ENTREPRENEURSHIP.

By the end of the topic, the learner should be able to;

i. Explain the meaning of entrepreneurship
ii. Discuss the importance of entrepreneurship to an economy
iii. Describe characteristics of an entrepreneur
iv. Generate business ideas
v. Identify a business opportunity
vi. Evaluate a business opportunity
vii. Explain the need for a business plan
viii. Discuss factors that influence entrepreneurship practices in Kenya
ix. Discuss the causes of business success
x. Recognize the need for ethical practices in business

Meaning of entrepreneurship

This is the process of identifying business opportunities and gathering the necessary resources to start and run a business.
An entrepreneur who identifies business opportunities and gets the necessary resources in order to start and run a business. The entrepreneur therefore creates new businesses or transform the existing ones in the face of risks and uncertainties in order to make profits.
An entrepreneur is therefore a business owner; he starts and organizes the business (the factors of production in appropriate combination**)**

Importance of entrepreneurship to an economy

i. ***Creation of employment-***Through entrepreneurship, jobs are created which help in absorbing people who would otherwise have been jobless e.g. people employed in the jua kali sector**.**
ii. ***Formation of capital-***Profit earned by entrepreneurs may be used to expand the business or even to start other businesses. Wages and salaries paid to the employees is a source of capital to them.
iii. ***Raising standards of living-***Entrepreneurs pay wages and salaries to their employees which enable them to acquire goods and services they need to live comfortable lives. Entrepreneurs also provide a wide variety of goods and services to consumers hence leading to improved living standards.
iv. ***Encourages the use of local resources-***Entrepreneurship makes it possible to use/exploit local resources. Idle resources such as scrap metal may be used to make jikos**.**

v. ***Improving infrastructure-***The existence of businesses in the economy makes the government establish or improve infrastructure such as roads, communication facilities and water. At other times, entrepreneurs may combine forces to improve infrastructure in their area of operation**.**

vi. ***Savings on imports-***Local entrepreneurs are able to produce goods and services that are a substitute to imports. This helps the country to reduce the amount of money required to pay for such imports.

vii. ***Reducing foreign dominance of the economy-***Participation of local entrepreneurs in various business activities helps in reducing investments by foreigners in the particular area**.**

viii. ***Promotion of technology/promotion of innovation, research and development-***Entrepreneurs are creative and they come up with new and better ways of accomplishing tasks. Most of the inventions and innovations in our society have been developed by entrepreneurs**.**

ix. ***Promotion of entrepreneurial culture/helps in the creation of role models-*** Successful entrepreneurs/entrepreneurial ventures encourage other members of society to initiate their own businesses and hence act as role models in the business world.

x. ***It contributes to government revenue-***Taxes and fees paid by entrepreneurial ventures constitute part of government revenue/income that helps it to facilitate its operations**.**

xi. ***It promotes economic growth***-Entrepreneurs produce goods and services. This increases the volume of goods and services in the economy leading to expansion of the economy**.**

xii. ***It may promote self-actualization and esteem***-By initiating businesses in which they are their own bosses, entrepreneurs pride is boosted and this may promote the overall productivity of the economy.

Characteristics of an entrepreneur

A good entrepreneur should have the following characteristics**;**

a) ***Desire to achieve-***An entrepreneur is a person who wishes to excel and has the drive to succeed while competing with others. He/she always tries to accomplish something new.

b) ***Ability to solve problems-***An entrepreneur is expected to struggle with determination to get solutions even under difficult situation so that the business can succeed**.**

c) ***Risk taker*-Entrepreneurs take viable business ventures even when they are not sure of the returns. They assess situations and take calculated risks.**

d) ***Initiative* –**An entrepreneur should be aggressive in implementing ideas well ahead of other businesses so that he/she can be ahead of them**.**

e) ***Time consciousness-***An entrepreneur should be able to use time wisely and avoid wasting it. A wise and quickly implemented decision may mean success in business whereas time lost may mean failure**.**

f) ***Creativity and innovation-***An entrepreneur should be able to generate new ideas as well as think of the best ways of putting them into practice**.**

g) ***Independence and self confidence-***Entrepreneurs are their own bosses and should believe in their ability to do things and succeed**.**

