

Wollega University

Entrepreneurship course

CHAPTER 1:

THE NATURE OF ENTREPRENEURSHIP

Evolution /Historical Origin of Entrepreneurship

1. The word entrepreneur first appeared in the French language as “**entreprendre**”, which means, “to undertake”
2. During the ancient period an entrepreneur is a person managing a large commercial projects
3. In the 17th Century a person who has signed a contractual agreement with the government to provide stipulated products or to perform service was considered as entrepreneur. In this case the contract price is fixed so any resulting profit or loss reflects the effort of the entrepreneur.
4. In the 18th Century the first theory of entrepreneur has been developed by Richard Cantillon. He said that an entrepreneur is a risk taker. The other development during the 18th Century is the differentiation of the entrepreneurial role from capital providing role. The later role is the base for today’s venture capitalist.
5. In the late 19th and early 20th Century an entrepreneur was viewed from economic perspectives.

Definitions of Entrepreneurship and Entrepreneur

- Intuitively, it is known that **entrepreneurship** is the process and **entrepreneur** is the person undertaking entrepreneurial activity such as undertaking own business. **The definitions of entrepreneurship:-**
 1. Entrepreneurship is the process of identifying opportunities in the market place, arranging the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long term gains.
 2. Entrepreneurship is the processes through which individuals become aware of business ownership then develop ideas for, and initiate a business.
 3. Entrepreneurship can also be defined as the process of creating something different and better with value by devoting the necessary time and effort by assuming the accompanying financial, psychic and social risks and receiving the resulting monetary reward and personal satisfaction.
 4. Entrepreneurship is the art of identifying viable business opportunities and mobilizing resources to convert those opportunities into a successful enterprise through creativity, innovation, risk taking and progressive imagination.

➤ **Elements of entrepreneurship**

- In general, the process of entrepreneurship includes **five critical** elements. These are:
 - ✓ The ability to perceive an opportunity.
 - ✓ The ability to commercialize the perceived opportunity
i.e. innovation
 - ✓ The ability to pursue it on a sustainable basis.
 - ✓ The ability to pursue it through systematic means.
 - ✓ The acceptance of risk or failure.
- So What mean by **entrepreneur**?

Based on the above concepts of entrepreneurship, **an entrepreneur** can be defined as follows:

- 1) An entrepreneur is any person who creates and develops a business idea and takes the risk of setting up an enterprise to produce a product or service which satisfies customer needs.
- 2) An entrepreneur can also be defined as a professional who discovers a business opportunity
 - to produce improved or new goods and services and identifies a way in which resources required can be mobilized.
- 3) An entrepreneur is an individual who: has the ability to identify and pursue a business opportunity; undertakes a business venture; raises the capital to finance it; gathers the necessary physical, financial and human resources needed to operate the business venture; sets goals for him/herself and others; initiates appropriate action to ensure success; and assumes all or a major portion of the risk!
- 4) An entrepreneur is a person who: create the job not a job-seeker; has a dream, has a vision; willing to take the risk and makes something out of nothing

Definition of the term entrepreneur from **three perspectives views**; i.e. from the economist, psychologist and capitalist philosopher's point of view.

- i. To an economist** an entrepreneur is one who brings resource, labor, materials, and other assets into combination that makes their value greater than before and also one who introduces changes innovations.
 - ii. To a psychologist** an entrepreneur is a person typically driven by certain internal forces need to obtain or attain something, to experiment, to accomplish or perhaps to escape the authority of others.
 - iii. For the capitalist philosopher** an entrepreneur is one who creates wealth for others as well, who finds better way to utilize resources and reduce waste and who produce job others are glad to get.
- In general, entrepreneur refers to the **person** and entrepreneurship defines the **process**. Both men and women can be successful entrepreneurs; it has nothing to do with gender. All entrepreneurs are business persons, but not all business persons are entrepreneurs.

Types of Entrepreneurs

Entrepreneurship can take **three different forms**. They are:

1. The individual entrepreneur:

- An individual entrepreneur is someone who started; acquired or franchised his/her own independent organization.

2. Intrapreneur:

- An Intrapreneur is a person who does entrepreneurial work within large organization.

- The process by which an intrapreneur affects change is called

Intrapreneurship.

