

# **ENTREPRENEURSHIP**

This refers to the process of creating an opportunity and pursuing it regardless of the resources currently controlled.

## **ENTREPRENEUR**

An entrepreneur is a person who organizes, operates and assumes the risk for business ventures. An entrepreneur can be any person who:

- (i) Observes the economic, social and natural environment.
- (ii) Identifies opportunities in the business or non-business environment.
- (iii) Gathers the necessary resources for the activity.
- (iv) Implements the activity.
- (v) Receives financial or social rewards.
- (vi) Is concerned about the possible damages to the natural and social environment.

## **ENTREPRENEURSHIP EDUCATION**

This refers to the study that trains, motivates and allows learners to develop and use their creativity, take initiatives, responsibilities and risks in order to encourage entrepreneurial success in a variety of settings. It includes the following:

- (i) Opportunity recognition. This refers to either the discovery of a clear business idea or the development of an idea into a more feasible business concept over time.
- (ii) Commercial opportunity. This involves turning an idea into a commercial service or a saleable product.
- (iii) Allocating resources in the face of risks. This involves identifying an idea or an opportunity and committing resources to turn the opportunity into a business despite the presence of risks.
- (iv) Initiating a business venture. This involves starting a business through the established procedures.
- (v) Being equipped with traditional business skills to manage businesses in a proper way.

## WHY ENTREPRENEURSHIP EDUCATION IS TAUGHT IN SECONDARY SCHOOLS.

1. To provide learners with transferable skills needed to succeed in an increasingly divergent business environment.
2. To enable students integrate programmes that teach practical skills for starting and expanding business enterprises.
3. To emphasize imagination and risk taking in business.
4. To enable students address some of the contemporary needs of business education.
5. To teach what has been considered unteachable. It has long been the conventional wisdom that some people are born entrepreneurs and succeed with or without education.  
Entrepreneurship education enables elements of entrepreneurship to be taught and learned.

## THE ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

1. It promotes small enterprises in a society which form an essential part of economic prosperity in any society.
2. It acts as a vehicle for employment generation.
3. It enables individuals to build capacity for living with uncertainty and ambiguity.
4. It enables individuals to acquire formal or informal managerial knowledge and practice in business.
5. It enables individuals to embrace opportunities to practice entrepreneurial competences.
6. It enables individuals to link with a wide network of business contacts reinforcing familiarity and providing opportunities.
7. It enables individuals to be in contact with numerous familiar successful role models.
8. It promotes creativity and innovation within small enterprises.
9. It encourages use of locally available resources and skills found within the members of the community.
10. It corrects regional imbalances in backward regions, for instance regions in slums.

## ENTREPRENEURSHIP AS A CAREER OPTION

CAREER : This refers to a continuous, ever evolving, ever expanding opportunity for personal as well as business growth and development.

One can choose his/her career from two broad categories of options, i.e wage employment (getting a job) or entrepreneurship. Entrepreneurship may be defined as a career in one's own business rather than wage employment.

**DIFFERENCES BETWEEN ENTREPRENEURSHIP AND WAGE EMPLOYMENT CAREER OPTIONS.**

WAGE EMPLOYMENT	ENTREPRENEURSHIP
<ol style="list-style-type: none"> <li>1. One works for others</li> <li>2. One follows instructions.</li> <li>3. There is routine job, for example a particular job is done over time.</li> <li>4. Rarely negative.</li> <li>5. Earning is fixed.</li> <li>6. Does not create wealth.</li> </ol>	<ol style="list-style-type: none"> <li>1. One is his/her own boss and therefore independent.</li> <li>2. One makes his or her own plans.</li> <li>3. It is characterized by creativity.</li> <li>4. It can be negative.</li> <li>5. There is improvement and security of the person's income.</li> <li>6. Creates wealth and contributes to G.D.P.</li> </ol>

**SELF EMPLOYMENT**

This is where one goes private by way of utilizing his/her resources to start his/her own business enterprise.

It may also refer to an individual's full time involvement in his/her occupation e.g starting a restaurant or a big company.

**BENEFITS/ADVANTAGES OF SELF EMPLOYMENT.**

1. Self employment provide employment for the owner and for others.
2. It makes one become his/her own boss and end up being independent.
3. It is possible for a person's income to increase.
4. It improves one's standard of living due to increased income.
5. When the business succeeds a person gains respect and therefore enjoys high status in the society.
6. It leads to the provision of goods and services to public.
7. It can be a source of revenue to the government as its taxes the enterprises and incomes of the workers.
8. A person who is self employed can be in position to determine his/her time of work.

9. High level of freedom is enjoyed by a self employed person. This is because a person is free to do whatever he/she assumes correct for the success of the business.
10. There is a high degree of job security i.e a person is certain of continued employment.
11. It encourages hard work. A self employed person always strives to make his business become successful.
12. Self employment encourages innovation and creativity. This is because a person is free to make his/her own decisions and has an opportunity to generate and implement new ideas.

### CHALLENGES OF SELF EMPLOYMENT

1. Long and irregular working hours lead to fatigue and exhaustion.
2. There is uncertainty of income. The person is not sure of his income as it varies with the business performance.
3. It leads to low life style due to too much work.
4. A self employed person bears all the risks of losses.
5. There is uncertainty of the future. This is because income upon which planning can be done is uncertain.
6. A self employed person may not have definite tasks and responsibilities i.e incase he/she is alone in business he/she does all the business activities e.g purchasing, selling, accounting e.t.c.

### REWARDS FOR BEING AN ENTREPRENEUR

1. Self actualization/personal fulfillment.
2. Feeling of freedom and independence.
3. Providing jobs and benefits others e.g suppliers, bankers, sub contractors, work force and customers.
4. Creating economic value e.g products/services, incomes for workers, its for share holders.

### COSTS OF BEING AN ENTREPRENEUR.

The entrepreneur;

1. works long hours.
2. is always concerned about the business.
3. needs high energy.
4. sacrifices other important aspects of life.
5. has limited social life.

6. does not have much time with family and friends.
7. needs financial investment.

## ENTREPRENEUR, INTRAPRENEUR AND ENTERPRISING PERSONS.

### (a) THE ENTREPRENEUR

Entrepreneurs are the ones that conceptualise, implement, maintain and expand business in the face of risks and uncertainty. They achieve and growth by identifying opportunities and marshalling the necessary resources to capitalize on those opportunities.

An entrepreneur can be described as someone who;

- i. owns and manages his/her own business.
- ii. identifies new products/services or opportunities.
- iii. is creative and innovative.
- iv. organizes and controls resources to ensure a profit for the business.
- v. has the ability and insight to market, produce and finance a service or product.
- vi. has financial means or can obtain financing to support the business.
- vii. is willing to take calculated risks.

### (b) THE INTRAPRENEUR

An intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture, by operating within the organizational environment.

He or she identifies opportunities within an existing business and creates profits for the business from these opportunities.

An intrapreneur can be described as someone who;

- i. works in an existing business.
- ii. he/she is hired to manage the business.
- iii. identifies new products/services or opportunities for an existing business.
- iv. he/she is creative and uses ability/insight to market/produce/finance a product /service.
- v. organizes and controls resources to ensure profit for the existing business.
- vi. prefers benefits of an existing business such as a salary and available resources.

### (c) AN ENTERPRISING PERSON

An enterprising person is some who takes on imaginative and risky projects. He/she is skilled enough, ambitious, energetic, confident enough, creative and disciplined enough to seize opportunities that present themselves regardless of the economy.

Enterprising people take initiative in order to be successful.

Being enterprising also means one feeling good about him or herself, having enough self worth to want to seek advantages and opportunities that will make a difference in one's future.

In so doing, one will increase his or her confidence, courage, creativity, self worth and enterprising nature.

### ENTREPRENEURIAL CHARACTERISTICS

Successful entrepreneurs possess the following characteristics;

1. **Hard working.** Running a business requires a lot of energy and drive. Therefore one should have the ability to work for long hours when necessary, to work intensely and to cope with less than a normal amount of sleep.
2. **Self confidence.** To succeed, entrepreneurs have to believe in themselves and in their ability to achieve the goals they have set.
3. **Build for the future.** The goal for most successful people is to build a secure job and income for themselves and improved livelihood and wealth for their families, which is based on their own abilities. This means that entrepreneurs understand that it may take several years to build a business income to a reasonable standard.
4. **Profit-oriented.** Entrepreneurs have interest in generating money. He recognizes that the business comes first and competing family care roles might need to be re-organised. Once changes are generated, the entrepreneur can make decisions on how the changes can be integrated, i.e to expand the enterprise or for personal/family use.

5. **Goal-oriented.** Success in business depends upon being able to set realistic goals/targets and to work with determination to achieve them.
6. **Persistence.** All businesses have their challenges and disappointments. Being persistent in solving a problem is one of the keys to a successful entrepreneur.
7. **Copes with failure.** This involves recognizing these failures, learning from them and seeking new opportunities. When this characteristic is lacking, early failures may end a person's attempt at self employment.
8. **Responds to feedback.** Entrepreneurs are concerned with how well they are doing and to keep track of their performance. Successful entrepreneurs always seek to obtain useful feedback and advice from others.
9. **Demonstrates initiative.** Successful entrepreneurs take the initiative and put themselves in positions where they are personally responsible for success or failure
10. **Willing to listen.** The successful entrepreneur is not an inward looking person who never uses outside resources. Self reliance does not exclude the ability to ask for help when needed from such people as bank officials, accountants and business advisers.
11. **Sets his or her own standards.** An entrepreneur sets standards of performance and then works towards achieving them. These standards can be income, quality, sales or product turnover.
12. **Copes with uncertainty.** Being an entrepreneur is much more uncertain than employment. This uncertainty is about sales and turnover, material delivery, prices and bank support. Successful entrepreneurs have the ability to cope with uncertainty without becoming too stressed.
13. **Commitment.** Starting and running an enterprise demands total commitment by the entrepreneur in terms of time, money and life style.

14. **Builds on strength.** Successful business people base their work upon the strengths they have such as manual skills, interpersonal skills, selling skills, organizational skills, writing skills, knowledge of people in a trade and ability to make and use a network of contacts.
15. **Reliability and integrity.** Successful entrepreneurs have qualities of honesty, fair dealing and reliability in terms of doing what one has promised to do.
16. **Risk taking.** Entrepreneurs have the ability to take measured/calculated risks which involve working out the likely costs and gains both on the business and on private life.

## MAJOR COMPETENCES REQUIRED FOR SUCCESSFUL ENTREPRENEURSHIP

There are three major competences namely;

- (i) A body of knowledge
- (ii) A set of skills
- (iii) A cluster of traits

### KNOWLEDGE

Knowledge is defined as a set or body of information stored, which may be recalled at an appropriate time. In the business context, it may be manifested by information or familiarity with aspects such as;

- (i) A business opportunity
- (ii) Customers
- (iii) Production process
- (iv) Business management
- (v) The market
- (vi) Competitors
- (vii) Technical matters
- (viii) Sources of assistance

However knowledge of the business is not enough in starting and operating a business without skills.

### SKILLS



A skill is defined as the ability to apply knowledge and can be acquired or developed through practice, for instance driving or swimming. Therefore reading or learning about driving or swimming (knowledge) will not enable one to drive a car or swim if he/she doesn't practice.

Skills may be of technical or managerial nature.

Technical skills include;

- |                      |                            |                 |
|----------------------|----------------------------|-----------------|
| (i) Engineering      | (iii) Financial management | (v) Planning    |
| (ii) Time management | (iv) Organisation          | (vi) Leadership |

## TRAITS

Traits are defined as the aggregate of peculiar qualities/characteristics that constitute personal individuality. Traits take time to develop and are not easily changed or acquired.

It is more likely that a person who does not have all the three competencies in his or her business will encounter difficulties in operating the venture successfully.

A person with only knowledge and skills but without the entrepreneurial traits might exhibit little persistence when faced with obstacles, he or she may not see or act on opportunities and may be unwilling to take the calculated risk of venturing into business.

A person with only knowledge and traits might find nothing of value to which these might be applied without technical skills. One may find that he or she is too dependent on outsiders (ones which required skills) and possibly too vulnerable.

Again one with skills and entrepreneurial traits but lacks knowledge might be able to start a business. In a competitive environment, lack of knowledge/familiarity with, for instance, customers, market trends could lead to failure.

## COPING WITH CHANGE

Change refers to giving a completely different form or appearance to an object. It involves transforming an object into a completely different one. It is inevitable in organizations.

## TYPES OF CHANGE

There are 3 types of change that occur most frequently in organizations;

### (a) DEVELOPMENTAL CHANGE

This occurs when a company/business makes an improvement to their current business, for example, a company improving its processes, methods/performance standards, e.t.c.

This is done in order to stay competitive.

This type of change should cause little stress to employees as long as the rationale for the new process is clearly conveyed and the employees are educated on the new techniques.

### (b) TRANSITIONAL CHANGE

This is a type of change which involves replacing existing processes or procedures with something completely new to the company.

Examples of transitional change include merging of firms, creating new products or services and implementing new technology.

## TRANSITIONAL PHASE

This is the period between dismantling of old processes in a company and implementation of new processes. Transitional changes are more challenging to implement.

Employees may feel that their job is unstable and their personal insecurities may increase because the future of the organization is unknown.

(i) Education of new procedures should be commenced at each stage of the new process to enable the employees feel actively involved and engaged in the change. As an employee's level of engagement in the new procedures increases, their resistance to change may decrease.

(ii) The company should continue to inform the employees of their status and offer support in helping them deal with personal adjustments they are forced to make.

## (c) TRANSFORMATIONAL CHANGE

This is a type of change that occurs after the transition period. It occurs when companies are faced with the emergence of radically different technologies, unexpected competition, lack of revenue and other major shifts in how they do business.

Top management should be prepared to involve employees in all phases of transition to reduce resistance to change.

### IMPORTANCE OF CHANGE

1. **Adoption of new technology.** Adoption of new technology is common in most organizations and this has made them increase productivity, for instance growing communication technology can enable business leaders search for experts online through search engines.
2. **Response to customer needs.** As the world evolves, customers need change and growth, creating new demand for new types of products and services and opening up new areas of opportunity for companies to meet those needs. This can be achieved through change.
3. **Determines direction of economy.** The economy has both positive and negative impacts on organizations and both can be stressful. For instance, in a strong economy, increasing demand for products and services will mean that companies must consider expansion, that is, addition of new staff and new facilities creating opportunities to staff. However, with a weak economy, companies can find themselves in need of making difficult decisions that can impact employees' salaries and even threaten their jobs.

It leads to acquisition of new ideas and innovation, for example, new ways of strengthening customer interaction, new products to attract market.

4. **Growth opportunities.** Change allows employees to learn new skills, explore new opportunities and exercise creativity in ways that ultimately benefit the organization through new ideas and increased commitment.
5. **Challenging the status quo.** Simply asking the question "why?" can lead to new ideas and innovations that can directly impact on the organization. It encourages employees to question why things are done in

a certain manner and look for new ways of getting work done better. For example, new ways of looking at customer needs, new ways of strengthening customer interaction and new products that attract new markets.

## REASONS WHY PEOPLE RESIST CHANGE

1. Change usually benefits some people while it hurts others. This is especially true when change is seen as damaging in some way.
2. Many changes require either an initial financial investment or short term economic hardship before long term can be realized.
3. For the small business owners, the time and effort necessary for planning and implementing the change cause him or her to resist change, for example, adoption of new record keeping system will require a major effort and without it finances could become hopelessly confused.
4. The need to feel secure when a small business seems to be running smoothly. Any change may represent a threat to security because varying degrees of uncertainty are involved in the change. However, there is no real security in keeping things as they are when everything else outside the business is changing.
5. Some people resist change because they feel they are not capable of handling it. This may be due to general lack of self confidence, deficiencies in personality, ability, education or experience. However, resisting change will not solve anything. Self confidence can be developed and inadequacies can be overcome.
6. Some people take pride in being stubborn and independent. These people are willing to let their pride and emotions interfere with and destroy their business operations, for example, they resist change no matter how convincing the evidence, in favour of a change.

## TECHNIQUES FOR COPING WITH CHANGE

The following four-step basic decision making technique can be applied to coping with changes;

1. **Understanding the situation.** For example, assuming that one is operating a moderately successful shop in a small town. The change situation constitutes a new shopping area being planned for the outskirts of the town. One should determine what changes he or she should anticipate in the driving and restraining forces acting on his or her small business. For example, will the new shopping area drive customers away, will any of the big businesses be relocating, is his or her area showing any sign of deterioration?

If he or she takes no special action, what are chances of declining and eventual business collapse?

Therefore one should examine every aspect of the situation before defining the problem.

2. **Defining the problem.** The problem might be defined as a need to take some kind of action now that will have one of four different effects.

(i) Prevent the new market area from eventually destroying the business.

(ii) Reduce negative impact on the market as much as possible.

(iii) Take positive action to directly counter the draw of the new market area.

(iv) Take advantage of the new market area by relocating or expanding into it.

3. **Finding alternatives.** One needs to do research to make sure that he/she does not overlook that may be his/her best gamble. one needs to take each realistic alternative and explore its potential, identifying advantages or disadvantages, costs and benefits, short-term effects and other factors that might influence its effectiveness.

Taking advantage of the draw of the new market area presents several alternatives such as relocating in the market area when it opens, keeping the present store location and opening a sister store in the market area, closing the present business operation and re-investing in a different kind of business in the new market area, e.t.c.

Again the small business owner can replace the negative impact of the new market area in a number of ways without taking decisive actions. For example, the store could be redecorated, remodeled, shopping area.

## 4. SELECTING ACTION

### Sample questions

1. How can an entrepreneur cope with change?
2. What decision-making steps should be used to cope with change?

### FACTORS THAT BRING ABOUT CHANGE

1. **Efficiency.** Efficiency is defined as a technique of operation that results in achieving the objectives in an optimum and effective manner so that resources are utilized fully and without waste.

A successful management develops methods that lead to efficiency. These methods change with time to bring about more efficiency.

2. **Environmental changes**

An environment change that is relevant to management is pollution caused by industrialization and exploitation of resources.

Therefore deliberate measures must be taken to improve entrepreneurial activities so that they do not cause detrimental environmental changes.

3. **Social changes**

These are community changes that can be brought about by growth of population, change of the needs of the community and various development aspects. As a result the entrepreneur must make changes that satisfy the growing needs of the society.

4. **Competition**

Competition includes those businesses that sell similar products or give similar services. If one knows his competitors, he or she can understand the business environment in which he or she operates.

This makes an entrepreneur improve his or her products or services continuously. This means quality of goods and services improve with time.

5. **Change of technology**

Technology is constantly changing the demands of consumers.

Businesses need new technological developments to produce new products or services. This affects the operation of businesses.

## 6. Change of desire

Entrepreneurs use their attitudes to control conditions. A positive mental attitude helps to focus on desired activities and events and results ones hopes to achieve.

## EFFECTS OF CHANGE ON BUSINESS

Change has led to radical consequences in all parts of commerce, industry and the public service such as;

- (i) increased complexity of methods of production.
- (ii) job changes or redundancy for many workers.
- (iii) it has created the need for employees to acquire new skills or to modify the existing competencies.
- (iv) it has led to geographical relocation of industries and workers.
- (v) it has led to extensive reliance on computers, information technology and decision support systems.

## **CREATIVITY**

Creativity is the ability to come up with innovative solutions to need/problems and to market them.

## IMPORTANCE OF CREATIVITY

1. Creative ideas are needed where there are problems that have unknown solutions. Therefore solve everyday problems.
2. It enables entrepreneurs to promote products and services as well as updating products and services.
3. It enables the entrepreneur to make proper use of limited resources.
4. It increases the entrepreneur's awareness by learning to pay attention to sights and sounds that people ordinarily ignore. This helps the entrepreneurs to open his or her mind to new ways of thinking.
5. It helps one to generate a large number of ideas. This is achieved through the technique of brain storming.

6. It helps the entrepreneur to change parts of existing ideas, i.e they can be made bigger or smaller, modified, reversed, rearranged, substituted, e.t.c. For example products and services are often changed to make them more attractive.
7. By developing and using their creativity, entrepreneurs can increase their potential for success, for instance they can identify new opportunities, new methods for efficiency which can lead to success.