h) ***Persistence and patience-***An entrepreneur should not give up when challenges arise. Sometimes, he/she takes time and make a repeated action or adopts a different course of action in order to overcome such challenges so as to reach the target

i) ***Decisive-***Entrepreneurs have strong problem, solving and decision making skills. The business environment is such that decision has to be made quickly to respond to any situation that may arise**.**

j) ***Persuasive-***Convincing people to believe in their ideas and buy their products keeps entrepreneurs in business

k) ***Goal*-oriented-**Entrepreneurs are achievers who work towards set goals. They continually monitor progress to determine whether they are achieving the goals they have set and where improvements need to be made**.**

l) ***Seek information-***Entrepreneurs use various methods to get the relevant information that is necessary for the success of the business**.**

m) ***Concern for high quality products*-**An entrepreneur should strive to cope or beat the existing standards of quality. This will enable him/her succeed in a competitive market**.**

n) ***Commitment to work-***An entrepreneur places priority on getting tasks accomplished. To achieve this he/she may make extra ordinary personal sacrifice e.g. working until very late.

o) ***Concern for customer satisfaction-***An entrepreneur should ensure that customers are satisfied so as to continue being/remain loyal to the business**.**

p) ***Desire to feedback-***An entrepreneur should be interested in knowing how the business is performing.

Generating Business Ideas

For an entrepreneur, the first step in starting a business begins with an idea (business idea)

Business ideas are all about thoughts on possible businesses an entrepreneur can start or improve. It indicates among other things;

a) The products to produce/sell
b) Who the business will sell to (market)
c) Where the business will be located
d) How the will be run (management)
e) Why the business is needed (objectives)

Sources of Business Ideas

i. ***Newspapers*-Local newspapers like the Daily Nation, East African e.t.c especially in the business and advertising sections have a lot of information about commercial opportunities as well as personal services.**
ii. ***Shows and exhibition*-Visiting shows and exhibitions organized by manufactures and distributors and asking questions from the sales persons. Entrepreneurs can also get business ideas from products displayed in such shows.**
iii. ***Magazines and journals*-Reading magazines and journals with business information may equip an entrepreneur with new business ideas.**
iv. ***Hobbies* –These are activities pursued for pleasure but they can also serve as a source of business ideas e.g. photography.**
v. ***Vocational training and experience*-A business idea may be developed from one's own area of training or experience e.g. a teacher may use ideas from his/her training to start a private school.**

vi. ***Surveys and market research*-This involves conducting an investigation to gather information from consumers on what products they require.**

vii. ***Recycling/using waste products*-Some waste products could be converted into useful products e.g. scrap metal for making jikos,old tyres for making sandals e.t.c**

viii. ***Listening to what people say*-By listening keenly to what people say, one can identify unsatisfied needs e.g. complaints about goods and services in the market. These complaints may form a basis of a business idea for an entrepreneur.**

ix. ***Identifying a market gap (niche)*-An entrepreneur may try to identify/spot the needs of consumers which are not being met by the existing goods and services.**

x. ***Brain storming*-An entrepreneur can engage other people in a discussion on how best to develop businesses.**

xi. ***Listing attributes of a product*-By listing the attributes of a product that is already existing in the market, one can find new use for the product.**

xii. ***Copying/improving an existing business*-This involves identifying the weaknesses of a business and trying to come up with solutions.**

Business Opportunity

A good business plan is not necessarily a business opportunity. A business idea becomes a business opportunity if it is viable i.e. it can be developed into a successful/profitable business enterprise

A business opportunity is a favourable chance that an entrepreneur accepts for investment. It exists where there is a gap to be filled in the needs of the market. Examples of such gaps include;

a) ***In availability of products*-**This is where goods and services needed by the consumers are not available at all in the market**.**

b) ***Poor quality products-***A business opportunity exists if one offers better quality goods and services than those of the existing businesses**.**

c) ***Insufficient quantities-***This is where the goods supplied are not enough to meet the demand/need of the consumers**.**

d) ***Unaffordable prices-***A business opportunity exists where one would charge affordable prices.

e) ***Poor services-***A business opportunity exists where customers are not served well.

