CHAPTER ONE

THE NATURE OF ENTREPRENEURSHIP

1.1 INTRODUCTION

- The word ‘entrepreneur Is originated from a French word, *entreprender*, was considered as an individual commissioned to undertake a particular commercial project.
- Entrepreneur is someone who undertakes certain projects.
- Entrepreneurship is then what the entrepreneur does.
- Entrepreneurial is an adjective describing how the entrepreneur undertakes what he or she does.

Con't...

- ✓ In ancient period, the word entrepreneur was used to refer to a person managing large commercial projects through the resources provided to him.
- ✓ In the 17th Century a person who has signed a contractual agreement with the government to provide products or service was considered as entrepreneur.
- ✓ In the 18th Century the first theory of entrepreneur has been developed by Richard Cantillon and 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.
- ✓ In the late 19th and early 20th century, the entrepreneur was defined as one who organizes and operates an enterprise for personal gain.
- ✓ In the middle of the 20th Century, the notion of an entrepreneur as an inventor was established.

- ✓ From the historical development it is possible to understand the fact that the perception of the word entrepreneur was evolved from managing commercial project to the application of innovation (creativity) in the business idea.

1.3 Definitions of Entrepreneurship and Entrepreneur

- *Entrepreneurship* is a process of identifying opportunities and investing the resources to exploit it for a profit.
- *Is* the processes through which individuals become aware of business ownership, then develop ideas for, and initiate a business.
- Entrepreneurship is a 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.
- 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.

It refers to an individual's: ability to turn ideas into action involving and engaging in socially-useful wealth creation through application of innovative thinking and execution to meet consumer needs, using one's own labor, time and ideas.

- *In General*, the process of entrepreneurship includes five critical elements. i.e:
  - 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.

Definition of Entrepreneur from different perspectives i.e. from the economist, psychologist and capitalist philosopher's point of view.

- ***To an economist,*** one who brings resource, labor, materials, and other assets into combination that makes their value greater than before.
- ***To a psychologist,*** a person typically driven by certain forces need to obtain or attain something, to experiment, to accomplish or perhaps to escape the authority of others.
- ***For capitalist philosopher,*** one who creates wealth for others, 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.
- All entrepreneurs are business persons, but not all business persons are entrepreneurs.

1.4 Types of Entrepreneurs

- **The individual entrepreneur:** is someone who started; acquired or franchised his/her own independent organization.
- **Intrapreneur:** is a person who does entrepreneurial work within large organization.
- **The Entrepreneurial Organization:** An organization that create an environment in which all of its members can contribute in some function to the entrepreneurial function.

1.5 Role of Entrepreneurs in Economic Development

- 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

1.6 Entrepreneurial Competence and Environment

1.6.1 Entrepreneurial Mindset

1.6.1.1 Who Becomes an Entrepreneur?

- *The Young Professional*
- *The Inventor*
- *The Excluded*

1.6.1.2 Qualities of an Entrepreneur

To be successful, an entrepreneur should have the following qualities:

- Opportunity-seeking
- Persevering
- Risk Taking
- Demanding for efficiency and quality
- Information-seeking
- Goal Setting
- Planning
- Persuasion and networking
- Building self-confidence
- Listening to others
- Demonstrating leadership

1.6.1.3 Entrepreneurial Skills

- **General Management Skills:** are skills required to organize the physical & financial resources needed to run the venture. i.e:
  - Strategy Skills
  - Planning Skills
  - Marketing Skills
  - Financial Skills
  - Project Management Skills
  - Time Management Skills

- ***People Management Skills***
  - Communication Skills
  - Leadership Skills
  - Motivation Skills
  - Delegation Skills
  - Negotiation Skills
- All these different people skills are interrelated.
- Here entrepreneurial performance results from a combination of industry knowledge, general management skills; people skills and personal motivation.

1.6.1.4 The Entrepreneurial Tasks

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

1.6.1.5 Wealth of the Entrepreneur

Wealth is money and anything that money can buy.

Who Benefits from the entrepreneur's Wealth?

- **Employees:**
- **Investors: stockholders/lenders.**
- **Suppliers**
- **Customers**
- **The local community**
- **Government**

1.6.2 Entrepreneurship and Environment

1.6.2.1 Phases of Business Environment

Business environment may be classified into two broad categories; namely external and internal environment.

External Environment

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

Internal Environment;

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

1.6.2.2 Environmental Factors Affecting Entrepreneurship

Environmental factors which hinder entrepreneurial growth are;

- Sudden changes in Government policy.
- Sudden political upsurge.
- Outbreak of war or regional conflicts.
- Political instability or hostile Government attitude towards industry.
- Excessive corruption among Government agencies.

con’t…

- 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.
- Entrepreneurship is environmentally determined.

1.7 Creativity, Innovation and Entrepreneurship

1.7.1 Creativity; is a **process of assembling ideas** by recombining elements already known but wrongly assumed to be unrelated to each other.

key elements of this definition;

- Process: implies that, it is more likely 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.**

1.7.1.1 Steps in the Creative Process

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

Step 2: Immersion; the individual concentrates on the problem and becomes immersed in it.

Step 3: Incubation; a person 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.

1.7.1.2 Barriers to Creativity

There are a numerous barriers to creativity, i.e.

- ✓ Searching for the one ‘right’ answer
- ✓ Focusing on being logical
- ✓ Blindly following the rules
- ✓ Constantly being practical
- ✓ Viewing play as frivolous
- ✓ Becoming overly specialized
- ✓ Avoiding Ambiguity
- ✓ Fearing looking Foolish
- ✓ Fearing mistakes and failure
- ✓ Believing that ‘I’m not creative

- ✓ Innovation **is the implementation of new idea at the individual, group or organizational level**.
- ✓ It is a process of intentional change made to rate value by meeting opportunity and seeking advantage
- ❖ **Types of Innovation**; there are 4 types of innovation.
  1. Invention - the creation of a new product, service or process
  2. Extension - the expansion of a product, service or process
  3. Duplication - replication of already existing product, service or process
  4. Synthesis - the combination of existing

1.7.2.1 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.

1.7.2.2 Areas of Innovation

- ✓ *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*
- ✓ *New Ways of Managing Relationships between Organizations*

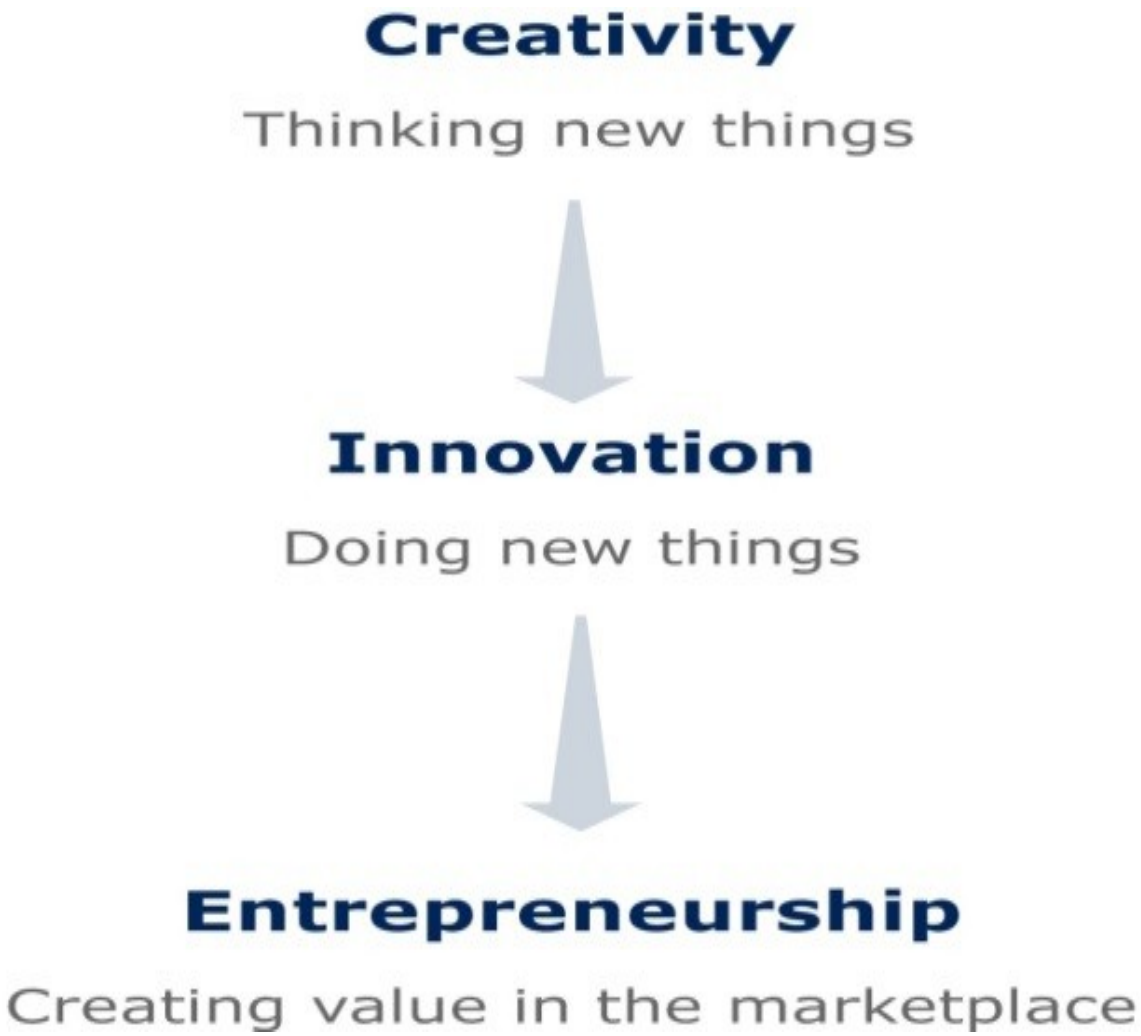
1.7.3 From Creativity to Entrepreneurship

- **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 those problems and opportunities in order to enhance people's lives or to enrich society.

Entrepreneurship = **creativity** + **innovation**.

Con’t…


Creativity
Thinking new things
Innovation
Doing new things
Entrepreneurship
Creating value in the marketplace


Thanks !

CHAPTER TWO

BUSINESS PLANNING

2.1 INTRODUCTION

- To **start / expand** any type of business needs to work on opportunity identification and evaluation, business idea development and then prepare business plan.
- Lack of doing these are the most often cited reasons for business failure.

2.2 Opportunity Identification and Evaluation

There are **five main steps**;

1. Getting the idea/scanning the environment
2. Identifying the opportunity
3. Developing the opportunity
   - Timely adaptation of that opportunity to suit actual market need is key to new venture success. It involves combining resources to pursue a market opportunity identified.
4. Evaluating the opportunity
   - assess whether the specific product or service has the returns needed for the resources required.
5. Assessment of the Entrepreneurial Team

A **business idea** is a short and precise description of the basic operation of an intended business.

Types of Business Idea

- **Old Idea** –an individual copies an existing business idea from someone.
- **Old Idea with Modification** – the person accepts an old idea from someone and then modifies it in some way to fit a potential customer's demand.
- **A New Idea** – This one involves the invention of something new for the first time

You need to have a clear idea of the sort of business you want to run & identify promising business idea among others. Important questions to answer are

- Which need will your business fulfill for the customers and what kind of customers will you attract?
- What good or service will your business sell?
- How is your business going to sell its goods or services?
- How much will your business depend upon and impact the environment?

2.5 Methods for Generating Business Ideas

1. Learn from successful business owners
2. Draw From Experience
    i. Your own Experience
    ii. Other People’s Experience
3. Survey Your Local Business Area
4. Scanning Your Environment
    i. Natural Resources
    ii. Characteristics and Skills of People in the Local Community
    iii. Waste Products
    iv. Import Substitution
    v. Publications
    vi. Trade Fairs and Exhibitions

Con’t…

5. **Brainstorming**
   - Opening up your mind and thinking about many different ideas. You start with a word or a topic and then write down everything that comes to mind relating to that subject.
6. **Structured Brainstorming**
   - Think of the different processes that are involved in the operation of a particular business and the goods/services that can be offered with respect to those processes.
7. **Focus Group**
   - Focus group is a group of individuals providing information on a structured format which is led by moderators. It is characterized by an open and in depth discussion: rather than simply asking questions to solicit student response.
8. **Problem Inventory Analysis**
9. **Free Association**
10. **Forced Relationships**
11. **Attribute Listing**

2.6 Business Idea Screening

Idea screening is the process to spot good ideas and eliminate poor one.

i. **Macro screening**:
   - Are my own competencies 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)?

ii. **Micro Screening**:
   - Solvent demand
   - Availability of raw materials
   - Availability of personal skills
   - Availability of financial resources

iii. Scoring the Suitability of Business Idea

- When there are more than one possible business ideas and one needs to decide which one to follow, we use score business ideas (e.g., BI1, BI2, BI3) by assigning a rating from 1 to 3 for each question, with 3 being the strongest.
- After we score the ideas we sum the total and select the idea with the highest score.

(please refer to your handout page 52)

Con’t…

- While you answer the above questions, there are four important groups that you should talk to:
  - **Potential customers**
  - **Competitors, suppliers and entities with financial resources**
  - **Financial institutions**
  - **Key informants and opinion leaders**

THE CONCEPT STATEMENT
(Concept Note)

- A Concept Statement is a short statement that sums up your ideas.
- Communicates the entrepreneur's vision.
- It is a few sentences/paragraphs long, should not exceed two pages.

BUSINESS MODEL

- It is the conceptual structure supporting the viability of a business, including its purpose, its goals and its ongoing plans for achieving them.
- Identifies sources of revenue, the intended customer base, products, details of financing….