## TECHNIQUES FOR DEVELOPING CREATIVE ABILITY

To be creative, an individual should :

- i. think beyond the invisible frame works that surround problems/situations.
- ii. recognize when assumptions are being made and challenge them.
- iii. spot narrow-minded thinking and widen the field of vision, i.e to draw on the experiences of other individuals/business.
- iv. develop/adopt ideas from more than one source.
- v. practice fortune, i.e having a wide attention span and range of interest.
- vi. transfer technology from one field to another.
- vii. be prepared to use unpredictable events to their advantage.
- viii. explore thought processes and the key elements of the mind at work in analyzing, valuing and synthesizing.
- ix. use the unconscious mind, for example by sleeping on a problem to generate creative solutions to the problem.
- x. note down ideas that apparently drop into the mind unsolicited so that they are not forgotten.
- xi. try when appropriate, to sometimes make the strange, familiar and the familiar strange to spark new ideas.
- xii. make connections with points that are;
  - apparently irrelevant
  - disguised/buried or not easily accessible.
  - Outside your own sphere of expertise
  - Lacking in authority
- xiii. suspend judgments to encourage the creative process and avoid premature criticism (analysis and criticism repress creativity)
- xiv. know when to leave a problem until solutions emerge. Patience is important here as in the suspension of judgment.
- xv. Tolerate ambiguity and occasionally live with doubt and uncertainty.



- xvi. Stimulate one's curiosity and the skills of observation, listening, reading and recording.

## OBSTACLES TO CREATIVITY

There are a number of obstacles which inhibit creativity. These include;

- i. Negativity; negative attitudes towards certain things.
- ii. Fear of failure
- iii. Lack of quality thinking time
- iv. Over-conformances with rules and regulations
- v. Making assumptions
- vi. Applying too much logic.
- vii. One thinking that he or she is not creative

## STAGES OF CREATIVE PROCESS

Creativity can be improved by remembering that the creative process has the following stages :

- i. Preparation. This involves information gathering, analyzing and solution exploration.
- ii. Incubation. This involves letting the mind work to continue the process.
- iii. Illumination. This is the inspiration which can come when the individual is not necessarily thinking about the problem but is in a relaxed frame of mind.
- iv. Verification. This involves testing ideas, solutions, insights for applicability. If ideas or solutions to problems are slow to come, it sometimes pays one to leave matter alone for a while and re-assess with;
  - A new starting point
  - A different perspective
  - Fresh motivation and further consultation

## **INNOVATION**

Innovation is the way of transforming the resources of an enterprise through the creativity of people into new resources and wealth. It relates to renewal or improvement and this takes place when people change the way they make decisions or make choices outside their norms.

This leads to new product categories as well as increasing productivity.

### TYPES OF INNOVATION

There are a variety of innovations which include the following;

1. Business model innovation

This involves changing the way the business is done in terms of capturing value, for example WBS Vs Bukedde television, MTN Vs Warid Telecom, e.t.c

2. Marketing innovation

This involves the development of new marketing methods with improvement in product design, packing, product promotion or pricing.

3. Organizational innovation

This involves the creation or alteration of the business structures, practices and models and may therefore include process, marketing and business model innovation.

4. Process innovation

This involves the implementation of new or significantly improved production or delivery method.

5. Product innovation

It involves introduction of a good or service that is new or substantially improved, for example improvements in function characteristics, technical abilities, ease of use, e.t.c.

6. Supply chain innovation

This is where improvements occur in the sourcing of inputs from suppliers and delivery of output products to consumers.

### ADVANTAGES OF INNOVATION

Every business can benefit from innovation in the following ways;

1. Developing new products.

A firm can make an exclusive basis based on the review of the needs of the end-users of its production and their environment. Through innovation, new technologies can be located.

2. It assists in marketing

Innovation helps in packaging and positioning the business products for global distribution, for example, developing state-of-the-art electronic commerce and distribution programs.

3. It helps in developing additional distribution channels and added value that can make one's service stand out.

4. It helps the entrepreneur to find new applications for existing soft ware. Therefore improvement in effectiveness eases the use and perceived value of one's soft ware.

5. It enables the entrepreneur to successfully market on internet. Through innovation, an entrepreneur can review his or her objectives and compare to customer needs. He or she can determine what is not working and implement a solution.

6. It helps non-profit institutions to adopt innovative fundraising. Such institutions through innovation can integrate services that bring revenue into the organization.

7. Seeking financing.  
One can innovate alternative approaches, create alliances with venture partners and reposition one's opportunity to match the interest of investors.

8. It helps the entrepreneur to offer more choices to customers through provision of a variety of new products.

9. It helps the entrepreneur to reduce costs of production through adoption of new efficient techniques of production.

## SOURCES OF INNOVATION

Innovation can result from internal and external forces.

### INTERNAL FORCES

1. Unexpected occurrences.

These can be failures or successes. It is through unexpected occurrences that new ideas are born from new information brought to light.

## 2. Incongruities

This results from a company's or industry's perception and reality, for instance, the demand for steel continued to grow between 1950 and 1970, in the steel industry fell. This incongruity caused some innovators to develop a steel mill with a less expensive method of making steel.

## 3. Process needs

These are innovations inspired to support some other products or process. For example, newspaper publishers devised advertisements to cover the expense of printing newspapers using the new printing equipment acquired.

## 4. Industry and market changes.

Innovation is stimulated by changes in the market to meet the changing customer needs and to compete favourably with new products on market.

## EXTERNAL FORCES

### 1. Demographic forces

This affects all aspects of business, for example increased population creates new markets for companies. This calls for improvements that can lead to increased productivity.

### 2. Changes in perception

For example, health care in Uganda has continually become better and more accessible. In perception this has made people increasingly become concerned about their health and leading to huge market for health magazines, vitamin supplements and exercise equipment.

### 3. New knowledge and technology

When new technology emerges innovative companies can profit by exploiting it in new applications and markets.

## CHARACTERISTICS OF INNOVATORS

### 1. Innovators have compelling visions.

They believe that they are part of something better to come in business and that their willingness to contribute to the vision will make that happen.

2. An innovator is opportunity oriented.

He/she always seems to find an opportunity in any situation. One has enough confidence that if one thing does not work out, there is always another way to do it.

3. An innovator is self-disciplined.

He/she knows that it takes self-discipline to achieve results. They prioritize their time so that they do the important work first.

4. An innovator is passionate about what he/she believes.

Successful people have great passion for what they do. They put their efforts in achieving a particular thing and are totally focused on it till they achieve their goal.

5. An innovator is inner-directed.

They are goal-oriented and do not need any one else to motivate them (they are self driven).

6. An innovator is extraordinarily persistent.

He/she just keeps on going and does not let obstacles get in the way. He is committed in achieving his/her goals. This makes even the hardest goals achievable.

7. An innovator is a trend spotter.

He/she is able to identify something new and its social responsibility.

8. They surround themselves with positive people who have positive attitude towards creating something new.

## WAYS TO FOSTER INNOVATION IN SMALL BUSINESSES

1. Expect change;

There is an increase in the velocity, complexity and unpredictability of change. This increase creates a new hyper-competitive international environment.

2. Implement new rules.

This involves going beyond the existing parameters of competition to achieve competitive advantages and profits.

3. Develop innovative strategies.

Develop conscious strategies and mechanisms to promote consistent innovation (innovative all the time).

4. Avoiding barriers.

This involves dissolving internal barriers separate people and departments.

5. Be fast.

Implementation needs to be fast. It is better to be 80% right and quick than 100% right and late.

6. Think like an entrepreneur.

Entrepreneurs make things happen and allow themselves to fail and improve.

7. Think global.

The fastest growing markets may be at the international level, for example, companies can shop in a single global supermarket for just about everything.

8. Always be a learner.

One should have the ability to learn faster and better than competitors and turn learning into new products, services and technologies before his competitors can imitate his or her last innovation.

9. Measure performance indicators.

One needs to concentrate on key strategic and profitability drivers that reveal underlying dynamics of her or her business. One needs to focus his/her success of his/her business.

10. Do well for others.

This makes success easier to attain.

### QUALITIES OF SMALL BUSINESSES THAT MAKE THEM USE INNOVATION SUCCESSFULLY

1. Most small business owners are willing to try new approaches to make their businesses more successful.
2. Small businesses understand customer needs, identify new opportunities and fix problems quickly and efficiently.
3. Small businesses can quickly implement new business practices and adapt to changing market conditions.

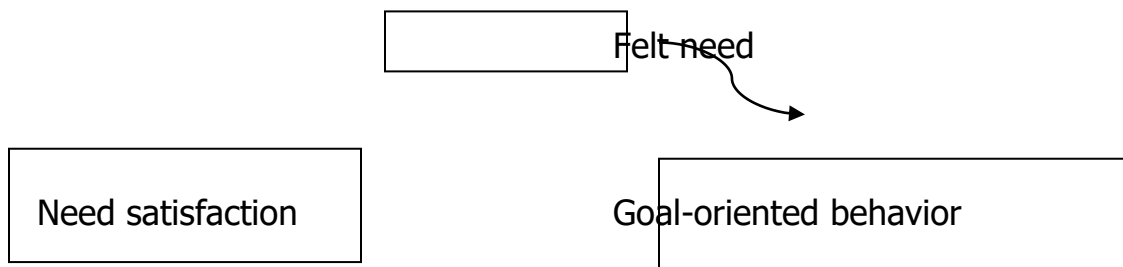
4. When pursuing new opportunities, many small business entrepreneurs experiment and improvise. They accept failure as part of the path to success.
5. Small businesses are adaptive at doing with less. The resource constraints lead to their innovative mindset.
6. Small businesses traditionally rely on strong social networks to share information needed for innovative thinking.

## **ENTREPRENEURIAL MOTIVATION**

This refers to strong desire, impulse, dedication and drive of individuals to accomplish a specific goal.

Entrepreneurial motivation results from the desire to accomplish psychological needs of recognition, responsibility, esteem and participation.

### THE MOTIVATIONAL PROCESS



A felt need is the starting point in the process of motivation.

While understanding the wants-objectives behavior relationship of an individual, it is important to keep in mind that :

- (i) Similar actions may be due to different wants, that is, people may engage in similar activities but their goals may be different.
- (ii) Similar wants may generate different actions.

### CLASSICAL CONCEPTS OF ENTREPRENEURIAL MOTIVATION

#### 1. UNCONSCIOUS MOTIVE

This is where people have tastes, biases or attitudes which strongly influence their behavior but for which they cannot really account.

## 2. POWER MOTIVE

'Power' is ability to require others to behave in ways that suit one's purposes.

## 3. COMPETENCE MOTIVE (Achievement motive)

This is interest in getting to know what the world is like, to be able to make things happen, to create events rather than merely waiting for them passively. For example, the desire for job mastery and professional advancement.

## 4. AFFILIATION MOTIVE

This is the desire to be with other people regardless of whether nothing but company is gained. People seek company of others to gain some kind of impersonal reward which others mete out, such as money, favours, protection or for socializing because they enjoy it.

## ACHIEVEMENT MOTIVATION

This is the intense urge to excel and do something unique.

It involves one wanting to be challenged, so they set moderately difficult (but not impossible) goals for themselves, take realistic risks, and prefer to assume personal responsibility to get a job done.

The two major characteristic elements of achievement motivation are; realizing personal blocks and seeking help to overcome them.

Research studies show that the strong need for achievement is associated with the following behavioural characteristics :

1. Formulation of a concrete goal(s).
2. Goals are formulated in such a way that they stretch one's abilities and efforts.
3. Goals set are not impossible or too difficult but are not too easy.
4. Development of strong internal commitment or involvement with the goal.
5. Taking personal responsibility for the outcome.
6. Analyzing the environment to create opportunities for achievement rather than passively waiting for chances to come one's way. Where there are difficulties and obstacles, one is able to see possibilities and opportunities in addition to the problems.



7. Experimenting with novel activities to reach the goal.
8. Trying to anticipate possibilities of success and failure and doing something about obstacles which can cause failure, thus developing a growing sense of confidence.
9. Seeking help from experts rather than from friends to overcome both external block and internal or personal limitations.
10. Deriving maximum satisfaction from the achievement itself, and less from other factors like recognition and money.
11. Experiencing positive feelings of joy and satisfaction in achieving moderately challenging goals and disappointment but not self-condemnation in failure.
12. Learning from feedback, analyzing whether the goal set was too high to be realistically attained or whether the right methods were employed or changes should be carried out.

## BENEFITS OF MOTIVATION

An entrepreneur who has a high level of achievement motivation has a greater chance of success. High achievement motivation has the following advantages;

1. Increasing self-confidence.
2. Creating enjoyment in taking carefully calculated risks.
3. Enabling an entrepreneur to scan his environment actively.
4. Creating much interest in concrete measures of how one is performing.
5. Producing high performance/results achievement, energy, determination and enthusiasm, strength in overcoming problems and willingness to accept responsibility and change.

## CHALLENGES OF MOTIVATION

If achievement is an urge to excel, compete and do something unique, then it must be associated with constant pressure and stress. This may lead to high anxiety regarding performance resulting in fear of failure which leads to the following disadvantages;

1. Setting goals that are too low to ensure success.
2. Setting goals that are too high which might fail.
3. Thinking of weaknesses and problems in the environment rather than one's own available strengths and opportunities.

## FACTORS WHICH HINDER ENTREPRENEURIAL MOTIVATION.

Entrepreneurial motivation can be blocked by certain social, political and cultural circumstances. These include;

1. A society which does not encourage or facilitate an entrepreneurial spirit and the urge to excel.
2. Some social-cultural beliefs in society that act as barriers to entrepreneurial development. For example the belief that high profit is unethical or that certain roles are for a particular gender or ethnic category.
3. Political systems which discourage individual freedom, free market economy and private enterprises. It also includes policies which contradict individual motives and the desire to excel.
4. The economic environment in terms of policies, financial institutions and the governing funding regulations which may have a very rigid credit system or the non-existence of funding organizations.
5. Psychological factors like security, orientation conformity and compliance and high need for affiliation. That is, the environment which is not endowed with drives and urges for entrepreneurial excellence.
6. Inadequate provision of physical economic infrastructure like reliable roads, water, electricity supply and machinery in a given geographical setting.
7. Inadequate educational orientation, limited entrepreneurial experience and market opportunities.

Successful entrepreneurs have a positive mental attitude which motivates them to focus on desired activities and the results they hope to achieve.

## WAYS IN WHICH AN ENTREPRENEUR CAN DEVELOP A POSITIVE MENTAL ATTITUDE

The following help potential entrepreneurs to develop a positive mental attitude :

1. Each experience is an opportunity to learn.

2. Involvement in the activities.
3. Having work objectives that are achievable and have an impact.
4. Networking with successful entrepreneurs to acquire their thinking, mannerisms and characteristics.
5. Identifying successful entrepreneurs to be your role models and mentors.
6. Avoiding negative thoughts and ideas.
7. Taking advantage of opportunities. This can be one's personal life, work life, life in the community. The environment affects one's performance. If one's environment is not appropriate to one's needs, he or she should change the environment or move to another environment that is more positive and conducive to achieving desirable goals.
8. One having faith in him/herself. Success comes to those who use their talents and abilities to their fullest extent.
9. Being result-oriented. This involves one focusing on specific problems. Once one has reached a decision, then he/she can take action to solve the problem.
10. A positive mental attitude is essential for achieving success. How entrepreneurs act is a reflection of how they view themselves and the environment.

## **RISK-TAKING**

A business risk is a term used to define a factor(s) that may have a negative impact on the profitability or success of a company.

A risk situation occurs when a choice is required between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. It involves a potential success or loss. The greater the possible loss or gain, the greater the risk involved.

Choosing a risky alternative depends on:

- (i) how attractive the alternative is.
- (ii) the extent to which the risk taker is prepared to accept the potential loss.
- (iii) the relative possibilities of success and failure.
- (iv) the degree to which one's own efforts increase the likelihood of success and decrease the likelihood of failure.

### **TYPES OF RISKS**

1. Low risks or minimal risks. These yield low profits to the business.

2. Moderate risks. They can be forecast, calculated and managed by the entrepreneur. It is possible to ensure that such risks do not take place.
3. High risks. These are risks whose chances of happening are very high yet the entrepreneur has very little control over them.  
If such risks occur, they may cause serious change to the business and the chances of recovering the resources invested in the business are very low.

## ASSESSING RISK SITUATION

Entrepreneurs systematically and thoroughly assess the likelihood of the firm's success and the extent to which their efforts could influence this success. They study the market situation, explore profitability in alternative line of business, products, machinery processes and make comparison before making their final decision.

Risk-taking behavior is related to creativity and innovation and it is an essential part of turning ideas into reality for self-confidence. The more confidence one is having in his/her own abilities, the more able he/she will be in affecting the outcome of his/her decision and the greater his or her willingness to take risks.

## PROCEDURES FOR ANALYSING A RISK SITUATION

Although risk-taking is a behavior trait, calculated risk taking is a skill that can be improved. The following are the procedures for analyzing a risk situation.

### 1. Assessing the risk.

This involves establishing whether or not a risk is involved, i.e whether there is a potential loss involved in choosing one particular alternative. For example, one may need to increase production to meet increased demand. His/her choices are to;

- (i) stay with the current market level of demand.
- (ii) purchase more equipment to meet the demand.
- (iii) lease more equipment to meet the demand.
- (iv) sub-contract production to smaller manufacturers.
- (v) hire a new employee.

If the business has a good cash flow and demand is certain to grow, then there is little risk involved in deciding on any of the alternatives although the first would cause profit growth to be ignored.

However, continued demand may not be assured, for instance the product/service may become obsolete, more companies may enter the field or market may be nearing saturation. In this case there is a risk involved in deciding whether to expand production.

## 2. Determining goals and objectives

Consider the company's policies and objectives. A company objective might be to achieve slow growth, steady growth, no growth or growth in other product areas. Determine whether the risk involved is consistent with the company's objectives. If it is, the decision making process continues and a detailed assessment of the alternatives is undertaken.

## 3. Clarify the alternative

Alternatives should be specified in sufficient detail so that the costs involved can be assessed objectively. These can be financial costs, social costs or physical costs. For instance an alternative may require excessive personal effort or failure may lead to loss of social prestige.

## 4. Gathering information and weighing the alternatives.

The likely return to the business for each alternative should be assessed. For instance on the basis of market information, forecasts of future demand and competitive reactions should be assessed, like;

- (i) if demand nears saturation point, can product modification stimulate increased demand in new markets?
- (ii) are new markets available if competitive activity decreases current market share?
- (iii) can the machinery be easily modified to handle other products?
- (iv) are suppliers/sub-contractors likely to increase their charges if demand grows?

## 5. Minimize risks.

This step involves a realistic assessment of the extent to which the entrepreneur can affect the odds. It involves;

- (i) clear awareness of the entrepreneur's abilities and the company's capacities.
- (ii) some creativity in determining how the odds may be changed.
- (iii) the ability to plan strategy and tactics to affect change.
- (iv) the drive, energy and enthusiasm to implement the strategy.

## 6. Plan and implement the best alternative

Once an alternative is selected, a plan must be drawn up for its implementation (make a time table).

## CALCULATED RISKS

Whenever one engages in something with an uncertain outcome, he/she is taking a risk. The higher the uncertainty is, the higher the risk. That risk may be financial, legal, social or physical. Most people think of risk in terms of loss, yet risks can also present opportunities that will be lost if a risk is avoided. Therefore learning to take wise risks is very critical to both personal and business success.

## DELEGATING AUTHORITY AND RESPONSIBILITY

Entrepreneurs are leaders in the sense that they direct the activities of others to achieve organizational goals. As the leader of the organization composed of people, they must be willing to delegate authority and responsibility for certain activities to their staff.

However, delegating authority and responsibility involves certain risks. It may have positive or negative effects.

To obtain maximum benefits, employees must have certain degree of power and freedom to carry out their duties and responsibilities. The more responsibility that can be delegated successfully, the more time entrepreneurs will have to deal with those activities which have the greatest impact on the organization's future success.

It is good for entrepreneurs to delegate certain tasks if he or she is unable to perform them. However, it is important for the entrepreneur to maintain the overall authority and responsibility.