Evaluating a business opportunity

This means assessing whether the identified opportunity is viable or not. This helps in arriving at the best decision concerning the business idea to implement

Evaluation should be done carefully, systematically and without emotions. Evaluation is necessary even where there is only one business idea. This will help in avoiding starting a business that cannot succeed**.**

Factors to consider when evaluating a business opportunity

The following are the factors to consider when evaluating a business opportunit**y.**

a. Personal consideration-These are the abilities and expectations of an entrepreneur. They include the following**;**

- ***Objectives-***The entrepreneur should evaluate the business idea to find out whether it is in line with his/her objectives**.**
- ***Skills-***Where a business requires certain specialized skills and those skills are lacking the idea may be dropped**.**
- ***Commitments-***Where the business is likely to interfere with the entrepreneurs other commitments it may fail**.**
- ***Interest-***It is necessary to check whether the intended business will interest the entrepreneur or not. If the entrepreneur will not enjoy running the business, the idea should be dropped**.**

b. Business consideration-These are external factors that are likely to affect the operations of the business and they include**;**

i. ***Availability of market for the product-***An entrepreneur should assess the availability of customers before starting a

business. Customers exist where there is a gap/nich in the market.

ii. ***Technology-***The business should be evaluated in terms of whether there is an appropriate technology that can be used in production. Factors to be looked into include;
   a. -Appropriateness of the technology
   b. -The cost of the technology
   c. -The possibility of the business suffering in case the technology becomes outdated/obsolete.

iii. ***Availability of raw materials and other resources-***The raw materials and resources required should be within the reach and affordable to the entrepreneur.

iv. ***Government policy-***An entrepreneur should consider the requirements of the government before starting a business e.g. the government may require certain businesses to be located in certain areas only.

v. ***Amount of capital required-***The capital required to run and maintain the business should be considered i.e the source of capital.

vi. ***Profitability of the business-***Within a certain duration of time**.**

vii. ***The break-even period-***How long the business can take to support itself**.**

viii. **Possibility of expansion i.e**. the potential for growth of the business.

ix. *Impact of the business operations on the environments;* some businesses lead to environmental degradation and should be located in appropriate places/effect on community and environmental health**.**

x. ***Security-*Availability** of security should be considered**.**

xi. ***Level of competition-***This will help determine whether the business will survive or not.

xii. The risks that the business will face.

BUSINESS PLAN

This is a written document that highlights the objectives of the business and steps to be followed in order to achieve these objectives. It indicates where the business is, where it wants to move to, how and when**.**

Contents of a good business plan

1. Name of the business
2. The product to be sold or produced
3. Personnel to manage the business
4. Amount of finance and other resources required
5. The market to be served (customers)
6. Types of employees required
7. Projection (level of achievement in future in terms of profit)
8. Summary of the plan.

Need for the business plan

i. A business plan is necessary to an entrepreneur for the following reasons:
ii. *Avoiding mistakes*-in the process of drawing a plan; mistakes that would take place in the business are identified and corrected in the plan. This helps in avoiding the occurrence of such mistakes in the business.
iii. *Identifying strength and weaknesses*-A business plan helps in identifying strengths or weaknesses and where weaknesses are detected, remedial actions may be taken early enough.
iv. *Requirement by financiers*-Financial institutions such as banks may require a business plan before they can accept to finance the activities of the business.
v. *Allocation of resources*-It helps to determine the resources required and plan on how and where to use them. This ensures that resources are neither underutilized nor used for the wrong purpose.
vi. *Facilitates business evaluation*-A business plan helps an entrepreneur to assess the progress of the business and any deviation (difference) from the intended plan can be corrected in good time.
vii. *It helps an entrepreneur outline competition*-It helps the entrepreneur to be fully aware of the market she or he plans to operate in, understand important trends and know who her/his competitors are and their strengths and weaknesses. This information aids the entrepreneur to develop products that are better than those of the competitors.
viii. *A motivating factor*-A business plan is communicated to all employees in the business. This makes them aware of the direction to be taken by the business. This motivates them to work towards that direction.
ix. *Adaptability*-Normally, not all events occur as predicted in the business plan. However, a well drawn business plan should give room to accommodate any changes that might occur in the future.

x. *Tool for control*-Planning involves setting of standards against which performances can be assessed. In case of deviation corrective measures can be taken.