Business Model Canvas At-A-Glance

(source: www.businessmodelgeneration.com)

Key Partners

Reasons for partnerships:
- *Cost / flexibility*
- *Acquisition of key resources or activities*
- *Reduction of risk and uncertainty*

- Who are key suppliers?
- Who are key partners?
- Which key resources will we acquire from partners?
- Which key activities will partners perform for us?

Key Activities

- What are the most important activities we must do well to deliver our value proposition to our chosen segment(s)?

Key Resources

- What are the most important resources we must own/manage directly to deliver our value proposition to our chosen segment(s)?

Value Proposition

- What problem(s) are we helping our target customers solve?
- What unique / differentiated value can we deliver relative to others?
- What bundle of products and/or services will we need to offer?
- Which customer needs are we satisfying?
  - *Performance/newness*
  - *Getting the job done*
  - *Price/cost reduction*
  - *Convenience/accessibility*
  - *Design*
  - *Customization*
  - *Risk reduction*
  - *Brand status*
  - *Other?*

Customer Relationships

- What type of relationship do our customers expect? What will they not accept?
- Which relationships are they comfortable with now?
- Which are most cost effective?

Channels

- How do our customers want to be reached?
- Which channels work best?
- Which are most cost effective?
- How are we integrating our various channels to optimize the customer experience AND cost?

Customer Segments

- Who are our most important customers? Why?
- What are the key characteristics of our target segment(s)?
- What jobs are they trying to get done? What are their pains and desired gains?
- Which segment(s) will we NOT target initially? Why?
- Is this segment(s) viable and attractive for growth?
- Are our customers and consumers the same or different?

Cost Structure

- Is our business model more cost or value driven?
- What are the important costs that must be incurred to deliver our value proposition well?
- How we can maintain a strong variable/fixed cost ratio?
- What levers can we pull to keep costs as low as possible?

Revenue Streams

- For what value are our target customers willing to pay?
- What do they currently pay?
- How do they currently pay? How do they prefer to pay?
- How does our pricing compare to alternatives or substitutes?
- What is the relative contribution of our various revenue stream options?

2.7 Concept of Business Plan

- A business plan is a road map for starting and running a business.
- A business plan identifies opportunities, scans the external and internal environment to assess the feasibility of business and allocates resources in the best possible way.
- It is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture.

The objectives of a Business Plan

- *Gives direction 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.*
- *Shows future prospects and projected growths of the business venture.*

2.8.1 Business Planning Process

The various steps involved in business planning process are;

1. Preliminary Investigation

Before preparing the plan entrepreneur should:

- Review available business plans (if any).
- Draw key business assumptions on which the plans will be based (e.g. inflation, exchange rates, market growth, competitive pressures, etc.).
- Scan the environment to assess the strengths, weakness, opportunities and threats.
- Seek professional advice from a friend/relative or a person who is already into similar business (if any).

2. **Opportunity Identification and Idea Generation**
3. **Environmental Scanning**
4. **Feasibility Analysis**
5. **Report Preparation**

2.8.2 Essential Components of Business Plan

I. **Cover Sheet:** Cover sheet is like the cover page of the book. It mentions the name of the project, address of the headquarters and name and address of the promoters.

II. **Executive Summary:** Executive summary is the first impression about the business proposal.

- Highlight concisely and convincingly the key points in the business plan
- Should stimulate the interest of the potential investor.

III. **The Business:** This will give details about the business concept.

- It will discuss the objective of the business, a brief history about the past performance of the company

IV. **Funding Requirement:**

- Debt equity ratio should be prepared, which can give an indication about how much finance would the company require and how it would like to fund the project.

V. **The Product or Services**

- A brief description of product/services
- It includes the key features of the product, the product range that would be provided to the customers and the advantages that the product holds over and above the similar products/ substitute products available in the market.
- details about the patents, trademarks, copyrights, franchises, and licensing agreements.

VI. The Plan:

1. Marketing Plan

- Marketing mix (4Ps) strategies are to be drawn, based on the market research.

2. Operational Plan

- Gives information about (i) Plant location: (ii) Plan for material requirements, inventory management and quality control.

3. Organizational Plan

- Indicates the pattern of flow of responsibilities and duties amongst people in the organization (it provides details about the manpower plan that would be required to put life into the business)

4. Financial Plan

a. Projected Sales
b. Projected Income and Expenditure Statement
c. Projected Break Even Point
d. Projected Profit and Loss Statement
e. Projected Balance Sheet
f. Projected Cash Flows
g. Projected Funds Flow
h. Projected Ratios

VII. Critical Risks

- This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.

VIII. Exit Strategy

- The exit strategies would provide details about how the organization would be dissolved, what would be the share of each stakeholder in case of winding-up of the organization.

IX. Appendix

- Provides information about the Curriculum Vitae of the owners, Ownership Agreement and the like.


Thanks !

CHAPTER THREE

BUSINESS FORMATION

- **Based on socio-economic** conditions, countries define small business differently.
- But all may use size and economic criteria as a base to define small business.

- **Size:** Include number of employees and startup capital and doesn’t always reflect the true nature of an enterprise as qualitative characteristics also used to differentiate small business from other business.
- The economic/control covers market share, independence and personalized management.

Con’t…

- Micro and small enterprises (MSEs) play an important role in both developed and developing economies.
- Ethiopia is no exception and MSEs could occupy a prominent position in the development of the Ethiopian economy.
- *Less capital, enjoy quick returns and have the flexibility to handle the vagaries (change) of the market.*
- , they have to face *many problems like lack of finance, poor operations management, lack of experience, poor financial management*, etc,.

There are three basic legal forms of businesses.

- Proprietorship
- Partnership and
- Corporation

Description of Legal Forms of Business

- The legal forms are classified based on
  - Ownership
  - Liability
  - Start-up costs
  - Continuity
  - Transferability of interest
  - Capital requirements
  - Management control
  - Distribution of profits or losses
  - Attractiveness for raising capital.

Table 3.1 Factors in Three Forms of Business Formation

Factors	Basic Forms of Business Formation		
	Proprietorship	Partnership	Corporation
Ownership	• Individual	• No limitation on number of partners.	• No limitation on number of stockholders.
Liability of Owners	• Individual liable for business liabilities.	• In general partnership, all individuals liable for business liabilities. • Limited partners are liable for amount of capital contribution. • In limited liability partnership (LLP), there is no liability except when negligence exists.	• Amount of capital contribution is limit of shareholder liability.
Costs of Starting Business	• None, other than filing fees for trade name.	• Partnership agreement, legal costs, and minor filing fees for trade name.	• Created only by statute. • Articles of incorporation, filing fees, taxes, and fees for states in which corporation registers to do business.
Continuity of Business	• Death dissolves the business.	• Death or withdrawal of one partner terminates partnership unless partnership agreement stipulates otherwise. • Death or withdrawal of one of limited partners has no effect on continuity.	• Greatest form of continuity. • Death or withdrawal of owner(s) will not affect legal existence of business.
Transferability of Interest	• Complete freedom to sell or transfer any part of business.	• General partner can transfer his/her interest only with consent of all other general partners. • Limited partner can sell interest without consent of general partners. No transfer of interest in an LLP.	• Most flexible. Stockholders can sell or buy stock at will. Some stock transfers may be restricted by agreement.
Capital Requirements	• Capital rose only by loan or increased contribution by proprietor.	• Loans or new contributions by partners require a change in partnership agreement. • In LLP partnership, entity raises money.	• New capital raised by sale of stock or bonds or by borrowing (debt) in name of corporation.

Management Control	• Proprietor makes all decisions and can act immediately.	• All general partners have equal control, and majority rules. • Limited partners have limited control. • Can vary in an LLP.	• Majority stockholder(s) have most control from legal point of view. • Day-to-day control in hands of management, who may or may not be major stockholders.
Distribution of Profits and Losses	• Proprietor responsible and receives all profits and losses.	• Depends on partnership agreement and investment by partners.	• Shareholders can share in profits by receipt of dividends.
Attractiveness for Raising Capital	• Depends on capability of proprietor and success of business.	• Depends on capability of partners and success of business.	• With limited liability for owners, more attractive as an investment opportunity.

3.4 Definition and Role/Importance of SMEs in Developing Countries

3.4.1 Definition of MSEs

1. Size Criteria approaches

- Though the criteria used to measure the size (scale of operation) of businesses vary.
- The most widely used yardsticks are;
  - The number of employees
  - Volume, and value of sales turnover
  - Asset size, and volume of deposits
  - Total capital investment
  - Volume/value of production, and
  - A combination of the stated factors

Con’t…

- The general criteria are suggested by Small Business Administration (SBA).
  - Owne*d and financed by one individual* or a *small group*/ 15 or 20 owners in a rare case/.
  - The firm’s operations are *geographically localized*.
  - The *business is small* Compared to the biggest firms in the industry
  - The number of employees in the business is usually *fewer than 100.*

2. Economic/control criteria approach.

Covers four characteristics :

- *Small market share:* it is not large enough and unable to influence the prices of national quantities of goods sold to any significant extent.
- *Independence:* ,the owner control the business himself/herself.
- *Personalized Management:* little delegation/ the owner actively participates in all aspects of the management of the business
- *Limited geographical area of operation;* The operation of a small firm is often local.

3.4.2 Role/Importance of MSEs in Developing Countries (Reading Assignment)

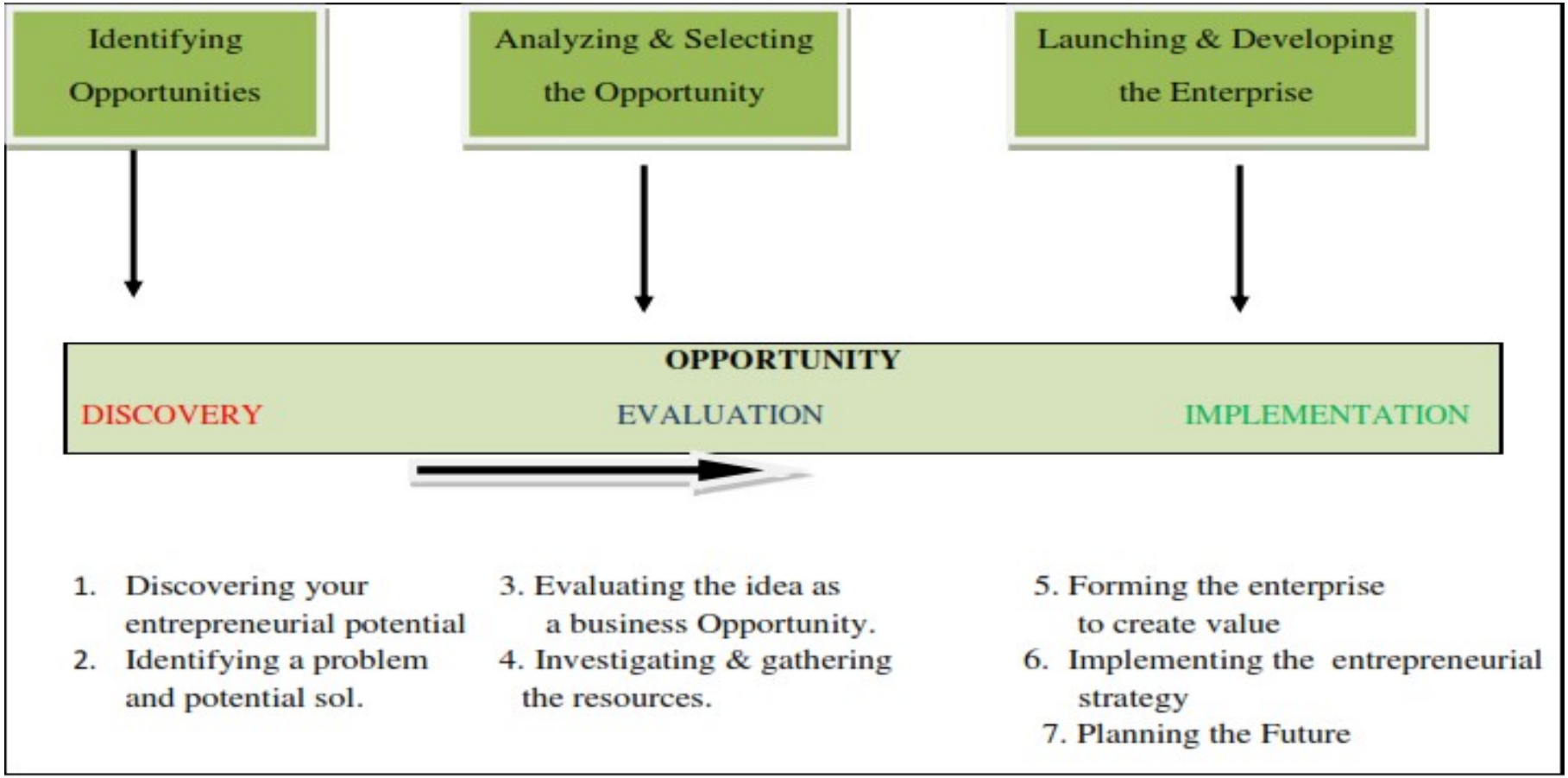
- ***Large Employment Opportunities:***
- ***Balanced Regional Development/ Removing Regional Imbalance***
- ***Equitable Distribution of Wealth and Decentralization of Economic Power***
- ***Unregulated Growth of Large-scale industries***
- ***Dispersal over Wide Areas***
- ***Higher Standard of Living***
- ***Mobilization of Locals Resources/Symbols of National Identity***

Con’t…

- ***Innovative and Productive /Simple Technology***
- ***Less Dependence on Foreign Capital/ Export Promotion***
- ***Promotion of Self Employment***
- ***Protection of Environment***
- ***Shorter Gestation Period***
- ***Facilitate Development of Large Scale Enterprises***
- ***Individual Tastes, Fashions, and Personalized Services***
- ***More Employment Creation Capacity***

3.5 Setting up Small Scale Business

The entrepreneurial process of launching a new venture can be divided into three key stages of: Discovery; Evaluation; and Implementation. These can be further sub-divided into seven steps as shown below:



Environmental Analysis

- For an analysis of the environment of entrepreneurship you would be required to develop an understanding of macroeconomic and industry/sector specific factors.
- **Macro Environment**
  - Consists of the political, technological, social, legal and economic environments.
- **Sectoral Analysis**
  - Study the sector or industry conditions in which the entrepreneur proposes to launch a venture.