## TYPES OF RISK-TAKERS

The type of risk-taker depends, to some degree, on the extent to which one is influenced by other people, his or her past experience, his or her present situation and expectation for the future. The following are the different types of risk-takers.

### 1. Low risk-takers

These are needed at the work level (lower level) so that they can do the routine things and bring organizational stability.

### 2. Moderate risk-takers

These are the managers at the middle management level.

They are considered as risk-takers because they need some freedom to be innovative and make minor modifications in procedures and functions.

### 3. High risk-takers

These are the creative and innovative entrepreneurs willing to accept change, try various alternatives and develop innovations for products and services in new areas of business.

## **COMMUNICATION SKILLS**

Communication refers to the process of exchanging information between the sender and the receiver. It is how thoughts, feelings, knowledge and ideas are transmitted from one person to another.

In the course of operating business, entrepreneurs need to develop effective communication that will help them to deal and relate very well with their clients and other parties, for instance other businesses, financial institutions, government, e.t.c.

### **EFFECTIVE COMMUNICATION**

This refers to the process of transferring information from the sender to the receiver with the information being understood by the receiver as communicated by the sender.

### **ESSENTIALS/PRINCIPLES OF EFFECTIVE COMMUNICATION**

These are aspects which must be taken into account in all media of communication. These include; clarity, completeness, conciseness, consideration, courtesy and correctness.

#### 1. Correctness

The message given should be as correct as possible in order to avoid misconceptions.

#### 2. Clarity

The message should be as clear as possible. The sender should choose words and language that the receiver is familiar with.

### 3. Completeness

The message should include facts the receiver needs to know about the subject matter on it which is being communicated. The communicator should organize his message in such a way that the receiver is not in doubt about anything contained in it.

### 4. Conciseness

The sender should give the message in the fewest words possible, i.e the message should not be too wordy to confuse the receiver.

### 5. Preciseness

This means that the message should be specific and to the point, i.e it should not be vague or too general.

### 6. Courteous.

The sender should be as sincere as possible when giving the message and should avoid hurting the receiving party but should not shy away from addressing the issues of concern.

### 7. Considerate

The sender should have the receiver in mind when sending the message. In this case, it is important that the sender uses positive words other than negative sentences.

### 8. Timing

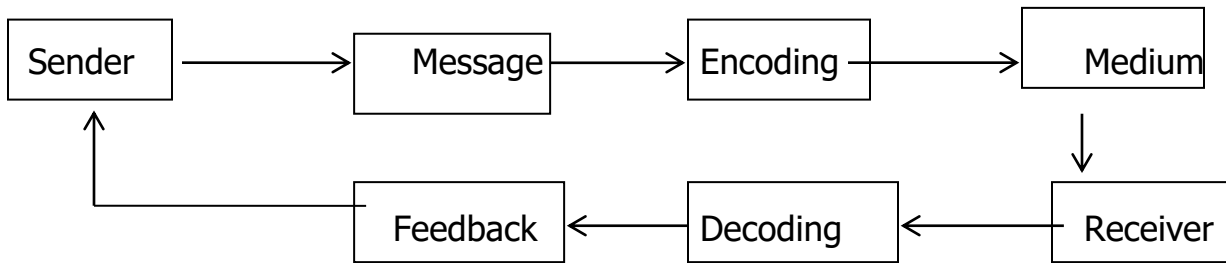
The message should be conveyed or communicated at a time when the receiver is able to receive or listen to it.

### 9. Environment

The environment within which the communication is being made should be good to facilitate the intended target recipient to receive the message.



## The communication process



### - Sender

The sender is the source of the message. He originates an idea or a thought and he initiates the communication.

### - Message

The message is the form in which the sender encodes the information he wants to send. A message may be oral whereby it is heard, it may be written and read by the receiver, it may be felt by touch, it may be seen or it may be tested.

### - Encoding

This is when the sender translates the idea or thought into some symbols. The sender encodes the message in form of words or gestures that he or she believes have the same meaning and will convey the required meaning to the receiver.

### - Medium/channel

This is the method of transmission of the message from the sender to the receiver. The medium includes paper for written messages, air/phone for oral messages, cameras and video equipment for visual messages.

### - Receiver

This is the person who receives the message from the sender. This is the person for whom the message is intended. The receiver may be more than one person.

### - Decoding

This is the process by which the receiver interprets the message and translates it into meaningful information. Decoding is a two step process involving perceiving the message and then interpreting it.

### - Feedback

This is the reversal of the communication process in which a reaction to the sender's message is expressed.

Communication is effective only if the desired message has been properly encoded, transmitted, coded and understood. Feedback goes through the same steps as the original communication. It can take the form of a nod of a head, letters, certain actions like increased output, e.t.c.

## TYPES/METHODS OF EFFECTIVE COMMUNICATION

There are basically four methods/forms of effective communication. These include;

### 1. Verbal or oral communication

This is communication by word of mouth. It involves talking and listening, for example face to face dialogue/meetings, telephone conversations.

### 2. Non-verbal/body language

This involves communication by body movements in cases where people do not have a common language. In this case, body movements such as signs/gestures, facial expressions, eye movements, nodding and pointing can be used to convey messages. It is this type of communication that is used to communicate to people with hearing disabilities.

### 3. Audio-visual communication (sound-picture communication)

This is communication by use of recorded sound or pictures, for instance use of radio, television, videos, films, computers like internet where information can be got by opening up computer websites and e-mails.

### 4. Written and printed communication

This involves writing and reading messages. It takes forms as printing newspapers, magazines, journals, posters, business card, catalogues, financial statements like the balance sheets, income statements, e.t.c. Writing of information when communicating to one another, for instance use of business letters, office memos, reports, e.t.c.

## CHANNELS/MEDIA OF EFFECTIVE COMMUNICATION IN BUSINESS

In business, the commonly used media of communication include the following;

### 1. The press

This basically include newspapers, magazines, journals, printed catalogues, e.t.c Under this medium, message is conveyed among traders, between manufacturer

and consumers, wholesalers and retailers, or even between wholesalers and manufacturers.

## 2. Radio and television

Under this medium, traders are able to communicate to the public about the goods and services they offer through television and radio. This can be in form of advertisements which can be persuasive or informative.

## 3. Telephone

This is a medium of oral communication where people speak to one another through telephone receivers. Today the commonly used are mobile phones.

## 4. Internet

This is the world wide area network of computers communicating across continents.

## 5. Letters

This is a method of communication which involves writing letters and sending them through the post office to be delivered to the addressee or they may be directly delivered.

## ORGANISATIONAL COMMUNICATION

This is the communication structure(s) or channel(s) in the organization through which information is relayed from one person to another.

## TYPES OF COMMUNICATION STRUCTURES OR CHANNELS

### 1. DOWNWARD COMMUNICATION

This is the type of communication in the organization through which information flows from top management to lower levels of management. It carries such information as instructions on what to do, policies of the organization and reports among others. It is intended to convey management orders and view points to subordinates.

#### Types of downward communication

There are different channels/media of downward communication. These include;

#### (i) Meetings

These are used to transmit information from one level to another. They may be face to face, one to one or in a meeting where many people are.

(ii) Company periodicals

These are used to disseminate information about the company, its products and policies through company publications. Company periodicals are at times called a newsletter.

(iii) Posters and notice boards.

Here information is communicated through posters. This is important for short messages. It is common when addressing a large number of people where sending it to individuals may be cumbersome.

(iv) Letters

This is used when a manager wants to present something special to staff through direct contact to ensure that each employee receives it.

(v) Employee handbooks and pamphlets

These provide information to outsiders or those in the organization. For insiders, it may carry policies or details of standing orders or procedures. During orientation process, they may be used as an introduction to the organization. They are common in schools and universities.

(vi) Annual reports

These give summaries of the performance and the position of the organization intended to let stakeholders who are not directly involved in management know how the organization is performing.

## 2. UPWARD COMMUNICATION

These are channels of communication that facilitate the flow of information from lower levels of management to the top levels of management in the hierarchy. It flows from subordinates to superiors.

### Types of upward communication

(i) Meetings

These are used to encourage subordinates inform the superiors. Group meetings can be held in which free expression of issues is encouraged.

(ii) Suggestion boxes

This is an avenue for getting ideas, suggestions and complaints from subordinate staff. Boxes are fixed in locations easily accessible by staff where they can send the suggestions without fearing reprisal from supervisors.

(iii) An open-door policy

Here a messenger welcomes subordinates to discuss problems with him or her freely any time. The manager makes himself accessible either by allowing subordinates free access not through unit heads in office or other avenues.

(iv) The grievance procedure

Many organizations have procedures through which an aggrieved subordinate may initiate action to address a grievance. For instance, it may go through a trade union, a manager or some established channels.

(v) The complaint system

In addition to grievance procedures, some organizations encourage all types of upward communication. For instance, staff committees where staff problems are discussed. These act as systems where complaints are channeled and addressed.

(vi) counseling

While counseling is part of the management job, there are subordinates who fear superiors especially in cultures where the boss syndrome exists. In such cases, organizations create positions of counselors who independently receive information from employees and get management to solve the problems emerging from sessions with such staff.

(vii) Labour unions

These are used to convey to management feelings and demands of employees.

(viii) Grapevine

Grapevine is a spontaneous and natural phenomenon that serves as a means of emotional release and provides management with significant clues concerning the attitudes and feelings of organization members. It is also referred to as an informal underground network that channels communication both within and outside an organization. It is described as unofficial, confidential and person to person chain of verbal communication.

### 3. HORIZONTAL COMMUNICATION

This is communication between and among individuals at the same level. Horizontal communication talks about performance, facilities and staff, all agreed upon achieving the organizational goals. This enables faster decision making and quickly gives feedback.

## ELECTRONIC ORGANISATIONAL CHANNEL (Intranet)

This is a series of networks among different people in the organization enabled by internet technology. It is a network of communication among different individuals in the organization powered electronically.

### Types of electronic organizational communication channels

#### 1. Notice boards

Today, physical notice boards are no longer required if all people in the organization have a computer. Circulars and notices are posted to the electronic notice board where people can read what they would otherwise read on physical notice boards.

#### 2. Discussion boards

Discussion boards enable members of management to discuss an issue by posting opinions for others to read.

#### 3. Electronic mail (internet)

This has reduced the number of documents used in organizations like letter heads, envelopes, mail receiving and dispatching departments and has also taken away their jobs.

## THE PURPOSE OF COMMUNICATION IN BUSINESS

Communication in organizations serves two purposes, that is to facilitate the internal functioning of the organization and also to enable the organization relate to the outside environment.

1. To search for, establish and disseminate organizational goals. Once the organizational goal has been identified, departments also state their goals. The different departments then bring their ideas together through the

communication process and finally a document is drawn up which communicates the plans of the organization.

2. To facilitate development of plans and strategies to achieve goals. Once goals have been articulated, strategies are evolved, discussed and communicated. All this is facilitated by communication.
3. To facilitate allocation of organizational resources in the most effective way. Once plans have been agreed upon, the organization must also agree through discussions and directives on how the resources will be deployed. This must be communicated to the different departments in either meetings or memos.
4. To facilitate identification, selection, development and appraisal of organizational members. Staff performance is evaluated and feedback given back. Salaries and salary increments must be communicated through the communication process.
5. To enable managers influence, direct, motivate and create a conducive working environment for organizational members. This is done through written or verbal communication which involves giving workers instructions and guidance.
6. To facilitate and make feedback about performance and enable corrective action be made. As organizational members perform the tasks given to them, they have to make periodic reports to supervisors on what they have done. This is done through the communication process.

For enabling an organization relate to the outside environment, the objectives are:

1. To link the entrepreneur to the suppliers.

Communication enables the organization to identify suppliers who are competent and can avail them with various inputs like raw materials used in the production process.

2. To link the entrepreneurs to important services and needs like banking services, insurance, transport, e.t.c which help in the day to day running of the business.

3. To keep entrepreneurs in touch with his or her customers.

This helps the entrepreneur to carry out surveys into customer needs and observation of consumption patterns and trends. He or she can therefore devise ways of meeting these needs.

4. To inform share holders about organizational performance.

Communication enables the organization to make shareholders aware of its performance and position and their claims. This is because they are not involved in the running of the business and therefore need to know its performance.

5. To get information about macro policy intentions of government, tax policies, regulations and other information that the government makes available from time to time.

6. To relate to and establish the needs of the society.

Organizations may need to address social problems like HIV/AIDS, global warming, e.t.c. Organizations learn about these needs through different communication channels, take decisions on how to support such needs and will communicate them to the public.

## IMPORTANCE OF COMMUNICATION IN BUSINESS

1. It helps the entrepreneur to search for, establish and disseminate organizational goals to the different departments in the organization.

2. It facilitates development of plans and strategies to achieve goals. Once goals have been articulated, strategies are evolved, discussed and communicated.

3. It facilitates the allocation of resources of the organization in the most effective way. This is done through agreeing on discussions and directives on how the resources will be deployed.

4. It facilitates identification, selection, development and appraisal of organizational members.

5. It helps an entrepreneur to implement organizational policies by giving instructions to subordinates and their supervisors.



6. It enables managers to influence, direct, motivate and create a conducive working environment for organizational members. This is done through written or verbal communication which involves giving workers instructions and guidance.
7. It enables the entrepreneur to get feedback from organizational members about performance of tasks given to them as they make periodic reports on supervisors on what they have done.
8. Communication helps in keeping good relationship with old customers and creating new ones.
9. It enables the entrepreneur to pass on relevant information all the time to his or her staff, the customers, shareholders and the general public. For example information about performance of the business.
10. Communication enables the organization to identify suppliers who are competent and can avail inputs like raw materials used in the production process.
11. It helps to link the entrepreneur to important services and needs like banking services, insurance, transport, e.t.c which help in the day to day running of the business.
12. Communication enables the organization to relate to society and know the needs of the society. For instance, the organization may need to address social problems like HIV/AIDS and global warming.
13. It enables the entrepreneur to get information about macro policy intentions of government, tax policies and other information that the government makes available in form of regulation from time to time.
14. It aids market research through the use of interviewing, questionnaires, e.t.c. An entrepreneur can be able to gather necessary information concerning people's opinions about his or her products in the market.
15. It opens and promotes trade through effective communication. Various markets are linked up so that shortages in one

market can be solved by transferring surplus goods from other markets. For instance a multiple shop which has a shortage can communicate to another branch with a surplus to solve the shortage.

## TECHNIQUES OF COMMUNICATION WITH CUSTOMERS AND SUPPLIERS.

### (A) HOW TO PRESENT A PRODUCT TO THE CUSTOMER

When presenting a product to a customer, an entrepreneur should consider;

- The target customer's needs.
- Customer's privacy, convenience, ability to use the product, e.t.c.
- Giving samples, guarantee, e.t.c to back up the product.
- Presentation aids like photographs, catalogues and charts to back up the product.

### (B) HOW TO BARGAIN WITH CUSTOMERS

In bargaining with customers, the entrepreneur should;

- Be a good communicator.
- Avoid dominating the customer.
- Try to convince the customer as to why the product is being sold at the offer price.
- Give counter offers like reduction in price.
- Offer in delivery services.

### (C) HOW TO GIVE PERSONAL ATTENTION TO CUSTOMERS

- Understand customers' wants and needs and bring products to satisfy them.
- Sell products at the right prices, in the right quantity and quality.
- Use the right promotion at the right time in order to meet the customers' wants and needs identified.

### (D) HOW TO COLLECT OVERDUE ACCOUNTS

In order to collect overdue accounts, the entrepreneur should;

- Send polite reminders to customers with overdue accounts suggesting the dates for settling the debt.
- If no response is received within the specified period of time, a more strongly worded reminder should be sent.

- If recovery is not achieved, employ courts of law for stubborn debtors.

### (E)HOW TO HANDLE DIFFICULT CUSTOMERS

In order to handle difficult customer objections fairly;

- Acknowledge and evaluate customer objections.
- Listen carefully to words being used and feelings being expressed.
- Get the customer to open up so that you can understand the basis of his or her being difficult. In the process, the customer may raise some important products. In this case, the entrepreneur should;
  - Buy time by suggesting that he or she will look at the issue/subject matter later.
  - Hold his or her arguments until the customer is ready for them, if the entrepreneur is trying to convince the customer from his view point.
  - Compensate the customers by price reductions or refund or replacement of goods in case the previous purchases have had a problem.

WRITING BUSINESS LETTERS, MEMOS, CIRCULARS, NOTICES AND REPORTS.

## **BUSINESS LETTERS**

A letter is a message written down or printed on paper and usually put in the envelope and sent to somebody, an organization or business.

### **Components of a business letter**

A business letter usually contains the following;

- Letter head

This is a pre-designed and printed paper showing the business name, address, telephone number, e-mail, vision, mission, slogan, e.t.c.

NB: In case of absence of a letter head, a plain paper is used.

- Reference (our reference)

This is said to assist in the identification of the subject matter and to whom the letter is being written. Reference can be done either on the basis of the sender, subject matter, addressee, the month, date and year e.t.c. For instance SM/L<sub>2</sub>/SS/28/02/2012 where SM is sales manager, L<sub>2</sub> means letter two, SS is supply of goods and the date, i.e 28<sup>th</sup> February 2012.

- Date

The date can be written as 28<sup>th</sup> February, 2012 or February 28, 2012 or 28/02/2012.

- Inside address

The inside address gives the name and address of the addressee.

- Salutation

This is the formal greeting used to commence the letter, for instance Dear sir/madam or Dear Twaha.

- Subject heading

This gives a brief indication of the content of the letter. Capital letters should be used. It is preceded by RE: ..... and underlined.

- Body of the letter

This gives detailed information to the receiver. It is presented in form of paragraphs to show different ideas in the letter.

- Complementary clause

This gives a general closing to the letter. 'Yours faithfully' is used if 'Dear sir/madam' was used in the salutation. 'Yours sincerely' is used if the name of the receiver was used in the salutation, for instance, Dear Twaha. The first letter is capitalized and followed by a comma (,) like 'Yours faithfully, .....

- Signature

The signature should always be written in ink, neatly and legibly below the closing.

- Name of the sender and title (designation)

These two are written below the signature each appearing on an independent line. For example;

Twaha  
Sales Manager

All these should be in line with the sender address, i.e in the same position on paper.

- Enclosure

If there are any other document to be sent with the letter in the same envelope, it should be stated using the abbreviation 'Enc'.

- Carbon copy (C.C)

A copy or copies of the letter can be circulated to other officers who may need to know about the information communicated, for instance

C.C Managing Director

C.C Finance Manager

C.C Company secretary

### **Formats of business letters**

#### 1. Blocked style/format

Here all parts of the letter begin from the left margin. Paragraphs are indicated by skipped lines. For example

Sender's address

Date .....

Our ref.

Inside address

Dear Sir/Madam

RE: \_\_\_\_\_

Paragraph 1

Paragraph 2

Yours faithfully,

(signature)

SSENYONDO TWAHA

SALES MANAGER

Enc: cheque

C.C .....

C.C .....

## 2. Semi-blocked style

Here all parts of the letter except the sender's address and the complementary clause begin from the left margin, as shown below;

	Sender's address (Letter head)
Our ref.	
Inside address	
Dear Sir/Madam	
RE: _____	
Paragraph 1	
Paragraph 2	
	Yours faithfully,  (signature)
	SSENYONDO TWAHA SALES MANAGER
Enc: cheque	
C.C .....	
C.C .....	

### 3. Indented style/format

Here the date and reference appear on the same line. The inside address and salutation are blocked (begin from left margin). The subject heading is centred while paragraphs are indented. The complementary clause, signature, name and title of the sender begin from the centre. This is as below;

	Sender's address (letter head centred) Date .....
Our ref.	
Dear Sir/Madam	
RE:	
<hr/>	
Paragraph	1
<hr/>	
Paragraph	2
<hr/>	
	Yours faithfully,  (signature)  SSENYONDO TWAHA SALES MANAGER
Enc: cheque	
C.C .....	
C.C .....	

## **OFFICE MEMO/MEMORANDUM**

This is an official note from one person to another in the same organization. It is used to communicate short messages.