- What is the Differences between Entrepreneur and Entrapreneur?**

Entrepreneur

Independent: is an independent person in his business operations.

Need not be highly educated: He can learn everything by experience provided he has the basic qualities of a successful entrepreneur.

Fund raising: an entrepreneur himself raises funds necessary from various sources and guarantees the return to investors/creditors for starting and establishing.

Risk bearing: an entrepreneur has to bear all the risks involved in the business by himself.

Routine work: an entrepreneur is more concerned with doing routine work and sometimes he may not know the important details of his own business.

Operation from outside: an entrepreneur always operates from outside. The owner is different and the enterprise he owns is different.

Intrapreneur

Dependent: is a semi dependent on the owners of the organization.

Highly educated: He is indeed a business specialist in the chosen field.

No fund raising: He is completely free from the botheration of raising funds.

No risk bearing: an intrapreneur need not bear any risk involved in the business he develops and operates.

Specialist: an intrapreneur acts as a specialist in his chosen field and serves as an outside professional.

Operation from inside: But, an intrapreneur operates from within the organization itself. He is a part and parcel of the organization.

3. The Entrepreneurial Organization:

- The entrepreneurial function need not be embodied in a physical person.
- Every social environment has its own way of filling the entrepreneurial function.
- Owned by stakeholders.
- Are directed by executive board and managed by managers

An organization that creates such an internal environment is defined as **entrepreneurial organization** .

- **Role/Function of Entrepreneurs in Economic Development**

- The entrepreneurs serve as a key to the creation of new enterprises, thereby rejuvenating economy and sustaining the process of economic development in the following ways:

- ❖ **General functions**

- ✓ *Innovation*
- ✓ *Risk taking*
- ✓ *Organizing*

❖ **Specific functions**

- Improvement in per capita Income/Wealth Generation:
- Generation of Employment Opportunities:
- Inspire others Towards Entrepreneurship:
- Balanced Regional Development:
- Enhance the Number of Enterprise:
- Provide Diversity in Firms:
- Economic Independence:
- Combine Economic factors:
- Provide Market efficiency:
- Accepting Risk: Maximize Investor's Return:

Who Becomes an Entrepreneur?

- Anyone with the following characteristics can be an entrepreneur.
 - The Young Professional
 - The Inventor
 - The Excluded

Qualities of an Entrepreneur

In order to be successful, an entrepreneur should have the following qualities:

- Opportunity-seeking
- Persevering/ Persistence in the face of adversity
- Risk Taking
- Demanding for efficiency and quality
- Information-seeking
- Goal Setting
- Planning
- Persuasion and networking
- Building self-confidence
- Listening to others
- Demonstrating leadership
- Capacity to work hard
- Self (inner) motivation
- Vision and foresight
- Willingness to defer consumption
- Innovativeness and future-orientation
- Creative thinking
- Ability to marshal/organize resources
- Will to prove superior to others.

– Entrepreneurial Skills

A skill is simply knowledge which is demonstrated by action. It is an ability to perform in a certain way. An entrepreneur is someone who has a good business idea and can turn that idea into reality. Turning an idea into reality calls upon two sorts of skills, these are:

- I. General management skills and
- II. People management skills

I. General Management Skills: These are skills required to organize the physical and financial resources needed to run the venture. Some of the most important general management business skills are:

- *Strategy Skills*
- *Planning*
- *Marketing Skills*
- *Financial Skills*
- *Project Management Skills*
- *Time Management Skills*

People Management Skills: Businesses are made by **people**. A business can only be successful if the peoples who make it up are properly directed and are committed to make an effort on its behalf. To be effective, an entrepreneur needs to demonstrative a wide variety of skills in the way he/she deals with other peoples.

Some of the more important skills we might include under this heading are:

- *Communication Skills*
- *Leadership Skills*
- *Motivation Skills*
- *Delegation Skills*
- *Negotiation Skills*

–The Entrepreneurial Tasks

We recognize entrepreneurs, first and foremost, by what they actually do - by the tasks they undertake. A number of tasks have been associated with the entrepreneur. Some of the more important are:

- Owning Organizations
- Founding New Organizations
- Bringing Innovations to Market
- Identification of Market Opportunity
- Application of Expertise
- Provision of leadership
- The entrepreneur as manager

– What are the Similarity and difference of Entrepreneurs Vs Managers

An entrepreneur is different from a manager. But it doesn't mean that they are entirely different from each other. That means they also have their own intersection points.

