AMBO UNIVERSITY WOLISO CAMPUS
DEPARTMENT OF MANAGEMENT

HAND OUT: ENTREPRENEURSHIPAND SMALL BUSINESS MANAGEMENT

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May, 2020
Waliso, Ethiopia

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Chapter One: Entrepreneurship & Free Enterprise

1.1. Introduction

The word ‘entrepreneur’ is widely used, both in everyday conversation and as a technical term in management and economics. Its origin from a French word, ***entreprender***, where an entrepreneur was an individual commissioned to undertake a particular commercial project. A number of concepts have been derived from the idea of the entrepreneur such as entrepreneurial, entrepreneurship and entrepreneurial process. The idea that the entrepreneur is someone who undertakes certain projects offers an opening to developing an understanding of the nature of entrepreneurship. Undertaking particular projects demands that particular tasks be engaged in with the objective of achieving specific outcomes and that an individual take charge of the project. Entrepreneurship is then what the entrepreneur does. Entrepreneurial is an adjective describing how the entrepreneur undertakes what he or she does. The entrepreneurial process in which the entrepreneur engages is the means through which new value is created as a result of the project: the entrepreneurial venture.

1.2. Definition Entrepreneurship and Entrepreneur

According to Robert Ronstadt, entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume major risks in terms of equity, time and/or career commitments of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources. Entrepreneurship is process of creating and managing one’s own business for the purpose of achieving profit and growth via taking major risks.What matters most is how you see yourself! Attitude has great position to be successful. Entrepreneurship is the process of creating wealth rather than accumulating wealth. Entrepreneurship involves identifying what needs to be done, taking action and benefiting from it.

“Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction of independence.”… *Robert Hisrich*

“Entrepreneurship is an act of initiative, drive, commitment, diligence, perseverance, organized effort, and achievement outlook, to undertake some specific functions of performing productive activities and the capacity to bear and associated with the investment”.

Entrepreneurship is the process and entrepreneur is the person undertaking entrepreneurial activity such as undertaking own business. Finally we will see the common attributes of the definitions of entrepreneurship and entrepreneur.

1. Entrepreneurship is the process of identifying opportunities in the market place, arranging the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long term gains. It involves creating incremental wealth by bringing together resources in new ways to start and operate an enterprise.
2. Entrepreneurship is the processes through which individuals become aware of business ownership then develop ideas for, and initiate a business.
3. Entrepreneurship can also be defined as the process of creating something different and better with value by devoting the necessary time and effort by assuming the accompanying financial, psychic and social risks and receiving the resulting monetary reward and personal satisfaction. In this case an individual should come up with something different and better in order to the named as entrepreneur.
4. Entrepreneurship is the art of identifying viable business opportunities and mobilizing resources to convert those opportunities into a successful enterprise through creativity, innovation, risk taking and progressive imagination.
5. In general, the process of entrepreneurship includes five critical elements. These are:

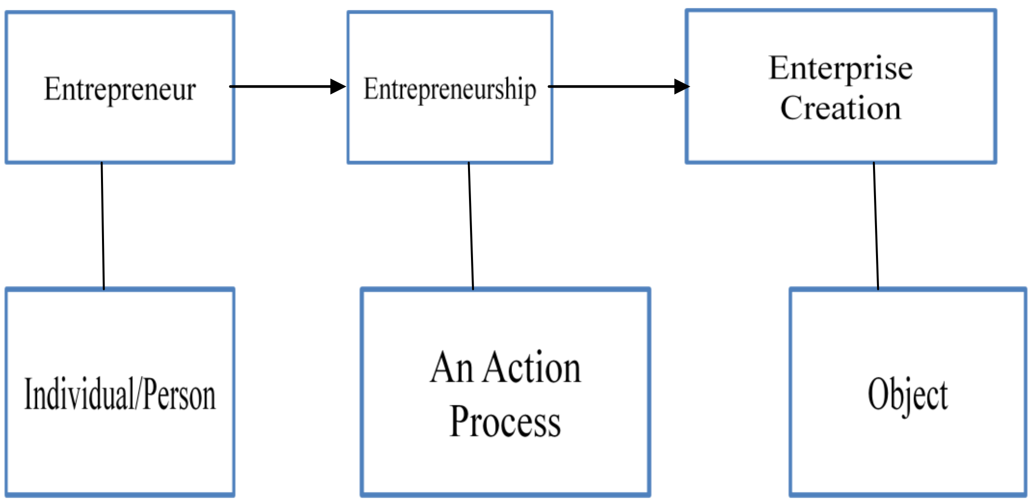
1) The ability to perceive an opportunity.
2) The ability to commercialize the perceived opportunity i.e. innovation
3) The ability to pursue it on a sustainable basis.
4) The ability to pursue it through systematic means.
5) The acceptance of risk or failure.

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

1. An entrepreneur is any person who creates and develops a business idea and takes the risk of setting up an enterprise to produce a product or service which satisfies customer needs.
2. An entrepreneur can also be defined as a professional who discovers a business

opportunity to produce improved or new goods and services and identifies a way in which resources required can be mobilized.

3. An entrepreneur is an individual who: has the ability to identify and pursue a business opportunity; undertakes a business venture; raises the capital to finance it; gathers the necessary physical, financial and human resources needed to operate the business venture; sets goals for him/herself and others; initiates appropriate action to ensure success; and assumes all or a major portion of the risk!
4. An entrepreneur is a person who: create the job not a job-seeker; has a dream, has a vision; willing to take the risk and makes something out of nothing



Entrepreneurship consisted of three different dimensions:

- ✓ **First,** entrepreneurship involves the **creation process**—creating something new of value,
- ✓ **Second,** entrepreneurship requires the **devotion** of the necessary time, resources and effort, and
- ✓ **Third, the** fact that the task of the entrepreneur was to **create profits and personal satisfaction** that this occurs through the production and distribution of goods and services.

1.3. Who is an Entrepreneur? Or Who Becomes an Entrepreneur?

Anyone with the following characteristics can be an entrepreneur.

1. The Young Professional: Increasingly young highly educated people often with entrepreneurial qualifications are skipping the experience of working for an established organization and moving directly to work on establishing their own ventures.
2. The Inventor: The inventor is someone who has developed an innovation and who has decided to make a career out of presenting that innovation to the market. It may be a new product or it may be an idea for a new service. It may be a high-tech or it may be based on a traditional technology.
3. The Excluded: Some people turn to an entrepreneurial career because nothing is open to them. Displaced communities and ethnic and religious minorities have not been invited to join the wider economic community due to a variety of social, cultural and political and historical reasons. As a result they may form their own internal networks, trading among themselves and, perhaps, with their ancestral countries.

An entrepreneur is a person who creates a business or product, manages his or her resources, and Takes risks to gain a profit.

1.4. Qualities of an Entrepreneur

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

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

1. **Opportunity-seeking**: An opportunity is a favourable set of circumstances that creates a need for a new product, service or business. It includes access to credit, working premises, education, trainings etc. An entrepreneur always seeks out and identifies opportunities. He/she seizes an opportunity and converts it into a realistic and achievable goal or plan.
2. **Persevering:** An entrepreneur always makes concerted efforts towards the successful completion of a goal. An entrepreneur perseveres and is undeterred by uncertainties, risks, obstacles, or difficulties which could challenge the achievement of the ultimate goal.
3. **Risk Taking**: The best entrepreneurs tend to:-

- Set their own objectives where there is moderate risk of failure and take calculated risks,
  - Gain satisfaction from completing a job well,
  - Not be afraid of public opinion, skepticism and
  - Take responsibility for their own actions.

Importance of Risk-taking

- Build self confidence,
- Create a feeling of leadership and
- Create strong motivation to complete a job well.

4. **Demanding for Efficiency and Quality**

Efficiency: Being efficient means producing results with little wasted effort.

Quality refers to:

1. The ongoing process of education, communication, evaluation and constant improvement of goods/services to meet the customer's need in a way that exceeds the customer's expectations;
2. A characteristic of the product or service that makes it fit to use. It makes a product, process, or service desirable.
3. The ability of a product or service to meet a customer's expectations for that product or service.

Quality plays an important role in this new era of globalization because it confers certain benefits which include:

- **Reduction of waste:** Striving to maintain quality means examining all processes that contribute to the creation of a product, to remove non-productive processes and waste. If businesses keep to their standard of maintaining the quality of the product, the number of defective products will be reduced. Consumers prefer to buy quality products. Hence the quality products/services help in increasing the share in market and ensure that they will not be returned.
- **Cost-effectiveness:** Striving to ensure quality helps businesses to minimize the chances that they will make mistakes. As a result, the costs of re-doing work or changing the product after it has been sold are greatly reduced.
- **An increase in market share:** Customers prefer to buy the same product again and again if they are satisfied with the quality. If they are satisfied with the quality of a product, then they will not only purchase the product/services more than once, but they will also recommend it to their friends. As a result, this contributes to an increase in the company's market share.
- **Better profitability:** Better quality of product satisfies customers. Increased customers means increase sales, increased shares in market and consequently increased profits.
- **Social responsibility:** By providing quality products and services, a company is more likely to be able to fulfill its responsibility to the community and meet standards set by government.
- **Reputation:** Quality of goods and services improves the reputation of the business for competition in the market and growth.

5. **Information-seeking:** Successful entrepreneurs do not rely on guesswork and do not rely on others for information. Instead, they spend time collecting information about their customers, competitors, suppliers, relevant technology and markets. Gathering relevant information is important to ensure that the entrepreneur makes well informed decisions. Information on the area of market, supply, operations, finance, legislation, and infrastructure are important for entrepreneurs.

6. **Goal Setting**

A Goal - is a general direction, or long-term aim that you want to accomplish. It is not specific enough to be measured. It is large in scope, not necessarily time-bound, and is something that people strive for by meeting certain objectives which will hopefully add up to eventually achieving the goal.

Objectives - are specific and measurable. They are concise and specific. Think of the word "object." You can touch it, it's there, it's actual, and it's finite.

An entrepreneur must have a goal and an objective which is specific, measurable, attainable relevant, and time bound (SMART).

- **Specific:** Great goals are well-defined and focused. The moment you focus on a goal, your goal becomes a magnet, pulling you and your resources toward it. The more focused your energies, the more power you generate.
- **Measurable:** A goal without a measurable outcome is like a sports competition without a scoreboard or scorekeeper. Numbers are an essential part of business. Put concrete numbers in your goals to know if you're on track.
- **Attainable:** Far too often, entrepreneurs can set goals which are beyond their reach. Dream big and aim for the stars but keep one foot firmly based in reality.
- **Relevant:** Achievable business goals are based on the current conditions and realities of the business climate. For example, you may desire to have your best year in business or increase revenue by 50%, but if a national economic crisis is looming and three new competitors just opened in your market, then your goals are not relevant to the realities of the market.
- **Time-Based**: Business goals and objectives just don't get done when there's no time frame tied to the goal-setting process. Whether your business goal is to increase revenue by 20% or to find two new clients, it is important to choose a time-frame to accomplish your goal.

7. **Planning:** Planning is making a decision about the future in terms of what to do, when to do, where to do, how to do, by whom to do and using what resources. An effective entrepreneur therefore usually plans his/her activities and accounts as best as they can for unexpected eventualities.
8. **Persuasion and Networking**

Persuasion is a way of convincing someone to get something or make a decision in your favor. It is inducing or taking a course of action or embracing a point of view by means of argument, reasoning, or entreaty; to convince; to succeed in causing a person to do or consent to something; to win someone over, as by reasoning or personal forcefulness; to cause to believe; to induce, urge, or prevail upon successfully.

Networking is an extended group of people with similar interests or concerns who interact and remain in informal contact for mutual assistance or support. In a business environment where we are in, we network with customers, suppliers, competitors, various firms, different organizations, government offices and family, etc.

9. **Building Self-confidence:** Self-confidence is the state of being certain that a chosen course of action is the best or most effective given the circumstances. Confidence can be described as a subjective, emotional state of mind, but is also represented statistically as a confidence level within which one may be certain that a hypothesis will either be rejected or deemed plausible. Self-confidence is having confidence in oneself when considering a capability. Overconfidence is having unmerited confidence-believing something or someone is capable when they are not.
10. **Listening to Others:** An entrepreneur does not simply impose his/her idea on others. Rather, he/she listens to other people in their sphere of influence, analyses their input in line with his/her own thinking and makes an informed decision.
11. **Demonstrating Leadership:** An entrepreneur does not only do things by him/herself, but also gets things done through others. Entrepreneurs inspire, encourage and lead others to undertake the given duties in time.

1.5. Characteristics of entrepreneurs

- Self confident, persistent, independent, willing to listen, optimistic, hard working, dynamic leader, energetic and forceful
- Originality of thought, builds on strengths , goal-oriented, innovative and creative, risk-taker
- Resourceful, accepts challenges, committed, communicates effectively, takes initiative , decision-maker
- Versatile & knowledgeable, sets own performance standards
- Sees broad picture(visionary), flexible, mentally well-organized, responsive to feedback

- Understands self, achievement-oriented, manages an organization
- Builds for the future/secure job and income for themselves, has integrity, highly motivated, copes with uncertainty, profit-oriented

1.6. Entrepreneurial Skills

A skill is simply knowledge which is demonstrated by action. It is an ability to perform in a certain way. An entrepreneur is someone who has a good business idea and can turn that idea into reality. To be successful, an entrepreneur must not only identify an opportunity but also understand it in great depth. He or she must be able to spot a gap in the market and recognize what new products or services fill the gap. He or she must know what features it will have and why they will appeal to the customer. The entrepreneur must also know how to inform the customer about it and how to deliver the new offerings. All this calls for an intimate knowledge of a particular sector of industry. Turning an idea into reality calls upon two sorts of skills, these are:

I. General management skills and
II. People management skills

General Management Skills:

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

- **Strategy Skills** – An ability to consider the business as a whole, to understand how it fits within its market place, how it can organize itself to deliver value to its customers, and the ways in which it does this better than its competitors.
- **Planning Skills** – An ability to consider what the future might offer, how it will impact on the business and what needs to be done to prepare for it now.
- **Marketing Skills** – An ability to see past the firm's offerings and their features, to be able to see how they satisfy the customer's needs and why the customer finds them attractive.
- **Financial Skills** – An ability to manage money; to be able to keep track of expenditure and to monitor cash-flow, but also an ability to assess investments in terms of their potential and their risks.
- **Project Management Skills** – An ability to organize projects, to set specific objectives, to set schedules and to ensure that the necessary resources are in the right plat of the right time.

- **Time Management Skills** – An ability to use time productively, to be able to priorities important jobs and to get things done to schedule.

People Management Skills

Businesses are made by people. A business can only be successful if the peoples who make it up are properly directed and are committed to make an effort on its behalf. An entrepreneurial venture also needs the support of people from outside the organization such as customers, suppliers and investors. To be effective, an entrepreneur needs to demonstrative a wide variety of skills in the way he/she deals with other peoples. Some of the more important skills we might include under this heading are:

- **Communication Skills** – An ability to use spoken and written language to express ideas and inform others.
- **Leadership Skills** – An ability to inspire people to work in a specific way and to undertake the tasks that are necessary for the success of the venture.
- **Motivation Skills** – An ability to enthuse people and get them to give their full commitment to the tasks in hand. Being able to motivate demands an understanding of what drives people and what they expect from their jobs.
- **Delegation Skills** – An ability to allocate tasks to different people. Effective delegation involves more than instructing. It demands a full understanding of the skills that people possess how they use them and how they might be developed to fulfill future needs.
- **Negotiation Skills** – An ability to understand what is wanted from a siturations, what is motivating others in that situation and recognize the possibilities of maximizing the outcomes for all parties.

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 (see the figure shown below). The successful entrepreneur must not only use these skills but learn to use them and to learn from using them. Entrepreneurs should constantly avoid their abilities in these areas, recognize their strengths and weaknesses, and plan how to develop these skills in the future.