Factors that influence entrepreneurship practices.

There are many conditions or factors which may encourage or discourage entrepreneurship. Some of these factors are:

i. ***Government policy-***Some government policies are favourable to the operations of the business and thus encourage people to go into business while other policies may be unfavourable and will discourage people from going into business. E.g. higher taxes are unfavourable hence discouraging.

ii. ***Infrastructure-***infrastructure includes transport and communication networks, water, security e.t.c. Availability of good infrastructure in an area tends to encourage people to set up businesses while poor infrastructure tends to discourage them

iii. ***Levels of education and skills-***Relevant and appropriate knowledge and skills are necessary if the business has to succeed. These are acquired through education, training or experience.

iv. ***Availability of markets-***Adequate markets encourages existing entrepreneurs to continue producing and also encourage/attract new ones to venture into business.

v. ***Availability of resources-***Appropriate resources are necessary for starting and smooth running of a business. These resources include physical, human, capital and technology**.**

vi. ***Cultural and social beliefs and attitudes-***These are norms, values and beliefs of a given community. Culture helps determine the kind of goods and services that people consume. this in turn, dictates the type of businesses to be established in such communities.e.g Muslims do not take pork therefore businesses selling pork will not do well in such communities**.**

vii. ***Competition-***Businesses will do well if they are able to complete favourably. Others will avoid competition by establishing businesses where there is no competition**.**

viii. ***Political stability-***political stability gives conducive atmosphere for businesses to start and thrive on the other hands, where there is no political instability, businesses may not do well and entrepreneurs may close down businesses or new ones may not come up**.**

ix. ***Natural factors-***natural factors such as rainfall, temperatures, earthquakes, pests, drought e.t.c may influence the type of businesses that are carried out in an area, especially agricultural businesses**.**

x. ***Presence of role models in the society-***The presence of successful entrepreneurs acts as an encouragement to aspiring entrepreneurs**.**

<u>Causes of Business success</u>

A business is considered as being successful if it makes consistent profit and experiences progressive growth in the scale of its operations.

Some of the factors that lead to the success of business may include;

(i) ***Right choice of business-***A good business opportunity needs to be evaluated on the basis of ability to capture many customers, make reasonable profit for the owner(s) and provide an opportunity for growth. Making the right choice of a business or product ultimately contributes to the success of a business.

(ii) ***Proper managerial skills-***An entrepreneur should be able to carry out management roles effectively. A good manager will carry out roles such as;

a) ***Hiring staff-***The process of acquiring new employees to take up new positions or to replace employees who have left the business.

b) *Assigning duties*-Allocating employees duties according to their qualifications.

c) *Supervising*-Ensuring that employees carry out tasks that are assigned to them

d) *Training*-Enabling employees to acquire knowledge and skills necessary to perform duties assigned to them.

e) *Motivating*-giving employees inducement to perform their duties.

(iii) ***Proper location/availability of customers-***The business should be situated in a place convenient for its operations e.g. where customers are easily available**.**

(iv) ***Adequate finance/capital-***Money is needed to acquire other resources that are required by the business. A business that has

adequate capital is likely to do well as it is able to finance all its operations.

(v) ***Lack of competition-***Most businesses are put out of operation by stiff competition. Therefore, a business operating in an area where there is little or no competition is likely to succeed.

(vi) *Commitment to business*

(vii) ***Proper financial management-***Proper management of finances is necessary for the success of the business. It ensures that money is available and is used for the intended purpose.

Management of finances includes**;**

a) ***Acquisition of finances-***This involves raising of the required amounts of money. This can be done through a variety of ways such as loans from financial institutions and owner's contributions**.**

b) ***Managing cash-***This ensures that the available money is only used for the activities that are beneficial to the well being of the business**.**

c) ***Proper record keeping-***This involves having a record of finances raised and how they are used.

(viii) ***Proper debt management-***Care should be taken to ensure that credit is only extended to credit worthy customers (credit worthy customers are those whose chances of paying are high).Debt collection should also be carefully planned to ensure that they are collected when due.