SWOT Analysis

- A SWOT analysis helps the entrepreneur to clearly identify his/her own strengths and weaknesses as well as the opportunities and threats in the environment.

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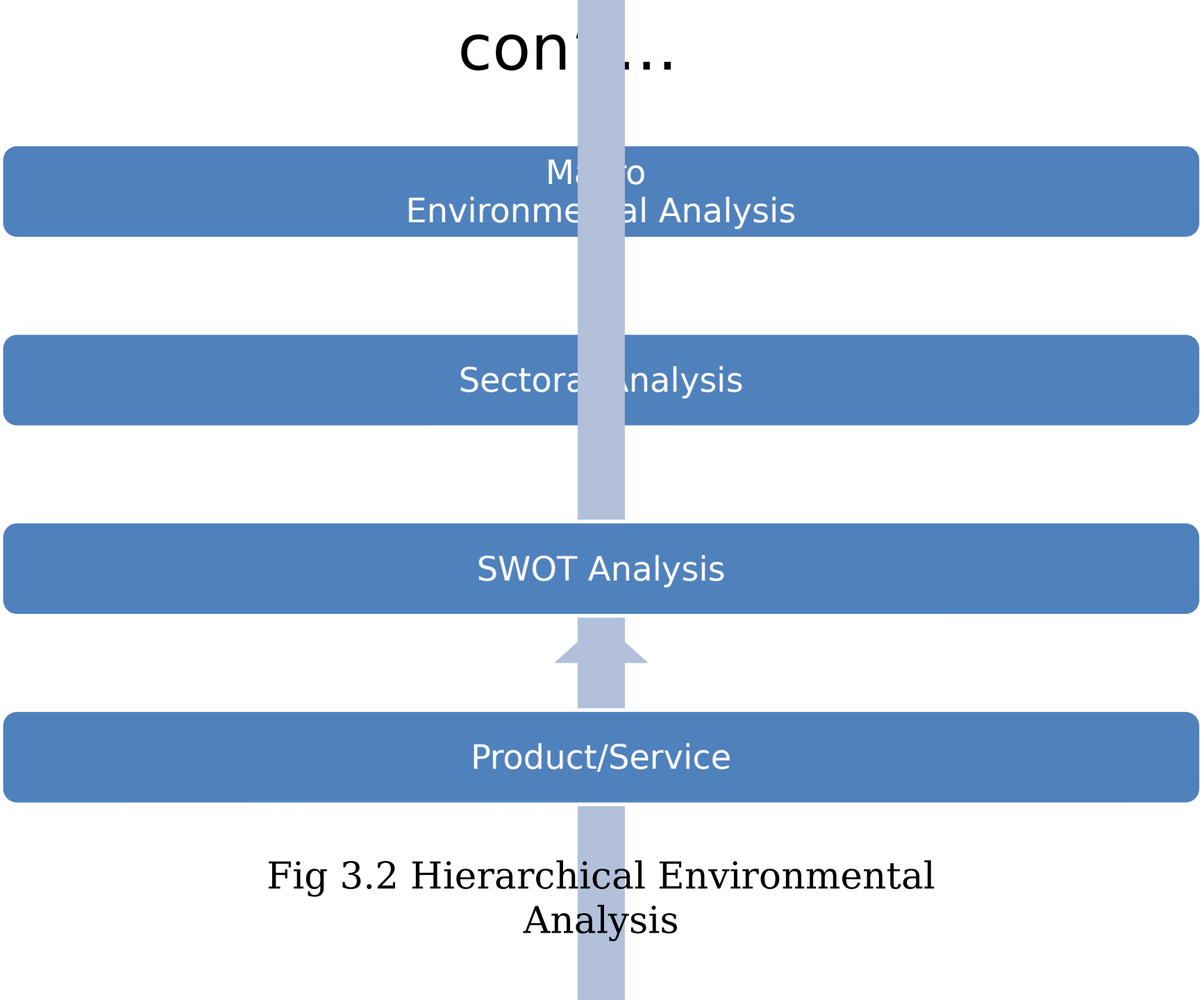


Fig 3.2 Hierarchical Environmental Analysis

3.6.1 Small Business Failure Factors

What Is Business Failure?

1) Actions such as *bankruptcy, foreclosure, or voluntary withdrawal from the business with a financial loss to a creditor*
   or
2) *A Court action such as receivership* (taken over involuntarily) or *reorganization* (receiving protection from creditors).

Causes of Business Failure

- ✓ The most common causes are inadequate management and financing.

I. Inadequate Management;

- 89 % of failure of the businesses is internal factors (controllable factors)
  - Adequate capital
  - Cash flow
  - Facilities/equipment
  - Inventory control
  - Human resources
  - Leadership
  - Organizational structure
  - Accounting systems

II. Inadequate Financing:

- Includes improper managerial control as well as shortage of capital.
  - You don’t have adequate funds to begin with, you will not be able to afford the facilities or personnel you need to start up the business correctly.
  - You do possess adequate capital but do not manage your resources wisely, you may be unable to maintain adequate inventory or keep the balance needed to run the business.

Con’t…

- In General, There are various causes of failure ;
  - Extend too
  - Much credit
  - Fail to plan for the future
  - Overinvest in fixed assets
  - Hire the wrong people.

Business Termination VS Failure

- A termination occurs when a business no longer exists for reasons of getting opportunity to sell for a profit, to move on to a new business , to retire, or lost interest in the business.
- If market for product have changed or become saturated, owner decided it would be more appealing to work for someone else.
- A business failure occurs when a business closes with a financial loss to a creditor.

Mistakes Leading to Business Failure

The most common mistakes are;

- Neglect to plan for the future
- Lack of commitment and hard work
- No delegation/ not hiring additional employees
- Inaccurate estimates of cash flow and capital requirements.

3.6.2 Small Business Success Factors

- Identifying failure factors can discover ways to tilt the scales towards success. These success factors are categorized as:-
  i. Conducive Environment;
  ii. Adequate Credit Assistance;
  iii. Markets and Marketing Support.

i. Conducive Environment

- *Political, economic, technological and socio-cultural factors*

ii. Adequate Credit Assistance

- *Adequate and timely supply of credit*
- *Special financing programs such as lower interest rates; less collateral requirements and lower equity ratio*;
- Various assistance schemes such as preparing the project study; etc.

iii. Markets and Marketing Support

- Small enterprises can sell their products as one body through closely-knit associations or organizations.
- The government assist small groups of entrepreneurs in selling their products.

Table 3.2. Improved definition of MSE

Level of Enterprise	Sector	Human Power	Total Asset
Micro Enterprise	Industry	≤5	Br ≤100,000
	Service	≤5	Br ≤50,000
Small Enterprise	Industry	6-30	Br ≤1,500,000
	Service	6-30	Br ≤500,000

- Priority Sectors and Sub-Sectors for MSEs Engagement In Ethiopia
  - *Manufacturing* Sector
  - Construction Sectors
  - Trade Sectors
  - Service Sectors
  - Agriculture Sector (Urban Agriculture)

- **Start-up**
- **Growth Level**
- **Maturity Level**
- **Growth- Medium Level**

3.8 Main Supporting Packages for MSEs Development in Ethiopia (Reading Assignment)

In Ethiopia supporting packages for MSEs includes;

- Awareness creation about the sector;
- Provision of legal services to form legal business enterprises;
- Providing technical and business management training;
- Financial support based on personal saving, 20/80 (the beneficiaries are save 20% and the MFIs provide Loan 80% of the projects);
- Facilitate working premises; industry extinction services and BDS provision;
- Bookkeeping and audit services.

3.9 Problems of Small Scale Business in Ethiopia

- 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.

- Small-scale units do not have easy access to the capital because they mostly organized on proprietary and partnership basis and are of very small size.

Con’t…

- Small scale enterprises find it difficult to get raw materials of good quality at reasonable prices in the field of production.
- 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.
- How ever, Small business’s owner can avoid some of the common by knowing the business in depth; developing a solid business plan; managing financial resources; understanding financial statements; and learning to manage people effectively

3.10 Organizational Structure and Entrepreneurial Team Formation

3.10.1 Introduction

- We can perceive from the experiences of companies the importance of employees and their loyalty and commitment to the organization. Also significant to potential investors is the management team and its ability and commitment to the new venture.
- Investors will usually demand that the management team not attempt to operate the business as a sideline or part-time venture while employed full time elsewhere. It is assumed that the management team is prepared to operate the business full time and at a modest salary. It is unacceptable for the entrepreneurs to try to draw a large salary out of the new venture, and investors may perceive any attempt to do so as a lack of psychological commitment to the business.

3.10.2 Designing the Organization

- The design of the organization will be the entrepreneur's formal and explicit indication to the members of the organization as to what is expected of them. These expectations are grouped into five areas:-
  - *Organization structure*
  - *Planning, measurement, and evaluation schemes*
  - *Rewards*
  - *Selection criteria*
  - *Training*

3.9.3 Building the Management Team and a Successful Organization Culture

There are some important issues to address before assembling and building the management team. In essence, the team must be able to accomplish three functions:-

- Execute the business plan;
- Identify fundamental changes in the business as they occur; and
- Make adjustments to the plan based on changes in the environment and market that will maintain profitability.

Con’t…

- Important considerations and strategies in recruiting and assembling an effective team and creating an effective and positive organization culture.
  1. The entrepreneur’s desired culture must match the business strategy outlined in the business plan.
  2. The leader of the organization must create a workplace where employees are motivated and rewarded for good work.
  3. The entrepreneur should be flexible enough to try different things.

Con't...

4. It is necessary to spend extra time in the hiring process.

5. The entrepreneur needs to understand the significance of leadership in the organization.

Generally, finding the most effective team and creating a positive organization culture is a challenge for the entrepreneur but is just as critical as having an innovative, marketable product. It is an important ingredient in an organization's success.


Thanks !

CHAPTER FOUR

PRODUCTS OR SERVICES DEVELOPMENT

4.1 INTRODUCTION

- Product/service development is the process of bringing a new product or service in the market
- It's an ongoing practice in which the entire business is looking for opportunities as new products provide growth promise to businesses that allow them to strengthen their market position.
  - The new product development process involves the;
    - Idea generation
    - Product design
    - Detail engineering
    - Involves market research and marketing analysis.

4.2. The Concept of Product/Service

- Organization's success is dependent on customer satisfaction and delight.
- Customer satisfaction is achieved through the development of product and service, which have all attributes required by the customer.
- A successful product or services do not only have an attractive package design but should be also able to provide robust performance.

- Product development is the process through which companies react to market signals, respond to changes in customer demand, adopt new technologies, foray into new areas, and ensure continuous growth.

1. New Idea Generation

- Develop an idea that has a market for the new product/service idea conceived
- Some of the more fruitful sources of ideas for entrepreneurs include consumers, existing products and services, distribution channels, the federal government, and research and development.

2. Idea screening

- Lessen the number of ideas to few vital/valuable ideas.
- The ideas should be written down and reviewed each week by an idea committee who should sort the ideas into three groups - ***Promising Ideas, Marginal Ideas, and Rejects***:
- Each promising idea should be researched by committee member.

3. Concept Development and Testing

- Attractive ideas must be refined into fast able product concepts since people do not purchase ideas but they buy concepts.
- Any product idea can be turned into several product concepts. The questions asked probably include:-
  - Who will use the product?
  - What benefits should the product provide?
  - When will people consume the produced?
- ***Concept Testing***: - calls for testing product concepts with an appropriate group of target consumers/customers, and then getting the consumers' reactions.

4. Marketing Strategy Development

- After testing the new product the concerned body must develop a preliminary marketing strategy plan for introducing the new product into the market.
- The marketing strategy plan consists of three parts:

1) Market size, structure, behavior ;
2) Planned price, distribution strategy, and marketing budget of the 1 st year; and
3) Long run sales and profit goals, marketing mix strategy.

4. Business Analysis

- After management develops product concept and marketing strategy, it can evaluate the proposals' business attractiveness.
- Management needs to prepare sales, cost and profit projections to determine whether they satisfy the company's objective or not.
  - ***Estimated Total Sales****:* - Management needs to estimate whether sales will be high enough to yield satisfactory profit.
  - ***Estimating Cost and Profits:*** **-** After sales forecast the management should estimate the expected cost and profit at various levels of sales volume.

6. Product Development

- If product concept passes the business test, it moves to R&D or engineering to be developed to one or more physical version of the product concept
- Its goal is to find a proto type that the consumers/customers see as embodying the key attribute described in the product concept statement,

7. Market Testing

- After management is satisfied with the products' functional and psychological performance, the product is ready to be dressed up with the brand name.
- The goals are to test the new product is more authentic consumer/customer settings and to learn how large the market is and how consumers/customers and dealers react to handling, using and repurchasing the actual product.

8.Commercialization

- *When (Timing):-* In commercializing, market entry timing is critical. If the company hears about a competitor nearing the end of its development work, it will face three choices.

✓ The 1st choice is ***First Entry***. Under this category, the firm usually enjoys the "first mover advantage" of locking up key distributors & gaining reputation.