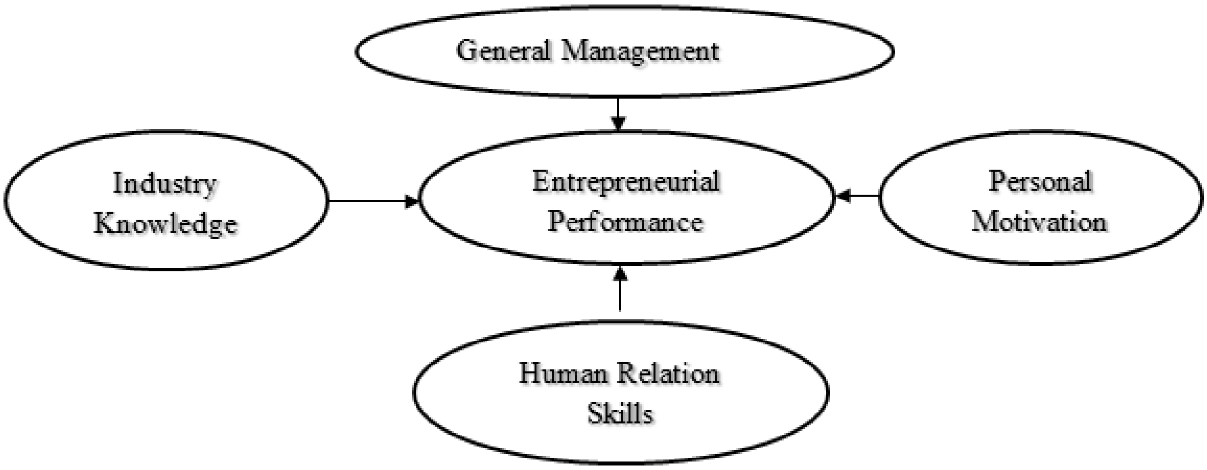


Fig1.1: entrepreneurial skills

- There are basically 3 key competencies required for successful entrepreneurship, namely:
    - ✓ **Knowledge**:-consists of a set or body of information stored, which may be recalled at an appropriate time.
    - ✓ **Skills**: - is the ability to apply knowledge.
    - ✓ **Traits**: - is the aggregate of peculiar qualities or characteristics which constitutes personal individuality.

1.7. The Entrepreneurial Tasks

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

1. **Owning Organizations:** Ownership lies with those who invest in the business and own its stock – the principals, while the actual running is delegated to professional agents or managers. Therefore, if an entrepreneur actually owns the business then he is in fact undertaking two roles at the same time that of an investor and that of a manager. Here we can also recognize many people as entrepreneur even if they do not own the venture they are managing.
2. **Founding New Organizations:** The entrepreneur is recognized as the person who undertakes the task of bringing together the different elements of the organization (people, property, productive resource, etc.) and giving them a separate legal entity. The entrepreneur makes major changes in their organizational word.
3. **Bringing Innovations to Market:** The idea of innovation encompasses any new way of doing something so that value is created. Innovation can mean a new product or service but it can also include a new way of delivering an existing product or service, new methods of informing the consumer about the product or new ways of organizing the company.
4. **Identification of Market Opportunity:** An opportunity is the gap in a market where the potential exists to do something better and create value. New opportunities exist all the time but they do not necessarily present themselves. If they are to be exploited they must be actively sought out. Note that opportunity always takes priority over innovation.
5. **Application of Expertise:** A slight more technical notion is that they have a special ability in deciding how to allocate scarce resources in situations where information is

limited. It is their expertise in doing this that makes entrepreneurs valuable to investors.

6. **Provision of leadership:** Entrepreneurs can rarely drive their innovation to market on their own. They need the support of other people both from their organizations and from people outside such as investor customer and supplier.
7. **The entrepreneur as manager:** At the end of the day the entrepreneur is a manager. The distinction between an entrepreneur and ordinary manager may lie on what the entrepreneur manager manages, how they manage, their effectiveness and the effect they have as a manager not by the particular tasks they undertake.

1.8. Wealth of the Entrepreneur

Wealth is money and anything that money can buy. It includes money, knowledge and assets of the entrepreneur.

Who Benefits from the entrepreneur's Wealth?

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

1. **Employees:** They contribute physical and mental labor to the business. Success of the entrepreneurial venture depends on their effort and motivation. Therefore, they are rewarded with:
   a. Money – their wage or salary
   b. The possibility of owning a part of the firm through share schemes.
   c. A stage of which they can develop social relationships.
   d. The possibility of personal development.
2. **Investors:** These are the peoples who provide the entrepreneur with the necessary money to start the venture and keep it running. There are two main sorts of investors: stockholders and lenders. Stockholders are those who buy the stock of the company and are true owners of the firm. The actual return of the stockholders varies depending on how the business performs. Lenders, on the other hand, are people who offer money to

the venture on the basis of it being a loan. They do not actually own a part of the firm and their return is independent of the businesses performance. They also take priority for payment over shareholders and face lower level of risk than the stockholders.

3. **Supplier:** They are the individuals and organizations who provide the business with the materials, productive assets and information it needs to produce its output. They are paid for providing these inputs.
4. **Customers:** Customers may need to make an investment in using a particular supplier. Changing supplier may involve switching costs and supplier, risk of quality and expenses incurred in changing over to new inputs. The entrepreneur may reward customers by offering quality products, fair prices, regular and consistency of supply, loan arrangement etc.
5. **The local community**: Business has physical locations. The way they operate may affect the people who live and other businesses which operate nearby.

A business has a number of responsibilities, which may be defined or not in national laws, to this local community. Such as:

a. Not polluting their shared environment
b. Contributing and sponsoring local development activities
c. Contribution for political and cultural stabilities and economic improvements
d. Acting in an ethical way.

6. **Government:** The responsibility of government is to ensure that businesses can operate in an environment which has political and economic stability. In addition, it provides central services such as education and health-care. These activities cost money to provide.

Therefore, government should be rewarded for its services. Hence, government taxes individuals and businesses.

1.9. Entrepreneurship and Environment

Business environment refers to the factors external to a business enterprise which influence its operations and determine its effectiveness. Business environment may be healthy or unhealthy. Healthy business environment means the conditions are favourable to the growth of business whereas unhealthy environment implies conditions hostile or unfavourable to business operations. Business and its environment interact with each other. Economic system and other conditions in the environment determine the success of business enterprises. The firm and its management have to adjust to the conditions prevalent around it. However, business enterprises try to influence and shape the environment. Successful working of business concerns improves the economic and social conditions in the country.

No business concern can ignore the environment around it except at its own peril. “The penalty of environ mental disregard is heavy. It not only reduces profit margins and makes opportunities for expansion slip, but it also arouses social hostility and makes social environment growingly inhospitable to business operations.”

1.9.1. Business Environment

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

A) External Environment

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

i) Economic Environment

Economic environment is of multidimensional nature. It consists of the structure of the economy, the industrial, agricultural, trade and transport policies of the country, the growth and pattern of national income and its distribution, the conditions prevailing in industrial, agricultural and other sectors, the position relating to balance of trade and balance of payments, and other miscellaneous conditions of the economy. There is a close relationship between a business firm and the economic environment around it. The success of a business enterprise depends considerably upon the State and growth of the economy.

ii) Legal Environment

Business must function within the framework of legal structure. Therefore, an adequate knowledge of laws and rules is necessary for efficient managerial performance. When new laws are made and controls exercised through legal enactments, the first reaction of the business community is to oppose them and disobey them. Management should try to understand what should be the right laws and strictly obey them when so made. In addition, it can influence the government to change and improve the law and make it useful to the business community.

Therefore, the entrepreneur must always keep in touch with those who know the latest position in law. In addition, an entrepreneur should:

a. Read the books that enlighten on the legal side of business
b. Consult government agencies concerned with the implementation of business laws.
c. Retain labor law consultants.

iii) Political Environment

In a democratic country, politics cannot be ignored. Managers and entrepreneurs should understand the working of the political system. Such understanding and concern for national problems will help them in the long run in discharging their responsibilities to the satisfaction of the public.

Public opinion is very important and today's public opinion becomes tomorrow's legislation. Businessmen should, therefore, learn to take public opinion into account in the decision-making process. If business does not learn how to deal adequately with public opinion, it will face a disaster. This does not mean that business should surrender itself to public opinion. Rather, it implies intelligent response in order to change wherever necessary and a constructive approach to problems.

iv) Socio-Cultural Environment

It consist the social and cultural norms of a society in a given period of time. The variables that are appraised are values, beliefs, norms, fashions and fads of a particular society. It can help in understanding the level of rigidity/flexibility of a given society towards a new product/service/concept. Traditional culture should be protected in so far as it is not a hindrance to innovation, motivation, and development.

v) Demographic Environment

It assesses the overall population pattern of a given geographical region. It includes variables like age profile, distribution, sex, education profile, income distribution etc. The demographic appraisal can help in identifying the size of target customers.

B) Internal Environment

Internal environment is the environment which is under the control of a given organization. Following are the components of internal environment of a business:

i. Raw Material: It assesses the availability of raw material now and in the near future. If the availability of raw material is less now or would be less in future then the entrepreneur should give a serious thought to establishing a venture as the entire system can come to a standstill due to shortage of raw material.

ii. Production/Operation: It assesses the availability of various machineries, equipment, tools and techniques that would be required for production/operation.

iii. Finance: It assesses the total requirements of finance in terms start-up expenses, fixed expenses and running expenses. It also indicates the sources of finance that can be approached for funding.

iv. Human Resource: It assesses the kind of human resources required and its demand and supply in the market. This further helps in estimating the cost and level of competition in hiring and retaining the human resources.

As stated above, the objective of environmental scanning should be to gather information from as many sources as possible and to maximize this information for enhanced probability of success in the business.

1.10. The Rewards of entrepreneurial success

- Considerable wealth/money
- Prestige and better status in the society
- Economic independence and payer
- Sense of achievement and pride of personal fulfillment
- Satisfaction of providing employment to others
- Providing children with sufficient care
- Flexible and adjustable life style
- Right livelihood

1.11. History of Entrepreneurship

The term 'entrepreneur' firstly appeared in the French Language entreprendre, to undertake: entre-, between (from Latin inter-) + prendre, to take (from Latin prehendere)

In fact, in the 16th century, the Frenchmen who undertook military expeditions were referred to as 'Entrepreneurs.' Which means that the entrepreneur has been contracted to perform a certain task at a fixed price, referred risk taker. It was extended to cover construction and other civil engineering activities in the 17 century, a person having the technical and managerial responsibility for major public undertakings.

Later on, in the 18th century, this term got associated with persons who started their own enterprises.

In the late 19th and early 20th Century an entrepreneur was viewed from economic perspectives. The entrepreneur organizes and operates an enterprise for personal gain. In the middle of the 20th Century the notion of an entrepreneur as an inventor as established. "The function of the entrepreneur is to reform or revolutionize the pattern of production by exploiting an invention or more generally untried technological possibility for producing new commodities or producing an old one in a new way or opening a new outlet for products by reorganizing a new industry."

The concept of innovation and newness are at the heart of the above definition. 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.

1.12. Role of Entrepreneurs in Economic Development

Entrepreneurial development is the most important input in the economic development of any country. The objectives of industrial development, balanced regional growth, and generation of employment opportunities are achievable through entrepreneurial development. Entrepreneurs are at the core of industrial development which results in greater employment opportunities to the unemployed youth, increase in per capita income, higher standard of living and increased revenue to the government in the form of income, sales tax, export duties, import duties etc

- Employment creation (Job Creation)_ Directly & indirectly,
- Make and distribute the products and services that people want,
- Increment of the Value of Local resources,
- Decentralization and diversification of business,
- Promotion of technology,
- Capital formation,
- Promotion of an entrepreneurial culture,
- Income Generation:- Wages, Salaries and Profits
- Payment of Taxes
- Disposable Income: - refers to income after taxes available for spending on consumer goods or for savings.
    - ✓ Consumer spending is not only required for basic needs satisfaction, but also to create a demand for the production of goods and services.

- ✓ Personal savings represent income not allocated to immediate consumption expenditure.

1.13. Entrepreneurship, Creativity and Innovation

Creativity, innovation and entrepreneurship, have been recognized as important contributors to a nation's economic growth. These three terminologies are chronologically interrelated and it is very important to look in to them to get their full picture.

1. Creativity

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

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

It is a process of assembling ideas by recombining elements already known but wrongly assumed to be unrelated to each other. This definition has several key elements that are worth considering:

- **Process**: creativity is a process (implying among other things, that it is more like a skill than an attitude, and that you can get better at it with practice)
- **Ideas**: creativity results in ideas that have potential value.
- **Recombining**: the creative process is one of putting things together in unexpected ways.

Thus, creativity is the development of ideas about products, practices, services, or procedures that are novel and potentially useful to the organization.

Steps in the Creative Process

Step1: Opportunity or problem Recognition: A person discovers that a new opportunity exists or a problem needs resolution.

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

Step 3: Incubation: the person keeps the assembled information in mind for a while. He or she does not appear to be working on the problem actively; however, the subconscious mind is still engaged. While the information is simmering it is being arranged into meaningful new patterns.

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

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

Barriers to Creativity

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

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

2. Innovation

Innovation lies at the heart of the entrepreneurial process and is a means to the exploitation of opportunity. It is the implementation of new idea at the individual, group or organizational level.

Innovation is a process of intentional change made to rate value by meeting opportunity and seeking advantage.

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

- **Invention** - described as the creation of a new product, service or process
- **Extension** - the expansion of a product, service or process
- **Duplication** - defined as replication of an already existing product, service or process
- **Synthesis** - the combination of existing concepts and factors into a new formulation

The Innovation Process

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

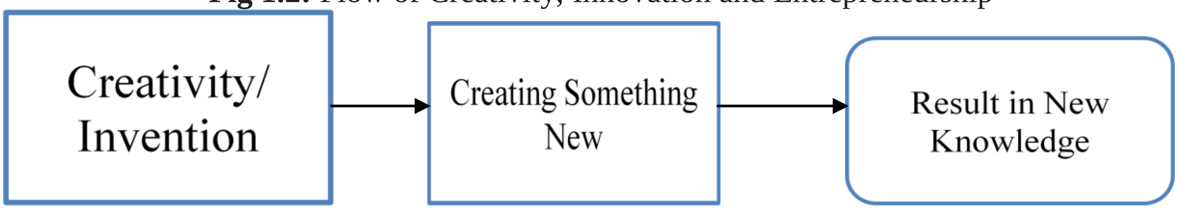
2. **Resources organization:** obtaining the required resources, materials, technology, human or capital resources
3. **Implementation:** applying the resources in order to accomplish the plans
4. **Commercial application:** the provision of values to customers, reward employees and satisfy the stakeholders.

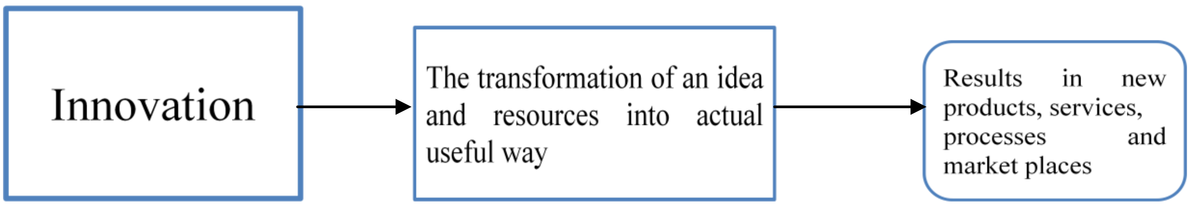
From Creativity to Entrepreneurship

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.

Fig 1.2: Flow of Creativity, Innovation and Entrepreneurship





1.14. Drawbacks of Entrepreneurship

- **Long hours:** Starting and operating one's own business typically demands hard work, long hours, and much emotional energy.

- **High levels of stress**: Long hours lead to hard work, creating stressful situations for the entrepreneur and the family.
- **Risk of business failure**: The possibility of business failure is a constant threat to entrepreneurs.

1.15. Environmental Factors Affecting Entrepreneurship

A complex and varying combination of financial, institutional, cultural and personality factors determines the nature and degree of entrepreneurial activity at any time. The personal backgrounds of the entrepreneurs are determined mainly by the environment in which they are born and brought up and work. A multitude of environmental factors determine the entrepreneurial spirit among people. The entrepreneurs in turn create impact on the environment. The interaction between the entrepreneur and his environment is an ongoing process. At any given point of time, the entrepreneurs derive meanings from the environment prevailing at that time and try to adapt and/or change the environment to suit their needs.