Similarities

- ✓ Both make decisions
- ✓ Both are visionary
- ✓ Both are accountable for their actions
- ✓ Both work under constraints
- ✓ Both are organizers
- ✓ Both perform management functions

• Differences

- The main points of difference between the two may be described as follows:

Points of difference	Entrepreneurs	Managers
Innovation	- is an inventor and even he is more than an inventor - An entrepreneur is a change agent	- the manager keeps running a business on established lines. - He is not an inventor. He only deals with the day to day affairs of a business on a going concern. - manager is a product of change
Focus	Entrepreneurs focus more on exploiting new opportunities.	But managers focus is more on optimizing the existing resources
Risk taking	An entrepreneur takes calculated risks of a business venture. He may jeopardize his own financial security for losses that may occur.	By contrast, the manager does not face the uncertainty of a new venture with its potential for failure and financial loss. He does not share any business risks.
Reward	- An entrepreneur is motivated by profits - The gains of an entrepreneur are uncertain and irregular and can at times be negative.	- The manager is motivated by externally imposed goals and rewards. - The salary of a manager is on the contrary, fixed and regular and can never be negative.
Skills	An entrepreneur needs intuition, creative thinking and innovative ability among other skills.	On the other hand, a manager depends more on human relations and conceptual abilities.
Status	An entrepreneur is self employed and he is his own boss.	On the contrary, a manager is a salaried person and he is not independent of his employer, the entrepreneur.

– Who Benefits from the entrepreneur's Wealth?

No entrepreneur works in a vacuum. The venture they create touches the lives of many other people. To drive his/her venture forward, the entrepreneur calls up on the support of a number of different groups. In return for their support these groups expect to be rewarded from the success of the venture. Peoples who have a part to play in the entrepreneurial venture generally are called stakeholder. The stakeholder groups are; employees, investor, supplier, customer, the local community and government. Let us look at the benefits of each stakeholder.

- Employees
- Investors:
- Supplier:
- Customers:
- The local community:
- Government:

- **Entrepreneurship and Environment**

- Business environment refers to the factors external to a business enterprise which influence its operations and determine its effectiveness.
- Business environment may be **healthy or unhealthy**.
- Healthy business environment means the conditions are favorable to the growth of business
- Unhealthy environment implies conditions hostile or unfavorable to business operations.
- Business and its environment interact with each other. Economic system and other conditions in the environment determine the success of business enterprises.
- No business concern can ignore the environment around it except at its own peril. “The penalty of environmental disregard is heavy. “

A study of business environment offers the following benefits:

- ✓It provides information about environment which is essential for successful operation of business firms.
- ✓ It opens up fresh avenues for the expansion of new entrepreneurial operations.
- ✓Knowledge about changing environment enables businessmen to adopt a dynamic approach and maintain harmony of business operations with the environment.
- ✓By studying the environment entrepreneurs can make it hospitable to the growth of business and thereby earn popular support.

❖ **Phases of Business Environment**

Business environment may be classified into **two broad** categories; namely

A. ***External; and***

B. Internal environment

•A. External Environment

It is the environment which is external to the business and hardly to influence independently. The following are the components of external environment:

- Economic Environment
- Legal Environment
- Political Environment
- Socio-Cultural Environment
- Demographic Environment

B) Internal Environment

Internal environment is the environment which is under the control of a given organization.

Following are the components of internal environment of a business:

- *Raw Material:*
- *Production/Operation:*
- *Finance:*
- *Human Resource*

– **Environmental Factors Affecting Entrepreneurship**

The interaction between the entrepreneur and his environment is an ongoing process. Some of the environmental factors which hinder entrepreneurial growth are given below:

- ✓ Sudden changes in Government policy.
- ✓ Sudden political upsurge.
- ✓ Outbreak of war or regional conflicts.
- ✓ Political instability or hostile Government attitude towards industry.
- ✓ Excessive red-tapism and corruption among Government agencies.
- ✓ Ideological and social conflicts.
- ✓ Unreliable supply of power, materials, finance, labor and other inputs.
- ✓ Rise in the cost of inputs.
- ✓ Unfavorable market fluctuations.
- ✓ Non-cooperative attitude of banks and financial institutions.

