2018

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SUPPLY CHAIN MANAGEMENT FOR SMES

Complete Supply Chain Management for SMEs notes of CPSP-K II (Certified Procurement and Supply Professional of Kenya) by www.cpspkrevision.co.ke

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SUPPLY CHAIN MANAGEMENT FOR SME

OVERVIEW

Definition of Terms

1. **Supply chain management** is the oversight of the flow of goods and services. It includes the movement and storage of raw materials and finished goods from point of origin to point of consumption.
2. **Small and Medium Enterprise (SME)** are non-subsidiary independent firms which may employ few employees between from 10 – 200 people. Their capital and assets are limited and their turnover is small compared to larger businesses.
3. **Business Enterprise** is an endeavour where the primary motive is profit and employment of one's self and others. It is any type of operation that is involved with providing goods and services with the anticipated outcome of earning a profit.

Types of Enterprises

1. Sole Proprietorship

This is a business that is owned and managed by one person. The owner is personally responsible for its debts.

The owner may seek help from family members in running the business or employ an assistant.

Advantages

1. Easy decision making.
2. Capital required for starting and running business is minimal.
3. Sole proprietor enjoys profits alone.
4. Easy to start as it requires few legal formalities.
5. Is possible to keep business secrets to stay ahead of competition.

Disadvantages

1. There is no specialization in management e.g. finance or marketing, as all the work is done by owner of the business.
2. The sole proprietor has unlimited liability, which extend up to their own personal belongings.
3. Sole proprietor bears all the risks and losses alone.

4. Decisions made may be weaker done alone.
5. Lack of adequate capital for expansion.
6. Lack of continuity after death, due to lack of knowledge in formalities running the business.

2. Partnership

This is a business owned by a minimum of 2 people and maximum 20. The business partners share profits and liabilities depending on the various arrangements.

They usually are together with a motive of generating profit.

Advantages

1. There is more available capital as each partner contributes.
2. There is improved specialization in management as each partner could bring in a different set of skills.
3. There is improved decision making as compared to sole proprietorship.
4. Partnership has limited legal requirements as compared to sole proprietorship.
5. There is sharing of responsibilities hence no overworking.
6. There is sharing of losses and risks.

Disadvantages

1. Slow decision making as both partners shall be confronted and involved as they must reach a consensus.
2. Profits are shared hence less profits received or enjoyed.
3. Lack of effort by some partners who joy ride on others.
4. It has a limited lifespan. Death of one partner bring the business to an end.
5. Limited expansions as compared to companies that can float shares to the public.
6. Partners have unlimited liabilities.

Formation of Partnerships

1. When partners decide to form a business, they come up with a name.
2. They register the name with the registrar of business names.
3. Though not compulsory, they can prepare a partnership agreement which is used to settle misunderstandings between the partners.

Contents of Partnership Deed

1. Profit sharing ratio.
2. Capital contribution of each partner.
3. Responsibilities of each partner.
4. Rate of interest on borrowing.
5. Status of each partner whether active or dormant.
6. Name of partnership.
7. Address and profession of each partner.
8. How to calculate business goodwill. This is the invincible value of the business which is paid for.
9. How to prepare books of ALCs e.g. Balance sheet, Income statements
10. Procedure of dissolving the business.
11. Whether the business is temporary or permanent.

Partnership Act

In case you don’t prepare the partnership deed, the partnership act applies, which states the following:

1. All partners are entitled to participate in running of the business.
2. In case of dispute, majority wins.
3. All partners share profits and losses equally regardless of the capital contribution.
4. Nobody should be paid a salary since all partners are actively participating in the business.
5. Each partner has the right to audit business books of accounts.
6. The type of business can’t be changed without the agreement of all parties.

Rights to Partnerships

1. Partnerships should compensate any partner who incurs a loss when running the business.
2. Every partner should surrender all money realized from competing business.
3. All partners are liable to business debts.
4. No new partner can join business unless all others agree.
5. All partners must act in utmost good faith in regard to the partnership.
6. All partners have a right to inspect the books of accounts.

7. Every partner has a right to act on behalf of the business e.g. signing letters, attending meetings.

Dissolution of Partnership

1. Disagreement among members.
2. Death of one partner leads to close down of a partnership.
3. Completion of undertaking that it was formed to do.
4. Through court order especially:
    i) Involvement in illegal activities.
    ii) In case of bankruptcy.
    iii) Where one partner becomes mentally insane.
5. If one partner resigns from the business.

Types of Partnerships

i) **Temporary Partnership –** This type of partnership is meant to exist for a specific period of time e.g. construction

ii) **Permanent Partnership –** This type is meant to exist indefinitely.

iii) **General Partnership –** Where the partners are registered under the partnership act and all partners share unlimited liability. It theoretically exists.

iv) **Limited Partnership –** Liabilities of partners are limited and at least one partner has unlimited liabilities.