Some of the environmental factors which hinder entrepreneurial growth are given below:

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

Entrepreneurship is environmentally determined. The most important essential for entrepreneurial growth is the presence of a favourable business environment. A healthy business environment requires active social and cultural behaviour of the people, efficient economic conditions, helpful motivating Government policies, etc. When environment mitigates entrepreneurship it must be modified.

Chapter Two - Small Business

2.1. The Concept of Small Business Development

Specifying size and standard to define small business is necessarily arbitrary, because people adopt different standards for different purposes. 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 criteria include number of employees and the start up capital. Size does not always reflect the true nature of an enterprise; in addition, qualitative characteristics are used to differentiate small business from other business. The economic/control definition covers market share, independence and personalized management.

Micro and small enterprises (MSEs) cover a wider spectrum of industries and play an important role in both developed and developing economies. Ethiopia is no exception and MSEs occupy a prominent position in the development of the Ethiopian economy. While the small entrepreneurs can set up a unit even with 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,. The process of setting up a venture begins with searching for an opportunity. Identifying a good opportunity is a difficult task and involves scanning the environment and the use of creativity and innovation.

2.2. Definition and Role/Importance of MSEs

Small businesses are playing an important role in the industrial economy of the world. These are particularly important in the developing economies. Small business is predominant even in developed countries such as USA, Japan etc.

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

However, some discernible characteristics still differ them. Most small businesses' owners work with known products and services aimed at incremental growth, and their innovation is focused on sales, marketing, and market expansion. Entrepreneurial ventures incorporate a different set of strategies. These entities are aimed at rapid growth and apply innovation and creativity at every node of the business process. They work with new offerings, and they face a lot more uncertainties; hence, their strategy calls for continuous work on mitigating uncertainty and risk reduction.

Specifying size and standard to define small business is necessary because people adopt different standards for different purposes. For example, legislators may exclude small firms from certain regulations and specify ten employees as the cut-off point. Moreover, a business may be described as “small” when compared to larger firms, but “large” when compared to smaller ones. For example, most people would classify independently owned gasoline stations, neighbourhood restaurants, and locally owned retail stores as small business.

Similarly, most would agree that the major automobile manufacturers are big businesses. And firms of in-between sizes would be classified as medium on the basis of individual viewpoints. There are two approaches to define small business. They are: Size Criteria, and Economic/control criteria.

1. Size Criteria

Even the criteria used to measure the size of businesses vary; size refers to the scale of operation. Some criteria are applicable to all industrial areas, while others are relevant only to certain types of business. For instance, some of the criteria used to measure size are: 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.

Even though the number of employees-is the most widely used yardstick, the best criterion in any given case depends upon the user’s purpose. To provide a clearer image of the small firms, the following general criteria for defining a small business are suggested by Small Business Administration (SBA).

- Financing of the business is supplied by one individual or a small group. Only in a rare case would the business have more than 15 or 20 owners.
- Except for its marketing function, the firm’s operations are geographically localized.
- Compared to the biggest firms in the industry, the business is small.
- The number of employees in the business is usually fewer than 100.

This size criteria based definition of MSEs varies from country to country. All over the world, number of employees or capital investment or both has been used as the basis for defining MSEs.

2. **Economic/Control Criteria**

Size does not always reflect the true nature of an enterprise. In addition, qualitative characteristics may be used to differentiate small business from other business. The economic/control definition covers:

- Market Share,
- Independence,
- Personalized Management and
- Geographical Area of Operation.

All four of these characteristics must be satisfied if the business is to rank as a small business.

I. **Market Share:** - The characteristic of a small firm's share of the market is that it is not large enough to enable it to influence the prices of national quantities of goods sold to any significant extent.

II. **Independence:** - Independence means that the owner has control of the business himself/herself. It, therefore, rules out those small subsidiaries which though in many ways fairly autonomous, nevertheless have to refer to major decisions (e.g., on capital investment) to a higher level of authority.

III. **Personalized Management:** - It is the most characteristics factor of all. It implies that the owner actively participates in all aspects of the management of the business, and in all major decision-making process. There is little delegation of authority and one person is involved when anything material is involved.

IV. **Technology:** - Small business is generally labor intensive and only few are technology intensive.

V. **Geographical Area of Operation:** - The area of operation of a small firm is often local. Generally, small business is a business that is privately owned and operated, with a small number of employees and relatively low volume of sales.

2.3. Role/Importance of MSEs in Developing Countries

Micro and Small Enterprises (MSEs) cover a wider spectrum of industries and play an important role in both developed and developing economies. Ethiopia is no exception and MSEs occupy a prominent position in the development of the Ethiopian economy. Over the years, the number of MSEs is growing from time to time and they need a strong support on Scio- economic and political ground. Some of the contributions are hereunder.

1. **Large Employment Opportunities**: MSEs are generally labor-intensive. For every fixed amount of investment, MSE sector provides employment for more persons as

against few persons in the large scale sector. Thus in a country like Ethiopia where capital is scarce and labor is abundant, MSEs are especially important.

2. **Economical Use of Capital:** MSEs need relatively small amount of capital. Hence it is suitable to a country like Ethiopia where capital is deficient.
3. **Balanced Regional Development/ Removing Regional Imbalance/:** Generally small enterprises are located in village and small towns. Therefore it is possible to have a balanced regional growth of industries. Ethiopia is a land of villages.
4. **Equitable Distribution of Wealth and Decentralization of Economic Power:** It removes the drawbacks of capitalism, abnormal profiteering, concentration of wealth and economic power in the hands of few etc.
5. **Unregulated Growth of Large**-scale industries results in concentration of economic· power in the hands of a few; and consequently, gross inequalities in the distribution of income and wealth will occur. On the other hand; income generated in a large number of small enterprises is dispersed more widely and its benefit is derived by the large segments of the society. This is due to wide spread ownership and decentralized location of small scale enterprises. In this way, small & medium scale enterprises bring about greater equality of income distribution. It is also argued that most of the micro and small scale units are either proprietary or partnership concerns. As a result, relations between workers and employers are more harmonious in micro and small enterprises than in large enterprises. Micro and small enterprises also encourage competitive spirit and generate the impetus to self-development.
6. **Dispersal over Wide Areas-** MSEs has a tendency to disperse over wider areas and they play a key role in the industrialization of a developing country.
7. **Higher Standard of Living**: MSEs bring higher national income, higher purchasing power of people in rural and semi-urban areas.
8. **Mobilization of Locals Resources/Symbols of National Identity:** The spreading of industries even in small towns and villages would encourage the habit of thrift and investment among the people of rural areas.
9. **Innovative and Productive /Simple Technology:** New but simple techniques of production can be adopted more easily by MSEs without much investment.
10. **Less Dependence on Foreign Capital/ Export Promotion:** MSEs use relatively low proportion of imported equipment and materials. The machinery needed for these industries can be manufactured within the country. Micro and small scale enterprises are opening up fresh avenues in the export market in our world. Realizing the

importance of the small and medium- scale sectors in the economy; the Ethiopian government has adopted several measures to speed up the growth of micro and small size enterprises.

11. **Promotion of Self Employment:** MSEs foster individual skill and initiative and promote self-employment particularly among the educated and professional class.
12. **Protection of Environment:** MSEs help to protect the environment by reducing the problem of pollution.
13. **Shorter Gestation Period:** In these enterprises the time-lag between the execution of the investment project and the start of flow of consumable goods is relatively short.
14. **Facilitate Development of Large Scale Enterprises:** MSEs support the development of large enterprises by meeting their requirements of inputs of raw materials, intermediate goods, spare parts etc. and by utilizing their output for further production.
15. **Individual Tastes, Fashions, and Personalized Services:** Small businesses have the flexibility to adapt quickly to changes in the business or technological environment.
16. **More Employment Creation Capacity:** Economic planners have realized the necessity of encouraging micro and small enterprises because they require less capital but generate more employment. The micro and small scale sectors have the capacity to generate a much higher degree of employment than the large-scale sector. This is because micro and small scale enterprises are labor intensive and thus create more employment with a given level of capital. More production needs more capital in such a situation. The micro and small firms will stand in good position because they are less capital intensive and more labor intensive.

2.4. Classification of Micro and Small Enterprises

1. In Case of **Manufacturing Enterprise** (Manufacturing, Construction and Mining):

A. A **Micro Enterprise** is one in which the investment in plant and machinery (total asset) does not exceed birr100, 000 (one hundred thousand); and operates with 5 people including the owner.

B. **Small Enterprises** is one in which the investment in plant and machinery (a paid up capital of total asset) of birr100, 000 (one hundred thousand) and not more than Birr 1.5 million; and operates with 6-30 persons.

2. In Case of **Service Enterprise** (Retailing, Transport, Hotel and Tourism, ICT and Maintenance):

A. **A micro enterprise** is one with the values of total asset is not exceeding Birr 50,000(fifty thousands); and operates with 5 persons including the owner of the enterprise.

B. **Small Enterprises** is one in which the total asset value or a paid up capital of birr100, 000 (one hundred thousand) and not more than Birr 1.5 million; and operates with 6-30 persons.

When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick.

2.5. Priority Sectors and Sub-Sectors for MSEs Engagement In Ethiopia

1. **Manufacturing Sector**- This is the one which comprises textile and garment; leather and leather products; food processing and beverage; metal works and engineering wood works including furniture and ornaments service; and agro-processing.
2. **Construction Sectors**- This is the one which comprises sub-contracting; building materials; traditional mining works; cobble stone; infrastructure sub-contract; and prestigious goods
3. **Trade Sectors**- This is the one which comprises whole sale of domestic products; retail sale of domestic products and raw materials supply.
4. **Service Sectors**- This is the one which comprises small and rural transport service; café and restaurants; store service; tourism service; canning/packing service; management service; municipality service; project engineering service; product design & development service; maintenance service; beauty salon; and electronics software development; decoration and internet café.
5. **Agriculture Sector (Urban Agriculture)** - This is the one which comprises modern livestock raring; bee production; poultry; modern forest development; vegetables and fruits; modern irrigation; and animal food processing.

2.6. Levels of MSEs in Ethiopia

Start-up:- Start up level refers to enterprises that incorporate people who are interested to establish MSE and those who completed the required profession/skill from various institutions and innovated by legally either in the form of association or private. It is a level where an enterprise begins production and service under legal framework or legal entity.

Growth Level: - An enterprise is said to be at growth level when an enterprise become competent in price, quality and supply and profitable using the support provided. At this level, the enterprise man power and total asset is larger than at startup level; and use book keeping system.

Maturity Level: - Maturity level means when an enterprise able to be profitable and invest further by fulfilling the definition given to the sector and using the support provided.

Growth- Medium Level:- An enterprise is said to be transformed from small to medium level of growth is when it enabled to be competent in price, quality and supply using the support given to the level.

2.7. Contribution of Small Business

- ✓ Providing New Jobs
- ✓ Introducing Innovation
- ✓ Stimulating Economic Competition
- ✓ Aiding Big Business:- distribution function & supply function

2.8. Social and Economic Aspects of Small Business Enterprises

Socialistic Idea

- ➢ Small businesses are mechanisms for the **equitable distribution** of wealth and decentralization of economic power.
- ➢ The benefits of industrial growth should be shared by as many people as possible and should improve the general standard of living.

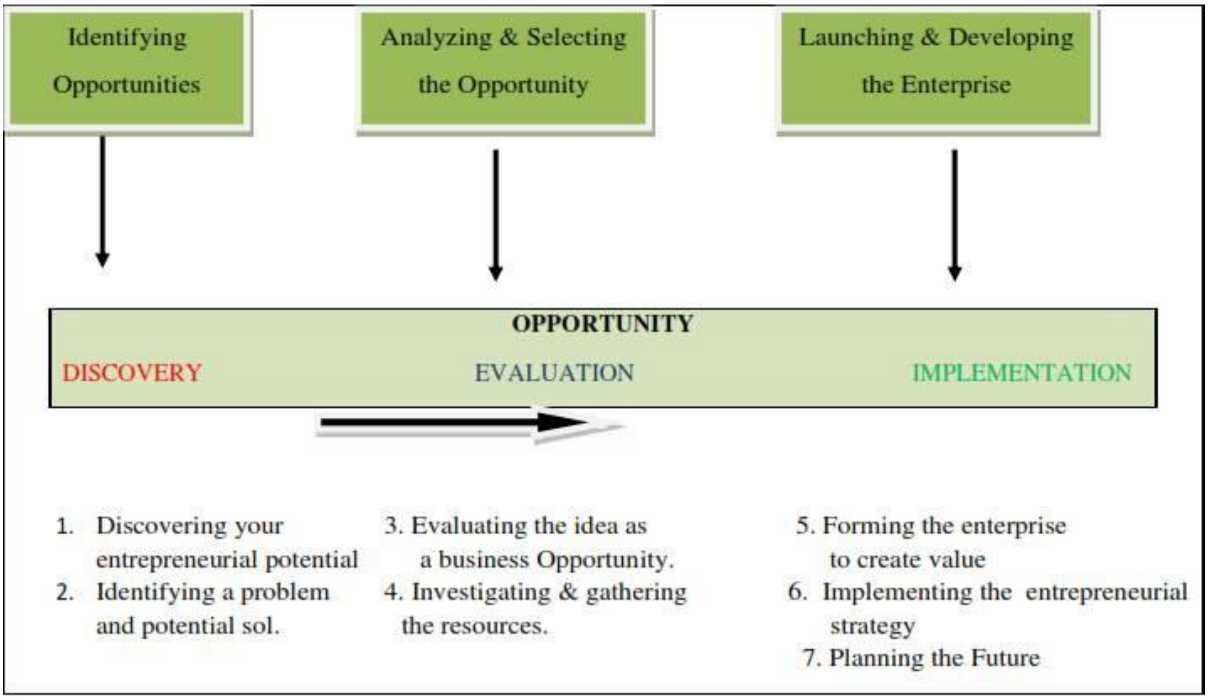
Less Capital and More Labor

- ➢ Absorb more labor with minimum capital and help to reduce unemployment.
- ➢ Job loss, capital shrinkage or simply "bad times" can create the foundation for entrepreneurial pursuits.

2.9. Setting up Small Scale Business

Steps for Setting up the Entrepreneurial Venture

Once an individual decides to take up entrepreneurship as a career path, to be a job provider instead of a job seeker, s/he has to establish an enterprise. However, setting up of a small new enterprise is a very challenging as well as a rewarding task. Several problems are involved in this task. It is extremely important to take utmost care in identifying the product or service to be launched by the entrepreneur; otherwise it might prove to be a costly mistake. After tentatively identifying four to five ideas, s/he should go in for detailed assessment and feasibility study. 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:



Discovery: The first stage of discovery is to identify opportunities that may form the basis of an entrepreneurial venture. It requires creative thinking to indentify issues that can benefit from an entrepreneurial vision. This stage can be divided into two steps:

Step 1 Discovering your entrepreneurial potential - the first step is to know more about your personal resources and attributes through some self-evaluation– what will you bring to the venture? What are your strengths and challenges? These will affect the type of venture you choose.

Step 2 Identifying a problem and potential solution – a new venture has to solve a problem and meet a genuine need.

Evaluation: By the end of first stage of discovery, you should have selected an idea worthy of further detailed investigation. The next stage evaluates if this all adds up to a feasible business in two further steps:

Step 3 Evaluating the idea as a business opportunity– find out information about the market need. Is the solution to this problem really wanted by enough customers? Investigate the feasibility of the proposed solution (technically, economically, socially, and legally).

Step 4 Investigating and gathering the resources – How will the product/service get to market? How will it make money? What resources are required?

Exploitation: By the end of the second stage of evaluation, you should have identified an opportunity that has reasonable prospects of success, and analyzed what is required to launch it. The next stage is to make the final preparations and launch it into the market. It can be developed in three further steps:

Step 5 forming the enterprise to create value – set up a business entity and protect any intellectual property. Get ready to launch the venture in a way that minimizes risk and maximizes returns.

Step 6 implementing the entrepreneurial strategy – activate the marketing, operating, and financial plans.

Step 7 Planning the future – look ahead and visualize where you want to go. Environmental Analysis: Entrepreneurship does not exist in a vacuum. It is affected by and affects the environment.