### **Contents of a Memo**

- Heading

This gives the business name, address, telephone number, e-mail, e.t.c

- Document title/name

This gives the document identification, e.g MEMO

- From

It shows where the Memo is coming from.

- To

It indicates the person to whom the memo is sent/addressed.

- Date

Shows the date when the memo was written.

- Reference

This assists in identification of the subject matter and to whom the memo is being written.

- Subject heading

This gives a brief indication of the content of the memo.

- Body

This shows the details of the content of the memo in paragraph form.

- Carbon copy (C.C)

It shows a copy/copies of the memo circulated to other officers/offices in the organization who may need to know about the information communicated.

## **CIRCULARS**

A circular is a printed letter, notice or advertisement that is sent to a large number of people. It bears a number and normally put on the organization's notice board where everybody can see and read it.



## **Contents of a circular**

Business name and address  
Document name, i.e Circular  
Circular number, e.g 005  
Date  
Drom :  
To :  
Subject heading  
Body :  
Complementary clause  
Signature  
Name of sender/writer  
Title  
C.C

## **NOTICE BOARDS**

A notice is a piece of paper or sign giving information, a warning, e.t.c put in a place where everyone can read it. They are usually put on the organization notice boards.

### **Contents**

Name and address of the business  
Document name, i.e notice  
Date :  
To :  
Subject heading  
Body  
Complementary clause  
C.C

Example : Refer to UACE ENT. By Gyaza.

## **BUSINESS REPORTS**

A business report is a communication tool used to explain complex situations that cannot be ordinarily explained in a simple letter or meeting where a variety of issues may be considered. Here, information is thoroughly researched and presented in an orderly manner either orally or in written form.

### **Importance of business reports**

1. They report to superiors numerous and complex things that take place in an organization on a periodical basis.
2. They are used when there is a need to study or investigate a non regular occurrence or need to understand issues not common in day to day management.

### **Qualities of a good report**

1. It must be on a clearly defined subject.
2. It omits irrelevant information
3. It should include everything the reader needs to know.
4. It should be well organized and logical in its structure.
5. It should be accurate and up to date.
6. It should be clearly presented.
7. It should follow the required format.
8. It should not contain too much technical details (jargons).
9. It should be written in a concise and simple format.

### **Contents of a business report**

1. Heading/letter head

This gives the business name, address, telephone number, e-mail, etc.

2. Date

This shows the date when the report was written.

3. To

It indicates the person to whom the report was written.

4. From

It shows where the report is coming from.

#### 5. Subject heading/title

This gives a brief indication of the content of the report.

#### 6. Body/content

It shows the details/findings of the report/writer.

Findings are facts that emerge from the investigations. They are reported in their raw form or in summary.

#### 7. Summary

Some long reports may include a summary of the major findings. The summary is intended to guide the reader especially the busy managers, so that if they wish they may look at specific findings in detail.

#### 8. Conclusions

These are drawn from findings. Various facts drawn from investigations are analysed and from the analysis certain new facts emerge. The new facts are presented from the point of view of the report writer as some kind of opinion.

#### 9. Recommendations/suggestions.

These form part of the purpose of the investigation and the report.

**N.B** : If a report is made by lower managers and sent to a senior manager, they make suggestions. However, if it is made by senior managers or consultants, it includes recommendations other than suggestions.

#### 10. Carbon copy (C.C)

This shows a copy/copies of the report sent to other officers who may need to know about the information communicated.

Example : Refer to UACE Ent 2012 by Gyaza.

### FACTORS CONSIDERED WHEN CHOOSING A CHANNEL/MEDIUM OF COMMUNICATION

#### 1. Language to be used in the message

The message should be made in a language which the receiver can easily understand.

#### 2. Message performance

Radio, television and telephone messages last only for a few seconds and they are over while letter, e-mail, faxes and telegrams last for a long period of time.

### 3. Nature of the message

For messages that require detailed information, letters are more effective. Brief messages can be sent by use of e-mail, faxes and telegram.

### 4. Speed and urgency of the message

Urgent messages should be sent through fast media, for instance telephone, e-mail, fax, while letters and the press tend to take long to reach the receiver.

### 5. Coverage of the media

For messages to be conveyed to wide geographical areas, newspapers, television and radio are more appropriate. For messages that are intended for individuals in a small area like a trading centre, then notices, posters are more effective.

### 6. Cost of the communication channel

Some channels are expensive compared to others. For instance press, television compare to letters, internet and radio. Entrepreneurs therefore should choose the most cost effective channel.

### 7. Social and education status of the recipient

Messages intended for ordinary people are conveyed through radio, posters/notices. While for the rich and elite class, internet (e-mail), faxes, televisions, newspapers, magazines are appropriate.

### 8. Availability of the medium

Communicators use means which are within their reach, for instance, a trader near a radio station could use radio or telephone instead of travelling long distances to communicate through television, press, telegrams.

### 9. Secrecy of the message

Confidential information can be sent through letters since they are personal and can be kept secretly compared to other means of communication like notices, newspapers, radio, e.t.c.

### 10. Age group of the recipients

Information to the teenagers and youth should be communicated through internet, magazines, television and cinema halls (video) as these mostly appeal to this age group. Messages for the adults and aging people should be conveyed through radio and newspapers.

### 11. Personality of the recipient

Communication to people with hearing disabilities is normally done using sign language and visual communication. On the other hand verbal communication is ideal for the blind.

## BARRIERS TO EFFECTIVE COMMUNICATION

These are hindrances that stop the receiver from getting the intended message the way the sender sent it. They include;

### 1. Differing perceptions

People have different backgrounds, knowledge and experience. These differences make people perceive things in different ways.

### 2. Distractions

These may be in form of noise, thoughts and anything that prevents one from concentrating on what the sender is conveying.

### 3. Language differences

This involves the sender using a language that is not familiar to the receiver. For instance, an entrepreneur using Luganda to communicate to a Karamojong may make communication ineffective.

### 4. Distrust

This results from lack of credibility of the message being sent. For instance message from people who do not keep their promises. In this case, any message given will not be taken seriously.

### 5. Non-verbal communication

Non-verbal factors like body movements, clothing, gestures, postures, eye movements and facial expressions may distort meaning of a message.

### 6. Using improper channels of communication

For instance, a message sent through newspapers may not be understood when the target group cannot read.

### 7. Incompleteness of the message

When the sender does not include all the facts that the receiver needs to know about the subject matter, effective communication is hindered.

### 8. Long distance between the sender and receiver

Today most communication is through telephone and telex facilities and not every place is accessible through those. Sometimes mechanical breakdowns render these facilities ineffective. In this case, distance between the transmitter and receiver becomes a serious barrier.

#### 9. Emotional blocks

This happens when the sender is worried, afraid, excited or nervous such that he is not able to organize his or her message properly. If such a person speaks, he or she falters and keeps on repeating the same words. In the same way the emotions of the receiver affect effective communication process.

#### 10. Poor planning of response

This is mainly caused by failure to effectively think of the response in time due to distraction coming from the sender.

#### 11. Poor listening skills and premature evaluation

Lack of good listening culture especially among the youth tends to make communication ineffective. They prefer listening to music. This means that if one uses other means of communication other than radio, television then the intended message may not reach them.

#### 12. Poor personality on the side of the sender

This may be in form of poor mannerism of the sender who may hurt the receiver in the process of sending the message.

#### 13. Boring messages.

This may result into lack of interest by the receiver in the message being conveyed. This may be due to various factors like poor delivery of the message.

#### 14. Closed minds

This means people who react with only anger to anyone who tries to argue with them. This may hinder the possibility of effective communication.

### WAYS OF OVERCOMING BARRIERS TO EFFECTIVE COMMUNICATION

1. Explaining to the receiver so that he or she gets to share the meaning of the message in order to overcome differing perceptions.
2. By using simple, direct, natural language while communicating so as to overcome language differences.

3. Understanding and changing people's behavior to ensure maturity of organizational members in order to overcome emotional blocks.
4. By understanding or being aware of the meaning of different gestures, body movements, clothing, postures, eye movements, facial expressions and other powers of non-verbal communication.
5. Creating trust. This involves building confidence through understanding, discussing issues and creating an atmosphere of trust so as to restore credibility.
6. Eliminating physical noise, for instance if it is a machine, it can be switched off or those communicating can move away in order to overcome distraction.
7. Planning well before any form of communication. The sender should plan well in advance what he or she wants to say, why is he or she saying it, how he or she will say it. He or she should also anticipate the receiver's reactions to it.

## **NEGOTIATION**

Negotiation refers to the process of bargaining that precedes agreement. It is a meeting between two or more parties with an intention of reaching an agreement or compromise over issues that are of mutual interest. This leads into an agreement to the satisfaction of the parties involved.

### **N.B :**

The aim of negotiation is to reach agreement rather than to achieve victory. Therefore experts recommend entering into it with a cooperative rather than a competitive attitude. Negotiation results are best if they achieve a win – win situation where everybody goes away happy. Win – lose situations usually cause the losing party feel cheated and may want to re-open the negotiations or may do such things to prevent the other party from enjoying the win.

### **PRINCIPLES OF NEGOTIATION**

The following are rules that can help one to resolve a dispute and negotiate like a professional;

1. One doesn't need to be right to settle. One feeling that he or she is right is emotional but it has no place in negotiation. If one party is only interested in being right, chances are that the situation may not be resolved.
2. Looking to the future. One should not focus to the past. If one party gets involved in what happened in the past, it can be counter-productive. One should figure out a way to get the present and deal with current issues of the case. One should ask the other party what they want to resolve the dispute.
3. Focusing on the goal. One should not be distracted by his or her emotions. It is important that one checks his or her emotions at the door before trying to negotiate anything. Emotions such as anger can make one lose control. If one is upset he or she needs to focus on what one hopes to accomplish and tell oneself that nothing is going to stand in the way of that goal.
4. Set the tone and look the part. In setting the tone of negotiation, one should;
  - Wear professional clothes
  - Know what he or she is doing and get to the business at hand quickly.
  - Maintain eye contact and be a good listener.
  - Ensure that he or she is knowledgeable about the issues to be discussed.
  - Project qualities of a good negotiator, i.e being firm, flexible, fair, honest and a good sense of humour.
5. Being prepared and doing research. This could be a simple activity where one lists one's arguments on a piece of paper or a complex one where one does research to cost the request for wage increment. If one is not prepared, one should consider delaying the negotiation to avoid regret.
6. Knowing what one wants and what the other side wants. One should know what one wants and what to give up in getting what one wants.



7. Always have a back up plan (plan B). This becomes a way to be flexible and react to what the other side wants and think fast to one's feet.

### PERSONAL ATTRIBUTES OF A GOOD NEGOTIATOR

1. Integrity (Straight forward)

A negotiator should be honest as this builds mutual trust and cooperation that is crucial in bringing about free and open exchange of ideas.

2. Empathy

This is the ability to understand the other party's point of view. This can be used and manipulate to one's advantage in negotiation.

3. Patience

This is the calm endurance of the prevailing state of affairs. This makes a person be able to accommodate another person's views in negotiation.

4. Self assurance

This is the freedom from doubt or belief in oneself and abilities.

5. Self confidence

Good negotiators have confidence in themselves, their own abilities and judgment.

6. Tenacity

Negotiators are persistent to something, i.e they have the determination to continue with something.

7. Stamina

This is the physical or moral strength to resist or withstand hardships in business.

8. Ingenuity

Negotiators normally possess inventive skills, imagination and cleverness.

### THE NEGOTIATION PROCESS

Negotiation is a process that involves a series of steps and activities that will lead to success. This involves;

1. Determining the subject and objectives of negotiation.

This involves one being clear about what he or she wants. This depends on the subject matter and the interest one has in the subject matter.

To be able to articulate one's interest, he or she has to understand the other party's interests.

Since the achievement of his or her goal depends on the cooperation/agreement of the other party.

## 2. Preparing/planning for negotiation

This involves preparing the road map to achieve the desired outcome. This includes thinking through the subject matter of negotiations, i.e goals, objectives and interests, who will negotiate, the negotiation strategy, the venue and the other party's objectives.

## 3. Evolving negotiation strategies

This involves considering different ways of handling the negotiations to achieve the desired goals and objectives and thinking that one will achieve what one wants. Here one needs to carry out analysis of one self (self analysis), the environment (environmental analysis) and the other party one is to negotiate with (competitor analysis).

## 4. Actual negotiations

This involves getting all the necessary documents about the subject matter as may have been gathered during preparations and any other information one may require together. It also involves going through the documents for the final time in preparation for the actual negotiations.

If it is a team there is a need to have a meeting to brief the team members about what is supposed to happen. It may involve restating the objectives, i.e what the team wants to achieve, roles of the different people, how to start the negotiations, what strategies and tactics to be used, how to end the negotiations, when to make a deal. Once these have been agreed upon, negotiations may be started.

### GUIDELINES FOR EFFECTIVE ACTUAL NEGOTIATIONS

1. Determining one's negotiation tactics.
2. Creating the right climate.
3. Stating the subject matter and objectives of the meeting.
4. Depending on the strategy one has selected by either stating his or her position or let the other party respond to the opening statement.
5. Depending on what strategy one has set out to use, one should state one's interest but putting emphasis on commonalities.
6. Seeking agreement
7. Ending negotiations

## NEGOTIATION SKILLS/TACTICS WITH DIFFERENT STAKE HOLDERS

### (A)NEGOTIATION TACTICS WITH CUSTOMERS

The following are the seven relationship building strategies that can help one transform one's company into a valuable resource.

#### 1. Communicating frequently

This involves one communicating regularly with customers as well as varying the types of messages one sends to them. The entrepreneur should combine newsletters, e-mails, direct mails, phone contacts and face to face communication to keep prospects moving through his or her sales cycle instead of constant promotions.

#### 2. Offering customer rewards

This involves offering in-kind rewards that remind his or her customers of the company and its products, for instance, price reductions, prizes, gifts like calendars, caps, T-shirts, shopping bags, umbrellas, drinks, pens, e.t.c on which the company's name or logo is printed.

#### 3. Holding special events.

This involves holding special company sponsored events which allow the entrepreneur and his or her staff to interact with his or her best customers.

#### 4. Ensuring that negotiations promote two-way communication

The entrepreneur should aim at using every opportunity to create interaction with customers as well as asking for feedback through appropriate means.

#### 5. Enhancing customer service

This involves creating a dedicated staff or channel for resolving customer problems quickly and effectively. This can therefore help the entrepreneur to build, repeat business sales, create positive word-of-mouth and increase sales from new customers.

#### 6. Launching multicultural programs

The entrepreneur may offer a local language translation of his advert or use ethnic print or broadcast media to reach markets. This motivates ethnic audiences to appreciate the entrepreneur's marketing communications in their own languages which helps the company to build relationships with minority groups.

## 7. Visiting the customers

This involves occasionally getting out to customers' locations so as to understand the challenges they face as well as helping them meet these challenges. Those who sell products to other businesses need to go beyond standard sales, calls and off-the-shelf marketing tools to build relationships with top customers.

## (B) SALARY NEGOTIATION TACTICS WITH EMPLOYEES

### 1. Setting a ceiling

This involves establishing how much one can spend on salaries. Setting a ceiling before starting salary negotiations with employees prevents wasting time on candidates who are expensive.

### 2. Setting a floor

This involved establishing the last amount one will pay out. It is often the ruling market rate. This information can be found on the internet, chamber of commerce or from others in the same line of business.

### 3. Deciding how to make payments

Payment on an hourly basis is best suited for temporary workers while a fixed monthly salary is probably what white-collar employees expect. But both options have implications. Monthly salary implies a fixed payout irrespective of the number of hours put in.

Hourly pay scales mean that one will have to pay overtime often at a higher rate. If one has sales persons, offering a target linked commission is a useful method of remuneration. In such a case, the basic pay could be low but one should see to it that for every successful sale, the employee takes home an attractive incentive.

### 4. Making the salary attractive

When designing the benefit package, the entrepreneur should ensure that his offer is attractive so as to attract good talent. This can be done through giving bonuses and other allowances.

### 5. Avoiding legal tussles

Before deciding on what and how much to pay his or her staff, the entrepreneur should ensure that he or she has familiarized himself with the labour laws in place to avoid contradicting them when it comes to minimum payments that employees must be given as well as other requirements.

## 6. Being sensitive

This involves keeping employees personal needs in mind before offering a compensation package (salary). For instance, when hires part time employees and they happen to be mothers working in their free time, one needs to pay them well to afford a day care service.

## BASIC RULES FOR NEGOTIATING WITH EMPLOYEES

### 1. Balancing both strengths and weaknesses

One should know the gist of what one wants to get across to one's employee. A direct approach is the most effective.

### 2. Listening actively to what one's employee has to say.

Often if there is a problem, the solution can be found by hearing what someone is saying and reading between lines.

### 3. Having a fall-back position when it comes to salary increases.

One should know that employees may want what one was initially offering and so one should know whether the issue is flexible and the limits one is willing to accept.

### 4. Make concessions together.

If an employee asks for a larger increment, perhaps there can be a performance-related expectation tied to it. One should not feel that one has to win or lose. The key is one to feel like they are both getting something mutual from the negotiations.

## CHALLENGES IN NEGOTIATION

Below are some of the negotiation challenges.

### 1. Time pressure

At times there are unexpected time pressure and attempts to push one straight to one's fall-back position by another party. For instance, the other party early in the negotiations may say "let's skip the haggling, just give your best price". This kind of pressure is challenging to negotiation.

### 2. Influence of another decision maker

In negotiations, there is lack of openness and honesty from either parties or from one party. When in negotiations, one may discover that one is not talking

to a decision maker, for instance, the other party leaves the room and returns five minutes later saying that "my boss would never agree to that".

### 3. Delay tactics

Some negotiators tend to delay the negotiation in order to make one become more nervous or make one feel under pressure so that one agrees to what they want in order to keep the discussion short. This tactic is used frequently by senior people on more junior people.

### 4. Last minute wavering

This occurs when one thinks that negotiations are and have reached an agreement and the other party begins wavering over some seemingly trivial points (less important issues). The other party can waver several times, squeezing several additional concessions from someone each time.

### 5. An early concession

Some negotiators begin with an early concession and they wait for the other parties to reciprocate and in the spirit of relationship-building, one probably does so.

### 6. Aggressive behavior

Bullying, attempts to make one feel guilty, attempts to make one feel inferior, bribery, belittling remarks and dismissive words are all forms of inappropriate influence. They are designed to help someone win at the other party's expense.

### 7. Price-only negotiation

Negotiators who pay attention exclusively to price turn potentially cooperative deals into adversarial ones. Less experienced negotiators often undervalue the importance of developing working relationships with the other parties putting the relationship at risk through tough tactics.

### 8. Letting positions override interests

Some negotiators have a built-in bias towards focusing on their own positions instead of interests. This hard-wired assumption that their interests are incompatible implies a zero-sum pie in which "my gain is your loss" is the goal.

### 9. Neglecting the other side's problem

At times, there is failure to understand and address the other party's problem as a means of one solving one's own problem. One cannot negotiate effectively unless one understands one's own interests and the other side's interests.

## WAYS OF OVERCOMING NEGOTIATION CHALLENGES

Below are some of the strategies for handling negotiation challenges.

1. If the work load is increasing, one can look for tasks to eliminate, review the work he or she would hand him or herself, review the way to combine similar jobs or consider the use of temporary or part time help.
2. If the work load is declining, one can work on improving efficiency, do house keeping that has been postponed or start projects that could generate new work.
3. If there are problems of turnover, help employees identify with their group, try to develop stable work groups or review status implications in jobs.
4. If there is a group of employees who are controlling production, remove misunderstandings if there are any, find out if it is to the group's advantage to slow down or find out and deal with the real problem.
5. If employees are dissatisfied with their pay, review bench mark jobs, i.e compare with similar jobs in other enterprises, compare with comparable jobs in the area, adjust assignments or communicate on the broad pay issue.
6. If workers are spending much time on one job, review management objectives and standards for this job, clarify the degree of perfection needed and why, ask the group for ideas on cost reduction, set specific targets and follow up on them.
7. If one goes over the budget, one should identify sources of increased cost or expense, ask for suggestions on cost reduction.