Creativity, Innovation and Entrepreneurship

These three terminologies are chronologically interrelated and it is very important to look in to them to get their full picture.

1. Creativity

✧ Creativity is defined as the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems, communicating with others, and entertaining ourselves and others.

✧ Creativity is the ability to come up with new idea and to identify new and different ways of looking at a problem and opportunities.

✧ It is a process of assembling ideas by recombining elements already known but wrongly assumed to be unrelated to each other.

This definition has several key elements that are worth considering:

Process: creativity is a process (implying among other things, that it is more like a skill than an attitude, and that you can get better at it with practice)

Ideas: creativity results in ideas that have potential value.

Recombining: the creative process is one of putting things together in unexpected ways.

Steps in the Creative Process

Step 1: Opportunity or problem Recognition: A person discovers that a new opportunity exists or a problem needs resolution.

Step2: Immersion: the individual concentrates on the problem and becomes immersed in it. He or she will recall and collect information that seems relevant, dreaming up alternatives without refining or evaluating them.

Step 3: Incubation: the person keeps the assembled information in mind for a while. He or she does not appear to be working on the problem actively; however, the subconscious mind is still engaged.

Step 4: Insight: the problem -conquering solution flashes into the person's mind at an unexpected time, such as on the verge of sleep, during a shower, or while running. Insight is also called the Aha! Experience.

Step 5: Verification and Application: the individual sets out to prove that the creative solution has merit. Verification procedures include gathering supporting evidence, using logical persuasion, and experimenting with new ideas.

•Barriers /Challenges to Creativity

•Be aware that there are numerous barriers to creativity, including:

1. searching for the one 'right' answer
2. focusing on being logical
3. blindly following the rules
4. constantly being practical
5. viewing play as frivolous
6. becoming overly specialized
7. avoiding ambiguity
8. fearing looking foolish
9. fearing mistakes and failure
10. believing that 'I'm not creative

2 . Innovation

Innovation lies at the heart of the entrepreneurial process and is a means to the exploitation of opportunity. It is the implementation of new idea at the individual, group or organizational level. Innovation is a process of intentional change made to rate value by meeting opportunity and seeking advantage.

There are **four distinct types of innovation**, these are as follows:

• **Invention** - described as the creation of a new product, service or process

• **Extension** - the expansion of a product, service or process

• **Duplication** - defined as replication of an already existing product, service or process

• **Synthesis** - the combination of existing concepts and factors into a new formulation

•The Innovation Process

▪ **Analytical planning:** carefully identifying the product or service features, design as well as the resources that will be needed.

▪ **Resources organization:** obtaining the required resources, materials, technology, human or capital resources

▪ **Implementation:** applying the resources in order to accomplish the plans

▪ **Commercial application:** the provision of values to customers, reward employees and satisfy the stakeholders.

• **Areas of Innovation**

The following are some of the major areas in which valuable innovation might be made.

- *New product:*
- *New Services:*
- *New Production Techniques:*
- *New Way of Delivering the Product or Service to the Customer: .*
- *New Operating Practices:*
- *New Means of Informing the Customer about the Product:*
- *New Means of Managing Relationship within the Organization:*

From Creativity to Entrepreneurship

Creativity is the ability to develop new ideas and to discover new ways of looking at problems and opportunities.

Innovation is the ability to apply creative solution to these problems and opportunities in order to enhance



CHAPTER- 2: BUSINESS PLANNING

INTRODUCTION

- Virtually to start any type of business or expand the existing one needs to work on opportunity identification and evaluation, business idea development and then prepare business plan.
- Lack of proper opportunity identification and evaluation, idea Development process and business planning are the most often cited reasons for business failure.

Opportunity Identification and Evaluation

- Most authors agree that the initial stage in the entrepreneurial process is the identification and refinement of a viable economic opportunity that exists in the market.
- Opportunity recognition corresponds to the principal activities that take place before a business is formed or structured.
- The opportunity *identification and evaluation* stage can be divided into **five main steps** namely;
 1. getting the idea/scanning the environment,
 2. identifying the opportunity,
 3. developing the opportunity,
 4. evaluating the opportunity and
 5. evaluating the team.