✓ The 2nd choice goes with ***Late Entry Strategy***- which has three advantages include:-

- The competition will have borne the cost of educating the market;
- The competing product may reveal fault that the late entrant can avoid; and
- The company can learn the size of the market.

✓ The 3rd strategy- ***Parallel Entry-*** can be also chosen by the company to get in the market.

- The strategy to work, a prospective businessman can take the advantage of opting for the latest technology and production process and operate at higher volume of operation

4.4. Legal and Regulatory Frameworks for Entrepreneurs

- To operate as a legal businessperson and protect the business from unnecessary suits and liabilities, the entrepreneur needs to understand the various laws that govern his/her business. Following are the key legal issues for the entrepreneur.
- In setting up an organization, it will be necessary to understand all the advantages and disadvantages of each regarding such issues as liability, taxes, continuity, transferability of interest, costs of setting up, and attractiveness for raising capital. Legal advice for these agreements is necessary to ensure that the most appropriate decisions have been made.

4.5 Intellectual Property Protection/Product/Service Protection

4.5.1 What is Intellectual Property?

- Intellectual property is a legal definition of ideas, inventions, artistic works and other commercially viable products created out of one's own mental processes
- In order to enjoy the benefits arising from the exclusive ownership of these properties, the entrepreneur needs to protect these assets by the relevant law.

4.5.2. Patents

- An entrepreneur who invents a new thing or improves an existing invention needs to get legal protection for her invention through a patent right.
- A patent is a contract between an inventor and the government in which the government, in exchange for disclosure of the invention, grants the inventor the exclusive right to enjoy the benefits resulting' from the possession of the patent.
- A patent provides the owner with exclusive rights to hold, transfer, and license the production and sale of a product/process.

Cont’d

- Utility Patent: A utility patent protects any new invention or functional improvements on existing inventions.
- Design Patent: This patent protects the appearance of an object and covers new, original, ornamental, and unobvious designs for articles of manufacture.
- ✓ Like utility patents, design patents provide the inventor with-exclusive right to make, use and/or sell an item having the ornamental appearance protected by the patent

4.5.3. Trademarks

- A trademark may be a word, symbol, design, or some combination of such, or it could be a slogan or even a particular sound that identifies the source or sponsorship of certain goods or services.
- These are distinctive names, marks, symbols or motto identified with a company’s product or service and registered by government offices

Benefits of a Registered Trademark

- It provides notice to everyone that you have exclusive rights to the use of the mark throughout the territorial limits of the country.
- It entitles you to sue in federal court for trademark infringement, which can result in recovery of profits, damages, and costs.
- It establishes incontestable rights regarding the commercial use of the mark.
- It establishes the right to deposit registration with customs to prevent importation of goods with a similar

4.5.4. Copyrights

- Copyright is a right given to prevent others from printing, copying, or publishing any original works of authorship.
- Copyrights provide exclusive rights to creative individuals for the protection of literary or artistic productions.
- It protects original works of authorship including literary, dramatic, musical, and artistic works, such as poetry, novels, movies, songs, computer software, and architecture.
- They pertain to intellectual property. Usually copyrights are valid for the life of the inventor plus a few decades.


Thanks !

CHAPTER FIVE

MARKETING

5.1 INTRODUCTION

5.2 Meaning and Definitions of Marketing

- **Philip Kotler-**"Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others"
- **American Marketing Association** - "It is the process of planning & executing the conception, pricing, promotion & distribution of ideas, goods & services to create exchange that satisfy individual & organizational goals".
- **The Chartered Institute of Marketing defines Marketing as "**Marketing is the management process for identifying, anticipating & satisfying customer requirements profitably."

- Marketing as *a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.*

5.3 Core Concepts of Marketing

5.3.1 Needs, Wants and Demand

- Needs , wants and demands
- Marketing offering- products and service, experience
- Value, satisfaction and quality
- Exchange, transactions and relationships; and
- markets.

Needs, wants and demands

Human needs are states of felt deprivation (deficiency).

- basic physical needs for food, clothing, warmth and safety
- social needs for belonging and affection; and
- individual needs for knowledge and self-expression.

These needs were not created by marketers; they are a basic part of the human make up (structure).

Wants are the form human needs take as they are shaped by culture and individual personality.

- Wants are shaped by one's society and are described in terms of objects that will satisfy needs.

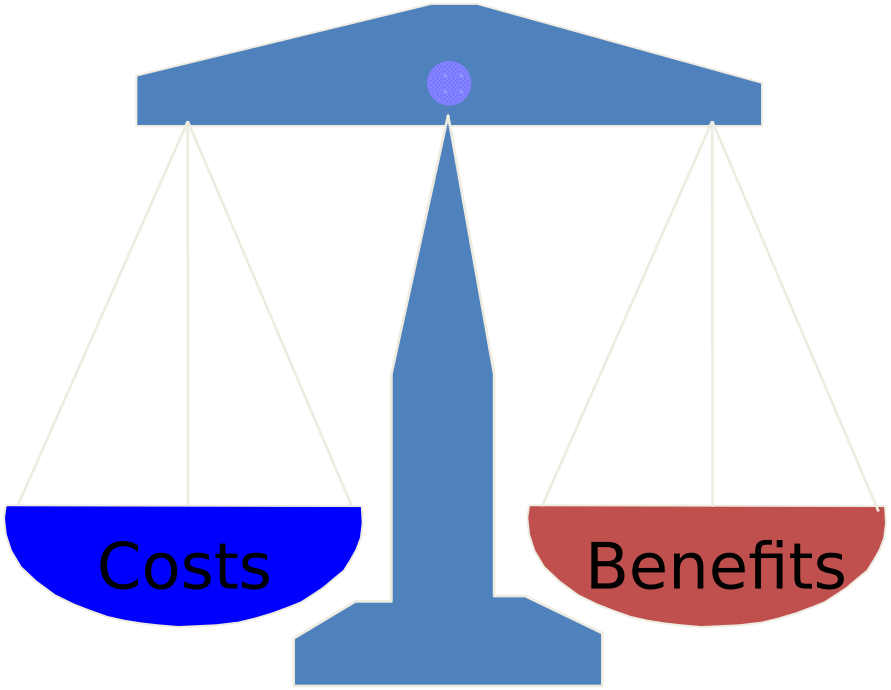
Demands – When wants backed by an ability and willingness to pay – that is, buying power.

Product: Anything that can be offered to a market to satisfy a need or want/can be tangible or intangible.

Cost: is the amount of money that are going to be expended or already incurred to acquire a product.

Exchange: is the act of obtaining a desired product from someone by offering something in return.

Value : Customer value is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product.



A transaction: consists of a trading of values between two parties: one party gives X to another party and gets Y in return.

A **market:** is the set of actual and potential buyers of a product.

1. **Marketing creates utility**

- Utility- Value that comes from satisfying human needs.
- Form utility- is related to the change of form of inputs convert in to outputs.
- Task utility- is provided when some one performs a task for some one else
- Place utility- the role of distribution in marketing is mostly attached with place utility

Con't

Information Utility: Information utility is created by informing prospective buyers that a product exists.

- Time utility- it is created when products are available to customers as they want them.
- Possession utility- as selling is one major activity in marketing it creates possession utility by selling the products to the customers (transfer of ownership)

5.5 Marketing Philosophies

The role that marketing plays within a company varies according to the overall strategy and philosophy of each firm.

- There are five alternative concepts under which organizations conduct their marketing activities:
  1. Production concept
  2. Product concept
  3. Selling concept
  4. Marketing concept
  5. Societal marketing concepts
  6. Relationship Marketing

1. Production concept

- It is one of the oldest concept in business
- It holds that consumers prefer products that are widely available and inexpensive.
- This concept is useful when:
  - Demand for a product exceeds the supply
  - When the product's cost is to high and improve the productivity in need to bring it down.
  - In developing countries where consumers are more interested in obtaining the product than its features .
  - When a company wants to expand its market.

2. Product concept

The philosophy that consumers will favor products that offer the most quality, performance, and innovative features.

- Thus an organization should devote energy to making continuous product improvements
- This concept lead to marketing myopia (a short sighted view of marketing, which focuses on the product it self rather than the customers benefits.

3.Selling concept

- The idea that consumers will not buy enough of the organization's products unless the organization undertakes a large – scale selling and promotion effort.
- Common features of this concept are;
  - Typically practiced unsought goods(goods that buyers do not think of buying like encyclopedia, insurance
  - The organization must be good at tracking down prospects and selling them on product benefits
  - Practiced when product is over capacity – aim is to sell what they make rather than make what the market wants.

4. Marketing concept

The marketing management philosophy that holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do.
The company should be more effective than its competitors in creating, delivering and communicating, customer value to its chosen target market Features
Meeting needs profitably
Find wants and fill gaps
Love the customer not the product
This concept has target market, customer needs, integrated marketing, and profitability

Exhibit 2-7

❖ Difference b/n selling and marketing concepts

Selling – focuses on needs of sellers, Inside-out perspective (focuses on existing products and uses heavy promotion and selling efforts),
Marketing – out side –in perspective (focuses on customer needs, values, and satisfaction),

Exhibit 2-8

5. Societal Marketing Concept

The idea that the organization should determine the needs, wants, and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and society's well – being.

This concept is new marketing management philosophy

It addresses the question of whether the pure marketing concept is adequate in age of environmental problems, resource shortages, rapid population growth, world wide economic problems, neglected social services

possible conflicts b/n consumer short run wants and consumer long run welfare. It calls upon marketers to balance

- company profit
- customers wants
- society's interest

It asks if the firm that senses, serves, and satisfies individual wants is always doing what is best for consumers and society in the long run.

This concept pure marketing concept over looks possible conflicts b/n consumer short run wants and consumer long run welfare.

6. **Relationship Marketing**

- Relationship marketing is the practice of building long term satisfying relations with key parties - customers, suppliers, distributors- in order to retain their long term preferences and business. The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. In this case, customer experience rather than customer satisfaction is the most critical component in relationship marketing.

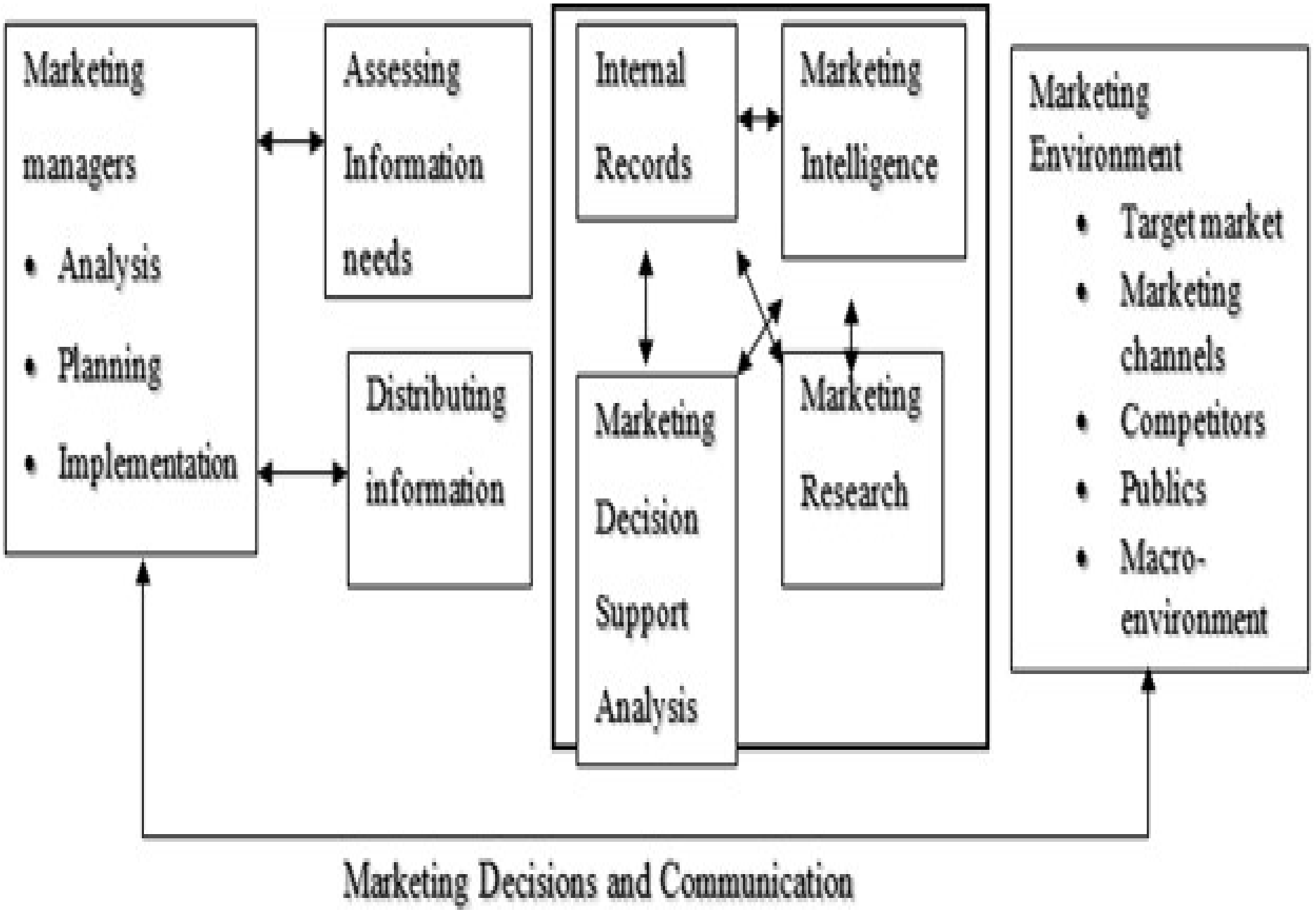
Table 5.2: Summary of the Evolution of Marketing

Production	§ Consumers favor products that are available and highly affordable § Improve production and distribution § 'Availability and affordability is what the customer wants'
Product	§ Consumers favor products that offer the most quality, performance and innovative features § 'A good product will sell itself'
Sales	§ Consumers will buy products only if the company promotes/ sells these products § 'Creative advertising and selling will overcome consumers' resistance and convince them to buy'
Marketing	§ Focuses on needs/ wants of target markets and delivering satisfaction better than competitors § 'The consumer is king! Find a need and fill it'
Relationship marketing	§ Focuses on needs/ wants of target markets and delivering superior value § 'Long-term relationships with customers and other partners lead to success'

5.6 Marketing Information Systems

A marketing information system consists of people, equipment and procedure to gather, sort, analyze, evaluate and distribute needed timely and accurate information to marketing decision makers.