## STRATEGIES/KEYS TO SUCCESSFUL NEGOTIATIONS

1. Negotiation outcomes should be a win-win for both parties. Both parties should feel satisfied with the results.
2. One should not become emotional.
3. One should focus on solving problems.

4. Using the negotiation style of the other party to achieve positive outcomes.
5. One should be flexible in one's mind.
6. Compromise. One should not expect all his or her demands to be met.
7. Asking good questions and being a good listener. You cannot learn anything when talking.

## **BUSINESS ETHICS**

Ethics are a set of moral principles which are recognized in respect to a particular class of human actions or a particular group. These principles deal with values of human conduct with respect to concepts of being good or bad, right or wrong, e.t.c.

Business ethics are the acceptable behavior/ways in which businesses should conduct themselves towards their customers, employees, society government and fellow businesses. They are the virtues that business people apply when making business decisions.

### PRINCIPLES OF GOOD BUSINESS ETHICS

#### 1. Honesty

An entrepreneur must be open and freely share information. He or she should not say things that are false and should never deliberately mislead.

#### 2. Promise keeping

Entrepreneurs must go to great lengths to keep their commitments. They should not promise on behalf of the company unless they have the authority to do so.

#### 3. Fairness

Entrepreneurs should create and follow a process and achieve outcomes that a reasonable person would call just.

#### 4. Respect for others

They should value and honour the abilities and contributions of others, embracing the responsibility and accountability for their actions in this regard.

#### 5. Compassion



Entrepreneurs should maintain an awareness of the needs of others and act to meet them whenever possible. They should minimize harm whenever possible and should always commit themselves to social responsibility.

#### 6. Integrity

This requires entrepreneurs to live up to ethical principles, even when confronted by personal, professional and social risks as well as economic pressures. This involves fair dealing and reliability in terms of doing what one has promised to do.

### PARTIES TO BUSINESS ETHICS

1. The clients/customers who deal with the business
2. Employees
3. Government of a country or authority in which business activities take place.
4. Businesses which compete with the entrepreneur's business.
5. The society within which the business is located.
6. The suppliers of business inputs.

#### (A) BUSINESS ETHICS TOWARDS CUSTOMERS

##### 1. Honesty

Honesty should be in terms of the price charged for the quality and quantity of the goods and the delivery of products purchased by his or her customers.

##### 2. Courtesy

This is being polite, patient and sincere when dealing with customers. The entrepreneur should not sell expired goods to his or her customers. He or she should be seen providing a good service and not only interested in getting money from the customer.

##### 3. Geniality

The entrepreneur should be kind, cheerful and try to balance his or her temper when dealing with customers. He should never shout at or abuse the customer but instead try as much as possible to make them understand.

##### 4. Responsibility

The entrepreneur should try to meet his or her obligations as agreed on. For example, he or she should fulfill his or her contractual obligations on agreed time, deliver on time and fulfill his or her part of the deal.

## (B) BUSINESS ETHICS TO EMPLOYEES

### 1. Giving employees a fair pay.

The pay should be fair in terms of what the business can afford and in relation to the value of work the employees are doing and the income it is bringing to the business. It should also consider seniority, experience, responsibility, e.t.c.

### 2. Provision of clear and fair terms of employment.

Employees should be given appointment letters stating whether they are employed on permanent, temporary or on contract basis. The salary/age should be specified as well as duties and responsibilities.

### 3. Provision of good working conditions

The work place should assure employees a healthy life during and after their stay in the business. They should be provided with protective working clothes, gloves and others, adequate working tables, chairs as well as other benefits such as transport, accommodation, lunch, medical allowances, e.t.c.

### 4. Ensuring job security.

The employees should look to the future with certainty in respect to their employment. If they are on contract, they should know about the renewal possibilities to enable them prepare themselves accordingly.

### 5. Politeness

Entrepreneurs should treat employees politely in all situations. This should hold even in situations when employees are in the wrong, for example, a single accident by an employee should not overshadow his or her good past record in contributing to the organization.

However, employees should not be allowed to exploit this.

### 6. Respect for workers.

The entrepreneur should respect employees for the contribution they make to the business, for example, the entrepreneur should not publicly abuse employees. The society norms of the area should be respected when handling employees.

## (C) BUSINESS ETHICS TOWARDS THE SOCIETY

1. Conserving the environment. The entrepreneur should not release emissions/effluents which pollute/destroy the society's natural environment like air, water, swamps, e.t.c.

2. Not endangering people's health and lives through its operations, for instance, emitting poisonous gases, loud noises, explosions, e.t.c.
3. A business should have strict considerations for the norms. The business should be in line with what is acceptable to the culture or religious beliefs of the society. For instance, it should not be selling offending goods like pork in a Muslim community, alcoholic drinks near schools, e.t.c.
4. A business is expected to get involved and contribute to society's developmental programmes, for instance, contributing to community health service appeals, community development like construction of roads, bridges, e.t.c
5. Sharing in society's needs, for instance, helping the poor, sick, disabled or displaced persons.
6. A business is also expected to provide employment opportunities to members of the community before foreigners.

(D) BUSINESS ETHICS TOWARDS GOVERNMENT

1. Complying with the business laws, for instance registration, licensing, labour, occupational hygiene, e.t.c

2. Observing and settling tax obligations as required by law.

Entrepreneurs should avoid unethical behavior like under declaring, bribing, falsification of data, withholding information e.t.c when it comes to documenting their operations for taxation purposes.

3. The entrepreneur should also meet production standards in terms of quality and weight.

Dishonest behavior of tempering with weighing scales should be avoided as this can lead to prosecution which in turn results into the business incurring unnecessary costs.

4. The business should also comply with occupational hygiene, environmental regulations, e.t.c.

## IMPORTANCE OF BUSINESS ETHICS TO BUSINESS

1. It helps entrepreneurs to be trustworthy by recognizing that the customer is the king. This helps to maintain and attract new customers.
2. It enables business people to meet obligations of their customers and business partners regardless of anything else.
3. It increases business turnover through fair pricing of product.
4. It increases business profits. Good business ethics towards customers increases total sales of the business as well as its profits. This facilitates business growth and expansion.
5. It leads to societal recognition. A business person who is ethical builds the image of reliability and establishes reputation with his or her customers.
6. Easy access to human resources. By practicing business ethics, a business earns good reputation which enables it to get human resources to work for it.
7. Easy access to business inputs. By practicing business ethics to suppliers, the business is able to easily access raw materials and other production inputs from the society.
8. It enables the business to win government support. Honest businesses attract the government support and sympathy in times of need, for instance winning some local and foreign tender deals, tax rebates and rescue packages in bad times.

## **PERSONAL BRANDING**

What is a brand?

A brand is a name to which a set of associations and benefits has become attached in the consumer's mind. The name could be that of a product, a service, business entity or even an individual.

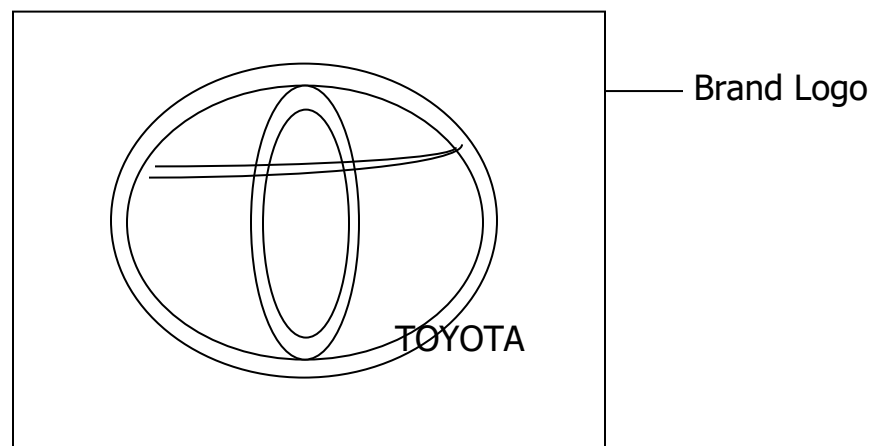
What is personal branding?

Personal branding is the process by which individuals and entrepreneurs differentiate themselves and stand out from the crowd by identifying and articulating their unique value position.

OR

Personal branding is the process of clarifying and communicating one's unique and differentiating qualities, skills and experience in a compelling way in order to achieve his or her professional or business goals.

It can also be defined as the process of developing a 'mark' that is created around one's personal name or career, for instance ;



### PROCEDURES/STEPS FOLLOWED IN SETTING A PERSONAL BRAND

Below are the guidelines in setting a personal brand.

1. Determining by someone who she/he is. One's personal brand emerges from the search for identity and meaning, out of which comes from awareness of personal strengths and talents. One needs to determine what he or she does that make him or her different.
2. One needs to determine what he or she does. This involves writing down one's greatest area of professional interest or passion. It involves oneself in what he or she does that adds remarkable, measurable,

distinguished/distinctive value. It also involves understanding what one's values are and learning to make these relevant to other people.

3. One needs to position him or herself. By identifying the characteristics that make a person distinct from his competitors, one creates a position for himself. This is to be clear, distinctive and express a unique as well as a compelling benefit that people believe in.
4. Managing the brand. The key to any personal branding campaign is 'word of mouth marketing'. The network of friends, colleagues, clients and customers is the most important marketing vehicle for a personal brand. What they say about the brand is what the market will ultimately gauge as the value of the brand.

### PRINCIPLES OF EFFECTIVE PERSONAL BRANDING

1. Specialisation  
A great personal brand must be precise and concentrated on a single core strength, talent or achievement.
2. Leadership  
Endowing a personal brand with authority and credibility demands that the source is perceived as a leader by people in his or her domain of influence.
3. Personality  
A great personal brand must be built on a foundation of the source's true personality (true features).
4. Distinctiveness  
An effective personal brand needs to be expressed in a way that is different from the competition.
5. Visibility  
A personal brand should be seen over and over again, until it imprints itself on the consciousness of its sphere of influence.
6. Unity  
The private person behind a personal brand must adhere to the moral and behavioural code set down by that brand. The private conduct must mirror the public brand.

7. Persistence

Any personal brand takes time to grow and while you accelerate the process, you cannot replace it with advertising or public relations.

8. Good will

A personal brand produces better results and endures longer if a person behind it is perceived in a positive way.

### IMPORTANCE OF DEVELOPING A PERSONAL BRAND

1. It helps the entrepreneur to compete with already established brands in the market as he builds his brand loyalty with customers.
2. It helps the entrepreneur in achieving more sales from customers in less time. It allows the entrepreneur to attract new customers.
3. A clear brand strategy increases the entrepreneur's confidence by understanding himself better.
4. It saves the entrepreneur's time and energy by selecting goals aligned with his unique value and reach them faster.
5. It provides a road map to success. The personal brand plan that one puts in place serves as a reference for him or her along the journey.
6. The brand speaks volumes (a lot) about the entrepreneur's company and builds a reputation for his business amongst his customers, who know exactly what he can deliver.
7. An effective and appropriate branding strategy voices the promise of the entrepreneur's brand. It is important to follow up on the promise of the quality of the products produced.
8. It positions the entrepreneur's focused message in the minds of his or her target customers.

9. It creates a clear focus for the entrepreneur's business or career.
10. It helps the entrepreneur in implementing new business plans with his clients and customers as he already has a reference point through his brand.
11. A strong brand creates a sense of individuality and uniqueness in the minds of the customers. Hence customers are able to distinguish the entrepreneur from the competition by effectively differentiating his or her brand.

## **BUSINESS IDEAS**

A business idea is the response of a person or an organization to meeting perceived needs or to solving an identified problem in the environment.

### **REASONS FOR GENERATING BUSINESS IDEAS**

1. Need for an idea.  
A good idea is essential for a successful business venture, both when starting a business and to stay competitive afterwards.
2. To respond to market needs  
A business can be successful if it provides new products or services or manages to reach a new group of clients or finds a new channel to reach the customers better.
3. To respond to natural threats and scarcities.  
New innovative business ideas in water harvesting, irrigation, weather forecasts, improved farming practices, insurance and finance help a business (farmer) adapt to changes in the natural environment.
4. To change fashions and requirements  
This helps the entrepreneur to respond to demand with new ideas, products and services.
5. To stay ahead of competition.



An entrepreneur needs to cope up with new ideas, products and services so as to outcompete his or her rivals/competitors.

6. To exploit technology to do things better.  
Technology is a major competitive tool in today's markets. Therefore for a firm to be innovative, generation of business ideas is crucial.
7. To respond to the product life cycle.  
As the product life cycle chart indicates, even new products eventually become obsolete (out modeled). Therefore there is need to plan for new products and their growth with necessitate generation of business ideas.
8. To spread risk and allow for failure.  
Some new products may fail. Therefore it is necessary for firms to try to spread their risk and allow for failures that may occur from time to time by constantly generating new ideas.
9. To give help to specific groups of people.  
Help can be given to the elderly, disadvantages and those with disabilities. New fields in tourism are emerging, accessible tourism for older and disabled travelers, eco-tourism for those who want to protect the environment, e.t.c.

### SOURCES OF BUSINESS IDEAS

Common sources of business ideas include the following;

1. Mass media  
This includes newspapers, magazines, television and the internet. These form a great source of information, ideas and often business opportunities, for instance one may read that there is more interest in physical fitness. In this, one may need to look for new enterprise ideas that are related to physical fitness such as sporting goods, health foods.
2. Hobbies/interests  
These are activities pursued for pleasure and relaxation. They are often a source of ideas for new enterprises, for instance one enjoys photography he or she may be able to expand his or her hobby into a profitable full-time enterprise. A business related to one's hobby will enable him or her to spend more time doing what he or she enjoys.

3. Vocational training/personal skills and experience

A business idea can be developed from one's area of training. For instance, a teacher who starts a private school, a carpenter who starts a carpentry workshop, e.t.c.

4. Trade shows and exhibitions

These are sponsored by manufacturers, distributors and government departments. When one goes to a trade show, he or she can see sales persons, products demonstrators who can give him information that he or she requires. In this case, one can discover a business idea that matches his or her interest and abilities.

5. Surveys

New business ideas can be identified by finding out what consumers need and want. Such surveys can be conducted informally through observation and personal contacts or formally by talking to people through a questionnaire or through interviews.

6. Customer complaints

When customers complain bitterly about a product or service, one gets a potential for a business idea. The idea could be to set up a rival firm offering a better product or service.

7. Franchises

A franchise is an arrangement whereby the manufacturer or sole distributor of a trade mark, product or service gives exclusive rights for local distribution to independent retailers in return for their payment of royalties and conformity to standardized operating procedures.

8. Brain storming

Brain storming is a creative problem solving technique for generating ideas. The objective here is to come up with as many ideas as possible. It usually starts with a question or problem statement. For instance, what products and services are needed in the market which are not available? Each idea results into one or more additional ideas resulting in a good number.

Rules to be followed in brain storming include;

(a) Don't criticize or judge the ideas of others.

(b) Encourage free wheeling, i.e welcome ideas that may seem wild or crazy.

- (c) Try for quantity since the greater the number of ideas, the better.
- (d) Combine and improve upon the ideas of others.

### WAYS OF IDENTIFYING/FORMULATING IDEAS FROM THE ENVIRONMENT

1. Determination of what one does best.  
Thinking about one's interests will help him or her focus on his or her brainstorming and give him or her the staying power to persevere through the tedious parts of starting a business. For instance, if one's interest is dogs, then he or she can start a business that has to do with dogs.
2. One can take note of the obvious problem that he or she encounters in everyday life. He or she can keep a pad of paper and pen in the pocket, along the bed side table and start a pile of index cards with ideas written on them. Periodically one can throw away the ones that do not cut it and hang on those that might be before their time.
3. Reading newspapers. These contain ideas that one can adopt. Just every object that surrounds man has ever made someone a fortune. Therefore one can dream up ways to improve or rework those same products to create another big idea.
4. One can listen to and observe what is going on around him or her. Once one has acquired an idea, he or she can take risks by telling people what he or she wants to do and be open to criticism. He or she can talk to potential customers and ask them what they think as well as other potential investors and bankers who will undoubtedly find holes in the plan.

### CLASSIFICATION OF BUSINESS IDEAS

Business ideas may be classified into food and recreation, manufacturing, construction, repair and maintenance, e.t.c.

### HOW TO RESEARCH A BUSINESS IDEA

The process of determining either the success or failure of one's business idea takes the following steps;

1. The idea stage

This involves getting the idea and imagining the possibilities. Market research is conducted. One can gather information from industry associations, web searches, magazines, newspapers, government departments, e.t.c

The aim is to gain a general sense of the type of customers one's products or services will serve.

The research plan should spell out objectives and give the entrepreneur information that he or she needs to go ahead with the idea. The entrepreneur should utilize experts in planning and conducting research sessions.

## 2. Idea analysis

This involves evaluating the idea that has been generated. The idea can be looked at from four perspectives, i.e company, customer, competitor and collaborators as discussed below.

### - Company

One can think of an idea in terms of its product/service features, the benefits to customers, the personality of the company, what key message he or she will be relaying and the core promises to be made to customers.

### - Customer

There are 3 different customers in relation to someone's idea. These are purchasers (those who make a decision to buy and pay), influencers (individuals or organizations or group of people who influence the purchasing decision) and end users.

### - Competitors

These are people or organizations providing products or services that serve the same purpose. These can be primary, secondary or tertiary competitors depending on how often someone's business will compete with them.

### - Collaborators

One can think of organizations and people who may have interest in his or her business but are not directly paid for any success of the business such as associations, media and other organizations that sell to final consumers.

### - SWOT analysis

Analysis of the strengths, weaknesses, opportunities and threats of the product will enable the entrepreneur to understand whether the product/service will make it in the current environment.

## 3. Checking out the competition level

One can talk to his/her competitor's customers and ask them what they like or do not like about the competitor's product/service. The aim is to understand what the competitor is doing so that he/she can do it better.

#### 4. When the idea looks like a flop.

After the first three steps, someone may find out that his/her idea is the one with holes. This does not mean that he/she needs to scrap the whole thing and resign him/herself as an employee. Sometimes it may need to be re-worked. One needs to take time and re-focus his/her energies and determine why the idea needs some tightening.

This could be the best predictor of future success.

#### 5. When the idea is ready to go.

The market research conducted should be a good indicator of where one needs to go next with the idea. The key factor one needs to consider is pricing. For products that have close competitors, one should set prices with respect to the competitive position. If the pricing structure is not working one can alter it.

If possible he/she can test different pricing offers as he/she goes and determine what works best.

### EVALUATION OF DIFFERENT BUSINESS IDEAS

Each business idea should be evaluated in terms of present market, market growth, costs, business risks, personal considerations and business considerations.

#### 1. Present market

The size of the presently available market must provide prospects of immediate sales volume to support operations.

#### 2. Market growth

There should be prospects for rapid growth and high return on capital invested. Such prospects include increase in customer acceptance, competitive advantage, projected increase in need, e.t.c.

#### 3. Costs

These are costs of production such as start up costs, costs of raw materials, labor costs, patents and licenses, e.t.c.

#### 4. Business risks. The following should be considered when assessing business risks.

- Market stability in economic cycles.
- Technology risks
- Import competition
- Size and power of competitors
- Quality and reliability risks
- Predictability of demand
- Initial investment costs
- Vulnerability of inputs (supply and price)
- Legislation and controls
- Time required in generating profits
- Inventory requirements
- Seasonal demand
- Exclusiveness of design

#### 5. Personal considerations

Under this, one needs to consider;

- His/her skills. One should consider each business idea on his/her list in relation to his/her skills. However, new skills and knowledge can be acquired from a local further education college or adult education centre.
- His/her interests. One should find out from the business whether he/she is interested in the work activities involved. If he/she does not know these activities, he/she can talk to and observe people in that type of business.
- His/her personal commitment. It is important to have support from family and friends. One should find out whether they are prepared to put up with spending evenings and weekends helping his/her business grow. If not, one can look for a less demanding form of business.

#### 6. Business considerations. These include;

- Market consideration. One should find out whether there is market for his product/services. Without a sufficient market for the products/services, the business is doomed before it starts.
- Amount of personal capital one can raise. One needs to make a list of his/her assets such as house value, shares, material possessions, bonds, e.t.c.