2.10. Small Business Failure and Success Factors

2.10.1. Small Business Failure Factors

What Is Business Failure?

Even though business owners launch their ventures with the best of intentions and work long, hard hours, some businesses inevitably fail. Dun & Bradstreet, a financial research firm, defines a business failure as a business that closes as a result of either (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 rates of business failure vary greatly by industry and are affected by factors such as type of ownership, size of the business, and expertise of the owner. The causes of business failure are many and complex; however, the most common causes are inadequate management and financing.

Although financial problems are listed as the most common cause of business failure, consider management's role in controlling them. Could business failure due to industry weakness be linked to poor management? Yes, if the owner tried to enter an industry or market with no room for another competitor or responded only slowly to industry changes. High operating expenses and insufficient profit margins also reflect ineffective management. Finally, business failure due to insufficient capital suggests inexperienced management.

Inadequate Management: - Business management is the efficient and effective use of resources. For small business owners, management skills are especially desirable—and often especially difficult to obtain. Lack of experience is one of their most pressing problems. Small business owners must be generalists; they do not have the luxury of specialized management. On the one hand, they may not be able to afford to hire the full-time experts who could help avert costly mistakes. On the other hand, their limited resources will not permit them to make many mistakes and stay in business. As a small business manager, you will probably have to make decisions in areas in which you have little expertise.

Entrepreneurs are generally correct in pointing to internal factors as the reason for the failure of their businesses; these factors are the cause of 89 percent of such failures. Internal problems are those more directly under the control of the manager, such as adequate capital, cash flow, facilities/equipment inventory control, human resources, leadership, organizational structure, and accounting systems.

The manager of a small business must be a leader, a planner, and a worker. You may be a "top gun" in sales, but that skill could work against you. You might be tempted to concentrate on sales while ignoring other equally important areas of the business, such as record keeping, inventory, and customer service.

Inadequate Financing: - Business failure due to inadequate financing can be caused by improper managerial control as well as shortage of capital. On the one hand, if 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. On the other hand, if 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.

There are a lot of ways to fail in business. You can extend too much credit. You can fail to plan for the future or not have strategic direction. You can overinvest in fixed assets or hire the wrong people. Identifying mistakes that can be made is merely one component of the problem. Figuring out how to avoid them is the hard part.

Business Termination versus Failure

There is a difference between a business termination and a business failure. A termination occurs when a business no longer exists for any reason. A failure occurs when a business closes with a financial loss to a creditor.

Reasons for a termination abound. The owner may have an opportunity to sell her business to someone else for a healthy profit, or be ready to move on to a new business or to retire, or s/he may have simply lost interest in the business. The market for the business's product may have changed or become saturated. Perhaps the owner has decided it would be more appealing to work for someone else. In other cases, businesses may change form. A partnership may be restructured as a corporation, or a business may move to a new location. Businesses that undergo such changes are considered terminated even though they continue in another form.

Mistakes Leading to Business Failure

No one likes to think about failing, yet many small business owners invite failure by ignoring basic rules for success. One of the most common mistakes is to neglect to plan for the future because planning seems too hard or time-consuming. Planning what you want to do with your business, where you want it to go, and how you're going to get there are prerequisites for a sound business. Of course, that doesn't mean you can't change your plans as circumstances dictate. Your plan should provide a road map for your business, showing you both the expressways and the scenic routes and the detours.

Another common mistake is failing to understand the commitment and hard work that are required for turning a business into a success. Having to work long hours and do things you don't enjoy because no one else is available to do them are part and parcel of owning a small business. Yet, when you have the freedom of being your own boss, the hard work and long hours often don't seem so demanding!

Still another mistake that small business owners make, particularly with rapidly growing businesses, is not hiring additional employees soon enough or not using existing employees effectively. There comes a point in the growth of a business when it is no longer possible for the manager to do it all, but s/he resists delegation in the belief that it means s/he is giving up control. It is important to recognize that delegating tasks to others isn't giving up control—it's giving up the execution of details.

The last type of mistake involves with finances. Inaccurate estimates of cash flow and capital requirements can swamp a business quickly. Figuring the correct amount of money needed for starting a business is a tough balancing act: Asking for too little may hinder growth and actually jeopardize survival, whereas asking for too much might cause lenders or investors to hesitate. An important rule to remember in terms of arranging financing or calculating cash-flow projections is to figure the unexpected into your financial plans. In this way, you can have more of a cushion to fall back on if things don't go exactly according to plan. After all, without the right amount of capital, it's impossible to succeed.

Business failure, then, is a serious reality. How can a small business owner avoid it? Difficult changes may be needed, and change requires leaders to overcome all sorts of human dynamics, like inertia, tradition, and head-in-the-sand hoping that things will get better. Strategic moments require courage, or at least a lack of sentimentality, which is rare.

2.10.2. Small Business Success Factors

When large and small businesses compete directly against one another, it might seem that large businesses would always have a better chance of winning. In reality, small businesses have certain inherent factors that work in their favor. You will improve your chances of achieving success in running a small business if you identify your competitive advantage, remain flexible and innovative, cultivate a close relationship with your customers, and strive for quality.

It may come as a surprise, but big businesses need small businesses a symbiotic relationship exists between them.

Small businesses perform more efficiently than larger ones in several areas. For example, although large manufacturers tend to enjoy a higher profit margin due to their economies of scale, small businesses are often better at distribution. Most wholesale and retail businesses are small, which serves to link large manufacturers more efficiently with millions of consumers spread all over the world.

Small business success factors can be seen the same as the efforts exerted in reversing the factors of failure. There are several positive steps in addition to planning that business owners can take to improve a firm's chance for success.

From the discussion about factors of failure, we can conclude that a proper attitude is important to ensure a customer orientation for quality and service; the owner must have a purpose for being in business and want to provide customers with value for their money; and having a variety of basic business skill is important (such as the ability to keep accounting records.) So, by understanding why business fail, entrepreneurs can discover ways to tilt the scales towards success. These success factors are categorized as:-

- Conducive Environment;
- Adequate Credit Assistance;
- Markets and Marketing Support.

1. **Conducive Environment**

Successful small enterprises do not emerge, and thereafter survive and grow unless the environment is conductive. Political, economic, technological and socio-cultural factors in the environment impinge upon the life of the small enterprises and generate much of the needs required for their existence.

Political Climate: - The overall political climate in a country is important for the small scale entrepreneur to consider. Small scale entrepreneur will need positive and encouraging measures by government and political constituencies to establish private investment. Such measures could include liberal or nonrestrictive investment policy, creation of promotional agencies, creation of industrial estates and free trade zones and availability of low-cost loan capital for private investors.

The Economic Environment: - An analysis of the economic environment is particularly helpful in investment decision, market measurement and in forecasting.

The general state of the economy dictates what the small enterprise will need especially since it is handicapped in obtaining capital and credit owning to greater unit costs of small transactions, greater risks involved, etc. .

Technology: - Technological advances in the environment create new needs for the small entrepreneur as far as adaptation and adjustment is concerned.

Small scale entrepreneur needs to learn how to adjust to the new technological environment surrounding him/her, or needs to take a set of advance technologies and bring these to his/her own level in the small enterprise. Either way, constant reexamination is needed for possible utilization and improvement of existing technologies.

Socio-Cultural Environment: - Finally, the socio-cultural environment also creates a very important climate for the survival of the enterprises.

2. **Adequate Credit Assistance**

Small enterprise development cannot be ensured without arrangement for financing. Adequate and timely supply of credit is critical for new entrepreneurs to emerge especially from a wide base. A great majority of micro and small business activities have come about because of special financing programs offered to them.

Thus, requirements are less strict in terms of lower interest rates than the prevailing commercial rates; less collateral requirements and lower equity ratio; various assistance schemes such as preparing the project study; etc.

3. **Markets and Marketing Support**

Market for a small enterprise in a developing country can be quite a problem. The small business entrepreneur will be in competition not only with locally mass-produced goods but even imports. Small enterprises can brand together and sell their products as one body through closely-knit associations or organizations. The government too can take an active part in marketing specific products or assisting small groups of entrepreneurs in selling their products.

2.11. Problems of Small 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. They do not have easy access to industrial sources of finance partly because of their size and partly because of the fact that their surpluses which can be utilized to repay loans are relatively small. Because of their size and partly because of the limited profit, they search for funds for investment purposes.

Consequently, they approach traditional money lenders who charge extra high rate of interest hence small enterprise continue to be financially weak.

1. **At Infant stage**

- **Lack of financial support** on the basis of their business nature, credit amount and time as they have **no access to collateral**.
- **Lack of consistent and integrated technology and skill** that help to enhance and improve productivity, quality and standard.
- **Lack of access for manufacturing and sales center, land**
- Developing sense of **rent seeking attitude** and failure to run business on legal basis.

2. **At maturity level**

Maturity level means when an enterprise able to be **profitable and invest further** by fulfilling the definition given to the sector and using the support provided.

- **Failure in keeping up productivity and quality of product** in order to be competent.
- **Lack of knowledge in an international standard** products and production system.
- **Limitation in technological ability** and factors of production that ensure competency in the markets.

Socio cultural constraints

- affecting the development of MSEs in Ethiopia: due to:
  - ✓ Lack of enterprise culture in the country, which required a drastic/extreme change;
  - ✓ Considerable lack of positive attitude in the country;
  - ✓ Excessive corruption, which actually constrain private enterprise.
- **Arbitrary and subjective tax system**
  - ✓ Most of MSEs do not have a proper accounting system.
  - ✓ Taxation is based on estimation of earnings and is highly subjective.

2.12. Motivation for Starting a Business

The reason for small firm formation can be divided between "pull" and "push" influences.

A. **"Pull" Influences -** positive motives

1. Desire for Independence/ autonomy- owner-managers;
2. Desire to Exploit an Opportunity;
3. Turning a Hobby or Previous Work Experience into a Business; and
4. Financial Incentive.

B. 'Push' Influences

1. Redundancy- Repetition of messages to reduce the probability of errors in transmission;
2. Threat of Unemployment; and
3. Disagreement with previous employer.

Chapter Three: Developing Business Plan

1.1. Introduction

Starting or running a business without care planning is like travelling to a new place without having proper information. Business plan is a written description of the nature of the business, the goals of organization and objectives of the organization and Strategies of the organization- how objectives could be achieved.

Business Plan is a written summary of what you hope to accomplish by being in business and how you intend to organize your resources to meet your goals. It is the road map for operating your business and measuring progress along the way. Business Plan is a more detailed and in depth document that incorporates the information gained from a feasibility study plus specific timelines, detailed budgets with forecasts and a detailed financial strategy.

This unit will help you to understand the concept of opportunity identification and evaluation, business idea development and how to prepare a business plan. Virtually to start any type of business or expand the existing one needs to work on opportunity identification and evaluation, business idea development and then prepare business plan. Lack of proper opportunity identification and evaluation, idea development process and business planning are the most often cited reasons for business failure.

1.2. Opportunity Identification and Evaluation

Most authors agree that the initial stage in the entrepreneurial process is the identification and refinement of a viable economic opportunity that exists in the market. Without the recognition of an opportunity the entrepreneurial process is likely to result in failure.

Opportunity recognition corresponds to the principal activities that take place before a business is formed or structured. The opportunity identification and evaluation stage can be divided into five main steps namely: - getting the idea/scanning the environment, identifying the opportunity, developing the opportunity, evaluating the opportunity and evaluating the team.

1. Scanning the Environment/ Getting the Idea

While scanning the environment it may be provide you with idea and business opportunities. Idea is a thought or suggestion about a possible course of action. Whereas, opportunity is a favorable time or set of circumstances for doing something. A business opportunity is a gap left in a market by those who currently serve it, giving a chance to others to add unrealized value by performing differently from and better than competitors in order to create new possibilities.

Business opportunities are distinguished from ideas; an idea is not synonymous with opportunity. The difference between an idea and an opportunity is that an opportunity is the possibility of occupying the market with a specific innovative product that will satisfy a real need and for which customers are willing to pay but idea is all about opinion about anything we can have. Successful venturing may well rest upon the ability of an individual to recognize or distinguish an opportunity from an idea.

2. Opportunity Identification

Opportunity identification is ability to see, to discover and exploit opportunities that others miss. It is the process of seeking out better ways of competing. It includes scanning the informational environment, being able to capture, recognize and make effective use of abstract, implicit and changing information from the changing external environments.

It is important for the entrepreneur to understand the cause of the opportunity. Is it technological change, market shift, government regulation, or competition? These factors and the resulting opportunity have a different market size and time dimension. The market size and the length of the window of opportunity form the primary basis for determining risks and rewards which serves for opportunity evaluation.

Opportunity identification is a very difficult task, as most opportunities do not just appear but rather result from an entrepreneur's alertness to possibilities. In developing countries, problems may be changed to business opportunities.

3. Opportunity Development

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

4. Opportunity Evaluation

Opportunity screening and evaluation is a critical element of the entrepreneurial process. A professional executed evaluation can tell whether the specific product or service has the returns needed to justify the investment and the risk to be taken.

Opportunity screening and evaluation is perhaps the most critical element of the entrepreneurial process, as it allows the entrepreneur to assess whether the specific product or service has the returns needed for the resources required. This evaluation process involves looking at the creation and length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur, and its differential advantage in its competitive environment.

According to experts, evaluating the opportunity must answer the questions listed in table 3.1 below:

Table 3.1: Business factors and questions for opportunity evaluation

Business factor	Questions for evaluation
Product or Service	Description of the product or service, its differentiator, purpose and the need it fills ➢ What competitive advantage / benefits does the product have? ➢ What is the required customer care support for this product/service? ➢ Is the company able to produce product and supply required aftercare support?
Market Opportunity	➢ Where is the market demand? What is the target market? Is it generic or a niche? ➢ Industry characteristics (growth rates, change, entry barriers). ➢ What market share can the product reasonably expect today? In 2, 5 or 10 years? ➢ Timing and length of the window of opportunity? ➢ What competition exists in this market? Substitutes? How big is their turnover? ➢ How accessible are the desired distribution channels?
Costing and Pricing	➢ How much will it cost to develop the product and commercialize it? ➢ Where will the funds come from? ➢ How do the pricing, costs and economies of scale compare with competitors? ➢ How easy is it to acquire equipment, skills and other inputs required?

Profitability	➢ Where is the money to be made in this activity? What are the gross margins? ➢ Would the return on investment be acceptable? What is the payback period? ➢ What are the cash flow patterns and the source of working capital?
Capital Requirements	➢ How much capital (people, operating expense and assets) is required to start? ➢ What are the long-term capital needs? ➢ How much of the required capital is secured and where will the rest come from? ➢ What securities are available to guarantee the required funds?
Business factor	**Questions for evaluation**
	○ Is there a list of potential funders? In case the funders withdraw their capital?
Issues and risks	○ What risks (real and perceived) are inherent with the product/service? ○ Industry based risks e.g. is the market on a decline? ○ Are there plans for surviving the death of the lead entrepreneur? ○ Unreliable forecasts? Inadequate cash flow? ○ Inability to grow with the demand or cope with shrinking sales? ○ Supplier and value chain management?

5. Assessment of the Entrepreneurial Team

Regardless of how right the opportunity may seem to be, it will not make a successful business unless it is developed by a team with strong skills. Gartner et al (1999:230) advices that once the opportunity has been evaluated, the next step is to ask pertinent questions about the people who would run the company. Such questions are illustrated in table 3.2:

Table 3.2: Team factors and questions for opportunity evaluation

Team factor	Questions for evaluation
Focus:	➢ Is the founder really an entrepreneur, bent on building a company? ➢ Does the entrepreneur (or his team) have some experience (work or industry)? ➢ Do they really like this product/sector? Do they really want this? ➢ Can the team create products to suit that market need?

	➢ How stressful is the opportunity for the team?
Selling:	➢ Does the team have the necessary selling and closing skills?
Management:	➢ Who will work full time? Do your managers represent competitive advantage? ➢ Does the team have the necessary management and technical skills? ➢ If the required skills are not available, can they be acquired at competitive rates? ➢ How is their relationship with the entrepreneur, commitment and motivation?
Ownership:	➢ Have the critical decisions about ownership and equity splits been resolved? ➢ Are the members committed to these? ➢ Does the owners have enough financial capital for required own contributions?

