the direct face to face contacts that the entrepreneur has. They include friends, family, close business associates, former teachers at the university etc

Physical environment: The natural tangible phenomena that surrounds the business premises and on which the business owes an obligation

Ploughed back profits: Profit that is not distributed to shareholders but re-invested into the business for a particular or general purpose.

Product diversification: Engaging in the production of other products in the same range or a different line all together. The aim is to ensure continued existence in the industry

Professional: An individual with specialized skill in a particular area of study. To be a professional, one would have to undergo technical training in the relevant field.

Rack jobber: An appointed agent who sells products on behalf of a parent company. The arrangement involves the selling of another company's products through a distribution system of racks/shelves in a variety of stores that are serviced by the rack jobber.

Receiver: This is the desired destination of the message that is intended to action. The receiver can either be a person or a location that has been identified in advance

Sender: This is the originator of the message or information that needs to be sent to a predetermined destination. The sender can be a person or a machine at a particular location.

Self employment: This is a concept that arises when the entrepreneur relies on revenues from his business as a source of income.

Service diversification: Similar to product diversification, where the business is in the service industry.

Social Responsibility: Duty owed to society for any activity carried out within its precincts.

Staffing: The process of hiring qualified personnel to fill in position(s) that become vacant or that are created on need basis in the organization.

Statutory Corporation: An organ that is established by an Act of parliament, whose existence begins on the date the Act is passed.

Sweatshops: Business opportunities that are set up in poorer countries by the richer ones to explore and utilize production resources e.g. cheap labor, but only temporarily until legislation is changed against the practice, upon which another 'sweatshop' is opened in another country.

Trade fairs: An exhibition organized for companies in a specific industry to showcase and demonstrate their latest products or services. They also get an opportunity to study activities of rivals and examine recent trends and opportunities.

Transmission: Communication of data by propagation and processing of signals

Visual Communication: Communication here is achieved by means of drawn images and representations of real life objects.



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INDEX



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INDEX

A

Accountant	81, 180
Audio conferencing	190
Automation	7
Awareness	49
Awareness	v

B

Barriers	242
Body language	132, 135, 138, 140, 227
Break-Even Analysis	81
Business	10
Business opportunity	21, 22
Business plan 50, 71, 72, 73, 74, 75, 76, 79, 80, 81, 82, 83, 84, 86, 212, 215, 217, 218, 219, 241	

C

Capitalization	50, 212
Capitalize	22
Caretaker	8
Cartel	13, 204
Cartels	13
Challenges	10
Code of ethic	101
Communication	4, 126
Communication	129
Competence	15, 47
Competitors	7, 32, 33, 36, 44, 72, 74, 77, 78, 79, 180, 201, 208, 209, 219
Corporation Aggregate	55, 241
Corporation Sole	54, 241
Correspondences	149

Courtesy	9, 202
Culture	47, 133

D

Dealer	25
Distributorship	25, 206, 242
Diversify	46

E

E Commerce	107
Economic	12
Economy	12
Effective communication	125, 126, 130
Electronic Commerce	107, 194
Electronic Conferencing	190
Electronic mail	188, 242
E-mail	10, 188
Employment opportunities	12, 204
Enterprise	5, 14, 41, 42, 48, 49, 62, 63, 65, 183, 242
Entrepreneur	3, 4, 242, 243, 244
Entrepreneurship	4
Entrepreneurship	4, 249
Environmental	59, 64, 99, 106, 107, 113, 137, 213
Ethics	167
Ethics	99, 241
Experience	11, 203

F

Feedback	127, 128, 129, 137, 139
Financial risk	11, 203
Franchise	26, 242



0728 776 3177

G

GATT 1	11
Globalization	111, 112, 114, 115, 117, 118, 180, 194, 223

I

Industry 6, 7, 8, 10, 21, 22, 32, 35, 41, 42, 43, 44, 45, 47, 48, 61, 62, 74, 76, 101, 113, 115, 118, 126, 164, 180, 184, 188, 193, 202, 208, 210, 219, 223	
Innovation	27, 44, 63, 180
Intercom	184
Internet	107, 110, 113, 114, 115, 118, 168, 193, 194, 223, 243
Interview	147
Investor	8
IT governance 1	83

J

Joint Venture	25, 206, 243
---------------------	--------------

L

Legal	241
Legal representation	29
Limited Liability	54
Linkages	48, 61, 63
Listening	132

M

Management	28
Market	46, 75, 77, 83, 84, 216
Marketing	10, 202
Market Penetration	46
Meetings	146
Mismanagement	11, 203
Motivation	49
Motivations	32, 208

N

Networking	31
Noise	129, 135, 140, 243

O

Objectives 4, 13, 15, 31, 47, 73, 74, 79, 82, 84, 85, 102, 106, 118, 149, 181, 182, 183, 194, 216, 218	
Oral communication	127
Outsourcing	110

P

Parent company	26
Parliament	48, 210
Partnership	243
Perpetual	244
Perpetual Succession	54
Perseverance	9, 202
PlaceCityenterprise	47
Presentations	165
Product	24
Professionals	7
Profits	6

R

Rack jobber	25, 244
Re - invention	24, 206
Research	10
Risks	4, 6, 11, 22, 24, 47, 74, 84, 104, 183, 203, 205, 218

S

Sales	78
Self employment	6
Small and medium sized enterprises	42



Social responsibility	13, 204
Social Responsibility	102
Speaker	131, 227
Statement of Cash Flows	81
Statement of Comprehensive Income	81
Statement of Financial Position	81
Statutory Corporation	55
Strategy	60, 78, 81, 83, 85, 196, 214, 243
Strength	23
Sweatshops	115
Systems	9

T

Taxes	13, 204
Technology 4, 8, 26, 43, 99, 109, 110, 111, 112, 113, 118, 163, 168, 179, 180, 183, 194, 223	
Telex	186
Trade fair	115, 118, 223

U

Untapped Market	25
-----------------------	----

V

Video conferencing	190
--------------------------	-----

W

Website	10
Written communication	127
WTO	111

Y

Yahoo	10
-------------	----