1. Scanning the Environment/ Getting the Idea

- ❖ While scanning the environment it may provide you with idea and business opportunities.
- ❖ **Idea** is a thought or suggestion about a possible course of action.
- ❖ Synonymous with “idea” are the terms *thought, intention, scheme, suggestion, proposal, initiative, spur, impulse, brainwave, insight, concept and connotation*.
- ❖ **opportunity** is a favorable time or set of circumstances for doing something. Synonymous with opportunity are chance, opening and prospect.
- ❖ *An idea is not synonymous with opportunity.*
- ❖ an **opportunity** is the possibility of occupying the market with a specific innovative product that will satisfy a real need and for which customers are willing to pay but **idea** is all about opinion *about anything we can have*.

2) Opportunity Identification

- ❖ **Opportunity identification** is ability to see, to discover and exploit opportunities that others miss.
- ❖ It is the process of seeking out better *ways of competing*.
- ❖ It includes scanning the informational environment, being able to capture, recognize and make effective use of abstract, implicit and changing information from the changing external environments.
- ❖ Is it technological change, market shift, government regulation, or competition
- ❖ These factors and the resulting opportunity have a different market size and time dimension.
- ❖ Opportunity identification is a very difficult task, as most opportunities do not just appear but rather result from an entrepreneur's alertness to possibilities.

3) Opportunity Development

- Having recognized the opportunity, timely adaptation of that opportunity to suit actual market need is key to new venture success.
- Opportunity development is the process of combining resources to pursue a market opportunity identified.
- This involves systematic research to refine the idea to the most promising high potential opportunity that can be transformed into marketable items.

4) Opportunity Evaluation

- ❖ Opportunity screening and evaluation is a critical element of the entrepreneurial process.
- ❖ A professional executed evaluation can tell whether the specific product or service has the returns needed to justify the investment and the risk to be taken.
- ❖ This evaluation process involves looking at the creation and length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur,

5) Assessment of the Entrepreneurial Team

- ❖ Regardless of how right the opportunity may seem to be, it will not make a successful business unless it is developed by a team with strong skills.

Business Idea Development

- ❖ A business idea is a short and precise description of the basic operation of an intended business.
- ❖ There are three types of business ideas. They are:
 - *Old Idea* – Here an individual copies an existing business idea from someone.
 - *Old Idea with Modification* – In this case the person accepts an old idea from someone and then modifies it in some way to fit a potential **customers** demand.
 - *A New Idea* – This one involves the invention of something new for the first time

Methods for Generating Business Ideas

- Every business idea should be based on knowledge of the market and its needs.
- The market refers to people who might want to buy a good or service; i.e. the customers.
- The market differs from place to place, depending on who lives in the area, how they live and for what goods or services they spend their money.
- When generating business ideas, it is best to try to keep your mind open to everything.
- There are many ways to come up with business ideas, such as surveying local businesses or asking existing business owners.
- Below, we will see a few different approaches to generating business ideas

1. Learn from successful business owners

2. Draw From Experience

3. Your Local Business Area

4. Scanning Your Environment Survey. For example think about:

- Natural resources,
- Characteristics and skills of people in the local community,
- Import substitution,
- Waste products,
- Publications,
- Trade fairs and exhibitions ,

5. Brainstorming

6. Structured Brainstorming

7. Focus Group

8. Problem Inventory Analysis

9. Free Association

10. Forced Relationships

11. Attribute Listing

Business Idea Screening

- Idea screening is the process to spot good ideas and eliminate poor one. To screen the business idea generated, three approaches are discussed as follow:

1) *Macro screening:*

- Are my own competencies (see strength detector) sufficient?
- Can I finance it to a large extent with my own equity?
- Will people buy my product/service (i.e. is it needed and can people afford it)?

2) *Micro Screening:*

- Solvent demand
- Availability of raw materials
- Availability of personal skills
- Availability of financial resources

- ### 3) *Scoring the Suitability of Business Idea:*
- This approach is most appropriate when deciding on starting a business. When there are more than one possible business ideas and one needs to decide which one to follow, we use score business ideas.