1.3. Business Idea Development

A business idea is a short and precise description of the basic operation of an intended business. There are three types of business ideas. They are:

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

1.4. Business Idea Identification

Before you start a business, you need to have a clear idea of the sort of business you want to run. Your business idea will tell you:

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

- How much will your business depend upon and impact the environment?

A business idea will be compatible with the sustainable use of natural resources and will respect the social and natural environment on which it depends.

All business ideas are not equally worth. Therefore, to identify promising business idea among others, it is important to answer the above raised questions. Let we see the explanation for the questions raised above.

1.4.1. The Need will Your Business Fulfil for the Customers

Your business idea should always have customers and their needs in mind.

It might be a good idea to start a day care center in the commercial area as many other parents may have the same need.

It might be a good idea to start a waste collection and recycling service in this area. Not only would the owner of this restaurant need the service, but many other residents in the area might need it as well.

1.4.2. Good or Service will your Business Sell

Depending on your skills and the needs of the customers, you should decide which good or service your business will sell. Also, keep in mind that they must be goods or services that people are willing to pay for and at a price that will allow you to make a profit.

A good is an item that people pay for and use. It may be something you make yourself or it may be something you buy to resell. Tools, baked goods, clothes and retail items are all products. A service is something you do for people that they then pay you for. For example, delivering goods, banking, babysitting, repairing items, collecting recyclable waste from apartment buildings, operating tours, etc. are all services.

1.4.3. Identifies Potential Customer

Any business cannot succeed without customers. Therefore, it is essential that you know who your customers will be. Will you sell to a specific type of customer or to everyone in an area? There must be enough people who are able and willing to pay for your goods and services or the business will not survive.

1.4.4. Strategy for Selling Goods or Services/ how is Your Business Going to Sell goods or services?

How are you going to sell your goods or services? If you plan to open a shop, you know how you will sell your product, but manufacturers or service operators can sell their products in many different ways. A manufacturer, for example, can sell either directly to customers, to retailers or to wholesalers.

1.4.5. Relation between Business and Environment

Your business can only be sustainable in the long run if it works in harmony with the social and natural environment. How much does your business depend on the environment? Does it rely on the weather, soil or other natural resources? Does it need any specific type of labor from the local community? Does it need the local community to support it? What should you do to make sure that your business nurtures the natural environment and helps the local community? Will your business nurture the natural environment or will it have a detrimental impact? How would you minimize or reverse any negative effect that your business might have?

1.5. Methods for Generating Business Ideas

Every business idea should be based on knowledge of the market and its needs. The market refers to people who might want to buy a good or service; i.e. the customers. The market differs from place to place, depending on who lives in the area, how they live and for what goods or services they spend their money. When you understand the market in your area, you might recognize many business ideas that you may have previously ignored.

When generating business ideas, it is best to try to keep your mind open to everything. Your first goal is to think of as many ideas as possible and make a list of all the possible business opportunities. With a list, you will have more choices! You then can scan the list and nail down the idea(s) that sound most feasible to you and that you think will be most profitable.

There are many ways to come up with business ideas, such as surveying local businesses or asking existing business owners. The information gained from one approach may supplement another and help you to clearly describe your business ideas. Below, we will examine a few different approaches to generating business ideas.

1. Learn from successful business owners

You can learn a lot from people in your area who have already gone through the process of establishing a business. You should try to get the following information from them:

- What kind of idea did these businesses start with?
- Where did the ideas come from?
- How did they develop their ideas into successful businesses?

- How does the business profit and fit into the local environment?
- Where did they get the money to start their business? and
- When to meet successful business owners?

2. **Draw From Experience**

Your own Experience

Look at the list of your interests, your experiences and your networks. Are there any possible business ideas that you can derive from your own past experience? Think about each type of experience.

Start with yourself. What has your experience been as a customer in the market place? Have you ever searched all day for some items that you could not find in any store in your area? Think about the goods and services you have wanted at different times and that you have had difficulty finding.

Other People's Experience

The people around you are potential customers. It is important to understand their experience trying to find goods and services that are unavailable or not exactly what they need. Listen carefully to what these people say about their shopping experience.

Ask your family and friends about the things they would like to find that are not locally available. Expand your social knowledge by talking to people from different age groups, social classes, etc. You can also visit community groups, colleges, etc. for a greater understanding of the market.

3. **Survey Your Local Business Area**

Another way of discovering business ideas is to look around your local community. Find out what type of businesses are already operating in your area and see if you can identify any gaps in the market.

If you live in a village or small town, you may be able to identify all the fields of business in the whole town. Otherwise, you may need to focus on the preferred business fields and business types that you identified. This is an activity that will be much easier to do with a business partner or friend. Visit the closest industrial area, markets and shopping centers in your area.

4. **Scanning Your Environment**

You can use your creativity to find more business ideas in your area. Look at the list of existing local businesses. If the list has included most of the local markets, you may be able to learn about the industries or service providers on which the local economy relies.

It may be useful to think about business ideas by considering all the resources and institutions in your area. For example think about:

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

5. **Brainstorming**

Brainstorming means 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. You continue writing for as long as possible, putting down things that you think of, even if they seem irrelevant or odd. Good ideas can come from concepts that initially seem strange.

Brainstorming works best in a group. Get your family, friends or classmate together and ask them to help by writing down ideas they have when they hear the word or subject matter.

6. **Structured Brainstorming**

Structured brainstorming is when you 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. This is different from thinking about random items related to a particular business field and type.

Try to think of all the businesses that are related to different aspects of a product:

- Those involved in production,
- Those involved in the selling process,
- Those involved in recycling or re-using materials,
- Those indirectly related (spin-offs),
- Those involved in servicing,

For example, you can think of different processes within each line. You continue until you have run out of ideas. Again, whatever comes to mind should be written down. Decide later if it is worthwhile or correct.

As far as all brainstorming exercises are concerned, it is essential to recall the basic rules of brainstorming: no criticizing or censoring of ideas, wild and turbulent sessions allowing the uninterrupted flow of ideas, no interruption once the basic idea of the exercise has been introduced, no shyness and no limitations.

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. The moderator focuses the discussion in either Directive or none directive manner. It is useful for both getting new idea on existing product or screening idea/concepts.

8. Problem Inventory Analysis

It is similar to focus group to generate new product ideas. The difference is rather than generating new idea themselves, consumers are provided with a list of problems in general product category. It is a method of obtaining "New Idea" and solutions by focusing on problems.

9. Free Association

One of the simplest methods that entrepreneurs can use to generate new ideas is free association. This technique is particularly helpful in developing an entirely new slant to a problem. First, a word or phrase related to the problem is written down, then another and another, with each new word attempting to add something new to the ongoing thought processes, thereby creating a chain of ideas ending with a new product/service idea emerging.

10. Forced Relationships

Forced relationships- as the name implies- is the process of forcing relationships among some product combinations. It is a technique that asks questions about objects or ideas in an effort to develop a new idea.

11. Attribute Listing

Attribute listing is an idea-finding technique that has the entrepreneur list the attributes of an item or problem and then look at each from a variety of viewpoints. Through this process, originally unrelated objects can be brought together to form a new combination and possibly a new product/service that better satisfies a need.

1.6. Business Idea Screening

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

1. **Macro screening:** is aimed screening down ideas to 10. And the common criteria are:
   - ➢ Are my own competencies (see strength detector) sufficient?
   - ➢ Can I finance it to a large extent with my own equity?
   - ➢ Will people buy my product/service (i.e. is it needed and can people afford it)?
2. **Micro Screening:** is aimed screening down ideas into 3. The common criteria used for screening are:
   - ➢ Solvent demand
   - ➢ Availability of raw materials
   - ➢ Availability of personal skills
   - ➢ Availability of financial resources
3. **Scoring the Suitability of Business Idea:**

This approach is most appropriate when deciding on starting a business. When there are more than one possible business ideas and one needs to decide which one to follow, we use score business ideas (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.

S. No	Questions	BI1	BI2	BI3
1.	Are you familiar with the operations of this type of business?			
2.	Does the business meet your investment goals?			
3.	Does the business meet your income goals?			
4.	Does the business generate sufficient profits?			
5.	Do you feel comfortable with the business?			
6.	Does your family feel comfortable with the business?			
7.	Does the business satisfy your sense of status?			
8.	Is the business compatible with your people skills?			

9.	Is there good growth projected for the overall industry of the business?			
10.	Is the risk factor acceptable?			
11.	Does the business require long hours?			
12.	Is the business location-sensitive?			
13.	Does the business fit your personal goals and objectives?			
14.	Does this business fit your professional skills?			
Totals				

Notes: while to answer the above listed questions it is important to conduct survey. Collecting information on your business idea gives you an opportunity to promote your business idea and to present yourself as a potential entrepreneur. While to answer the above questions, there are four important groups that you should talk to:

- **Potential customers**: Their views are essential to your understanding of whether or not your proposed product is important to them and if you need to modify your idea to meet their needs.
- **Competitors, suppliers and entities with financial resources**: Their views will reveal the challenges of competition that you would face, as well as other issues related to your potential business.
- **Financial institutions:** Find out the lending requirements to determine whether borrowing for a new business is possible.
- **Key informants and opinion leaders:** These are people who would know a lot about the type and field of business you want to go into and/or a lot about your potential customers. Their views would give you a lot to think about and could also give you a better insight into the feasibility of your business idea.

When you have completed the summary of your business idea, you can go on to the next step to start your own business: Prepare a business plan for the proposed business.

1.7. Concept of Business Plan

Planning is the first and the most crucial step for starting a business. A carefully charted and meticulously designed business plan can convert a simple idea/innovation into a successful business venture.

A business plan is a road map for starting and running a business. A well-crafted business plan identifies opportunities, scans the external and internal environment to assess the feasibility of business and allocates resources in the best possible way, which finally leads to the success of the plan. It provides information to all concerned people like the venture capitalist and other financial institutions, the investors, the employees. It provides information about the various functional requirements (marketing, finance, operations and human resources) for running a business.

A business plan is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture. A business plan first of all identifies an innovative idea, researches the external environment to list the opportunities and threats, identifies internal strengths and weakness, assesses the feasibility of the idea and then allocates resources (production/operation, finance, human resources) in the best possible manner to make the plan successful:.

The objectives of a business plan are to:

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

1.8. Developing a Business Plan

1.8.1. Business Planning Process

A plan, which looks very feasible at the first instance, might actually not be when the details are drawn. Hence documenting the business plan is one of the early steps that an entrepreneur should take. As discussed above, the successful entrepreneur lays down a step-by-step plan that she/he follows in starting a new business. This business plan acts as a guiding tool to the entrepreneur and is dynamic in nature – it needs continuous review and updating so that the plan remains viable even in changing business situations. The various steps involved in business planning process are discussed here below:

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 external environment and internal 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

Entrepreneurship is not just limited to innovation (generation of an entirely new concept, product or service, but it also encompasses incremental value addition to the concept/product/ services offered to the consumer, shareholder and employee).

Opportunity identification and business idea generation is the first stage of business planning process. It involves generation of new concepts, ideas, products or services to satisfy demand.

3. Environmental Scanning

Once a promising idea emerges through idea generation phase the next step is environmental scanning, which is carried out to analyze the prospective strengths, weakness, opportunities and threats of the business enterprise. Hence before getting into the finer details of setting up business it is advisable to scan the environment both external and internal and collect the information about the possible opportunities, threats from the external environment and strengths and weaknesses from the internal environment (the detail has been addressed in chapter one).

4. **Feasibility Analysis**

Feasibility study is done to find whether the proposed project (considering the above environmental scanning) would be feasible or not. It is important to demarcate environmental scanning and feasibility study at this point. Environmental scanning is carried out to assess the external and internal environment of the geographical area/areas where, entrepreneur intends to set up his business enterprise, whereas feasibility study is carried out to assess the feasibility of the project itself in a particular environment in greater detail.

5. **Report Preparation**

After environmental scanning and feasibility analysis, a business plan report is prepared. It is a written document that describes step-by- step, the strategies involved in starting and running a business.

1.8.2. Essential Components of Business Plan

A. **Cover Sheet:** Cover sheet is like the cover page of the book. It mentions the name of the project, address of the headquarters (if any) and name and address of the promoters.

B. **Executive Summary:** Executive summary is the first impression about the business proposal. As the saying goes, the first impression is the last impression. A careful presentation of information should be done to attract the attention of the evaluators. It should be in brief (not more than two or three pages) yet it should have all the factual details about the project that can improve its marketability. It should briefly describe the company; mention some financial figures and some salient features of the project. Generating interest in the minds of the readers is the prime motive of the executive summary.

C. **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 (if it is an old company), what would be the form of ownership (whether it would be a single proprietor, partnership, cooperative society or a company under company law). It would also label the address of the proposed headquarters.

D. **Funding Requirement:** Since the investors and financial institutions are one of the key bodies examining the business plan report and it is one of the primary objectives of preparing the business plan report, a careful, well-planned funding requirement should be documented. It is also necessary to project how these requirements would be fulfilled. 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.

E. **The Product or Services:** A brief description of product/services is given in this subsection. 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. It also gives details about the patents, trademarks, copyrights, franchises, and licensing agreements.

F. **The Plan**: Now the functional plans for marketing, finance, human resources and operations are to be drawn.

G. **Marketing Plan:** Marketing mix strategies are to be drawn, based on the market research.

H. **Operational Plan**: The operational plan would give information about (i) Plant location: why was a particular location chosen? Is it in the vicinity of the market, suppliers, labor or does it have an advantage of government subsidies for that particular location or are there any other specific reasons for choosing the particular location?, (ii) Plan for material requirements, inventory management and quality control are also drawn for identifying further costs and intricacies of the business. Finally, the budget for operational plan is also drawn.

I. **Organizational Structure**: The 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 and it would also enlist the details about the laws that would be governed in managing the employees of the organization. In the end the organizational plan is also budgeted.

J. **Financial Plan:** The financial plan is usually drawn for two to five years for an existing company. For a new organization the following projections are drawn:

    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

K. **Critical Risks:** The investors are interested in knowing the tentative risks to evaluate the viability of the business and to measure the risks involved in the business. This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.

L. **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. It further helps in measuring the risks involved in investing.

M. **Appendix:** The appendix can provide information about the Curriculum Vitae of the owners, Ownership Agreement and the like.

1.9. Review Questions/Self Check Questions

1. List and discuss opportunity Identification steps.
2. Discuss the business idea Identification processes.
3. List at least three approaches of business idea generation and discuss them.
4. Discuss steps involved in business planning process.
5. Discuss the Components of Business Plan.

Chapter Four: Product and Service

4.1. Concepts of Product and 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 success product or services do not only have an attractive package design but should be also able to provide robust performance.

Products and services are two closely aligned concepts, and, in fact, most products have an element of service in them. For example, a car buyer now buys a comprehensive bundle of service benefits, in addition to the tangible components of the car.

From the **clients'** point of view: "what can you make for me?" about product. Product is anything that can be offered to a market to satisfy a want or need. Product is bundle of physical and symbolic attributes de-signed to satisfy consumer wants. Products are tangible and discernible items that the organization produces, including digital file-based output. A product is something that can be measured and counted. Product is everything, both favorable and unfavorable, that a person receives in an exchange.

Again from the '**clients'** point of view: - **"**What can you **do** for me? " - About services. Service is the production of an essentially intangible benefit, either in its own right or as a significant element of a tangible product. A service is less concrete and is the result of the application of skills and expertise towards an identified need.

4.2. Product Technology

Product technology is a scientific discipline that covers the area of product design and engineering. It is all about product design and engineering. This can be **attributed to an ever-increasing demand** from customers for high performance products with a high functionality. It is the science and art of developing and producing performance products by improving existing and designing new products.

Product technology Vs Process technology

Process technology focuses on a **limited part of the total production chain** while Product technology (engineering) includes **supply** and **demand** and the **associated logistics**. Product technology is the science and art of developing and producing performance products to meet the demands and requirements of society and achieves this by **adding value** to materials by improving existing and designing new products.

4.3. Product Development

Product Development is the systematic development process for optimizing a product's time to market, cost, performance, quality, customer satisfaction, and risk management. It integrates all product knowledge and expertise from concept, through manufacturing and customer satisfaction, to the end of the product's life.