The marketing information system is illustrated as fig 5.1 below:


Marketing managers
Analysis
Planning
Implementation
Assessing Information needs
Distributing information
Internal Records
Marketing Intelligence
Marketing Decision Support Analysis
Marketing Research
Marketing Environment
Target market
Marketing channels
Competitors
Publics
Macro-environment
Marketing Decisions and Communication

5.6.1 Marketing Research

Marketing research is the systematic way of setting objective, collection , analysis, and dissemination of information for the purpose of assisting management in decision making.

5.6.1.1 The Role (Significance) Of Marketing Research In Decision Making

There are three Functional Roles of Marketing Research. These are:

Descriptive Function - the gathering and presentation of statements of fact.

Diagnostic (analytical) Function - The explanation of data.

Predictive Function - Specification of how to use the descriptive and diagnostic research to predict the result of a planned marketing decision.

5.6.1.2 Marketing Research Components

Marketing researchers deal with many aspects which includes;

Market size

Market Share

Market penetration

Brand equity research

Buyer decision processes research

5.6.1.3 Customer Satisfaction Research
under this there are different types of research that are used to assess about customers.

1. Distribution channel audits
2. Marketing effectiveness and analytics
3. Mystery Consumer or Mystery shopping
4. Positioning research
5. Price elasticity testing
6. Sales forecasting
7. Segmentation research and Test marketing

5.6.1.4 Marketing Research Process

Is a process which consists of a number of steps to be accomplished in a logical and systematic manner.i.e.

Step 1*: Define the research purpose or objectives*

Step 2*: Research Design Formulation*

Step 3*: Gather at this stage secondary data,*

Step 4*: Gather Primary Data*

Step 5*: Data Processing and Analysis*

Step 6*: Report Preparations and Presentation*

5.6.2 Marketing Intelligence

Is the systematic process of gathering, analyzing, supplying and applying information (both qualitative and quantitative) about the external market environment.

Marketing intelligence is used to determine:

Current and future market needs

Changes in the business environment that may affect the size and nature of the market in the future.

Environment that may affect the size and nature of the market in the future.

5.6.2.1 The Importance of Marketing Intelligence

a. *It promote external focus.*

b. Identification of new opportunities

c. Smart segmentation.

d. Early warning of competitor moves

e. Minimizing investment risks.

f. Quicker, more efficient and cost-effective information

5.6.2.2 Ways to Undertake Marketing Intelligence

I. Unfocused scanning

II. Semi-focused scanning

III. Informal search

IV. Formal search:

5.6.3 Competitive Analysis

Competitive analysis refers to determining the *strengths and weaknesses* of competitors and *designing ways to take opportunities or tackle threats* posed by competitors.

5.6.3.1 Uses of Competitive Analysis

Helps management understand *its competitive advantages*

Generates understanding of *competitors' past, present and future strategies.*

Provides an informed basis to develop *strategies to achieve competitive advantage in the future.*

Helps *to forecast the returns* that may be made from future investments.

5.6.3.3 Steps of Competitive Analysis

1) Identify your competitors

2) Gather information about competitors

3) Gathering Information on Competitors

4) Analysing the Competition

5) Develop a pricing

5.7 The Marketing Mix and Marketing Strategies

5.7.1 The 4 P's of Marketing/The Marketing Mix

Is the set of marketing tools that the firm use's to pursue and achieve its marketing objectives in the target market.

According to Mc Carthy marketing mix are 4p's

1. Product (product variability, quality, design, features, brand name, packaging, sizes, services, warranties, returns)
2. Price (least price, discounts, allowances, payments period, credit terms,)
3. promotion (sales promotion, advertisements, sales force, public relations, direct marketing)
4. place (channels, coverage, assortment, location, inventory, transport)

5.7.2 What Is Marketing Strategy?

Is a process that enable an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage.

1. Pricing Strategy

I. Price Skimming; Many companies that invent new products initially set high prices to 'skim' revenues from the market.

II. Penetration Pricing; Companies set a low initial price in order to *penetrate* the market quickly and deeply to attract a large number of buyers quickly and win a large market share.

***III. Cost-plus pricing*:** adding a standard mark-up to the cost of the product.

IV. Mark-up pricing: certain percentage of the selling price is added to unit cost

V.Competition-Based Pricing: Also called going-rate pricing .May price at the same level, above,
or below the competition

VI. Psychological Pricing; A pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product.

2. Promotion Strategies

1. Advertising; Paid form of non personal communication, about an organization or its products transmitted to a target audience through a mass/broadcast medium.

2. Personal Selling

Personal selling is a promotional method in which one party (e.g., salesperson) uses skills and techniques for building personal relationships with another party.

3. Public Relations/Publicity(PR),

Is a form of communication that seeks to change the perceptions of customers, shareholders, suppliers, employees and other publics about a company and its products.

4. **Sales promotion;** Describes promotional methods using special short-term techniques to persuade members of a target market to respond or undertake certain activity.

3. Distribution Strategies

Marketing Channels are individuals/organizations involved in the process of making the product available for use or consumption by consumers.

Can be of two types;

Direct channels: In this type of channel, producers and end users directly interact.

Indirect channels: In this type of channel intermediaries are inserted between seller and buyer.

condition put into consideration to use best distribution strategies are;

Company Factors: financial, human and technological capabilities of a company to do its business activities.

Market Characteristics: Geography, market density, market size, target market

Product Attributes: perishability, value and sophistication of the product

Environmental Forces: those forces that affect the business like competition, technology and culture.

5.8 Selling and of Customer Service

5.8.1 The Concept of Service

It is any *act or performance* that *one party can offer* to another that is *intangible* and does not result *in the ownership of anything*.

Distinctive features of services includes, *intangibility, inseparability, variability, and perishability* as opposed to goods.

Services are highly variable, because they depend on who provides. Based on this concept, service is characterized as; *situational, difficult to measure, subjective and influenced by the service provider*.

5.8.2 The Concept of Customer

Customer is a person or organization that buys a product or service either for use or for resale. Customers can be internal (e.g. member of the organization) or external (customers coming from outside).

A thorough understanding of the concept of customer service enables organizations to provide quality service by using proper service management approaches.

5.8.3 Strategic Activities needed for Quality Customer Service Delivery

Plants should identify important strategic activities to ensure consistent, efficient and excellent customer service delivery. i.e

1. Establishing a clear customer service strategy.
2. Ensuring that correct people are in place with correct skills to deliver outstanding personal service.
3. Establishing clear service delivery processes.
4. Improving in terms of process improvement, quality monitoring and recovery continuously.
5. Participatory Management.

Satisfaction

Customer handling and satisfaction is a key for successful and Managers and employees should work hand-in-hand to improve their service delivery. programs organizations.

Existing customers must be satisfied with the existing service. As they are also means of potential customers.

The first most important principle here is not losing a single customer.

Retaining existing customers, however, requires systematic handling. You have to make customer satisfaction your religion. Understand the importance of satisfying

Customer retention and satisfaction comes not from words, but from putting time, effort, and money to satisfy customers.

Major reasons to lose customers are:

Poor service,

Poor quality and

Rude behaviour.

5.8.4.1 Considering Customers as an Invaluable Asset

The value of one customer is infinite, and you cannot possibly calculate it.

This includes, sales to him in his lifetime as well as to customers he generates for you through word of mouth.

This means, your most precious asset is your customer. But We think of immediate profit and ignore the future profits expected over the lifetime of the customer.

5.8.4.2 Reducing Customer Complaints

Every single complaint should be treated as an opportunity to improve the quality of your products and services.

Research findings about Customer satisfaction:

91% of customers who have complaints decide never come back. But if **resolved quickly**, **82%** of them will return.

There is *no investment like investment in customer satisfaction.*

Treat the *cost of satisfying a customer as an investment rather than as an expense*.

You will get *unmatched returns through referrals, repeat purchases decreased operational costs and increased profits.*

5.8.4.3 Place Yourself in The Customer's Shoes

You have the right to choose your customers but not the luxury to compromise on your level of service.

Get rid of the unwanted customer but do it with tact. Part with the unwanted customer with a smile and a handshake.

Place yourself in the customer's shoes. 'Do unto your customer as you would have done unto you'.


Thanks !

CHAPTER SIX

Business Financing

6.1 INTRODUCTION

6.2 Financial Requirements

- All businesses need money to finance a host of different requirements.
- In looking at the types and adequacy of funds available, it is important to match the use of the funds with appropriate funding methods.

1. Permanent Capital

- The permanent capital base of a small firm usually comes from equity investment in shares in a limited company or share company, or personal loans to form partners or to invest in sole proprietorship.
- It is used to finance the start - up costs of an enterprise, or major developments and expansions in its life - cycle.

- Ideally, permanent capital is only serviced when the firm can afford it; investment in equity is rewarded by dividends from profits, or a capital gain when shares are sold.
- It is not therefore a continual drain from the cash flow of a company, such as a loan, which needs interest and capital repayments on a regular basis.
- Equity capital usually provides a stake in the ownership of the business, and therefore the investor accepts some element of risk in that returns are not automatic, but only made when the small firm has generated surpluses.

2. Working Capital

- It is short-term finance. Most small firms need working capital to bridge the gap between when they get paid, and when they have to pay their suppliers and their overhead costs.
- Requirements for this kind of short-term finance will vary considerably by business type. For example, a manufacturer or small firm selling to other businesses will have to offer credit terms, and the resulting debtors will need to be financed; the faster the growth, the more the debtors, and the larger the financial requirement.

3. Asset Finance

- It is medium to long term finance. The purchase of tangible assets is usually financed on a longer-term basis, from 3 to 10 years, or more depending on the useful life of the asset. Plant, machinery, equipment, fixtures, and fittings, company vehicles and buildings may all be financed by medium or long-term loans from a variety of lending bodies.

6.3 Sources of Financing

- To get financing for a new business, **entrepreneurs must explore every option available.**
- **Four basic questions must be answered during initial financial planning.**
  - What types of capital do I need in my new business?
  - How can I estimate the amounts needed?
  - Where can I obtain the required funds?
  - What should my financing proposal include?
- Broadly speaking there are two main sources of finance
  - ✓ Equity, i.e., ownership capital
  - ✓ Borrowed capital (debt)

6.3.1 Internal Sources (Equity capital)

- Equity capital is money given for a share of ownership of the company.
- The investor shares in the profits of the venture, as well as any disposition of assets on a prorate basis.
- Key factors favoring the use of one type of financing over another are:
  - Availability of funds
  - The assets of the venture and
  - The prevailing interest rates.
- Equity capital is not therefore a continual drain from the cash flow of a company, such as a loan, which needs interest payment.

1. Source of equity financing

- **1. *Personal saving:*** The entrepreneur should contribute at least 50% of the starting up capital.
- **If an entrepreneur is not willing to risk his own money potential investors are not likely to risk their money in the business either.**
- **2. *Friends and relatives:*** After emptying their own pockets, entrepreneurs should turn to friends and relatives who might be willing to invest in the business. The entrepreneur is expected to describe the opportunities and threats of the business.
- Friends and relatives who believe in you are more likely to invest in your business than are strangers.
- **3. *Partners:*** An entrepreneur can choose to take on a partner to expand the capital formation of the proposed business.
- **4. *Public stock sale (going public):*** In some case, entrepreneurs can go public by selling share of stock in their corporation to outsiders. This is an effective method of raising large amounts of capital.
- **5. *Angels:*** These are private investors (or angles) who are wealthy individuals, often entrepreneurs, who invest in the startup business in exchange for equity stake in these businesses.
- **6. *Venture capital companies*:** Are private, for profit organizations that purchase equity positions in young business expecting high return and high growth potential opportunity.
- They provide start -up capital, development funds or expansion funds

- **6.3.2 External Sources (Debt capital)**
- Debt financing is a financing method involving an interest-bearing instrument, usually a loan.
- The payment of which is only indirectly related to the sales and profits of the venture.
- Debt financing (also called asset-based financing) requires that some asset (such as car, house, plant, machine, or land) be used as collateral.
- requires the entrepreneurs to pay back the amount of funds borrowed, plus a fee expressed in terms of the interest rate.
- The entrepreneur needs to be careful that the debt is not so large.

❑ Sources of debt financing

I. Commercial banks

- Are by far the most frequently used source for short term debt by the entrepreneur.
- Banks focus on a company's capacity to create positive cash flow because they know that's where the money to repay their loan will come from.
- **Bank Lending Decision:-**The small business owner needs to be aware of the criteria bankers use in evaluating the credit worthiness of loan applications. Most bankers refer to the five C's of credit in making lending decision. The five C's are capital, capacity, collateral, character, and conditions.