## TURNING A BUSINESS IDEA INTO A BUSINESS OPPORTUNITY

When one gets an idea for an invention but he/she is not sure of what to do with it, he/she needs to turn the dream into a marketable product. If this is successfully done, the business idea is turned into a business opportunity.

### TURNING A BUSINESS IDEA INTO A PRODUCT

When one wants to produce and market his/her invention him/herself or license it to another company, the only way to make money from his/her invention and to guarantee that no one will steal the idea is to file a patent. This can be done through the following steps;

#### 1. Documenting the invention.

This involves writing everything one thinks of that relates to his/her invention, from what it is and how it works to how he/she will make and market it. This is the first step to one patenting his/her idea and keeping it from being stolen. He/she can further write down the idea in an inventor's journal and have it signed by a witness.

#### 2. Researching the idea

The idea can be researched from a legal and business stand point. Before filing a patent one should;

(i) complete an initial patent search to make sure that no one else has patented the same idea. If one finds any sort of art work or design related to his/her idea, he/she cannot patent it regardless of whether a prior patent has been filed.

(ii) research one's market before investing too much time and money into patenting his/her invention. One can do some preliminary research of his/her target market. Once one knows there is market, he/she can make sure his/her product is manufactured and distributed at a low cost so that the retail price is reasonable.

#### 3. Making a prototype

A prototype is a model of one's invention that puts into practice all of the things he/she has written in his/her investor's journal. It helps to demonstrate the design of one's invention when he/she presents it to the potential lenders and licensors.

**N.B :**

Do not file a patent before making a prototype. This is because in the due course you may discover a flaw/imperfection in your original design or think of a new feature you would like to add. If you patent your idea before you work out these flaws, it will be too late to include them in the patent and you will risk losing the patent rights of the new design to someone else.

#### 4. Filing a patent

After having the flaws worked out, one can file a patent. One can write the patent and fill out the application him/herself but should not file it him/herself until he/she has had a skilled patent professional to look at it first. This could be a patent attorney or agent.

Hence it is better to get the legal help to avoid problems in the future. For instance a competitor may find loopholes in the patent that allows him/her to copy the idea.

#### 5. Marketing the invention

This involves deciding whether one will manufacture and sell the product himself or license it for sale through another company, for instance, a song.

### BUSINESS OPPORTUNITIES

A business opportunity is an attractive idea or proposition that provides the possibility of a monetary return for the person taking the risk. It is an attractive project idea which an entrepreneur accepts for investment on the basis of what is known about the possible success of the business.

#### FEASIBLE AND VIABLE BUSINESS

A feasible business refers to a business that can be possibly done or implemented using the available resources.

A viable business refers to a business that is profitable.

#### FEASIBILITY AND VIABILITY OF A BUSINESS IDEA

Feasibility of a business idea refers to the extent to which a business idea can be done or implemented using the available resources.

Viability of an idea refers to the degree to which a given business idea is profitable.



## INDICATORS OF GOOD BUSINESS OPPORTUNITIES

1. Availability of market/real demand. Market means people or institutions willing and able to buy goods and services of a business.
2. Availability of required resources. These refer to the means required for production of goods and services, for instance, capital, raw materials, labour, land, e.t.c.
3. Reasonable level of return on investment. The rewards/profits realized from the business should be acceptable depending on the level of investment by the entrepreneur in terms of risk and effort.
4. Availability of required technical skills. This refers to the machines and skilled manpower needed for production of goods and services. These should be available and affordable for a business idea to be feasible and viable.
5. Acceptability in community. For a business to be viable and feasible, it should conform to the social norms and be liked by society. For instance, a bar business would not be viable in a Muslim dominated community.
6. Favourable government policy as regards investment. There should be conducive government policy favourable for investment. For instance, low tax rates, tax holidays, e.t.c for a business to be viable.
7. Availability of good infrastructure (support services). This takes the form of good transport, communication, power, banks, insurance companies, ware houses, e.t.c.

## QUALITIES OF ATTRACTIVE BUSINESS OPPORTUNITIES

1. Good income potential. A good business opportunity is one which is capable of giving sufficient income to support oneself. It should be able to produce a good, steady and full-time income.
2. Sizeable market gap in terms of people or institutions willing and able to purchase goods and services of a business.

3. Low or moderate start up capital. A good business opportunity is the one which requires low capital investment.
4. Good growth potential. An attractive business opportunity is one which has the chance to survive for a long period of time while generating sufficient income to the owner.
5. Reasonable ease of entry into the market. It is advisable that one should enter into a business in which he/she has got the general background of it. This enables the entrepreneur to get started easily. For instance one can be able to use the contracts one already has and one's reputation in the field could be valuable in running the business successfully.
6. Related to one's skills and experience. Some businesses require certain skills and experience. This means that for one to succeed in such businesses, one should possess the required skills and experience needed to run the business successfully.
7. Properly timed. A good business opportunity is the one that is timely and responds to the unsatisfied needs or requirements of customers who have the ability to purchase and are willing to pay.

### TYPES OF BUSINESS OPPORTUNITIES

There are many possibilities for one who wants to start a business. These include;

1. Retail or wholesale type of business

Retail businesses sell goods directly to the consumers usually in small quantities. Wholesalers buy goods often in large quantities from manufacturers or importers and then sell them to retailers and other distributors.

2. Franchise or independent type of business

Many established companies offer franchises which are basically copies of their companies. If one buys a franchise, he/she is buying the right to sell the parent company's goods/services in a specific area. Besides paying a franchise fee, he/she will also have to pay royalties perhaps additional fees to the franchisor.

An independent business on the other hand is the one that one creates and nurtures on his/her own. Starting an independent business gives one the control and freedom that one will not get from a franchise operation.

### 3. Product or service type of business

If one is a trained professional such as a dentist, accountant, teacher, e.t.c, his/her business is going to revolve around the professional services he/she can deliver.

However, they are also professionals who have the opportunity to offer related products if they choose to do so. For instance if one is a photographer, he/she may decide to sell cameras, picture frames and photo paper, a teacher can decide to write textbooks for sale, operate a stationery store, e.t.c.

### 4. Store front or non-store front type of business

If one has decided to start a business selling products, he or she needs a store front of some kind whether bricks or mortar such as a retail store or virtual such as an e-commerce site. Others can have their products distributed by other businesses selling through markets and fairs or by using the available e-commerce avenues.

Some services however, can be offered over the phone and internet. These businesses depend on virtual store fronts (business websites) to attract clients. This means that while such businesses may require an office, an actual store front is unnecessary.

### 5. Industry type of business.

An industry is a collection of firms producing related goods or services. It is important that an entrepreneur choose an industry that he is not only interested in but have some expertise or experience in order to avoid making costly mistakes.

## IDENTIFICATION PROCESS FOR A GOOD BUSINESS OPPORTUNITY

Going into business is deceptively simple but staying in business and making a success of it is not. Success or failure are not the chance results of a toss of a coin. Being in the right place at the right time is partly luck but more so to do with good planning.

Therefore setting up a business for the first time or expanding an existing business can be the road to riches and personal fulfillment.

It can also be the road to financial ruin and personal misery. Successful businesses are a result of careful research, planning, enthusiasm, self confidence and commitment.

If an entrepreneur identifies a business opportunity, it is ideal to carry out a feasibility study in order to ascertain whether the opportunity is viable/profitable.

It also acts as a basis upon which financial assistance can be sought from the financial system. It can be broken into 3 categories, i.e market feasibility study, technical feasibility study and financial feasibility study.

### 1. Market feasibility study

(i) Market study. This focuses on the overall market demand.

(ii) Product description. This involves understanding in detail the product one wishes to produce, identification of users and the standards that it will fulfill.

### 2. Technical feasibility study

This determines the adequacy of the manufacturing process, plant and machinery to be used for production of a given product within the framework of predetermined quality, raw materials and time used without long or expense breakdown problems.

### 3. Financial feasibility study

This part reveals how attractive or hopeless the business idea is from the financial point of view. The financial feasibility is divided into six major components, i.e;

- Project costs
- Means of finance
- Capacity utilizations and income estimation
- Expenditure estimates
- Profitability estimates
- Risk analysis

## EVALUATING BUSINESS OPPORTUNITIES

It is necessary to thoroughly investigate a market opportunity before going into business. The purpose of market investigation is to obtain information which will help to increase chances of success in a particular business.

There are five steps that one should use to determine the profitability of a potential business. These include the following;

1. Deciding on the type of business.

There are three major types of business one can choose from i.e;

(a) Merchandising business

This type of business buys finished products from wholesalers or manufacturers and retails or wholesales them to others for consumption or resale.

(b) Service business

This type of business offers services to consumers, merchandisers or even to manufacturers. These are offered a fee.

(c) Manufacturing or processing business

Manufacturing businesses are the ones which transform or process raw materials and make products that are significantly different from the inputs.

There are three important questions to ask when deciding what type of business to start. These are;

- (i) Is there a need for this type of business? Does the market of business exist? One can determine whether a given type of business is needed by interviewing or talking to the people in the area.
- (ii) Do I have the skills to run this type of business?
- (iii) Do I have or can I obtain sufficient financing to start the business?

**N.B :**

One's business is almost certain to fail if there is little or no market for his/her products, lack the skills necessary to operate a certain type of business or if he/she lacks adequate financing. Therefore one should choose a business for which there is a need, have necessary skills and adequate financing.

2. Choosing a location

This is an important factor in business success or failure. A poorly run business can often survive in a good location, but even the finest business will fail in a poor location.

There are two important aspects to consider when choosing a location for a merchandise or service business.

- (a) One will have to choose a particular community in which to locate one's business. However, the choice will depend on several factors.

- (i) personal factors. One will have to determine whether or not one wants to be near friends, relatives or in a community where one is known. Does one prefer a rural area, town or city? Does one's health require one to locate in a particular climate?
  - (ii) economic factors. One will want to locate his business in an area where customers have regular incomes over the long run.
  - (iii) competition. One will have to evaluate the competition if any in both the immediate and the surrounding area. If similar businesses are serving the same market, there may not be sufficient sales for all to continue operating.
- (b) One will have to choose a site within the community. One's choice will often depend on the size of the community. In a city, one has to determine whether one wants to locate in the down town area, in an outlying or suburban area.

In a village, town or small communication, location is much easier to determine. There is usually a central location which is convenient for customers and one would probably choose a site in or near this location.

### 3. Forecasting sales.

This involves estimating the size of one's market, i.e how much of the product/service one can expect to sell in the future. In forecasting sales, the following steps are followed;

#### (a) Gathering information about the market (research)

Here one needs to know the type of information one needs, how to gather this information and where to get the information.

#### (b) Estimating the total sales potential of the market.

This involves finding out the number of families in the area and how much the average family spends on one's type of product.

In addition, one can find out other businesses in the area that would buy some of his/her products and how much on average each business spends on his/her items. Then the total yearly sales forecast is computed from this information.

#### (c) Estimation of one's share of the sales.

One can expect to capture the total sales potential of the market area only if there is no competition. In the presence of competition one has to determine

what share of the market one's competitors have and the share one can expect to get. One might be able to win customers by satisfying them better than his/her competitors through;

(i) better products, i.e of high quality, more style and variety.

(ii) better prices

(iii) better promotion i.e more effective advertising and display, informed sales clerks.

(iv) better service, i.e quick delivery, good credit terms.

(v) better location, i.e more convenient and better parking.

#### 4. Estimating costs.

One will have to consider the cost of goods in terms of purchases and freight, wages, advertising, taxes, power, rent, loan repayments, e.t.c.

#### 5. Estimating profits.

Once one has estimated his sales and costs, one will have to calculate what one's profits are likely to be.

**N.B:**

Estimated profits = estimated sales – estimated cost

The following are some of the local organizations that provide business opportunity guidance and counseling;

- Private sector foundation
- Uganda Industrial Research Institute
- Non-Government Organizations
- Government Organisations like National Agricultural Advisory Services (NAADS)

## **SMALL AND MEDIUM ENTERPRISES (SMES)**

Uganda Investments Authority defines them as **Micro Enterprises**.

These are enterprises employing a maximum of four (4) people, with annual sales turnover of maximum Uganda shillings twelve million (12,000,000) and total assets of maximum Uganda shillings twelve million.

### CHARACTERISTICS OF MICRO ENTERPRISES

1. They require very little money to be started.
2. They require very simple technology to operate.
3. Their sales are usually low.
4. They usually employ the services of their owners who may be assisted by one or two persons, usually family members.
5. They may not need fixed premises to operate from but where they do, they may be housed in temporary structures.
6. They do not have to be registered before they commence operations but may have to obtain operating licenses from the local authorities.

Examples of micro businesses include kiosks, hawking, groceries, bicycle repairing, road side selling, e.t.c.

## **SMALL ENTERPRISES**

These are enterprises employing a maximum of fifty (50) people with annual sales turnover of maximum Uganda shillings 360 million and total assets of Uganda shillings 360 million.

### CHARACTERISTICS OF SMALL ENTERPRISES

1. Their periodical sales are relatively higher than those of micro enterprises.
2. They may use some basic and simple technology in their production systems.
3. They are generally easy to start and operate and may not require formal registration.
4. The relatively well established small businesses may produce for export either directly or through large businesses. Examples of small businesses include shops, bakeries, millers, e.t.c

## **MEDIUM ENTERPRISES**

These are enterprises employing more than fifty (50) people, with annual sales turnover of more than Uganda shillings 360 million and total assets of more than Uganda shillings 360 million.

### CHARACTERISTICS OF MEDIUM ENTERPRISES

1. They operate from well established and permanent business premises.



2. They use advanced technology and produce on a relatively big scale.
3. They require a lot of capital to be started and such businesses are formally registered, such as limited liability companies.
4. The businesses may be producing for local as well as export market.

Examples of such businesses include big bakeries, milk processing and packaging businesses, coffee hulling factories, mattress manufacturing factories, e.t.c.

## **FORMAL AND INFORMAL BUSINESSES**

### **FORMAL BUSINESSES**

These are businesses which are registered with the Registrar of Companies. For a person to start such a business, he/she must be aware of the licenses, labour laws, taxes and permits required to avoid breaking the country's laws.

#### ADVANTAGES OF FORMAL BUSINESSES

1. They are legally recognized.
2. They are properly organized.
3. It is easy for them to get loans from financial institutions.
4. They have a sound base for further growth and development.
5. They are reliable and somehow permanent and therefore it is easy to get skilled human resources.

#### DISADVANTAGES OF FORMAL BUSINESSES

1. They are always governed by laws and rigid regulations.
2. They are not adaptable to changes.
3. They are not easy to start because of the involved procedural formalities.

### **INFORMAL BUSINESSES**

These are businesses that are generally not registered though they may have licenses. People with such businesses do not pay taxes nor do they adhere to government regulations.

However, before one goes far with such a business, one needs to be acquainted with laws and regulations to be adhered to in one's business.

### ADVANTAGES OF INFORMAL BUSINESSES

1. They are adaptable to changes.
2. They are easy to start so most people can run them on a full or part time basis.
3. They lead to fast employment generation.
4. They form a basis of initiating new industries.

### DISADVANTAGES OF INFORMAL BUSINESSES

1. They are not legally recognized.
2. They are not properly organized.
3. They are not always reliable as profit making enterprises.
4. They do not have clear access to loans by financial institutions.
5. They do not comply with social security regulations (NSSF)

### ROLE OF SMALL AND MEDIUM ENTERPRISES IN DEVELOPMENT

1. Provision of social services, for instance, health units, schools, e.t.c
2. Development of infrastructure, for instance the transport network.
3. Providing government revenue through payment of taxes.
4. Provision of goods and services/products to meet society needs.
5. Providing a centre for training and developing local man power.
6. Provision of market for the society's products.
7. Provision/creation of employment opportunities to society.
8. Participation in community development programs, for instance providing assistance to charities, welfare facilities, e.t.c.
9. Improvement of food security through processing agricultural products.
10. Providing information for research and study purposes to students and researchers.
11. Recycling waste that would have harmful effects hence cleaning the environment.
12. Improving the environment through planting trees.
13. Utilizing idle resources such as land, labour, e.t.c.
14. Sponsorship of community activities like education, environmental conservation programs, e.t.c.

### ADVANTAGES OF SMALL AND MEDIUM ENTERPRISES

1. Decision making is easier compared to large enterprises.
2. They require relatively less capital to start.
3. They have low operational costs due to fewer number of workers.
4. They are flexible in that they can even be located in rural areas.
5. Sell goods in small quantities which consumers can afford.

#### DISADVANTAGES OF SMALL AND MEDIUM ENTERPRISES

1. They do not enjoy economies of scale like large enterprises.
2. It is not easy for them to obtain a loan from the bank like large enterprises.
3. They easily collapse as soon as the owner dies.
4. They frequently suffer from customer changing tastes and preferences.
5. They have limited storage facilities especially for perishable goods.
6. They produce low quality products leading to limited market.
7. They lack skilled man power to manage them.

#### CHALLENGES FACED BY SMALL AND MEDIUM ENTERPRISES

(Reasons for high rate of failure of small and medium enterprises in Uganda)

1. Unsuitable location of the business. Even if a business is properly managed, a bad location leads to its failure. For instance, locating the business far from the market (customers) or source of raw materials.
2. Limited market for the business products. This normally results from competition, changing customer tastes, uncompetitive prices, e.t.c.
3. Poor management of the business. Businesses which are poorly managed, for instance when they are inefficient in the use of resources, do not keep proper records, use wrong costing and pricing methods, inevitably make big losses and in the end fail and close up.
4. Poor handling of customers. No business can afford to survive with dissatisfied customers. A business whose owner or employees are rude to customers and do not bother to attend to their individual needs cannot take long before it collapses.

5. Limited market research. This leads to failure to clearly define and understand one's market, one's customers and one's customer's buying habits.
6. Over expansion. This often happens when business owners confuse success with how fast they can expand their business. Many bankruptcies have been due to rapidly expanding companies.
7. Inadequate financing. Some businesses may be having insufficient funds to buy the required technologies to improve their operations.
8. Choosing a business that is not profitable. In this case if one generates lots of activity, the profits never materialize to the extent necessary to sustain an on-going business.
9. Low quality of products for sale. This reduces the number of customers as they withdraw and go to other businesses which are producing better quality products. Faced with a declining number of customers and increasing competition, the business will inevitably fail and close up.
10. Inadequate credit services to provide entrepreneurs with facilities to enable them finance their business operations.
11. Inadequate support services like roads, telephones, water and electricity which make it difficult and expensive to operate these businesses.
12. Inadequate skilled man power to operate some production technologies, which forces businesses to hire expensive foreign experts. This increases cost of production, low profits and lead to business failure.
13. Use of inappropriate technology which does not optimize productivity and profitability.
14. Competition from imported manufactured products which are produced by well established businesses often of low prices.
15. Unreliable sources of raw materials which forces businesses to operate seasonally especially agro-processing businesses.

16. Improper product pricing. Small and medium enterprises at times fail to clearly define their pricing strategy. This results into over pricing of their products and eventually makes them fail.
17. Unconducive government policies relating to taxes which most businesses complain that it is high.
18. Unfavourable economic and monetary policies which make credit scarce, keep interest rates high and make it difficult for businesses to operate with borrowed capital.
19. Failure to anticipate or react to competition, technology or other changes in the market place. At times these businesses assume that what they have done in the past will always work. They tend to do things in the same way despite new market demands and changing times.
20. Mistakes made by the entrepreneur/founder's inability. At times entrepreneurs lose interest in business because it does not suit their personal characteristics and as such they slacken/loosen their commitment to it in terms of supervision, funding, initiatives, creativity, e.t.c. As a result, the business loses direction and collapses.
21. Industrial unrests. These are in form of strikes at the work place which make operation of business difficult.

#### WAYS OF OVERCOMING THE CHALLENGES FACED BY SMALL AND MEDIUM ENTERPRISES IN UGANDA

1. Locating the business in areas where they can easily access support services, markets as well as raw materials.
2. Undertaking research and development to come up with new products that meet the customers' needs and beats off competition.