Concept of Business Plan

❖Planning is the first and the most crucial step for starting a business.

The objectives of a business plan are to:

- ✓Give directions to the vision formulated by entrepreneur.
- ✓Objectively evaluate the prospects of business.
- ✓Monitor the progress after implementing the plan.
- ✓Persuade others to join the business.
- ✓Seek loans from financial institutions.
- ✓Visualize the concept in terms of market availability, organizational, operational and financial feasibility.
- ✓Guide the entrepreneur in the actual implementation of the plan.
- ✓Identify the strengths and weakness of the plan.
- ✓Identify challenges in terms of opportunities and threats
- ✓Clarify ideas and identify gaps in management information about their business, competitors and the market.
- ✓Identify the resources that would be required to implement the plan.
- ✓Document ownership arrangements, future prospects and projected growths of the business venture.

CHAPTER-3

BUSINESS FORMATION

The Concept of Small Business Development

- ❖ There is a difference between **small business owners** and **entrepreneurial ventures** as well.
- ❖ An entrepreneurial venture often is a growth-oriented innovative company with product or service offerings that are new to the market.
- ❖ Small businesses could be entrepreneurial ventures. Most entrepreneurial ventures start as a small business.

There are two approaches to define small business. They are:

1. Size Criteria: include number of *employees and the startup capital*

- Financing of the business
- Marketing function geographical coverage
- The business is small.
- The number of employees in the business is usually fewer than 100

2. Economic/control criteria:- qualitative characteristics may be used to differentiate small business from other business.

- Market Share,
- Independence
- Personalized Management.
- Geographical Area of Operation
- Technology: - Small business is generally labor intensive

Forms of Business

- There are three basic legal forms of business formation with some variations available depending on the entrepreneurs' needs.

❖ Evaluation Criteria

- Tax consideration
- Liability exposure
- Start-up and future capital requirement
- Control
- Managerial ability
- Business goals
- Cost of formation

❖ The **three** basic legal forms are:-

1. **Sole Proprietorship:-** A business owned and managed by one individual; the business and the owner are one and the same in the eyes of the law.



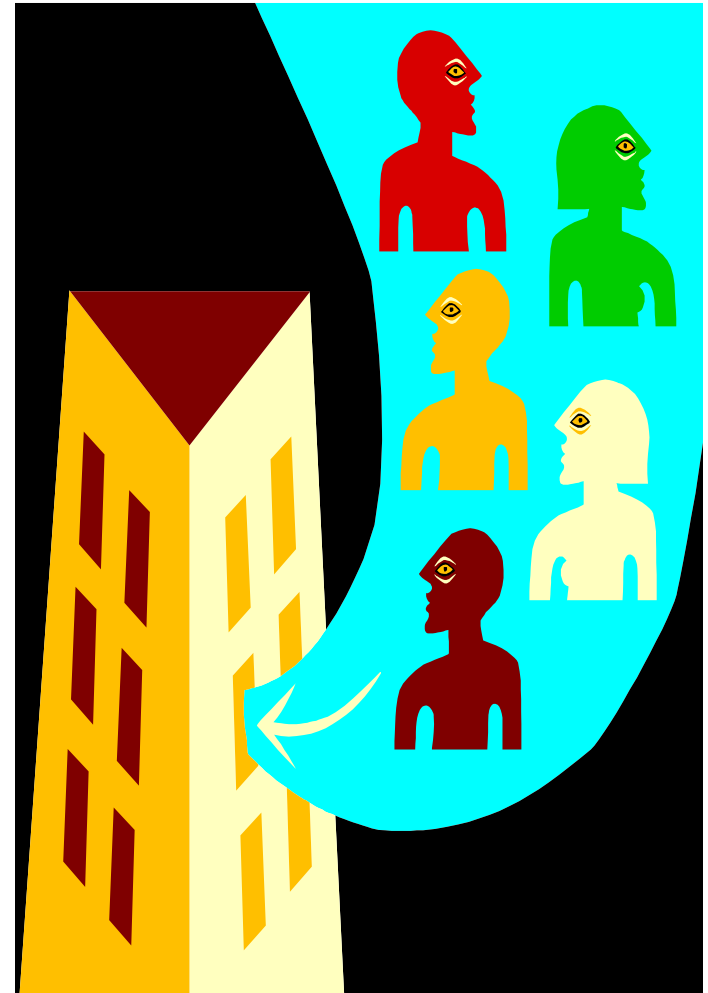
2. Partnership

- A partnership exists where two or more people enter in to an agreement to run a business together.
- The need to provide more capital, better skills and avail of specialization led to the growth of partnership form organization.