4.3.1. Product Development Process

A. Idea generation
B. Idea screening
C. Concept development and testing
D. Marketing strategy development
E. Business analysis
F. Product development
G. Test marketing
H. Commercialization

4.3.1.1. Idea Generation

New idea generation is the systematic **search for new product ideas**. Sources of new-product ideas: - **Internal** - refer to the company's own formal research and development, management and staff, and intra-preneurial programs. **External** - refer to sources outside the company such as customers, competitors, distributors, suppliers, and outside design firms.

4.3.1.2. Idea Screening

Idea screening refers to reviewing new-product ideas in order to **drop poor ones as** soon as possible.

4.3.1.3. Concept Development and Testing

Product idea is an idea for a possible product that the company can see itself offering to the market. **Product concept** is a detailed version of the idea stated in meaningful consumer terms. **Product image** is the way consumers perceive an actual or potential product. **Concept testing** refers to an **examination** of new-product concepts with groups of target consumers.

4.3.1.4. Marketing Strategy Development

Marketing strategy development refers to the initial marketing strategy for introducing the product to the market.

Marketing Strategy Statement

- **Part 1**: Description of the target market and product positioning, sales, market share, and profit goals.
- **Part 2**: Price, distribution, and budget
- **Part 3**: Long-term sales, profit goals, and marketing mix strategy.

4.3.1.5. Business Analysis

Business analysis involves a review of the sales, costs, and profit projections to find out whether they satisfy the company's objectives.

4.3.1.6. Product Development

Product development involves the **creation and testing** of one or more physical versions by the Research and Development or engineering departments. It requires an increase in investment.

4.3.1.7. Test Marketing

Test marketing is the stage at which the **product and marketing program** are **introduced** into more realistic marketing settings. It provides the marketer with experience in testing the product and entire marketing program **before full introduction**.

When firms test market, there is new product with large investment and uncertainty about product or marketing program.

When firms **may not** test market; there is existence of simple line extension, copy of competitor product, low costs, and management confidence.

There are various approaches to test marketing. Such as Standard test markets, Controlled test markets and simulated test markets.

Standard test markets are **small representative markets** where the firm conducts a full marketing campaign and uses store audits, consumer and distributor surveys, and other measures to gauge product performance. Results are used to forecast national sales and profits, discover product problems, and **fine-tune** the marketing program.

Challenges of standard test markets: Cost; Time; Competitors can monitor the test; Competitor interference; and Competitors gain access to the new product before introduction.

Controlled test markets are **panels of stores** that have agreed to carry new products for a fee: less expensive than standard test markets; faster than standard test markets; and competitors gain access to the new product.

Simulated test markets are events where the firm will **create a shopping environment** and note how many consumers buy the new product and competing products. It provides measure of trial and the effectiveness of promotion. Researchers can interview consumers.

4.3.1.8. Commercialization

Commercialization is the introduction of the new product: when to launch; where to launch; and planned market rollout.

4.4. Managing New-Product Development

Successful new product development should be: Customer-centered; Sequential/systematic/; and Team-centered.

Customer-centered New-product Development

It focuses on finding new ways to **solve customer problems** and create more customer-satisfying experiences, and also it bbegins and ends with solving customer problems.

Sequential New-Product Development

Sequential New-Product Development is a development approach where company **departments** work closely together individually to complete **each stage** of the process before passing along to the next department or stage. Sequential New-Product Development is slow.

Team-based new-product development

Team-based new-product development is a development approach where company departments work closely together in **cross-functional teams**, overlapping in the product-development process to save time and increase effectiveness.

4.5. Product Protection (patent, trade mark & copyright)/ Intellectual Property Protection/Product/Service Protection

Intellectual Property which includes patents, trademarks, copyrights, and trade secrets represents important assets to the entrepreneur and should be understood even before engaging the services of an attorney. Too often entrepreneurs, because of their lack of understanding of intellectual property, ignore important steps that they should have taken to protect these assets.

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 the same sense that real estate titles establish ownership of tangible items, intellectual property is protected by such legal means as patents, copyrights, and trademark registrations. 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. This is the reason why' experts strongly recommend that those in creative fields seek protection through official registration of their intellectual properties.

4.5.1. 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.

- **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. This patent is appropriate when the basic product already exists in the marketplace and is not being improved in function but only in style. These patents are particularly important to companies such as shoe producers and product package design firms that need to protect their ornamental designs.

A patent provides the owner with exclusive rights to hold, transfer, and license the production and sale of a product/process. It is an intellectual property right and It is issued by government to the inventor. This exclusive property right can be granted for a number of years depending on the countries laws and type of property. Patents are property rights that can be sold and transferred, willed as well as licensed and at times used as collateral.

4.5.2. 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. Unlike the patent, a trademark can last indefinitely, as long as the mark continues to perform its indicated function. Trademarks unlike patents are periodically renewed unless invalidated by cancellations, abandonment, or other technical registration/renewal issues.

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 mark.
- It entitles you to use the notice of registration (®).
- It provides a basis for filing trademark application in foreign countries.

4.5.3. 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.

4.6. The Intellectual Property System in Ethiopia

Ethiopia became a party to the convention establishing the world Intellectual Property Organization (WIPO) in February 1998 right after some time the Country had joined the Nairobi Treaty on the Protection of the Olympic Symbol in 1981. It is a member of the Treaty establishing the Common Market for Eastern and Southern Africa (COMESA) which was formed in 1994, the Partnership Agreement between members of the African, Caribbean and Pacific (ACP) Group of States and the European Union (EU).

The Ethiopian Government established the Ethiopian Intellectual Property Office in the year 2003 containing the understated Objectives:-

- To facilitate the provision of adequate legal protection for and exploitation of intellectual property in the country;
- To collect, organize and disseminate technological information contained in patent documents and encourage its utilization;
- To study, analyze and recommend policies and legislation on intellectual property to the government; and
- To promote knowledge and understanding of intellectual property among the general public.

According to the proclamation in order to be granted a patent, an invention must fulfill three conditions- (1) it must be new- It should never have been published or publicly used before; (2) It should be capable of industrial application- It must be something which can be industrially manufactured or used; and (3) It must be "non-obvious"- It should not be an invention which would have occurred to any specialist working in the relevant field.

The proclamation excludes the following from patentability:-

- Inventions contrary to public order or morality;
- Plant or animal varieties or essentially biological processes for the production of plants or animals; and
- Schemes, rules or methods for playing games or performing commercial and industrial activities and computer programs;
- Discoveries, scientific theories and mathematical methods; and
- Methods for treatment of the human or animal body by surgery or therapy as well as diagnostic methods practiced on the human or animal body.

Rights of a patentee include making, using and exploiting the patented invention in any other way. Any person who wants to use the patented invention has to get the authorization of the owner/inventor. The patentee does not have import monopoly right over the products of the patented invention in Ethiopia.

There are certain limitations of rights of the patentee included in the proclamation such acts done for non-commercial purposes; the use of the patented invention solely for the purposes of scientific research and experimentation; the use of patented articles on aircraft, land vehicles or vessels of other countries which temporarily or accidentally enter in to the air space, territory or waters of Ethiopia; acts in respect of patented articles which have been put on the market in Ethiopia by the owner of the patent or with his/her consent; the use of the patented invention for national security, nutrition, health or for the development of vital sectors of the economy, subject to payment of an equitable remuneration to the patentee; the duration of a patent is 15 years which may be extended for a further period of five years if proof is furnished that the invention is properly worked in Ethiopia.

Copyright is protected on the basis of the copyright and related rights proclamation issued in 2004. The proclamation gives protection to literary, artistic and scientific works which include books, pamphlets, articles, computer programs and other writings; speeches, lectures, addresses, sermons, and other oral works; dramatic, dramatic-musical works, pantomimes, choreographic works, and other works created for stage production; musical works, with or without accompanying words; audiovisual works and sound recordings works of architecture; works of drawing, painting, sculpture, engraving, lithography, tapestry, and other works of fine arts; photographic and cinematographic works; illustrations, maps, plans, sketches, and three dimensional works related to geography, topography, architecture or science; derivative works; and collection of works, collection of mere data (databases) whether readable by machine or other form.

The Proclamation gives protection to:

- Works of authors who are nationals of or have their habitual residence in Ethiopia;
- Works first published in Ethiopia; or works first published in another country and published within thirty days in Ethiopia;
- Audio-visual works whose producer has his headquarter or habitual residence in Ethiopia; and
- Works of architecture erected in Ethiopia and other artistic works incorporated in a building or other structure located in Ethiopia.

The author of a work shall be entitled to protection, for his work upon creation where it is an original work; and written down, recorded, fixed or otherwise reduced to any material form. Quality of the work and the purpose for which the work may have been created is not taken in to consideration.

The rights of performers, producers of phonograms and broadcasting organizations are also protected by law. Copyright is protected for the life of the author plus fifty years. Fifty years for the rights of performers and producers of sound Recordings and 20 years for the rights of broadcasting organizations.

Chapter Five: Marketing and New Venture Development

5.1. Marketing research

Marketing research is the systematic and objective identification, collection, analysis, and dissemination of information for the purpose of assisting management in decision making related to the identification and solution of problems and opportunities in marketing. Thus, systematic planning is required at all the stages of the marketing research process. The procedures followed at each stage are methodologically sound, well documented, and, as much as possible, planned in advance. It uses the scientific method in that data are collected and analyzed to test prior thinking or hypotheses.

Marketing research is objective. It attempts to provide accurate, impartial information. Accordingly, marketing research involves the identification, collection, analysis, and dissemination of information.

5.1.1. 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.

5.1.2. Marketing Research Components

Marketing researchers deal with many aspects of a market including the following:

- **Market size:** this deals with the number or value of units sold to a market in a given period.
- **Market Share:** this one is about a specific corporation’s share of the market size out of the whole market of a product or products of the same purpose.
- **Market penetration:** this is a marketing strategy which is used to know when a company enters/penetrates a market with current products to get better market share by lowering the price of a product.
- **Brand equity research** – this research is conducted to know how favorably consumers view the brand.

- **Buyer decision processes research** – this part of marketing research activity is used to determine what motivates people to buy and what decision-making process they use.

5.1.3. Marketing Research Process

Since research is a process which consists of a number of steps to be accomplished in a logical and systematic manner marketing research consists of the following related phases:

Step 1: Define the research purpose or objectives

The following questions help to establish objectives:

- Where potential customers buy the product?
- Why they purchase there?
- What is the size of the market? How much of it can your business capture?
- How does your business compare with competitors?
- The impact of promotion on customers.
- What types of products are desired by potential customers?

Step 2: Research Design Formulation

The research design is a **blueprint** for conducting the marketing research. More formally, formulating the research design involves the following steps:

- Study period and place determination.
- Qualitative data collection methods.
- Methods of collecting quantitative data (survey, observation, and experimentation).
- Definition of the information needed.
- Questionnaire design.
- Measurement and scaling procedures.
- Sampling process and sample size.
- Plan of data analysis.

Step 3: Gather at this stage secondary data,

A data which is originally collected by others for their own purpose, but such data can be used by the researcher when it is relevant to the current study. Secondary data:

- Is less expensive.
- Can be acquired within or outside the venture.

- But, may be out-dated and less valid.

Step 4.Gather Primary Data

Primary data collection techniques can be categorized as;

- Observational techniques-do not involve contact with respondents.
- Focus groups.
- Experimentation-investigates cause and effect relationships.
- Survey techniques- generate data by asking people questions and recording their responses.

The following are examples of survey techniques:

1. **Mail questionnaires:** The researcher may send the questionnaires to research Participants.
2. **Telephone interviews:** Using the telephone numbers from telephone directory, the researcher may ask research participant via the telephone.
3. **Personal interviews:** The researcher may go to the research participants' address and may drop and pick the questionnaire or may interview the research participants

Step 5: Data Processing and Analysis

Data processing includes the editing, coding, transcription, and verification of data. And data analysis, guided by the plan of data analysis, gives meaning to the data that have been collected. Research results should be evaluated and interpreted in response to the research objectives.

Step 6: Report Preparations and Presentation

At the end the research results will be written in a report form and presented to the concerned parties. The report includes:

- The specific research questions identified,
- Describes the research approach,
- The research design,
- The data collection methods, and sampling procedures,
- The data processing and analysis procedures,
- The major findings and suggestions for actions.

- In addition, an oral presentation should be made to management using tables, figures, and graphs to enhance clarity and impact.

5.2. Marketing Intelligence

Marketing Intelligence is the systematic collection and analysis of **publicly available information** about **competitors and developments in the marketing environment**.

Market intelligence is the systematic process of gathering, analyzing, supplying and applying information (both qualitative and quantitative) about the external market environment. Marketing intelligence can be gathered from:-

- Company's own personnel,
- suppliers, resellers and customers to pass along important intelligence,
- Competitor- annual reports, business publication, exhibits, press release, advertisement,
- Outside suppliers – marketing research firms, consultants specialize in intelligence, and
- Office to collect and circulate marketing intelligence,

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.

5.2.1. The Importance of Marketing Intelligence

Marketing intelligence provides the following benefits;

- Market and customer orientation – promote external focus.
- Identification of new opportunities.
- Smart segmentation.
- Early warning of competitor moves.
- Minimizing investment risks.
- Quicker, more efficient and cost-effective information.

5.2.2. Ways to Undertake Marketing Intelligence

A. **Unfocused scanning**: Any information that may be useful is gathered without any specific purpose in mind.

B. **Semi-focused scanning:** no specific purpose. The manager is not in search of particular pieces of information that he/she is actively searching but does narrow the range of media that is scanned. For instance, the manager may focus more on economic and business publications, broadcasts etc. and pay less attention to political, scientific or technological media.

C. **Informal search:** - limited and unstructured attempt to obtain information for a specific purpose. For example, entering the business of importing frozen fish from a neighboring country may make informal inquiries as to prices and demand levels of frozen and fresh fish.

D. **Formal search:** - this is a purposeful search for information in some systematic way.

Marketing intelligence is carried out by the manager him/herself rather than a professional researcher. Scope of the search in this case is likely to be narrow and far less intensive (less rigorous) than marketing research.

5.2.3. Marketing Research Vs Intelligence

Marketing research involves solving a specific marketing problem **at a specific point in time**, whereas marketing intelligence involves gathering information **on a regular, ongoing basis** to stay in touch with what's happening in the marketplace.

Marketing research helps to:-

- Communicate effectively,
- Identify and understand opportunities,
- Pinpoint obstacles or problems, and
- Benchmark and evaluate your success.

5.3. 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.

Competitor evaluation not only gives more insight into the strategies and goals of the competition, but it also provides a bird's-eye view of the trends and future of the industry in which the firm operates.

5.3.1. Uses of Competitive Analysis

Competitive analysis is important for businesses since it has the advantages stated as follow:

- It helps management understand its competitive advantages/ disadvantages relative to competitors.
- It generates understanding of competitors' past, present (and most importantly) future strategies.
- It provides an informed basis to develop strategies to achieve competitive advantage in the future (e.g. how will competitors respond to a new product or pricing strategy?)
- It helps forecast the returns that may be made from future investments.

Competitive analysis is a method of gathering data about competitors from different sources. It should answer the following questions:

- Who are your competitors?
- What customer needs and preferences are you competing to meet?
- What are the similarities and differences between their products/services and yours?
- What are the strengths and weaknesses of each of their products and services?
- How do their prices compared to yours? How are they doing overall?
- How do you plan to compete? Offer better quality services? Lower prices? More support? Easier access to services? How are you uniquely suited to compete with them?

5.3.2. Steps of Competitive Analysis

Every business owner should have a complete understanding of the competitive landscape in the market. Competition is defined as any business that provides a similar service or product in the same market, region or industry. A strategic business owner not only knows who its competitor is but also understands the best way to position ahead of its competitor. The following provides a step-by-step process in creating your competitive analysis.

1. **Identify your competitors:** Determine both local and international competitors. Be sure to define the competitive landscape broadly. Your competitor includes anything that could draw customers away from your business.
2. **Gather information about competitors:** At this stage you need to know; what markets or market segments your competitors serve; what benefits your competitors offer; why customers buy from them; and as much as possible about their products and/or services, pricing, and promotion strategies.