(ix) ***Good public relations-***This involves creating and improving a good relationship between the business and other people. Good relations are necessary for attracting and retention of customers.

(x) ***Being creative and innovative-***This involves finding new uses of a product, new channels of communication and new ways of doing things. This enables the entrepreneur to be ahead of others.

(xi) ***Proper market research-***The business environment usually changes at a high rate. This makes it necessary for an entrepreneur to study his/her customer's preferences, tastes, spending patterns, income levels, competitions, and behavior and substitute products.

(xii) ***Good/proper time management-***Time management is the ability to carry out planned activities within the allocated period.

(xiii) ***Proper skills and attitudes of employees-***Employing qualified staff results in work being done in a professional manner. This enhances the performance of the business.

(xiv) ***Proper pricing of goods and services-***Pricing should be done appropriately. If the prices for the products are too high, the business

will lose customers. Very low prices may attract customers but kill the business. It is therefore important to create a balance between price to charge and the profit margin to realize.

ETHICAL ISSUES IN BUSINESS

Ethics **-**refers to a set of values, principles and rules of acceptable behavior which influence how individuals, groups of people and the society in general behave**.**

Business ethics-refers to acceptable behavior that should be displayed by business people. Business ethics helps businesses in deciding what actions are right or wrong depending on circumstances**.**

Ethical issues-are the moral concerns that arise in the course of carrying out business.

Need for Ethical issues in Business

The need for ethical issues in business includes the following;

i. ***Ensures no discrimination in business-***Business ethics ensures there is no discrimination in areas such as recruitment (hiring), promotion, training, remuneration and assignment of duties. These processes should be objective and based on merit, qualification, experience and ability.
   -It ensures that everybody is given an equal opportunity (has equal chance) and is not discriminated against because of their sex, religion, ethnicity, social background e.t.c.

ii. ***Ensures protection of the environment/Helps in avoiding environmental pollution-***Business ethics prohibits business units from carrying out activities that may cause pollution and degradation of the environment. Environmental degradation may be caused by human activities such as logging and unplanned cultivation. Pollution may be caused by activities such as:
   a) Damping effluents from production units into water masses thereby causing water pollution. Water pollution is disastrous to human health and also to aquatic animals.
   b) Emitting carbon dioxide and other gases into the atmosphere causing air pollution.

c) Damping of waste material on the land surface causing solid waste pollution. This creates terrible sites to watch and also breeding places for dangerous insects such as flies**.**

iii. Ensures fair play in competition-Ethics ensures that businesses do not engage in unfair practices while competing with others. These practices may include:

- ♣ Destroying a competitor's product or promotional tools such as billboards
- ♣ Buying and destroying competitor's products before they reach the market
- ♣ Giving false information about a competitor's product.
- ♣ *Helps in avoiding environmental degradation*-Ethics ensures that the physical environment is not degraded through business activities. Such activities may include:
  - ✈ Deforestation through logging
  - ✈ Unplanned cultivation**.**
  - ✈ *Helps in avoiding environmental pollution*-Environmental pollution may be caused by activities such as**:**
    - Releasing carbon dioxide and other gases into the atmosphere thereby causing air pollution
    - Channeling effluents from factories to water masses thereby causing water pollution. Such pollution can be harmful to human health and aquatic animals.
    - Disposing of waste material such as paper and scrap metal on the land surface thereby causing solid waste pollution.
    - Producing too loud noise which might be harmful to human beings hearings
    - Emitting too strong light that may be harmful to our eyesight**.**

iv. Ensures rights of employees are upheld-Ethics ensures that the employer does not violate the rights of employees especially as laid out in their terms and conditions of employment. Such rights include payment of dues in time**.**

v. Eliminates use of unfair means of achieving business objectives- Ethics ensures that the business operations are carried out in a professional way e.g. it is unethical to give or receive a bribe in order to win a business contract. Similarly, it is not ethical to hoard goods awaiting their prices to go up.

vi. Avoids consumer exploitation-Ethics ensures that consumers are not exploited by the business. Consumers may be exploited through practices such as:

a) Overcharging them
b) False advertisement
c) Selling poor quality goods and services
d) Selling wrong quantities
e) Selling harmful commodities**.**

END

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