1. ***Capital:*** A small business must have a stable capital base before a bank will grant a loan.
2. ***Capacity:*** The bank must be convinced of the firm's ability to meet its regular financial
3. obligations and to repay the bank loan.
4. ***Collateral:*** The collateral includes any assets the owner pledges to the bank as security for repayment of the loan.
5. ***Character:*** Before approving a loan to a small business, the banker must be satisfied with the owner's character. The evaluation of character frequently is based on intangible factors such as honesty, competence, willingness to negotiate with the bank.
6. ***Conditions:*** The conditions surrounding a loan request also affect the owner's chance of receiving funds. Banks consider the factors relating to the business opera tion such as potential growth in the market, competition, location, and loan purpose.

- **II) Trade Credit**: It is credit given by suppliers who sell goods on account. This credit is reflected on the entrepreneur's balance sheet as account payable and in most cases it must be paid in 30 to 90 or more days.
- **III) Equipment Suppliers**: Most equipment vendors encourage business owners to purchase their equipment by offering to finance the purchase.
- **IV) Account receivable financing**: It is a short term financing that involves either the pledge of receivables as collateral for a loan.
- **V) Credit unions**: Credit unions are non-profit cooperatives that promote savings and provide credit to their members. But credit unions do not make loans to just any one; to qualify for a loan an entrepreneur must be a member.
- **VI) Bonds:** A bond is a long term contract in which the issuer, who is the borrower, agrees to make principal and interest payments on specific date to the holder o f the bond. Bonds have always been a popular source of debt financing for large companies in the western world.

6.4 Lease Financing

- **6.4 Lease Financing**
- Lease financing is one of the important sources of medium- and long-term financing where the owner of an asset gives another person, the right to use that asset against periodical payment s. The owner of the asset is known as lessor and the user is called lessee. The periodical payment made by the lessee to the lessor is known as lease rental. Under lease financing, lessee is given the right to use the asset but the ownership lies with the lessor and at the end of the lease contract, the asset is returned to the lessor or an option is given to the lessee either to purchase the asset or to renew the lease agreement.

- **6.4.1 Types of Lease**
- Depending upon the transfer of risk and rewards to the lessee, the period of lease and the number of parties to the transaction, lease financing can be classified into two categories. Finance lease and operating lease.

1) Finance Lease

- It is the lease where the lessor transfers substantially all the risks and rewa rds of ownership of assets to the lessee for lease rentals.

- The following features can be derived for finance lease:
  - A finance lease is a device that gives the lessee a right to use an asset.
  - The lease rental charged by the lessor during the primary period of lease is sufficient to recover his/her investment.
  - The lease rental for the secondary period is much smaller. This is often known as peppercorn rental.
  - Lessee is responsible for the maintenance of asset.
  - No asset-based risk and rewards are taken by lessor.
  - Such type of lease is non-cancellable; the lessor’s investment is assured.

2) Operating Lease

- Lease other than finance lease is called operating lease. Here risks and rewards incidental to the ownership of asset are not transferred by the lessor to the lessee. The term of such lease is much less than the economic life of the asset and thus the total investment of the lessor is not recovered through lease rental during the primary period of lease. In case of operating lease, the lessor usually provides advice to the lessee for repair, maintenance and technical knowhow of the leased asset and that is why this type of lease is also known as service lease. Operating lease has the following features:
  - The lease term is much lower than the economic life of the asset.
  - The lessee has the right to terminate the lease by giving a short notice and no penalty is charged for that.
  - The lessor provides the technical knowhow of the leased asset to the lessee.
  - Risks and rewards incidental to the ownership of asset are borne by the lessor.
  - Lessor has to depend on leasing of an asset to different lessee for recovery of his/her investment.

Advantages and Disadvantages of Lease Financing

At present leasing activity shows an increasing trend. Leasing appears to be a cost -effective alternative for using an asset. However, it has certain advantages as well as disadvantages.

The advantages of lease financing from the point of view of lessor are summarized below:

Assured Regular Income: Lessor gets lease rental by leasing an asset during the period of lease which is an assured and regular income.

- **Preservation of Ownership:** In case of finance lease, the lessor transfers all the risk and rewards incidental to ownership to the lessee without the transfer of ownership of asset. Hence the ownership lies with the lessor.
- **Benefit of Tax:** As ownership lies with the lessor, tax benefit is enjoyed by the lessor by way of depreciation in respect of leased asset.
- **High Profitability:** The business of leasing is highly profitable since the rate of return based on lease rental, is much higher than the interest payable on financing the asset.
- **High Potentiality of Growth:** The demand for leasing is steadily increasing because it is one of the cost efficient forms of financing. Economic growth can be maintained even during the period of depression. Thus, the growth potentiality of leasing is much higher as compared to other forms of business.
- **Recovery of Investment:** In case of finance lease, the lessor can recover the total investment through lease rentals.
- Lessor suffers from certain limitations which are discussed below:

Unprofitable in Case of Inflation: Lessor gets fixed amount of lease rental every year and they cannot increase this even if the cost of asset goes up.

Double Taxation: Sales tax may be charged twice. First at the time of purchase of asset and second at the time of leasing the asset.

Greater Chance of Damage of Asset: As ownership is not transferred, the lessee uses the asset carelessly and there is a great chance that asset cannot be useable after the expiry of primary period of lease.

6.5 Traditional Financing in Ethiopian (Equib/Idir, Etc.)

(Reading Assignment)

- **6.6 Crowd Funding**
- Crowd funding is a method of raising capital through the collective effort of friends, family, customers, and individual investors or even from the general public.
- This approach taps into the collective efforts of a large pool of individuals primarily online via social media and crowd funding platforms and leverages their networks for greater reach and exposure.

6.6.1 How is Crowd Funding Different?

- Crowd funding is essentially the opposite of the mainstream approach to business finance. Traditionally, if you want to raise capital to start a business or launch a new product, you would need to pack up your business plan, market research, and prototypes, and then shop your idea around to a limited pool or wealthy individuals or institutions. These funding sources included banks, angel investors, and venture capital firms, really limiting your options to a few key players.
- Crowd funding platforms, on the other hand, turns that funnels on -end. By giving you, the entrepreneur, a single platform to build, showcase, and share your pitch resou rces, this approach dramatically streamlines the traditional model. Traditionally, you'd spend months sifting through your personal network, vetting potential investors, and spending your own time and money to get in front of them.

6.6.2 The Benefits of Crowd funding

- From tapping into a wider investor pool to enjoying more flexible fund raising options, there are a number of benefits to crowd funding over traditional methods. Here are just a few of the many possible advantages:
- Reach**:** By using a crowd funding platform like Fundable, you have access to thousands of accredited investors who can see, interact with, and share your fund raising campaign. Presentation**:** By creating a crowd funding campaign, you go through the invaluable process of looking at your business from the top level its history, traction, offerings, addressable market, value proposition, and more and boiling it down into a polished, easily digestible package.
- PR & Marketing**:** From launch to close, you can share and promote your campaign through social media, email newsletters, and other online marketing tactics. As you and other media outlets cover the progress of your fund raise, you can double down by steering traffic to your website and other company resources.
- Validation of Concept**:** Presenting your concept or business to the masses affords an excellent opportunity to validate and refine your offering. As potential investors begin to express interest and ask questions, you'll quickly see if there's something missing that would make them more likely to buy in.
- Efficiency**:** One of the best things about online crowd funding is its ability to centralize and streamline your fund raising efforts. By building a single, comprehensive profile to which you can funnel all your prospects and potential investors, you eliminate the need to pursue each of them individually. So instead of duplicating efforts by printing documents, compiling binders, and manually updating each one when there's an update, you can present everything on line in a much more accessible format, leaving you with more time to run your business instead of fundraising.

6.6.3 Types of Crowd Funding

- Just like there are many different kinds of capital round raises for businesses in all stages of growth, there are a variety of crowd funding types. Which crowd funding method you select depends on the type of product or service you offer and your goals for growth. The 3 primary types are donation-based, rewards-based, and equity crow funding.

1) Donation-Based Crowd Funding

- Broadly speaking, you can think of any crowd funding campaign in which there is no financial return to the investors or contributors as donation-based crowd funding. Common donation- based crowd funding initiatives include fund raising for disaster relief, charities, nonprofits, and medical bills.

2) Rewards-Based Crowd Funding

- Rewards-based crowd funding involves individuals contributing to your business in exchange for a “reward,” typically a form of the product or service your company offers. Even thoug h this method offers backers a reward, it’s still generally considered a subset of donation -based crowd funding since there is no financial or equity return.

3) Equity-Based Crowd Funding

- Unlike the donation-based and rewards-based methods, equity-based crowd funding allows contributors to become part-owners of your company by trading capital for equity shares. As equity owners, your contributors receive a financial return on their investment and ultimately receive a share of the profits in the form of a dividend or distribution.

6.7 Micro Finances

- **6.7.1 What is Micro Finance?**
- Microfinance is a term used to describe financial services, such as loans, savings, insurance and fund transfers to entrepreneurs, small businesses and individuals who lack access to banking services with high collateral requirements. Essentially, it is providing loans, credit, access to savings accounts – even insurance policies and money transfers to small business owners, entrepreneurs (many of whom live in the developing world), and those who would otherwise not have access to these resources.

6.7.2 Importance of MFIs

- Microfinance is important because it provides resources and access to capital to the financially underserved, such as those who are unable to get checking accounts, lines of credit, or loans from traditional banks. Without microfinance, these groups may have to resort to using loans or payday advances with extremely high interest rates or even borrow money from family and friends. Microfinance helps them invest in their businesses, and as a result, invest in themselves.

6.7.3 Micro Finances in Ethiopia

- Micro-finance in Ethiopia has its origin in traditional informal method used to accumulate saving and access credit by people who lacked access to formal financial institutions. Ethiopia has also more 38 MFIs (in 2018) and practice is one of the success stories in Africa even though there are certain limitations.
- The history of formal establishment of Ethiopia Micro finance institution is limited to about le ss than twenty years (since 2000). The first groups of few MFIs were established in early 1997 following the issuance of Proclamation No. 40/1996 in July 1996. The objective of the MFIs is basically poverty alleviation through the provision of sustainable financial services to the poor who actually do not have access to the financial support services of other formal financial institutions.
- The microfinance industry is growing in terms of number and size. The MFIs in Ethiopia have been able to serve the productive poor people mainly with savings, credit, money transfer, micro- insurance and other related services. Governmental and other developmental organizations have played a vital role for impressive performance the microfinance sector in the country.

- The known micro finance institutions in different regions of Ethiopia with more than 90%
-
- market share are
-
- 1. Amhara Credit and Savings Ins. (ACSI) S.C.
-
- 2. Dedebit Credit and Savings Ins. (DECSI) S.C.
-
- 3. Oromiya Credit and Savings Ins. S.C (OCSCO).
-
- 4. Omo Credit and Savings Ins. S.C.
-
- 5. Addis Credit and Savings Institution S.C.(ADCSI)


Thanks !

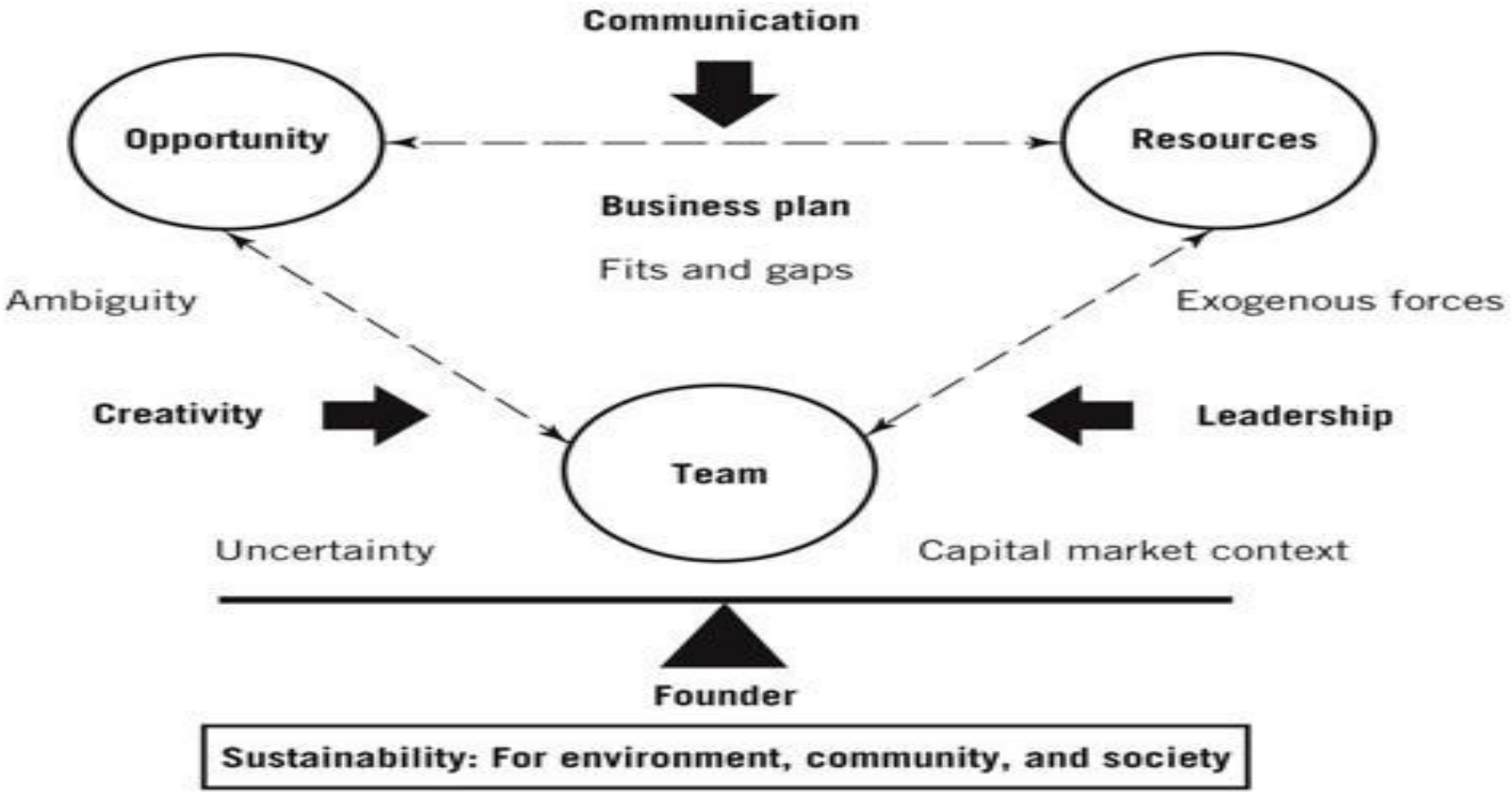
CHAPTER SEVEN

MANAGING STARTUP AND GROWTH (MSMS IN FOCUS)

- Once companies reach to growth stage, they must continue to grow with proper management and leadership.
- The success of an entrepreneur in this process depends upon controllable and uncontrollable variables.