3. Ensuring good business management. This is done through creating a work environment that encourages productivity, hiring competitive people and training them, being able to think strategically, e.t.c.
4. Establishing good relationship with customers and ensuring that they are always satisfied with the products and cannot be taken away by competitors.
5. Conducting thorough market surveys before starting businesses to ensure that businesses went into are the ones whose output (goods and services) will be competitive, have a fair sized market and profitable prices.
6. Avoid over expansion. Expansion should only be done after careful review, research and analysis as well as identifying what one needs to add in order for one's business to grow.
7. By saving and reinvesting business profits back to the business to ensure that adequate working capital is maintained to run business operations.
8. Keeping and using up-to-date information and data on suppliers, consumer tastes and their buying habits to ensure that businesses are not left behind by the changes taking place.
9. Formation and being active members of relevant business associations like Uganda Manufacturers Association, Uganda Small Scale Industries Association, through which businesses can access a range of services and assistance.
10. Monitoring and keeping abreast with what the competitors are doing and learning from their experiences.
11. Advertising and promoting products so that new customers are attracted as well as keeping old ones.
12. Regularly training staff to ensure that they are skilled enough to manage business operations.

## **INSURANCE FOR SMALL AND MEDIUM ENTERPRISES**

Insurance is a firm/fund/arrangement in which individuals/businesses that are subjected to certain risks contribute to and pay carefully calculated sum of money and from which the unfortunate few who actually suffer loss from the stated risks are compensated.

Any business runs a risk of incurring loss, for instance, from fire, robber, accident, e.t.c.

Insurance works on the theory of 'Pooling risks'. This means that every person/entrepreneur exposed to a risk pays a small amount of money (premium) to insure against the risks. All the small collections go to a 'pool'. Those who actually suffer the insured loss are compensated out of the pool.

By pooling together, the loss is spread over a great number of people each bearing a small proportion of the total loss. By this arrangement, the contract of insurance is between the insured and insurer.

### COMMON TERMS USED IN INSURANCE

#### 1. Insured

This is a person or company taking out insurance and is promised compensation by the insurance company in case of loss from the stated risks (pay premiums).

#### 2. Insurer

This is the insurance company giving protection to the insured's property. It is the company that receives the premiums and guarantees protection to the insured. In Uganda, examples include National Insurance Company (NIC), Excel Insurance, e.t.c.

#### 3. Premium

This is the annual contribution made by the insured to the insurer. It forms a pool from which compensation is made to those who suffer losses.

#### 4. Sum insured

This is the total value of the property which the insured stands to lose in case of risk happening. It is therefore the value the insurer would compensate the insured in case of loss.

#### 5. Risk

This is the event against which the insured takes up an insurance contract. It is something that causes financial suffering once it occurs. For instance, machinery

break downs, theft, fire, death, burglary, looting, storms and floods, e.t.c. There are two types of risks, i.e insurable risks and non-insurable risks.

(i) Insurable risks are risks that can be legally insured. Such risks include death, fire, machinery break down, theft, accidents, e.t.c. With such risks, an entrepreneur can, to a reasonable degree, control them (except death) by taking appropriate measures in and out of his/her business.

(ii) Non-insurable risks are risks that cannot be legally insured and in the event of occurring, the insurance company cannot be legally compelled to compensate.

However much care the entrepreneur takes, he/she cannot control them. For instance, acts of war/political turmoil and other naturally uncontrollable risks like floods, storms, e.t.c.

## 6. Loss

This is the happening of events against which insurance is taken, for instance, if one insures his business against fire and it is burnt down, then it is said the loss of the business has happened.

There are two types of losses, i.e total loss and partial loss.

(i) Total loss. This is when the whole property is completely destroyed.

(ii) Partial loss. This is when only part or portion of the property is destroyed.

## 7. Co-insurance

This is where a property is insured against similar risks with more than one insurance company. In case of loss of property, only the sum insured is paid by all the co-insurers.

## 8. Re-insurance

This is when an insurance company which has undertaken to compensate a firm or person against a big loss such as destruction of a factory also insures itself against such a big claim with another insurance firm so that it can ask for contribution when the claim is made.

## 9. Over insurance



This is when the insured overstates the value of the property when applying for insurance. However, he will be required to pay a higher premium but in the event of loss, he will be compensated only the true value.

10. Under insurance

This is when the insured under declares the value of the property and he is charged less premium. However, in the event of total loss, he is compensated only the real value insured.

**N.B:** Over insurance and under insurance may lead to cancellation of the insurance contract.

11. Surrender value

This is the money given back to the insured when he decides to cancel the insurance contract before the period ends. It is the amount of premium refunded to the insured who cancels the insurance contract.

12. Actuary

This is a professional person or an expert employed by the insurance company who has skills in assessing and calculating premium.

13. Renewals

When the insurance contract ends or expires, the insured may apply for another contract. This is referred to as renewal of the insurance contract.

## PRINCIPLES/DOCTRINES OF INSURANCE

### 1. Insurable interest

This refers to the interest one has in a property or business he/she is insuring, i.e whether he/she stands to lose in the event of such a property/business suffering the risk happening. For instance, an entrepreneur cannot insure his/her friend's property because he/she has no insurable interest in it. If the property is damaged or lost, he or she does not stand to lose anything.

However, an entrepreneur should insure his/her own property or business because he or she has insurable interest in it. This is because if such a property or business is damaged, he or she stands to lose the money invested in it or income that would have been earned from it.

## 2. Utmost good faith

This principle required that a person applying for insurance discloses all relevant true and material facts about the property/business being insured. Such information will assist the insurance company to calculate the premiums to be paid (fixed small contributions paid by the insured) accurately.

The insured is expected to say only the truth when applying for the insurance policy or when claiming for compensation.

If the insurer discovers that some information on the application form was deliberately concealed or misrepresented then it will not compensate the insured. For instance, a person who wishes to take a life insurance but does not disclose that he has a chronic disease at the time of taking out the policy will not be compensated if he/she dies of a chronic disease.

## 3. Subrogation

This principle states that in the event of total loss, after the insurer has fully settled the claim, the insurer acquires the rights that the insured had in the property destroyed. This means that any gain made out of the loss belongs to the insurer, for instance, if Mr Wakisa insured his car against accident, in the event of an accident happening, he will be compensated. After compensation, the insurer takes the ownership of the car wreckage. This is because if he takes both the new car and the car wreckage, he will have benefited twice or profited from the loss. What the insurance seeks is to reinstate the insured to his original position.

## 4. Indemnity

This principle states that insurance does not benefit a person. Insurance is only supposed to restore the insured to his/her original financial position, i.e where the insured was before the loss occurred. For instance, if fire destroys a shop that one had insured, the role of insurance is to help one re-establish the shop.

## 5. Proximate cause

This principle states that there must be fairly a close connection between the cause of the loss and the actual risks insured against to enable an insured to seek compensation. For instance, if Mr Kato has his property insured against theft but was destroyed by fire, he cannot be compensated because the cause of the loss (fire) is not the insured risk (theft).

## 6. Contribution

This states that if a person insures his property with more than one insurance company (co-insurance). In case of loss each company should pay a certain stated amount of money towards that loss.

However, the total payments (contribution) from each insurance should not be more than the value of the property.

## **INSURANCE AND GAMBLING**

Insurance is an aid to trade while gambling is a risk matter or act of game where people work on chance or luck.

### SIMILARITIES

1. In both cases, many people contribute towards a common pool.
2. At least two or more members are involved, i.e in insurance there is the insured and insurer while in gambling there are gamblers.
3. In both cases, either chance or misfortune determines who takes money from the pool.
4. Many people contribute but one or few take the money.
5. They both involve some element of gaining by one party, i.e if the risk does not happen, the insurer takes the money while in gambling, the winner benefits.

### DIFFERENCES

1. Insurance is a legal business which is recognized by the state while gambling in most cases is illegal and a social crime in society.
2. In gambling, the event specialized against must occur, i.e one side must win where in insurance the risk insured against may not or may occur except with life assurance.
3. Insurance helps the unlucky one to be restored to their original position while in gambling, one person must gain while others lose.
4. In gambling, the winner does not suffer any loss while in insurance it is the loss sufferer who is compensated (who benefits).

5. In insurance, one must have interest in the property insured while in gambling, there is no insurable interest.
6. There is utmost good faith in insurance while in gambling people use a lot of tricks to win.
7. In insurance, money paid (premium) can be in installments or in full while in gambling, it is paid once in full amount and taken once by the winner.
8. In insurance, only one party, i.e the insured contributes money while in gambling, all the parties must contribute the money to be taken by the winner.
9. To undertake a policy in insurance, some procedures must be followed, for instance, documents are used while in gambling documents may not be used.

N.B : Apart from legal gambling such as lotteries and sports betting, most gambling games are illegal.

### THE INSURANCE POLICY/CONTRACT

This is a document that states the relationship between the insurer and the insured.

### BASIC STEPS IN TAKING OUT AN INSURANCE POLICY

After the entrepreneur has identified an insurance risk to be covered against and a reputable insurance company to cover the risk, he or she proceeds as follows:

#### 1. Inquiring

This is the act of finding out the best company for insuring the property of a person/business. This is done by approaching different insurers or by approaching insurance middle men, i.e brokers and agents.

#### 2. Filling a proposal form

Information required on the form though varying from insurance company to another will normally include; the name of the applicant, location and address of the business, insurance policy required plus any other relevant information.

### 3. Calculating or premiums

Basing on information on the proposal form detailing out the nature of risk insured, the value of the property to be insured, duration of the insurance cover, the insurance company will calculate premium following the insurance company's policies. An entrepreneur will then be advised to pay the premiums calculated either in lump sum or in instalments.

### 4. Issuing a Cover Note by the insurer

Once the insured has paid the assessed premiums, a Cover Note is then issued as an indication that the first premium has been paid. In case of loss arising out of the insured risk, the insured will be compensated.

### 5. Issuing of an insurance policy

Depending on the policy of the insurance company, a month after payment of first premiums, an insurance policy will be issued. This serves as a contract between the insured and insurer. This document confirms that an entrepreneur has paid or agreed to pay premiums at specified times and that the insurance company has agreed to compensate him or her in case of loss arising out of the insured risk.

### 6. Filling a claim form

In case of loss resulting from the insured risk, the insured will fill a claim form which gives details of loss. In this case, there should be close relationship between what was insured (risk) and cause of the loss. The basic requirements for claiming insurance compensation include; police report, evidence of ownership and completed claim form.

### 7. Surveying of the damaged property

The insurance company after receiving the claim form, may arrange for the survey of the property in order to assess the extent of the loss. The company sends loss assessors who prepare a survey report and submit it to the insurer on receipt of the survey report, the insurer pays due compensation to the insured.

### 8. Terminating of policy

Payment of compensation implies the end or termination of the insurance contract. A fresh contract has to be entered into between the entrepreneur and the insurance company.

If a person or business desires fresh protection to be arranged, a similar procedure will be followed to get a fresh insurance cover.

**N.B :**

In order for the insured not lose when it comes to claiming compensation, it is important to fill the insurance application form under the guidance of a legal person so that he or she is not misguided.

## **TYPES OF INSURANCE**

There are 2 major categories of insurance, i.e life and property insurance.

### **(A) PERSONAL (LIFE) INSURANCE**

Here an entrepreneur insures his/her life against death. It is always called life insurance to confirm that the event insured against must take place (death must occur). An insured pays monthly premiums to the insurance company.

#### FORMS OF LIFE INSURANCE

There are several policies covered under life assurance. These include;

(a) Whole life policy

This is meant to assist the family of the insured when he dies. The premium is paid throughout the life of the insured at the end of which a large sum of money is created.

However, the sum insured (whole premium collected) is payable only after the death of the insured. This policy is mainly meant to benefit the deceased's dependants.

(b) Endowment policy

This where payment of premiums is made every year but for a specified number of years. This policy is meant to benefit the insured after he or she has retired from a job or during his or her old age.

(c) Group life assurance

Under this, families or business partners take out insurance to provide pension during old age.

(d) Sickness policy

This covers against specified diseases or all forms of curable diseases. The insurer pays for the medical bills of the insured and other expenses involved depending on the contract.

## **(B) PROPERTY/GENERAL INSURANCE**

This insurance given protection to all property belonging to a person or organization. Examples of general insurance include;

(a) Fire insurance policy

This is an insurance policy an entrepreneur can take out to protect his or her business against loss resulting from fire burning business property.

(b) Theft and burglary

An entrepreneur can insure against loss resulting from theft or burglary of the business merchandise, property, e.t.c.

(c) Loss of profits

An entrepreneur can insure against operational losses. If an entrepreneur takes such a policy, he or she will be compensated to an agreed percentage of the loss suffered.

(d) Motor insurance policy

An entrepreneur can insure against loss of his or her vehicle(s) by taking out a comprehensive motor insurance. This would cover his or her car against fire, theft, accidents, e.t.c

(i) Third party insurance (compulsory in Uganda). This seeks to compensate any other person who may be injured by the insured vehicle, for instance those knocked.

(ii) Money in transit. Money being moved from one place to another by the entrepreneur who may be insured against loss while in transit.

(iii) Employer liability or workman's compensation. An entrepreneur can insure against workers who get injured at the place of work. For instance, in a manufacturing or construction business, some workers may be injured while at work.

In the event of this, it will be the responsibility of the employer to compensate them. By taking out employer's liability or workman's compensation policy, the entrepreneur transfers the responsibility to the insurance company.

(iv) Machinery break down and consequential loss. An entrepreneur can take out insurance cover against loss resulting from machinery break down and consequential losses. When machinery breaks down, an entrepreneur

will make losses resulting from loss of production and time. This is compensated by the insurance company.

(v) Marine insurance policy. An entrepreneur who deals in goods transported on water can take out marine cargo insurance.

- Marine Hull insurance

This covers the ship owner against loss or damage due to the vessels and other legal liabilities incurred towards third party and passengers.

Likewise an entrepreneur who is transporting his merchandise by road may take out in-transit insurance cover to protect his or her goods against losses arising out of accidents, theft, delays e.t.c.

- Aviation insurance policy

This is taken against loss resulting from personal accidents and cargo damages due to air craft crashes.

**N.B :**

There are many other types of insurance covers offered by insurance companies. Therefore an entrepreneur is advised to visit the nearest insurance company for guidance.

BENEFITS/IMPORTANCE OF INSURANCE

1. It allows individuals and business people to save money that would be used to cover unexpected emergencies.
2. An entrepreneur is assured of business continuity as a result of the compensation after the loss has occurred. This gives the entrepreneur confidence, stable earnings, growing and expansion.
3. Customers increase their trust in the entrepreneur's business as a result of the assurance in his or her business continuity.
4. The property of the business people are guarded against all risks like fire, theft, e.t.c. This gives confidence to entrepreneurs to undertake business operations.
5. Insurance companies act as trustees and referees to their clients who would like to get loans from commercial banks.
6. Insurance companies also give loans to business men who operate on large scale and have collateral security. The excess premium which is not



spent on daily expenses of the company and investments can be lent out to earn interest for the insurance company.

7. Insurance policy (contract/document) is used as security when applying for bank loans. Banks usually prefer security that is insured because they guarantee loan repayment.
8. It promotes international trade because entrepreneurs are able to import and export their goods. The entrepreneurs are also able to insure their goods against numerous risks in foreign trade.

### CHALLENGES FACING THE INSURANCE INDUSTRY IN UGANDA

1. The majority of people in Uganda are peasants and therefore poor. They do not have property worth insurable.
2. Many people are not well sensitized (enlightened) about insurance. They are ignorant and not willing to undertake insurance thinking that it is a wastage of money.
3. Loss of trust among people in insurance business. Some insurance companies are reluctant to compensate the insured and others take long to settle the insured claim.
4. Inflation has affected the insurance business because of increasing prices of goods and services. Inflation therefore increases the operational expenses of the insurance company and hence lower the profits.
5. Insurance companies are not widely spread throughout the country. They are only found in urban centres.
6. Many businesses in Uganda operate on small scale and hence there is no need for insurance, for instance hawkers selling ground nuts.
7. Many insurance companies are still small hence have limited income for expansion.
8. There is excessive competition among the insurance companies. Hence they have few clients that cannot enable them to make profits.

9. Insurance companies are charged high taxes by the government.
10. Political instability may affect the insurance industry.

## **FAMILY AND BUSINESS**

According to the entrepreneurial school, when 3<sup>rd</sup> world entrepreneurs enter into business, they regard it not as an impersonal activity of the 'economic man' but as a personal activity designed to enhance the status of the family and end up being reluctant to give up family control.

### FACTORS THAT NECESSITATE GOOD RELATIONSHIP BETWEEN FAMILY AND BUSINESS

Several factors necessitate close ties between family and business. They include;

1. Joint family funding.

Some members of the family tend to pool their resources together to start a new enterprise. In this way, all those members do have a say on the business operations and influence decisions.

2. Inheritance

Some businesses are inherited and passed from one generation to another. In such ventures, the business entity is seen as a whole and this becomes a family business.

3. Fear of hired management

They tend to believe that business management by an outsider is affected by such malpractices like thefts, embezzlement. Therefore family management is seen as a way to decrease and protect family property from such incidences.

4. Source of employment to family members.

Family business is regarded as the main employer of the family labour due to internalized perception that they are more secure and materially more rewarding.

5. Managerial decision making

All the managerial tasks of planning, organizing, supervision, direction and controlling which are performed in big organizations need also to be performed in family businesses.

### CHALLENGES ASSOCIATED WITH FAMILY BUSINESSES

#### 1. Emotions

Usually family problems like divorce, separations, health or financial problems create difficulties for family members which end up affecting the business.

#### 2. Informality

This takes the form of absence of clear policies and business norms family members.

#### 3. Tunnel vision

There is a challenge of limited outside opinion and diversity on how to operate the business.

#### 4. Challenge of compensating family members

Dividends, salaries and compensation for non-participating family members are not clearly defined and justified.

#### 5. Role confusion

The roles and responsibilities for each member are sometimes not clearly defined. This results into overlapping of functions.

#### 6. Poor managerial skills

There is hiring of family members who are not qualified, lack skills and abilities for the organization. In addition, it also becomes difficult to fire them even when it is clear that they are not working out.

#### 7. Inadequate succession planning

Most family organizations do not have a plan for handing the power to the next generation leading to great political conflicts and divisions.

#### 8. Absence of retirement and estate planning to cover the necessities of older members when they leave the company.

#### 9. Limited training

There are no specific training programs for family members when they are integrated into the business. Hence there is no clear information relating to goals, expectations and obligations of position.

10. Centralized control systems.

Control is centralized and influenced by tradition instead of good managerial practices.

11. Conservativeness of members

Older family members try to preserve the status quo and resist change especially resistance to ideas and change proposed by the young generation.

12. Communication challenge

This results from role confusion, emotions, fear, envy, anger, e.t.c all of which result into political divisions and other relationship problems.

13. Difficulties in decision making

Decisions are made day-to-day in response to problems. There is long-term planning (strategic planning).

14. Limited business valuation

There is no knowledge of the worth of the business and the factors that make it valuable or decrease its value.

15. Variations in vision

Each family members has a different vision for the business and different goals.

SUGGESTED SOLUTIONS TO OVERCOME CHALLENGES ASSOCIATED WITH FAMILY BUSINESSES

1. Persuading members of the family and showing the rationale for hiring a professional manager from outside the family circle.
2. Spelling out concisely and clearly the specific roles and functions that are to be performed by every member of the family in terms of specific lines of authority and responsibilities.
3. Advising and convincing the family members to register the enterprise and have it operate as a company with a legal identity rather than physical human identity.

4. Ensuring informal counseling and guidance services to the members of the family enterprise who seem to behave 'stubbornly' contrary to the agreed guidelines set by the family members.
5. Inviting experts in the field of management, law, finance or technical incase there are controversial issues so as to help clarify issues and assure members of the family enterprise that the issue was healthy or unhealthy for the enterprise.
6. Ensuring that remunerative packages are tied to the types and amount of work individuals perform while at the same time keeping pace with those of similar enterprises within the locality.
7. Keeping track of exchanging information with other firms on various issues like marketing, sources of raw materials, expansion plans, e.t.c.