3. Gathering Information on Competitors

To gather information about your competitor you can go either to your competitors' company site or to the company's Web site (if any) using which you can learn about; promotion strategies by visiting their business site; prices; your competitors' customers; vendors or suppliers, and their employees; trade shows; and publicly available information - from Newspapers, magazines, press releases and online publications.

4. Analyzing the Competition

After studying the information you have gathered about each of your competitors, ask yourself these primary questions:

- How are you going to compete with that company?
- Is there a particular segment of the market that your competitor has overlooked?
- Is there a service that customers or clients want that your competitors do not supply?

5. Develop a pricing:

The last step in the process is to develop a pricing model that represents what you are offering the market and the value you bring to your target buyers. There are many factors that go into designing the appropriate pricing structure so you will need to do some research and evaluate what price levels your market will bear, your cost basis for the development of your product, how much you need to cover overhead and marketing costs and lastly how much profit you think is appropriate for what you are offering. Do not immediately think you have to price your products below your competition, people appreciate the value in your product and set your price accordingly.

The goal of your competitive analysis is to identify and expand upon your competitive advantage. To make your competitive analysis effective, transfer the weaknesses of your competitors into potential strengths for your business.

5.4. Marketing strategies

Strategy is a **game plan** that helps to achieve the organizational goals or objectives. It is a **means to an end**.

A marketing strategy is a process that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage.

Marketing strategy is a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market.

A marketing strategy combines product development, promotion, distribution, pricing, relationship management and other elements; identifies the firm's marketing goals, and explains how they will be achieved, ideally within a stated timeframe. Marketing strategy determines the choice of target market segments, positioning, marketing mix, and allocation of resources. It is effective when it is an integral component of the overall firm strategy, defining how the organization will successfully engage customers, prospects, and competitors in the market arena.

The organization can achieve its goals or objectives using different strategies (game plans). For example, if the goal of the organization is to **increase its market share (sales volume),** it should set the following strategies in order to achieve its goal.

- Price reduction,
- Increased spending on advertisements,
- Increasing the size of sales force,
- Increasing distribution network,
- Increasing sales promotion, and
- Product differentiation.

Strategy is a decision-making process that transfers a long term vision into day-to-day tactics to result the long-term plan.

Positioning is the act of **designing** the company’s offering and image. So that they occupy a meaningful and distinct competitive position in the **target consumer’s minds** that will differentiate the company from competitors.

The marketing strategy consists of the following lists: target market, positioning, product line, distribution outlets, sales force, service, advertising, sales promotion, research and development, marketing.

1. Pricing Strategy

Price is the value placed on what is exchanged. Something of value is exchanged for satisfaction and utility, includes tangible (functional) and intangible (prestige) factors. It can even be barter. Price is often the only element the marketer can change quickly in response to demand shifts.

It relates directly to total revenue TR =

Price * Quantity Profit

= TR – TC

Where, TR=Total Revenue, TC=Total Cost

Pricing strategies are subject to incredibly complex environmental and competitive forces. A company sets no single price, but rather a pricing structure that covers different items in its line. This pricing structure changes through time as products pass through their life cycles.

To come up with this situations marketers use dynamic pricing strategies. The following are some of pricing strategies mostly applicable in the real world scenario.

I. **Price Skimming:** this is a type of marketing strategy that firms use by charging the highest possible price that buyers who most desire the product will pay. It attracts a market segment that is more interested in quality, status, uniqueness etc. In this case, consumers' demand must be inelastic.

II. **Penetration Pricing:** In this strategy, prices of products are reduced compared to competitors' price for the same product to penetrate into markets and to increase sales. However, the quality of the product should not be lower as compared to other competitors' product. It should be again noted that the cost of production should be lower to the extent that can enable the firm to get the desired profit. This is appropriate when the demand is elastic.

III. **Cost-plus pricing:** Any amount that is above unit cost may be considered.

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

V. **Competition Oriented Pricing:** Considers competitors prices primarily; but the market type matters.

VI. **Odd-even pricing:** This is Psychological pricing method based on the belief that certain prices or price ranges are more appealing to buyers. This method involves setting a price in odd numbers (just under round even numbers) such as $49.95 instead of $50.00. Although not supported by any research findings, its proponents claim that the consumers see a $49.95 price as 'just in the price range of $40'rather than in the $50.

2. Promotion Strategies

Promotion is the communication of the company and its products to customers. Promotional strategy is choosing a target market and formulating the most appropriate promotion mix to influence it. An organization's promotional strategy can consist:

I. **Advertising:** It is any paid form of non-personal, one-way, mass communication about an organization, good, service, or idea by an identified sponsor.

II. **Personal selling:** This is the two-way flow of communication between a buyer and seller, often in a face to face encounter, designed to influence a person's or group's purchase decision.

III. **Public relations:** Public relation 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.

IV. **Sales promotion:** This promotion type involves short term incentives of value such as discounts, free samples, and prizes to be offered to arouse interest of customers in buying the good/service. Businesses may use one of the above promotional mix elements to arouse the interest of customers and make them take action by informing, persuading and reminding about the goods and services that they provide to the market.

3. Distribution Strategies

A successful product or service means nothing unless the benefit of such a service can be communicated clearly to the target market. For product-focused companies, establishing the most appropriate distribution strategies is a major key to success, defined as maximizing sales and profits. Unfortunately, many of these companies often fail to establish or maintain the most effective distribution strategies. Problems that researchers identified include:

- Unwillingness to establish different distribution channels for different products,
- Fear of utilizing multiple channels, especially including direct or semi-direct sales, due to concerns about erosion of distributor loyalty or inter-channel cannibalization
- Failure to periodically re-visit and update distribution strategies. Lack of creativity, and

- Resistance to change.

As can be noted from the above points marketing channels are the most important actors for the effective and efficient distribution of products.

Marketing Channels are individuals/organizations involved in the process of making the product available for use or consumption by consumers. Channels are used to improve exchange efficiency. It is divided into Direct and Indirect channels.

- **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. Intermediaries include Merchant Wholesalers, retailers, dealers, agents, brokers; and manufacturer's branches and offices.

The following factors should be considered to select the best channel under the condition of using best distribution strategy.

- **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:** perish-ability, value and sophistication of the product
- **Environmental Forces:** those forces that affect the business like competition, technology and culture.

5.5. International Markets

International marketing is the performance of business activities designed to plan, price, promote, and direct the **flow of** a company's goods and services to consumers or users in **more than one nation** for a profit.

The only difference between the definitions of **domestic marketing** and **international marketing** is that in the latter case, marketing activities take place in **more than one country**. This apparently minor difference, "in more than one country," accounts for the **complexity and diversity found** in international marketing operations. Marketing concepts, processes, and principles are universally applicable, and the marketer's task is the same, whether doing business in Dime box, Texas, or Dares Salaam, Tanzania.

Business's goal is to make a profit by promoting, pricing, and distributing products for which there is a market. If this is the case, what is the difference between domestic and international marketing?

The answer lies not with different concepts of marketing but with the **environment** within which marketing plans must be implemented.

The uniqueness of **foreign marketing comes** from the range of **unfamiliar problems** and the variety of strategies necessary to **cope with** different levels of **uncertainty** encountered in foreign markets.

Competition, legal restraints, government controls, weather, fickle consumers, and any number of other uncontrollable elements can, and frequently do, affect the profitable outcome of good, sound marketing plans.

Generally speaking, the marketer **cannot control or influence** these uncontrollable elements instead must **adjust or adapt** to them in a manner consistent with a successful outcome.

Chapter Six: Organizing and Financing the New Venture

6.1. Entrepreneurial Team and Business Formation

The entrepreneurial team is *'**two or more people who establish and share ownership of the new organization'**.* An entrepreneurial team consists of two or more persons:

- ✓ who have an **interest**, both **financial** and **commitment** to the venture's **future success**;
- ✓ whose work is **interdependent** in the pursuit of common **goals and venture success**;
- ✓ who are considered to be at the **executive level** with executive responsibility in the early phases of the venture, including founding and pre-start up; and
- ✓ Who are seen as a **social entity** by themselves and by others.

Ssuccess are the team's diversity in experience, diversity in ways of thinking, and the larger set of social networks that result from multiple founders.

Development of entrepreneurship incorporates **four** basic issues:

- ✓ the availability of material resources;
- ✓ the selection of real entrepreneurs;
- ✓ the formation of industrial units; and
- ✓ Policy formulation for the development of the region.

Development of an entrepreneur means:

- ✓ Inculcating entrepreneurial traits into a person, imparting the required knowledge, developing the technical, financial, marketing and managerial skills, and building the entrepreneurial attitude.

The process of entrepreneurial development involves **equipping** a person with the information used for enterprise building and sharpening his entrepreneurial skills.

6.2. Core Competences for Entrepreneurial Teams

- ➢ **Suitability**
  - ✓ Personal skill and self awareness;
  - ✓ Shared vision, values and beliefs;
  - ✓ Leadership; and
  - ✓ Building and managing relationships.

6.3. Sources of Financing

Financial resources are essential for business, but particular requirements change as an enterprise grows. Obtaining those resources in the amount needed and at the time needed can be difficult for entrepreneurial ventures because they are generally considered more risky than established enterprises. As we shall see, financing means more than merely obtaining money; it is very much a process of managing assets wisely to use capital efficiently.

Managing assets effectively is crucial because underwriting assets creates liabilities that, if uncontrolled, can devastate a business. Cash is the most important asset to manage, and to generate cash, business must generate sales. In order to generate sales, most businesses must have inventory and facilities. Service enterprises need offices and staff, and manufacturers face more extensive requirements, including plant and equipment. Assets management for the start-up entrepreneur is a matter of determining what is needed to support sales, and then gaining access to those assets at the optimum cost. The term "gaining access" is used because there are alternatives other than a cash purchase of assets. Equipment can be leased, for example: office furniture can be rented. Manufactured products initially can be subcontracted rather than made, thereby avoiding the expense of procuring materials, equipment, and plant facilities. Entrepreneurs, therefore, have choices about what assets to obtain, when they must be obtained, and how to gain access to them.

The critical issue in financing is to assure sufficient cash flow for operations, as well as to plan financing that coincides with changes in the enterprise. Businesses obtain cash through two general sources, equity or debt, and both can be obtained from literally hundreds of different sources. The various sources of finance may be broadly be classified as follows:

6.3.1. Equity financing (Internal Sources)

Owner's capital or owner's equity represents the personal investment of the owner(s) in a business and it is sometimes called risk capital because these investors assume the primary risk of losing their funds if the business fails. However, if the venture succeeds, they also share in the benefit.

6.3.1.1. Sources of Equity Capital

1. **Personal saving:** The first place entrepreneurs should take for startup money is in their own pockets. As a general rule, entrepreneurs should provide at least half of the start- up funds in the form of equity capital.

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.
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

Comparison of Angles and Venture Capitalist

Angels	Venture Capitalists (VCs)
➢ Individuals who wish to assist others in their business venture, ➢ Usually found through networks, ➢ Reasonable expectations on equity position and ROI, ➢ Often passive, but realistic perspective about business venture, ➢ Exit strategy is important,	➢ Finance, small scale new technology and any risky idea. ➢ Funds are more specialized versus homogeneous ➢ High expectations of equity position and ROI,

6.3.2. Debt Financing (External Sources)

Borrowed capital or debt capital is the external financing that small business owner has borrowed and must repay with interest. There are different sources as discussed here below:

I. **Commercial banks:** Commercial banks are by far the most frequently used source for short term debt by the entrepreneur. In most cases, commercial banks give short term loans (repayable within one year or less) and medium term loan (maturing in above one year but less than five years), long term loans (maturing in more than five years).

To secure a bank loan, an entrepreneur typically will have to answer a number of questions, together with descriptive commentaries.

- What do you plan to do with the money?
- When do you need it?
- How much do you need?
- For how long do you need it?
- How will you repay the loan?

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 obligations and to repay the bank loan.
3. **Collateral:** The collateral includes any assets the owner pledges to the bank as security for repayment of the loan.
4. **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.
5. **Conditions:** The conditions surrounding a loan request also affect the owner's chance of receiving funds. Banks consider the factors relating to the business operation such as potential growth in the market, competition, location, and loan purpose. Another important condition influencing the banker's decision is the shape of the overall economy including interest rate levels, inflation rate, and demand for money.

The higher a small business scores on these five **Cs**, the greater its chance will be of receiving a loan. In the Ethiopian context, collateral is very critical.

II. Micro Finances: provide financial services mainly to the poor, micro and small enterprises.

III. **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.

IV. **Equipment Suppliers:** Most equipment vendors encourage business owners to purchase their equipment by offering to finance the purchase.

V. **Account receivable financing:** It is a short term financing that involves either the pledge of receivables as collateral for a loan.

VI. **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.

VII. **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 of the bond. Bonds have always been a popular source of debt financing for large companies in the western world.

VIII. **Traditional Sources of Finance:** "Idir", "equib".

6.3.3. 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 payments. 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.

6.3.3.1. 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 rewards of ownership of assets to the lessee for lease rentals. In other words, it puts the lessee in the same condition as he/she would have been if he/she had purchased the asset. Finance lease has two phases: The first one is called **primary period**. This is **non-cancellable period** and in this period, the lessor recovers his total investment through lease rental. The primary period may last for indefinite period of time. The lease rental for the secondary period is much smaller than that of primary period.

From the above discussion, 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.

6.3.3.2. 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 periodof 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.

6.3.4. 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.

6.3.4.1. 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. You can think of this fundraising approach as a funnel, with you and your pitch at the wide end and your audience of investors at the closed end. Fail to point that funnel at the right investor or firm at the right time, and that's your time and money lost.

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 resources, 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. With crowd funding, it's much easier for you to get your opportunity in front of more interested parties and give them more ways to help grow your business, from investing thousands in exchange for equity to contributing Br.500 in exchange for a first-run product or other reward.

6.3.4.2. 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.

Presentation, Reach & 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 online in a much more accessible format, leaving you with more time to run your business instead of fundraising.

6.3.4.3. 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 though 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.

6.3.5. Micro Finances

6.3.5.1. 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.

Dr. Mohammad Yunus is considered a pioneer of modern microfinance. He experimented with making small loans, which he funded himself, to women in Bangladesh making bamboo furniture who had previously relied on loans with unfair and predatory terms to purchase raw materials. He discovered these very tiny loans, which traditional banks did not want to make due to the perceived risks and costs, could make a disproportionate difference to a poor person and given the chance they would pay them back creating a viable business model. He would go on to found Grameen Bank in 1983 and win the Nobel Peace Prize in 2006 for his invention of micro finance.

6.3.5.2. 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. While microfinance can certainly benefit those stateside, it can also serve as an important resource for those in the developing world. For example, cell phones are being used as a way to bring financial services such as micro lending to those living in Kenya. In fact, women are major microfinance borrowers, making up 84 percent of loans in 2016, according to the 2017 Microfinance Barometer. Most of these women – around 60 percent – live in rural areas.

The microfinance industry is also growing rapidly. In 2016, there were 123 million microfinance borrowers, for a total of $102 billion in loans. India accounted for most of these borrows, followed by Vietnam, Bangladesh, and Peru.

While some have lauded microfinance as a way to end the cycle of poverty, decrease unemployment, increase earning power, and aid the financially marginalized, some experts say that it may not work as well as it should, even going so far as to say it's lost its mission. Others argue that microfinance simply makes poverty worse since many borrowers use microloans to pay for basic necessities, or their businesses fail, which only plunges them further into debt.

For example, in South Africa, 94 percent of all microfinance loans are used for consumption, meaning, the funds are used to pay for basic necessities. This means borrowers aren't generating new income with the initial loan, which means they have to take out another loan to pay off that loan, and so forth and so forth. This translates into a lot more debt. However, other experts say that microfinance can serve as a valuable tool for the financially underserved when used it properly. They also cite the industry's high repayment rate as proof of its effectiveness. Either way, microfinance is an important topic in the financial realm, and if done correctly, could be a powerful tool for many.

Chapter Seven: Managing Growth and Transaction

7.1. Managing Growth and Transaction

Entrepreneurs at the initial stage focus on resource mobilization. However, 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. In developing countries such as Ethiopia, the environment is not business friendly and a lot of challenges will start to emerge as the business grows.