7.2 Timmons Model of Entrepreneurship

- **What key aspects does an entrepreneur need to manage to start and grow a business?**
- Figure 7.1. This model identified the internal and external factors that determine the growth of business.



- According to Timmons, success in creating a new venture is driven by a few central themes that dominate the dynamic entrepreneurial process: it takes **opportunity**, a lead **entrepreneur** and an **entrepreneurial team**, **creativity**, **being careful with money**, and an **integrated, holistic, sustainable and balanced approach to the challenges ahead**.
- These controllable components of the entrepreneurial process can be assessed, influenced and altered. The entrepreneur searches for an opportunity, and on finding it, shapes the opportunity into a high-potential venture by drawing up a team and gathering the required resources to start a business that capitalizes on the opportunity, the entrepreneur risks his or her career, personal cash flow and net worth.
- According to the model, for an entrepreneur to create a successful venture, they must balance three key components changes in one factor have a strong influence on the other factors.

7.3 New Venture Expansion Strategies

7.3.1 Introduction

- Business expansion is a stage of a company's life that is troubled with both opportunities and perils. On the one hand, business growth often carries with it a corresponding increase in financial fortunes for owners and employees alike.
- But business expansion also presents the small business ow ner with myriad issues that have to be addressed. Growth causes a variety of changes, all of which present different managerial, legal, and financial challenges.
  - Growth means that new employees will be hired who will be looking to the top management of the company for leadership.
  - Growth means that market share will expand, calling for new strategies for dealing with larger competitors. Growth also means that additional capital will be required, creating new responsibilities to shareholders, investors, and institutional lenders. Thus, growth brings with it a variety of changes in the company's structure, needs, and objectives.

7.3.2 Methods of Growth

- The most commonplace methods by which small companies increase their business are incremental in character, i.e., increasing product inventory or services rendered without making wholesale changes to facilities or other operational components. Common routes of small business expansion include the following commo n options:
    - Growth through acquisition of another existing business (almost always smaller in size),
    - Offering franchise ownership to other entrepreneurs,
    - Licensing of intellectual property to third parties, (license for the use of certain innovative models on fee basis may be given to certain companies). This is very common for Software products.
    - Establishment of business agreements with distributorships and/or dealerships,
    - Pursuing new marketing routes (such as catalogs),
    - Joining industry cooperatives to achieve savings in certain common areas of operation, including advertising and purchasing,
    - Public stock offerings (selling shares to investors and to the general public),
    - Employee stock ownership plans (entrepreneurs may give/sell shares to employees as incentive for motivation.

7.3.3 The Ansoff Matrix – Growth Strategy

- **What is our business growth strategy in relation to new or existing markets and products?**
- The Ansoff Matrix is a strategic-planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth.
- Ansoff suggested that there were effectively only two approaches to developing a growth strategy; through varying what is sold (product growth) and who it is sold to (market growth).
- “When we are in peak, we make a ton of money, as soon as we make a ton of money; we are desperately looking for ways to spend it. And we diversify into areas that, frankly, we don’t know how to run very well,”

- Igor Ansoff created the product/market matrix to illustrate the inherent risks in four generic growth strategies as summarized here below:
- **Market penetration / consumption** – the firm seeks to achieve growth with existing products in their current market segments, aiming to increase market share. This is a low risk strategy because of the high experience of the entrepreneur with the product and market.
- **Market development** – the firm seeks growth by pushing its existing products into new market segments. Market development has medium to high risk.
- **Product development** – the firm develops new products targeted to its existing market segments. This alternative growth strategy is characterized by medium to high risk due to lack of experience about the new product.
- **Diversification** – the firm grows by developing new products for new markets. This is high risk option as entrepreneurs do not have experience about the product and the market.

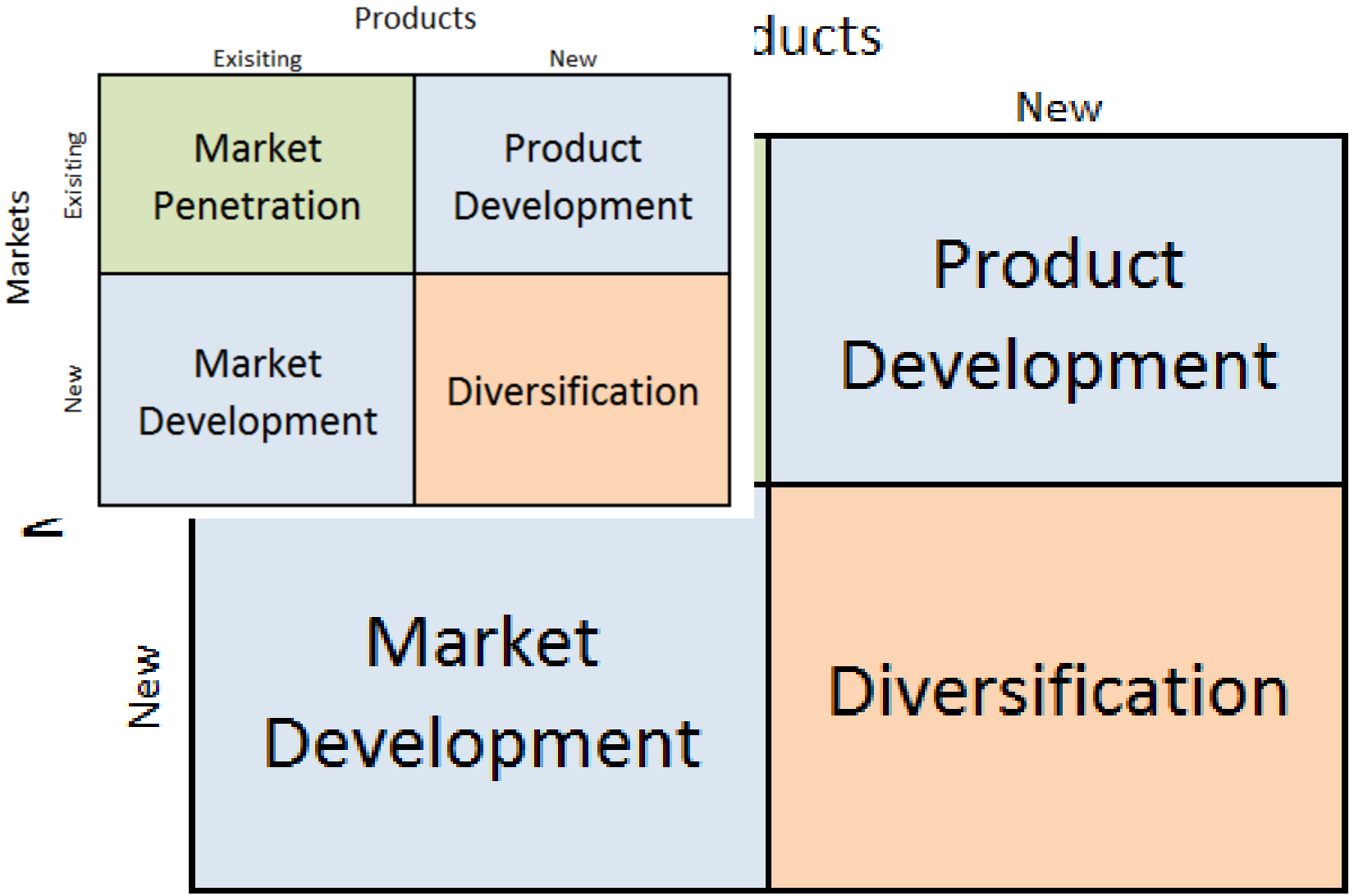


Figure 7.2 Ansoff's Matrix

7.3.3.1 Selecting a Product-Market Growth Strategy

- **I) Market penetration / consumption:**
- further exploitation of the products without necessarily changing the product or the outlook of the product. This will be possible through the use of promotional methods, putting various pricing policies that may attract more customers, or one can make the distribution more extensive.
- In market penetration / consumption, the risk involved is usually the least since the products are already familiar to the consumers and so is the established market.

II) Market development

- The business sells its existing products to new markets. This can be made possible through further market segmentation to aid in identifying a new clientele base. This strategy assumes that the existing markets have been fully exploited thus the need to venture int new markets.
- There are various approaches to this strategy, which include: new geographical markets, new distribution channels, new product packaging, and different pricing policies.

III) Product development

- a new product is introduced into existing markets. Product development can be from the introduction of a new product in an existing market or it can involve the modification of an existing product. By modifying the product one could change its outlook or presentation, increase the product’s performance or quality. By doing so, it can be more appealing to the existing market. A good example is car manufacturers who offer a range of car parts so as to target the car owners in purchasing additional products.

IV) Diversification

- This growth strategy involves an organization marketing or selling new products to new markets at the same time. It is the most risky strategy as it involves two unknowns:
  - New products are being created and the business does not know the development problems that may occur in the process.
  - There is also the fact that there is a new market being targeted, which will bring the problem of having unknown characteristics.

- There are two types of diversification – related diversification and unrelated diversification.
- In related diversification, the business remains in the same industry in which it is currently operating. For example, a cake manufacturer diversifies into fresh-juice manufacturing. This diversification is within the food industry.
- In unrelated diversification, there are usually no previous industry relations or market experiences. One can diversify from a food industry into the personal-care industry. A good example of the unrelated diversification is Richard Branson. He took advantage of the Virgin brand and diversified into various fields such as entertainment, air and rail travel, foods, etc. Sir Branson has more than 400 companies.

7.3.4 Expansion Issues

- Whatever method a company chooses to utilize to expand—and whatever guiding strategy it chooses to employ its owners will likely face a combination of potentially frustrating issues as they try to grow their business in a smooth and productive manner. *Growth* means understanding, adjusting to, and managing a whole new set of challenges in essence, a very different business.

VII) Growing Too Fast

- Companies growing at hyper-speed sometimes pay a steep price for their success. According to management experts, controlling fast-track growth and the problems that come with it can be one of the most frightening tasks an entrepreneur will face. This problem most often strikes on the operational end of a business. Demand for a product will outpace production capacity, for example. Effective research and long range planning can do a lot to relieve the problems often associated with rapid business expansion.

- **VIII) Recordkeeping and Other Infrastructure Needs**
- It is essential for small businesses that are undergoing expansion to establish or update systems for monitoring cash flow, tracking inventories and deliveries, managing finances, tracking human resources information, and myriad other aspects of the rapidly expanding business operation. In addition, growing enterprises often have to invest in more sophisticated communication systems in order to provide adequate support to various business operations.
- **IX) Expansion Capital**
- Small businesses experiencing growth often require additional financing. Finding expansion capital can be a frustrating experience for the ill-prepared entrepreneur, but for those who plan ahead, it can be far less painful. Businesses should revise their business plan on an annual basis and update marketing strategies accordingly so that you are equipped to secure financing under the most advantageous terms possible.

- **X) Personnel Issues**
- Growing companies will almost always have to hire new personnel to meet the demands associated with new production, new marketing campaigns, new recordkeeping and administrative requirements, etc. Careful hiring practices are always essential, but they are even more so when a business is engaged in a sensitive period of expansion.
- Business expansion also brings with it increased opportunities for staff members who were a part of the business in its early days. The entrepreneur who recognizes these opportunities and delegates responsibilities appropriately can go far toward satisfying the desires of employees who want to grow in both personal and professional capacities. But, small business owners also need to recognize that business growth often triggers the departure of workers who are either unable or unwilling to adjust to the changing business environment. Indeed, some employees prefer the more relaxed, family-type atmosphere that is prevalent at many small business establishments to the more business-like environment that often accompanies periods of growth. Entrepreneurs who pursue a course of ambitious expansion may find that some of their most valuable and well-liked employees decide to instead take a different path with their lives.
- **XI) Customer Service**
- Good customer service is often a significant factor in small business success, but ironically it is also one of the first things that tends to fall by the roadside when business growth takes on a hectic flavor. When the workload increases tremendously, there's a feeling of being overwhelmed. And sometimes you have a hard time getting back to clients in a timely fashion. So the very customer service that caused your growth in the first place becomes difficult to sustain. Under such scenarios, businesses not only have greater difficulty retaining existing clients, but also become less effective at securing new business. A key to minimizing such developments is to maintain adequate staffing levels to ensure that customers receive the attention and service they demand (and deserve).