3)Corporation:-

- ❖ Separate legal entity that is run by stockholders having limited liability
- ❖ A corporation is created by law and managed through a board of directors who are responsible to stock holders for appointing and directing operating officers.
- ❖ Unlike partnership and sole proprietorship, a limited company is a **separate legal entity** which is quite distinct from its owners.



Role/Importance of MSEs in Developing Countries

- Large Employment Opportunities:
- Economical Use of Capital:
- Balanced Regional Development/ Removing Regional Imbalance
- Equitable Distribution of Wealth and Decentralization of Economic Power:
- Unregulated Growth of Large-
- Dispersal over Wide Areas-
- Higher Standard of Living
- Mobilization of Locals Resources/Symbols of National Identity:
- Innovative and Productive /Simple Technology:
- Less Dependence on Foreign Capital/ Export Promotion:
- Protection of Environment:
- Shorter Gestation Period:

Classification of Micro and Small Enterprises

1. In Case of Manufacturing Enterprise (Manufacturing, Construction and Mining):
2. In Case of Service Enterprise (Retailing, Transport, Hotel and Tourism, ICT and Maintenance):

Level of the Enterprise	Sector	Human Power	Total Asset
Micro Enterprise	Industry	≤ 5	≤ 100000 (\$6000 or E4500)
	Service	≤ 5	$\leq 50,000$ (\$3000 or E2200)
Small Enterprise	Industry	6-30	$\leq$ birr 1.5 million (\$9000 or E70000)
	Service	6-30	$\leq$ birr 500,000 (\$30000 or E 23000)

1. Manufacturing Sector
2. Construction Sectors
4. Service
5. Agriculture Sector (Urban Agriculture)

Levels of MSEs in Ethiopia

- Start-up:-
- Growth Level: -
- Maturity Level:
- Growth- Medium Level

Small Business Failure Factors

What Is Business Failure? Even though business owners launch their ventures with the best of intentions and work long, hard hours, some businesses inevitably fail.

❖ **Business failure due to:**

- ✓ *insufficient capital*
- ✓ *inexperienced management.*
- ✓ *Neglect* occurs whenever an owner does not pay a due attention to the enterprise
- ✓ *Fraud* involves intentional misrepresentation or deception.
- ✓ *Disaster* refers to some unforeseen happening

Business Termination versus Failure

- There is a difference between a business *termination and a business failure*.
- *A termination* occurs when a business no longer exists for any reason.
- *A failure* occurs when a business closes with a financial loss to a creditor.
- Reasons for a termination abound.
- The owner may have an opportunity to sell his/her business to someone else for a healthy profit, or be ready to move on to a new business or to retire, or she/he may have simply lost interest in the business.
- The market for the business's product may have changed or become saturated.
- Perhaps the owner has decided it would be more appealing to work for someone else.

Small Business Success Factors

❖ These success factors are categorized as:-

1. Conducive Environment;

- ✓ Political Climate
- ✓ The Economic Environment
- ✓ Technology
- ✓ Socio-Cultural Environment

2. Adequate Credit Assistance;

3. Markets and Marketing Support.

- ❖ Small-scale businesses have not been able to contribute substantially to the economic development, particularly because of financial, production, and marketing problems.
- ❖ These problems are still major handicaps to their development.
- ❖ Lack of adequate finance and credit has always been a major problem of the Ethiopian small business.
- ❖ Furthermore, the techniques of production, which the enterprises have adopted, are usually outdated.
- ❖ Because of their poor financial position they are not able to buy new equipment, consequently their productivity suffers.
- Small business's owner can avoid some of the common pitfalls that lead to business failure by knowing the business in depth; developing a solid business plan; managing financial resources; understanding financial statements;

CHAPTER 4:

PRODUCT/SERVICE DEVELOPMENT