7.2. Timmons Model of Entrepreneurship

- **What key aspects does an entrepreneur need to manage to start and grow a business?**

To answer this question, we used Timmons basic model of entrepreneurship as indicated in Figure 7.1. This model identified the internal and external factors that determine the growth of business.

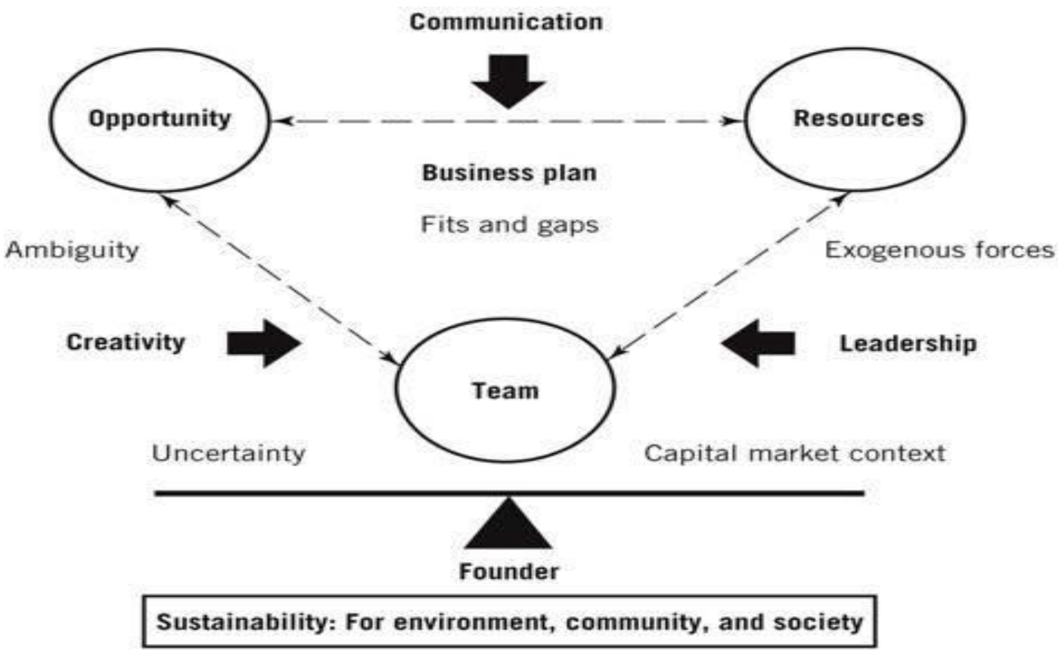


Figure 7.1 Timmons model of entrepreneurship

Jeffry Timmons (2006) developed the Timmons model of entrepreneurship through his doctoral thesis. Further research and case studies have since enhanced the model, which works as a guide for entrepreneurs to increase their chances of success. 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 indicated earlier as elaborated here below:

1. **Opportunities:** rather than developing a perfect business plan, Timmons suggests that the entrepreneur's first and most important step is to identify and evaluate a solidly viable market opportunity, where after the business plan and funding will follow. Problems in the environment become opportunities for entrepreneurs.

As stated earlier, Timmons model dictates that the entrepreneurial process does not start with business plan, money, strategy, networks or team. The Timmons model believes strongly that entrepreneurship is nothing but opportunity driven. Opportunities are more essential than the talent or competence of lead entrepreneur and the team because a right opportunity identified ensures long- term success of the business. A good idea does not necessarily bring about a great business. An excellent idea is found when product or services could be positioned to create or add values to customer, remains attractive, durable and timely. For example, quality problems in education created tutorial programs in residential areas for parents and their children. The shortage and problems of housemaids created daycare centers in residential areas for working mothers. These become a business in Ethiopian cities. Weaknesses in student textbook preparation in Ethiopian schools created the opportunity of preparing supplementary textbooks by business operators for which questions banks and solved problems are developed.

2. **Teams:** once an opportunity has been identified, it is critical to gather a good team of people to unlock the potential of the opportunity. Team members do have defined roles. For instance, the success of a football team is determined by the qualities of team members as goal keeper, defense, midfield and attacking teams. Likewise, people in the team have different roles, weaknesses and strengths. No one is complete in all aspects. Teams do have also evolutionary stages for maturity.

A highly effective lead entrepreneur should be able to put the best talent together after identifying the opportunity and gathering required resources. The sizes and the background of the team are contingent upon the size and nature of opportunity. According to Timmons model, a good team can lead to great success and a badly formed team can waste great idea which is disaster to any form of business. Among all resource, only a good team can unlock a high potential with any opportunity and manage the pressure related to growth.

The two major roles of the team, relative to the other critical factors are:

- Removing the ambiguity and uncertainty of the opportunity by applying creativity (inventiveness).
- Providing leadership to manage the available resources in the most effective manner by interacting with exogenous (external) forces and the capital market context that keeps changing constantly.

3. **Resources**: finding and managing appropriate resources requires different skills than finding and managing good people, but it is equally important for eventual success. Resources may include tangible and intangible resources. Knowledge, goodwill, information, etc., are intangible resources. Buildings, land, information technology, human resource, money, etc., are tangible resources.

Timmons suggests that balancing, or successfully juggling, these three dynamic factors is key to achieving business success. These factors are to be primarily managed through creativity, communication and leadership, to help bring the opportunity to a viable business model. Entrepreneurs, or aspiring entrepreneurs, tend to have a number of qualities that help them to identify a good market opportunity. These can include knowledge of the industry, the possible offering for the user, a sense of timing and how to enter the market, and the capacity to deal with changing situations and uncertainties. It is the entrepreneur’s task to identify and capitalize on favorable events and take charge of the success equation.

As stated earlier, the Timmons model stimulates the focus on opportunities rather than threats or limitations. It brings an academically tested approach to creating new ventures, at least in concept, written down in a business plan, describing where the fits and gaps are among the three key factors of the model. It must be acknowledged that the model sees the creation of a venture as an evolutionary process. The three critical factors of entrepreneurship in the model (opportunities, team and resources) are therefore not easy to manage separately; changes in one factor have a strong influence on the other factors.

7.3. Managing early Growth of venture

The important guidelines to **cultural change** during growth involve:-

- ✓ Communicate all matters to key employees,
- ✓ Be a good listener,
- ✓ Be willing to delight responsibility,
- ✓ Provide feedback consistently and regularly,
- ✓ Provide continuous training to key employees,
- ✓ Maintain a focus by establishing a mission with goals, and
- ✓ Establish a team spirit.

7.4. New Venture Expansion Strategies and Issues

7.4.1. Merger

Merger is a strategy through which **two firms agree to integrate** their operations on a relatively **co-equal basis**.

7.4.1.1. Types of Company Mergers

There are **five** commonly-referred types of business combinations known as mergers:

- ✓ conglomerate merger,
- ✓ horizontal merger,
- ✓ market extension merger,
- ✓ product extension merger, and
- ✓ vertical merger

The term chosen to describe the merger depends on the **economic function**, **purpose of the business transaction** and **relationship between the merging companies.**

7.4.1.1.1. Conglomerate

Conglomerate merger is a merger between firms that are involved in totally unrelated business activities.

E.g. A leading manufacturer of athletic shoes merges with a soft drink firm.

7.4.1.1.2. Horizontal Merger

Horizontal merger is a merger occurring **between** companies in the **same industry**. It is a business consolidation that occurs between firms which operate in the **same space**, often as **competitors** offering the **same good** or **service**.

E.g. A merger between Companies that produce soft drink

The goal of horizontal merger is to create a new, larger organization with more market share.

7.4.1.1.3. Market Extension Merger

Market extension merger takes place between **two companies** that deal in the **same products** but in **separate markets**.

The main purpose of market extension merger is to make sure that the merging companies can get access to a **bigger market** and that ensures a bigger client base.

7.4.1.1.4. Product Extension Merger

Product extension merger takes place between two business organizations that deal in **products** that are **related to each other** and operate in the **same market**.

E.g. X and Y business enterprises which are supplying **mango juice** and **avocado juice** respectively and operate in the same market decide to merge their business.

Product extension merger allows the merging companies to **group together their products** and **get access to a bigger set of consumers**. This ensures that they earn higher profits.

7.4.1.1.5. Vertical Merger

A vertical merger occurs when two or more firms, operating at **different levels** within an industry's supply chain, merge operations. Most often the logic behind the merger is to **increase synergies** created by merging firms that would be more efficient operating as one. A merger between two companies producing **different goods** or **services** for **one specific finished product**.

A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain.

7.4.2. Licensing

Licensing is a business arrangement in which one company **gives** another company **permission to manufacture its product** for a specified payment.

A license is a **legal contract** authorizing **one business** to **use** the confidential business practices of **another business**.

Licensing a company's product or production processes can provide revenue and name recognition advantages, but it can also create certain foreseen and unforeseen disadvantages.

7.4.3. Franchising

Franchise is an authorization to **sell** a company's goods or services in a **particular place.** It is any arrangement in which the **owner** of a trademark, trade name or copyright has **licensed others** to **use it** in **selling** goods or services. An alternative to buying an existing business or starting one from scratch is to buy a franchising in somebody else's business. This approach enables the buyer to use a larger company's trade name and sell its products or services in a **specific territory**.

7.4.3.1. Franchising Systems

Product-Distribution Franchising - Allows the franchisee (dealer) to buy products from the franchisor (supplier) or to license the use of its trade name. Business-Format Franchising - is a turnkey approach.

Franchisee purchases the franchisor's product to sell, along with the franchisor's entire way of doing business—operation procedures, marketing packages, physical building and equipment, and full business services.

7.5. Business Ethics and Social Responsibility

7.5.1. 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.

7.5.2. 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 and
3. Stakeholder theory

7.5.2.1. Corporate Social Responsibility (CSR)

The title 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. For its definition, 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.

As a specific theory of the way corporations interact with the surrounding community and larger world, corporate social responsibility (CSR) is composed of four obligations:

1. **The economic responsibility to make money.** Required by simple economics, 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. Of course 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. In some cities, trash collection is handled by this kind of organization, one that keeps the streets clean without (at least theoretically) making anyone rich. For the vast majority of operations, however, there have to be profits. Without them, there's no business and no business ethics.

2. **The legal responsibility to adhere to rules and regulations.** Like the previous, this responsibility is not controversial. What proponents of CSR argue, however, is that 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. In concrete terms, this is the difference between the driver who stays under the speed limit because he can't afford a traffic ticket, and one who obeys because society as a whole is served when we all agree to respect the signs and stoplights and 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. When someone is racing their Porsche along a country road on a freezing winter's night and encounters another driver stopped on the roadside with a flat, there's a social obligation to do something, though not a legal one. The same logic can work in the corporate world. Many industrial plants produce, as an unavoidable part of their fabricating process, poisonous waste. Think of a plant producing toxin in the manufacturing process. The law governing toxic waste disposal may be ambiguous, but even if the companies are not legally required to enclose their poisons in double-encased, leak-proof barrels, isn't that the right thing to do so as to ensure that the contamination will be safely contained? True, it might not be the right thing to do in terms of pure profits, but from a perspective that values everyone's welfare as being valuable, the measure could be recommendable.
4. **The philanthropic responsibility to contribute to society's projects even when they are independent of the particular business.** A lawyer driving home from work may spot the local children gathered around an impoverished area stand and sense an obligation to buy food to contribute to the neighborhood project. Similarly, a law firm may volunteer access to their offices for an afternoon every year so some local schoolchildren may take a field trip to discover what lawyers do all day. An industrial chemical company may take the lead in rehabilitating an empty lot into a park. None of these acts arise as obligations extending from the day-to-day operations of the business involved. They're not like the responsibility a chemical firm has for safe disposal of its waste. Instead, these 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.

7.5.2.2. 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. As elaborated by here below how the balance is defined and achieved economically, socially, and environmentally:

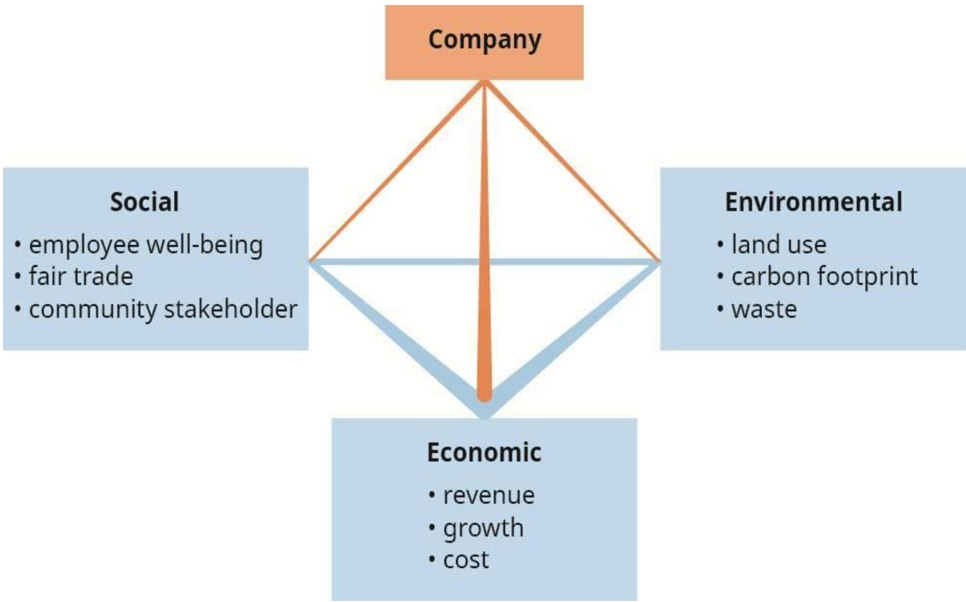


Figure 7.2: Triple bottom lines

- **Economic sustainability** values long-term financial solidity over more volatile, short-term profits, no matter how high. According to the triple-bottom-line model, corporations have a responsibility to create business plans allowing stable and prolonged action. That bias in favor of duration should make companies hesitant about investing in things like dot-coms. While it’s true that speculative ventures may lead to windfalls, they may also lead to collapse. Silicon Valley, California, for example, is full of small, start-up companies. A few will convert into the next Google, Apple, and Microsoft. What gets left out, however, of the newspaper reports hailing the accomplishments of a Steve Jobs or a Bill Gates are all those other people who never made it—all those who invested family savings in a project that ended up bankrupt. 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. A world in which a few Fortune 500 executives are moving down millions a year, while millions of people elsewhere in the world are living on pennies a day can't go on forever. 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. The threat of governmental overthrow from below sounds remote almost absurd for powerful nations such as to Americans who are accustomed to a solid middle class and minimal resentment of the wealthy. In world history, however, such revolutions are quite common. That doesn't mean revolution is coming to our time's developed nations. It may indicate, however, that for a business to be stable over the long term, opportunities and subsequently wealth need to be spread out to cover as many people as possible.

Finally, social sustainability requires that corporations as citizens in a specific community of people maintain a healthy relationship with those people. Corporations should not affect the health of community negatively.

- **Environmental sustainability** begins from the affirmation that natural resources—especially the oil fuelling 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.

Together, these three notions of sustainability economic, social, and environmental guide businesses toward actions fitted to the conception of the corporation as a participating citizen in the community and not just as a money machine.

7.5.2.3. 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),

The outer limits of stake-holding are blurry. In an abstract sense, it's probably true that everyone in the world counts as a stakeholder of any serious factory insofar as we all breathe the same air and because the global economy is so tightly linked that decisions taken in a boardroom in a small town on the East Coast can end up costing someone in India her job and the effects keep rippling out from there.

In practical terms, however, a strict stakeholder theory—one insistently bestowing the power to make ethical claims on anyone affected by a company's action—would be inoperable.

Once a discrete set of stakeholders surrounding an enterprise has been located, **stakeholder ethics may begin**. The purpose of the firm, underneath this theory, is to maximize profit on a collective bottom line, with profit defined not as money but as human welfare. The collective bottom line is the summed effect of a company's actions on all stakeholders. Company managers, that means, are primarily charged not with representing the interests of shareholders (the owners of the company) but with the more social task of coordinating the interests of all stakeholders, balancing them in the case of conflict and maximizing the sum of benefits over the medium and long term.

7.5.3. 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 legalistic 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.

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