Types of Partners

1. **Quasi Partner –** One who allows themselves to be considered by others as a partner but is not actually one. They may be liable to debts incurred by the firm's individuals who transact business thinking they are one.
2. **Active Partner –** They conduct day to day business operations of the firm. They are nominated and employed to run the business by other partners and even given a salary.

Types of Partners

1. **Active Partner or Managing Partner**

Takes active interest in conducting and managing of the business.

Conducts business on behalf of the other partners.

Upon retirement, he must give a public notice of his retirement else will continue to be liable for the acts of the firm.

2. **Sleeping or Dormant Partner**

Does not actively take part in the business activities.

They contribute share capital and are bound by activities of other partners. They shares profits and losses as well.

They aren't required to give public notice, upon retirement.

3. **Nominal Partner or Ostensible Partner**

They are the opposite of sleeping partner, as they don't contribute capital and are identified as outsiders.

They don't contribute capital nor share business profits.

They also don't participate in business management.

4. **Partner by Estoppel or Holding Out**

A partner who by words or conduct, hold out to others that they are a partner, will be stopped from denying they are not a partner and are liable to 3rd parties.

Conditions for estoppel include:

i) Person to hold out must have made a representation he was a partner
ii) The other party relied on the representation and acted upon it

5. **Minor Partner**

A partner who has not attained legal age of majority (18 years)

They are entitled to profit sharing and access to the book of accounts.

Their liability is limited to the extent of their share in the firm.

They can't file a suit against other partners for his share of the profit.

They can decide on attaining 18 years of age, if they will continue to be a member of the firm.

3. Companies

An association of people or persons who contribute capital in order to carry out a particular business with the intent of realizing profit.

Characteristics of Companies

1. They can sue or be sued.
2. They exist as a separate legal entity for their owners.
3. They have perpetual life unless otherwise.
4. They are artificial persons meaning they are recognized by the law.
5. They can own properties under their names.

Differences between private and public companies

Feature	Public Company	Private Company
Minimum No. of Shareholders	7	2
Maximum No. of Shareholders	Infinite	50
Transfer of Shares	Freely transferrable stock in the market.	Not Transferrable unless members agree.
Number of Directors	3	1
Commencement of Business	Begins on getting trading certificate.	Begins after certificate of incorporation.
Prospector's Documents	Compulsory to be submitted to the registrar of companies during registration.	Not required to submit to the registrar of companies during registration.
Auditing	This is compulsory and is made public.	It is not a must to audit books of accounts
Purpose of Formation	They enjoy a lot of capital	They enjoy limited liabilities
Annual General Meeting	Compulsory	Not Compulsory

Advantages of public limited companies

1. More capital can be raised via selling of shares.
2. They have perpetual existence even after death of owners.
3. They enjoy better management due to presence of directors.
4. Transparency is ensured via the audits carried out.
5. They create employment.
6. Liabilities of shareholders are limited.

Disadvantages

1. Formation is challenging due to a lot of documentation required as compared to sole proprietorship.
2. They are accountable to the general public and other stakeholders as compared to private company which are accountable to a few people.
3. They require a skilled workforce which is relatively expensive.
4. Majority of shareholder are not able to keep in touch with the company's affairs due to their large numbers.
5. They lack personal touch with employees and suppliers.
6. Work is done by salaried managers who might have conflicting interest with the shareholders.

Advantages of Private Limited Companies

1. Members are well known to each other.
2. Management and conduct of business is more flexible.
3. Statutory meeting and statutory reports are not required.
4. Number of directors is at least 2.
5. Members enjoy limited liability.

Disadvantages of Private Limited Companies

1. Share transfer is restricted.
2. Members cannot exceed over 50.
3. Shares can't be quoted in stock exchange.
4. It can't issue prospects to general public.

Formation of Public Limited Companies

1. They submit an **MOA** (Memorandum of Association) to the registrar of companies. It defines how the company will be carrying out its affairs, and how it should relate with its environment (internal and external). It contains:
    i) The business name.
    ii) Objectives of the company.
    iii) Statement of liability.
    iv) Location.
    v) Name of the company
2. They must submit **Articles of Association**. This contains rules and regulations of the company's internal regulations e.g. Audit books of accounts.
3. List of board of directors showing:
    i) Names of directors
    ii) Statutory documents (Documents whose legal requirement have been met)
4. Submit a prospection of the company to the registrar of companies.

Formation of Private Limited Companies

1. Submission of MOA to the registrar of companies.
2. Submission Articles of Association to the registrar of companies.
3. Payment of registration fees.
4. Must notify the registrar's office of the company's location.

Factors to consider when starting an SME

1. Market availability.
2. Capital availability.
3. Source of raw materials.
4. Legal requirements.
5. Technology.
6. Return on Investment (ROI).
7. Availability of skilled labour.
8. Products and services offered.