- **XII) Disagreements among Ownership**
- On many occasions, ownership arrangements that functioned fairly effectively during the early stages of a company's life can become increasingly problematic as business issues become more complex and divergent philosophies emerge. For example, one or more of the cofo unders are unable to keep pace with the level of sophistication or business wisdom that the company now requires. Such a cofounder is no longer making a significant contribution to the business and in essence has become 'obsolete.' It's even harder when the obsolete partner is a close friend or family member. In this case, you need to ask: Will the obsolete cofounder's ego allow for a position of diminished responsibility? Can our overhead continue to keep him or her on staff?" Another common scenario that unfolds during times of business growth is that the owners realize that they have profoundly different visions of the company's future direction. One founder may want to devote resources to exploring new marketing niches, while the other may be convinced that consolidation of the company's presence in existing markets is the way to go. In such instances, the departure of one or more partners may be necessary to establish a unified direction for the growing company.
- **XIII) Family Issues**
- Embarking on a strategy of aggressive business expansion typically entails an extensive sacrifice of time and often of money on the part of the owner (or owners). But as many growing companies especially those founded by younger entrepreneurs, are established at a time when all of the cofounders are either unmarried or in the early stages of a marriage. As the size of the company grows, so does the size of the cofounder’s family. Cofounders with young children may feel pressure to spend more time at home, but their absence will significantly cut their ability to make a continuous, valuable contribution to the company's growth. Entrepreneurs thinking a strategy of business growth, then, need to decide whether they are willing to make the sacrifices that such initiatives often require.

- **XIV) Transformation of Company Culture**
- As companies grow, entrepreneurs often find it increasingly difficult for them to keep the business grounded on the bedrock values that were instituted in its early days. Owners are ultimately the people that are most responsible for communicating those values to employees. But as staff size increases, markets grow, and deadlines proliferate, that responsibility gradually falls by the edge and the company culture becomes one that is far different from the one that was in place and enjoyed just a few short years ago. Entrepreneurs need to make sure that they stay attentive to their obligations and role in shaping company culture.
- **XV) Changing Role of Owner At The Initial State**
-
- You have few employees; you're doing lots of things yourself. But when a company experiences its first real surge of growth, it's time for you to change what you do. You need to become a CEO that is, the leader, the strategic thinker, and the planner—and to delegate day-to-day operations to others. Moreover, as businesses grow in size they often encounter problems that increasingly require the experience and knowledge of outside people. Entrepreneurs guiding growing businesses have to be willing to solicit the expertise of accounting and legal experts where necessary, and they have to recognize their shortcomings in other areas that assume increased importance with business expansion.

7.3.5 Choosing not to Grow

- Small business owners choose not to expand their operations even though they have ample opportunity to do so. For many small business people, the greatest satisfactions in owning a business, which often include working closely with customers and employees, inevitably diminish as the business grows and the owner's role changes. Many entrepreneurs would rather limit growth than give up those satisfactions. Other successful small business owners, meanwhile, simply prefer to avoid the headaches that inevitably occur with increases in staff size, etc. And many small business owners choose to maintain their operations at a certain level because it enables them to devote time to family and other interests that would otherwise be allocated to expansion efforts.

7.4 Business Ethics and Social Responsibility

- **7.4.1 Introduction**
- Business organizations, as established by their entrepreneurs, are expected to do their businesses in a sustainable and ethical manner. For this there are certain theories that we should understand.
- These theories have been evolving through time as business practices mature and grow as well as societal and government influence increase.

7.4.2 Three Approaches to Corporate Responsibility

- According to the traditional view of the corporation, it exists primarily to make profits supported by stockholder theory. From this money-centered perspective, insofar as business ethics are important, they apply to moral dilemmas arising as the struggle for profit proceeds. These dilemmas include: “What obligations do organizations have to ensure that individuals seeking employment or promotion are treated fairly?” “How should conflicts of interest be handled?” and “What kind of advertising strategy should be pursued?” “What pricing strategy should be pursued?”
- While these dilemmas continue to be important throughout the economic world, when businesses are conceived as holding a wide range of economic and civic responsibilities as part of their daily operation, the field of business ethics expands correspondingly. Now there are large sets of issues that need to be confronted and managed outside of and independent of the struggle for money. Broadly, there are three theoretical approaches to these new responsibilities:

    1. Corporate social responsibility (CSR)
    2. The triple bottom line
    3. Stakeholder theory

Corporate Social Responsibility (CSR)

- Corporate social responsibility has two meanings.
- First, it’s a general name for any theory of the corporation that emphasizes both the responsibility to make money and the responsibility to interact ethically with the surrounding community.
- Second, corporate social responsibility is also a specific conception of that responsibility to profit while playing a role in broader questions of community welfare.
- CRS is a philosophy in which the company’s expected actions include not only producing a reliable product, charging a fair price with fair profit margins, and paying a fair wage to employees, but also caring for the environment and acting on other social concerns.

1. **The economic responsibility to make money**.

- This obligation is the business version of the human survival instinct (to live we have to eat). Companies that don’t make profits are in a modern market economy doomed to perish.
- there are special cases. Nonprofit organizations make money (from their own activities as well as through donations and grants), but pour it back into their work. Also, public/private hybrids can operate without turning a profit.

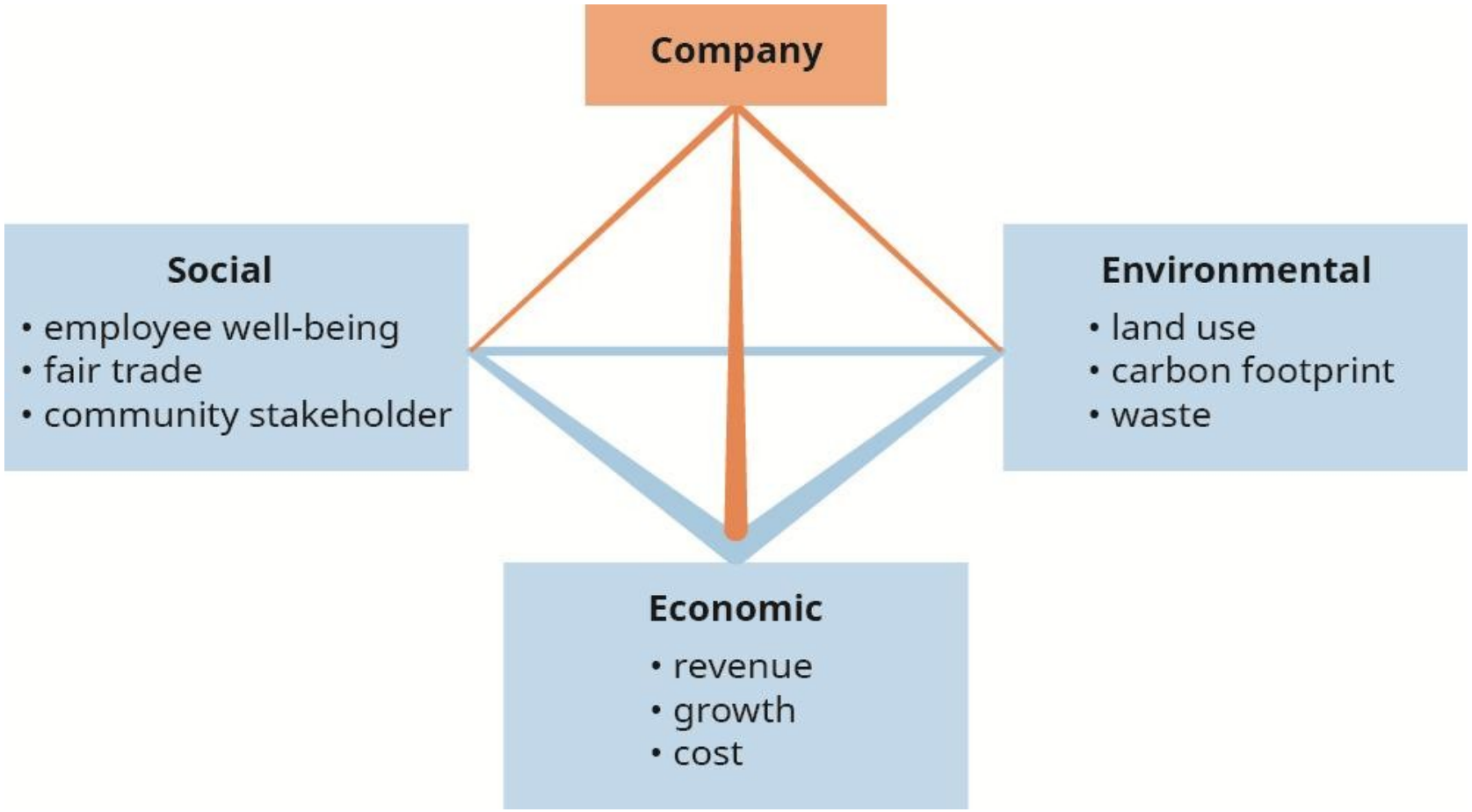
- 2. **The legal responsibility** to adhere to rules and regulations.
- This obligation must be understood as a proactive duty. That is, laws aren’t boundaries that enterprises skirt and cross over if the penalty is low; instead, responsible organizations accept the rules as a social good and make good faith efforts to obey not just the letter but also the spirit of the limits.

- 3. **The ethical responsibility** to do what's right even when not required by the letter or spirit of the law. This is the theory's keystone obligation, and it depends on a coherent corporate culture that views the business itself as a citizen in society, with the kind of obligations that citizenship normally entails. Think of a plant producing toxin in the manufacturing process.

- 4. **The philanthropic responsibility** to contribute to society's projects even when they're independent of the particular business.
- Public acts of generosity represent a view that businesses, like everyone in the world, have some obligation to support the general welfare in ways determined by the needs of the surrounding community.

The Triple Bottom Line

- The triple bottom line is a form of corporate social responsibility dictating that corporate leaders formulate bottom-line results not only in economic terms (costs versus revenue) but also in terms of company effects in the social realm, and with respect to the environment. There are two keys to this idea.
  - First, the three columns of responsibility must be kept separate, with results reported independently for each.
  - Second, in all three of these areas, the company should obtain sustainable results.
- The notion of sustainability is very specific. At the intersection of ethics and economics, sustainability means the long-term maintenance of balance.


Company
Social
• employee well-being
• fair trade
• community stakeholder
Environmental
• land use
• carbon footprint
• waste
Economic
• revenue
• growth
• cost

- **Economic sustainability** values long-term financial solidity over more volatile, short-term profits, no matter how **high**. Sustainability as a virtue means valuing business plans that may not lead to quick riches but that also avoid disastrous losses.
- **Social sustainability** values balance in people's lives and the way we live. As the imbalances grow, as the rich get richer and the poor get both poorer and more numerous, the chances that society itself will collapse in anger and revolution increase.

- **Environmental sustainability** begins from the affirmation that natural resources—especially the oil fueling engines, the clean air we breathe, and the water we drink—are limited.
- If those things deteriorate significantly, our children won’t be able to enjoy the same quality of life most of us experience.
- Conservation of resources, therefore, becomes tremendously important, as does the development of new sources of energy that may substitute those we’re currently using.

Stakeholder Theory

- Stakeholder theory, which has been described by Edward Freeman and others, is the mirror image of corporate social responsibility. Instead of starting with a business and looking out into the world to see what ethical obligations are there, stakeholder theory starts in the world.
- It lists and describes those individuals and groups who will be affected by (or affect) the company's actions and asks, "What are their legitimate claims on the business?" "What rights do they have with respect to the company's actions?" and "What kind of responsibilities and obligations can they justifiably impose on a particular business?"
- In a single sentence, stakeholder theory affirms that those whose lives are touched by a corporation hold a right and obligation to participate in directing it.

- Who are the stakeholders surrounding companies? The answer depends on the particular business, but the list can be quite extensive. If the enterprise produces chemicals for industrial use and is located in a small town, the stakeholders and their interests in parentheses include:

- Company owners, whether a private individual or shareholders, (reasonable profit)
- Company workers (reasonable salaries that enable them to live decent lives),
- Customers and potential customers of the company (quality products at fair prices),
- Suppliers and potential suppliers to the company (fair prices for their inputs),
- Everyone living in the town who may be affected by contamination from workplace operations,
- Creditors whose money or loaned goods are mixed into the company's actions,
- Government entities involved in regulation and taxation (fair tax),
- Local businesses that cater to company employees (restaurants where workers have lunch, grocery stores where employee families shop, and similar),
- Other companies in the same line of work competing for market share (fair competition for competitiveness of the industry),

7.4.3 Business Ethics Principles

- There are certain universal ethical principles that managers of enterprises must adhere to. Ethical values, translated into active language establishing standards or rules describing the kind of behavior an ethical person should and should not engage in, are ethical principles. The following
- list of principles incorporates the characteristics and values that most people associate with ethical behavior.

- 1. **Honesty**. Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.
- 2. **Integrity**. Ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise; they are principled, honorable and upright; they will fight for their beliefs. They will not sacrifice principle for suitability, be hypocritical, or unscrupulous.
- 3. **Promise-Keeping & Trustworthiness**. Ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfill the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or lega listic manner in order to rationalize non-compliance or create justifications for escaping their commitments.

- 4. **Loyalty**. Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage. They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.
- 5. **Fairness**. Ethical executives are fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching nor offensive means to gain or maintain any advantage nor take undue advantage of another's mistakes or difficulties. Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, they are open-minded; they are willing to admit they are wrong and, where appropriate, change their positions and beliefs.
- 6. **Concern for Others**. Ethical executives are caring, compassionate, benevolent and kind; they like the **Golden Rule**, help those in needs, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

- 7. **Respect for Others.** Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.
- 8. **Law Abiding**. Ethical executives abide by laws, rules and regulations relating to their business activities.
- 9. **Commitment to Excellence**. Ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavor to increase their proficiency in all areas of responsibility.
- 10. **Leadership**. Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.
- 11. **Reputation and Morale**. Ethical executives seek to protect and build the company's good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions are necessary to correct or prevent inappropriate conduct of others.
- 12. **Accountability.** Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.


Thanks !