#### IMPORTANCE OF FAMILY SAVINGS IN ESTABLISHING SMALL AND MEDIUM ENTERPRISES

1. They are used for paying the business license.
2. They are used in renting for the building(s).
3. They are used to buy tools, machinery, equipment and furniture.
4. They are used in purchasing raw materials, finished goods (stock to be sold at a higher price) for profits.

### **GENDER ENTREPRENEURSHIP**

What is gender?

Gender refers to the manner in which males and females are differentiated and ordered in a given socio-cultural system. It refers to a range of characteristics used to distinguish between males and females (the masculine and feminine attributes assigned to them).

Depending on the context, the discriminating characteristics vary from sex to social role to gender identity.

#### COMMON TERMINOLOGIES USED IN GENDER

- Sex

It refers to the biological differences between a male and female.

- Culture

It refers to more permanent rules, ways of behaving and thinking of people in a given community.

- Society

Is an organized body of people sharing common beliefs, attitudes and modes of action within a given social/political boundary.

- Division of labour

There are assumptions that there are things men can do or cannot do and which women must or must not do. The result is that in many societies women tend to end up with a heavier work load than men.

- Labour market

Occupational discrimination in employment (hiring, tenure and promotion) and in lack of child care facilities may discourage career aspirations in women and limit their contribution to development. Many times they are given subordinate positions even if they have the same qualifications which men for the reason that they have a double role, that is, of home care and their profession. This is demoralizing to women.

- Access

It is the means or right to obtain services, products, e.t.c. Gender gaps in access to resources and services is one of the obstacles to women development.

- Conscientization

It is the process of becoming aware of the extent to which problems arise not so much from an individual's inadequacies, but rather from the system discrimination against a social group which put all group members at a disadvantage.

- Empowerment

It is the process by which people take control of and action in order to overcome obstacles. The collective action by the oppressed and deprived to overcome the obstacles of structural inequality which have previously put women in a disadvantaged position.

- Gender stereotyping

It is the constant portrayal, such as in the media or in books, of women and men occupying social roles according to traditional gender division of labour.

- Patriarchy

It is the male domination of ownership and control at all level in society which maintains and operates the system of gender discrimination.

- Patriarchy resistance

This refers to the various ways patriarchal government or authority try to stop or resist women's collective action for an equal share in decision making and equal control over the distribution of resources.

## GENDER IDENTITY AND GENDER ROLES

### **Gender identity**

This refers to the subjective awareness that one is a member of the male or female sex with the consequences that one conforms to culturally determined expectations of appropriate masculine or feminist behavior.

Gender identity according to the behaviourist or social learning model is acquired as a result of conditioning process. For instance, children are selectively rewarded or punished for gender appropriate or inappropriate behavior and so learn their future roles in society.

### **Gender roles**

These are culturally determined patterns of behavior that are expected of males and females. These patterns include personality attributes, economics, social, domestic and other tasks and responsibilities, relations of dominance and submission, e.t.c.

It is generally accepted that most differences in male and female roles are the result of socialization into the norms considered appropriate in the society. More still cross cultural evidence strongly indicates that all roles with the exception of those primary reproductive roles are interchangeable, i.e are being performed by either sex in different cultural contexts. For instance, in some countries women participate fully in the construction of houses, a role which other societies consider to be too odd to be performed by women.

**N.B :**

Gender roles are dynamic and therefore change accordingly given various social, economic, political and cultural forces at work.

- In highly developed, societies division of labor in society is determined by one's area of specialisation irrespective of being male or female.
- In less developed societies, social division of labour is more often based on certain predetermined attributes related to one's sex hence the notion gender stereotype.

### GENDER PARTNERSHIP IN ENTREPRENEURSHIP DEVELOPMENT

Gender partnership refers to the idea of men working harmoniously with women as joint partners, for instance, a couple finding it difficult to foot wedding bills and therefore appeals for help from the community and are helped.

In the ideal general partnership, roles of both genders are recognized and respected. All partners have to share the burden as well as fruits of labour, the costs and benefits of production. In this cycle of partnership, all continuously build their self confidence, mutual respect and trust for each other.

### TRADITIONAL GENDER RELATIONSHIPS IN SOCIETIES

Throughout history, there has been gender segregation of roles. Education prepared both boys and girls for their future feminine and masculine roles in the community.

Gender partnership was based on acceptance of gender inequality. This hindered meaningful individual, cultural and economic development.

To foster development therefore, gender partnership characteristics should enhance respect for all individual members of society irrespective of their gender.

### FACTORS ENHANCING GENDER BALANCE/PARTNERSHIPS

Gender equality is a prerequisite to meaningful gender partnerships.

Equality in this sense is one that wants to see everybody given the same opportunities and ensure that basic rights and obligations are similar for all



groups so that nobody feels or is treated as being more or less worthy than others. This is the basis for true and effective gender partnerships.

The following are the reasons why there is a need to promote gender partnerships;

1. To increase the abilities of women to participate in the labor force.
2. To promote the development of women entrepreneurs.
3. To promote employment for women as a strategy for poverty reduction.
4. To increase the numbers, sustainability and success of women in business.
5. To support organizations that promote women entrepreneurs in the formal and informal economy.
6. To eliminate threats of exploitation or victimization.
7. To ensure that each member/individual is justly rewarded for his or her services.

### GENDER MYTHS/STEREOTYPES

Gender myths are fictitious (wrong) beliefs that are related to gender. They are fixed mental impressions that are related to gender. They involve socially constructed rules, behavior, accessibility to resources and the manner that power is held and exercised.

#### EXAMPLES OF GENDER MYTHS IN SOCIETY

1. Girls are less capable and less able in the fields of science and technology.
2. Parents see science studies as being of little relevance to girls. They believe that they are weaker, lazier and more irresponsible than boys.
3. Men display spatial skills and females show greater verbal skills.

### BARRIERS TO WOMEN PARTICIPATION IN ENTREPRENEURSHIP

1. The relegation of women to the home following colonization associated with training of men for assistant administration roles and clergy.
2. Discriminatory labour market practices leading to low pay, low status work for women.
3. The masculine image of science projected in text books, media and popular assumptions.

4. The nature of science occupations which are not easily combined with child rearing and care.
5. Poor facilities including teacher supply, quality and equipment.
6. Limited role models and career guidance.
7. The double demand on girls, i.e the traditional and school learning activities.
8. Early marriages
9. Limited access to finance by women.
10. Parent perception of cost/benefit of educating girls, especially low income families.

#### SOLUTIONS TO BARRIERS HINDERING WOMEN PARTICIPATION IN ENTREPRENEURSHIP

1. Raising general awareness of issues and modification of socialization patterns.
2. Providing equal educational facilities to both boys and girls.
3. Providing special incentives for girls to study science subjects.
4. Ensuring that job opportunities for women combine flexible work patterns and child care facilities.
5. Developing of career guidance sensitive to girls' needs and making visible the existing successful women in science to serve as role models.
6. Upgrading science school facilities and adequate training of teachers.
7. Combining all science needs with special needs of rural women and girls.

8. Recognizing abilities/talents of girls by employers to avoid skill shortages.
9. Promoting women entrepreneurs in micro enterprises.
10. Directing and facilitating women entrepreneurs into high growth areas.
11. Reducing the administrative hurdles especially for women entrepreneurs.
12. Providing easy and subsidized financing for women entrepreneur projects.

## **ENTREPRENEURIAL ENVIRONMENT**

Entrepreneurial environment refers to a combination of external factors and their organic integration which make an impact in the business start up process by the entrepreneurs.

### CHARACTERISTICS OF ENTREPRENEURIAL ENVIRONMENT

#### 1. Resource scarcity/limited resources

These include inputs like land, capital and labor. The scarcity of these resources affects the ability of new firms to enter into this environment.

#### 2. Opportunity orientation

This is the ability to recognize and analyze market opportunities. Entrepreneurs search for or create opportunities all the time and shape themselves to seize and quickly take advantage of opportunities before they are lost.

#### 3. Uncertainty

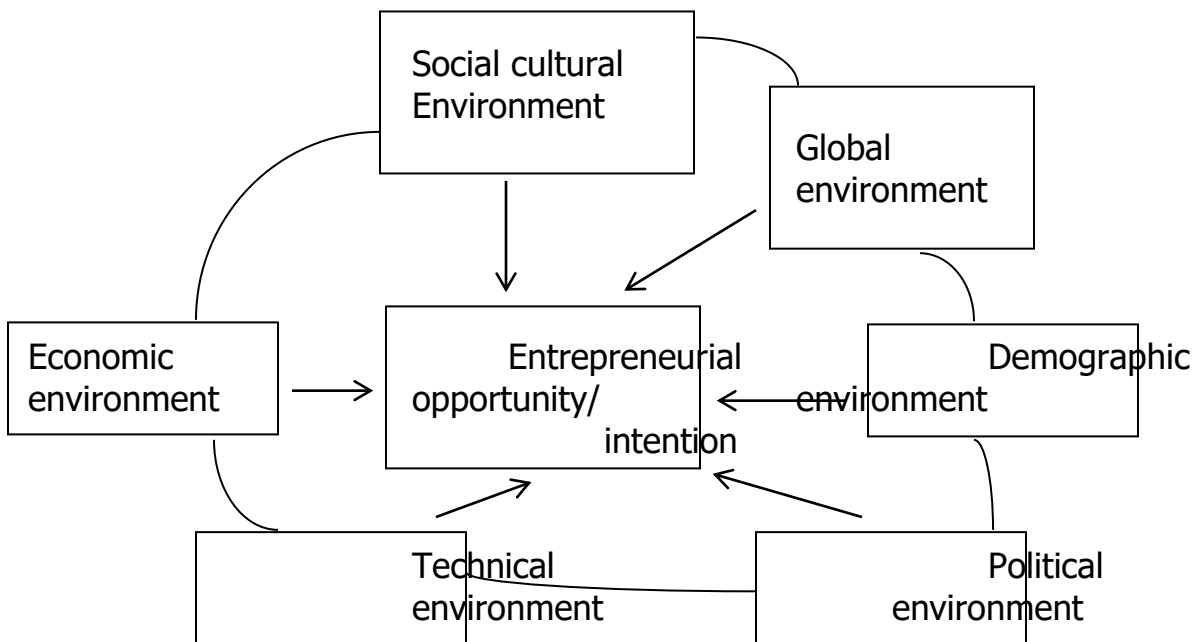
This environment is full of unknowns or risks. Entrepreneurs demonstrate an ability to accommodate uncertain situations. This allows them to act without full information and clarity about situations. By tolerating uncertainty, entrepreneur's perception of risk that may otherwise impede action is decreased allowing them to explore in uncertain environments.

#### 4. Flexibility

Entrepreneurial environment is fluid in nature, presents diverse opportunities which may not remain open for long. To suit this kind of environment, entrepreneurs do not insist on one best solution but adopt successive approximations to solve immediate problems as they occur. This calls for constant improvisation in response to challenges in an ever changing entrepreneurial environment.

### ENTREPRENEURIAL ENVIRONMENT FRAMEWORK

This is a five-dimension framework for entrepreneurship development. These dimensions influence entrepreneurial attitudes and opportunity identification among individuals in different societies. They are illustrated as below:



### CONCEPT OF ECONOMIC ENVIRONMENT

This refers to the nature of economic systems of a particular society that directly affects the level of entrepreneurial development

### ECONOMIC FACTORS INFLUENCING THE ENTREPRENEURIAL ATTITUDES AND OPPORTUNITIES

### 1. Economic policy

This defines the market systems established by the government, market structure and the extent to which all the firms compete under fair games rules. An open market system that leaves forces of demand and supply to control the distribution of resources allows entrepreneurship to flourish since it has more rewards for innovators. This allows opportunity identification arising from free entry into national and regional markets.

### 2. Administrative issues

These include the procedural requirements for registration, licensing, taxes and financial reporting which may either facilitate or hinder entrepreneurial activities. Excessive number of rules and procedures discourage entrepreneurs from starting businesses, for instance, most small businesses consider paperwork as time consuming or cumbersome.

### 3. Infrastructure

The availability of infrastructure and utilities such as good roads, power, communication facilities and lack of corruption and bureaucratic delays in obtaining such utilities encourage entrepreneurial development. However, Ugandan indicators for physical infrastructure are far below levels to provide business opportunities to local and foreign investors and those that are accessible are expensive compared to international standards.

### 4. Legal requirements

These should not be too stringent to inhibit entrepreneurship, but should be clear and effective enough to provide adequate protection to entrepreneurs against fraud.

An environment that institutes ownership rights and guarantees protectionism to local entrepreneurs provides opportunities for entrepreneurial growth.

### 5. Resource availability

Societies that are endowed with various resources provide start up opportunities and attract people to undertake business ventures as opposed to those without. For instance loan availability, venture capital, management assistance, technological assistance, land, natural resources, raw materials, semi-finished goods, waste products and by products.

### 6. Cost of business

Countries with flexible low cost space, air transportation, overhead costs, inflation, interest rates, tax structure, insurance cost highly influence the level of

entrepreneurial development. Entrepreneurs (investors) seek opportunities for investment in countries where costs of business operations are low.

### 7. Economic incentives

These are economic privileges given to investors. In countries where people are given economic support in terms of tax holidays, industrial parks, e.t.c, entrepreneur intentions are higher. For instance, in Uganda, the government's investment policy stipulates that whoever in upcountry regions is to be given 100% tax holiday for 5 years and machinery and equipment are imported free of tax.

## ORGANISATIONS SUPPORTING ENTREPRENEURSHIP IN UGANDA

Uganda's government has been committed to coordinate and integrate its own intervention with those of donor community as a means to create a conducive environment for entrepreneurs.

Some of the government programs include;

- Business Uganda Development scheme and Enterprise Development support, Enterprise Uganda.
- Support of Private Enterprise Expansion and Development (SPEED)
- Uganda Manufacturers Association (UMA)
- Uganda Investment Authority (UIA)
- Uganda Chamber of Commerce
- National Agricultural Advisory Services (NAADS)
- International Labour Organisation
- E.t.c

## **THE CONCEPT OF SOCIAL-CULTURAL ENVIRONMENT**

This dimension explains entrepreneurial environment in terms of the social and cultural values, attitudes and practices of a given society.

## **SOCIAL-CULTURAL FACTORS INFLUENCING ENTREPRENEURIAL ATTITUDES AND OPPORTUNITIES**

### 1. Culture

This refers to the customary practices and beliefs that people uphold.

Societies with a social system that places a high value on entrepreneurship have a high rate of entrepreneurship development. On the other hand, cultures where people are risk averse and do not attach much importance to hard work and persistence are not conducive to entrepreneurship.

## 2. Social financial support

Availability of capital creates favourable conditions for the entrepreneur. Therefore there will be more company formations when financial resources are available.

## 3. Social identification

This captures how individuals relate themselves to surrounding environment, particularly to the social environment when they perceive themselves as entrepreneurs.

In an environment where people are proud of entrepreneurship as a career, the chances of success are high.

## 4. Role models

These are individuals influencing an entrepreneur's career or styles.

When people/potential entrepreneurs come into contact with role models primarily in the home or at work they become inspired and develop motivation for entrepreneurship as opposed to a society where role models are lacking.

## 5. Religion

The decision of people in some societies to start a business depends on their religion. For instance, in India, religions such as Islam and Christianity are found to be conducive for entrepreneurship while others such as Hinduism inhibit entrepreneurship.

## **THE CONCEPT OF POLITICAL ENVIRONMENT**

Political environment includes all laws, government agencies and lobbying groups that influence or restrict individuals or organizations in the society.

## **POLITICAL FACTORS INFLUENCING ENTREPRENEURIAL ATTITUDES AND OPPORTUNITIES**

### 1. Political climate

Political instability has affected different regions in Uganda for the last 40 years. It robbed Uganda of many entrepreneurs and more entrepreneurs have lost life time savings and business assets while others have been forced to close. Nowadays, Uganda's political state has stabilized giving potential entrepreneurs an opportunity.

2. Government policy of taxation and subsidization policies which increase legitimacy, stimulate demand, or grant subsidies to entrepreneurs increase the organizational founding rate.

On the other hand, very high taxes also serve to discourage potential entrepreneurs.

3. Size of government expenditure

High level of government expenditure in health, education or defense encourages many entrepreneurs to emerge and respond to the opportunity.

However, the bulk of Uganda's government monetary and fiscal policies are aimed at appeasing donor agencies and multi lateral financial institutions at the expense of business in general. These policies have not been in favour of local entrepreneurs.

However, different interventions from the private sector (PSFU) and business associations have been considered and conducive policies are yet to be passed.

4. Government institutions and departments

Government institutions that are insensitive, i.e have little qualification and understanding the importance of business information, limit entrepreneurs' access to these institutions as support mechanisms or potential clients. Moreover arbitrary interpretation of regulations by officials has cost many entrepreneurs much time and money.

5. Political and religious refugees

Negative displacements resulting from loss of jobs, wars and closing of firms have been related to increased organizational founding rates. Individuals faced with displacements in their lives sometimes make a change and this change is often to form an organization.

6. Legal environment

Many laws in Uganda are so weak that those existing are almost impossible to implement. Therefore the existing legal system may not favour entrepreneurship development (law on counterfeits not well implemented, copy right, patent right, e.t.c)

## **THE CONCEPT OF GLOBAL ENVIRONMENT**

Globalization is the reduction of transaction cost of trans-border movement, factors of production and goods. It not only includes opening up of world trade, development of advanced means of communication, internationalization of



financial markets, growing importance of multi-national corporations, mobility of goods and services, data, ideas but also infections, diseases and pollution.

## FACTORS IN THE GLOBAL ENVIRONMENT THAT INFLUENCE ENTREPRENEURIAL INTENTION AND OPPORTUNITIES

### 1. Global finance

Globalization has brought in new opportunities to entrepreneurs in terms of international finance.

Global finance presents opportunities in the areas of international payment system, current exchange rates and international financial bodies like World Bank, IMF, International Dispute Commission and International Insurance policies.

### 2. Global trade

Increase in trade across national boundaries provides opportunities to different individuals and industries as well as negative impact to other industries. Therefore entrepreneurs have to be alert to global changes in order to take advantage of those opportunities/benefits. These include;

- Accessibility to international markets
- Easier access to information through vast communication networks like world wide web at minimal costs.
- Strengthened trade agreements among regions, for instance COMESA, EU, EAC, e.t.c.

### 3. Government global policy

An economy that is liberalized encourages entrepreneurs. In Uganda most sectors of the economy including investment, foreign exchange and export markets have been liberalized. This policy is endorsed by World Bank, the donor community and private entrepreneurs.

### 4. Democracy

Democracy implies the freedom of individual initiative and freedom of thought, speech and action. These attributes support innovation and creative recognition of opportunities which is a foundation for entrepreneurship.

### 5. Market openness

Uganda's local market is small due to low purchasing power of consumers hence limiting entrepreneurial development.

However, Uganda has made substantial progress to attain impressive and above average international trade openness levels which are in line with global good

practice, in countries like Chile, Columbia and Singapore, thus increasing market opportunities.

#### 6. Export policy

A country's export policy expands market for entrepreneurs especially if the policy is liberal. Uganda offers preferential market access to investors into European Union, U.S.A for a number of exports.

#### 7. Import policy

A conducive import policy helps entrepreneurs to get resources that are not locally available at reduced costs.

### **THE CONCEPT OF DEMOGRAPHIC ENVIRONMENT**

This dimension deals with variables such as family, population size, growth rate, gender, marital status, age, educational level of parents and self, socio-economic status, previous work experience and work habits.

### **DEMOGRAPHIC FACTORS INFLUENCING ENTREPRENEURIAL ATTITUDES AND OPPORTUNITIES**

#### 1. Population size and growth rate

The rate at which the population is growing determines how great the business opportunities in a country emerge. A big population presents opportunities like wide market and cheap labour. Uganda has the third highest growth rate in the world, estimated at 3.5%.

#### 2. Level of education and experience

The entrepreneur's ability to start and operate a business is influenced by the experience and level of education he/she attained. Education highly influences entrepreneurship development in terms of formal skills, business management skills, negotiation skills and networks.

However, in Uganda the successful and potential entrepreneurs are those with less training and experience. People who are highly educated are analytical and are risk averse yet less educated people tend to be creative and therefore risk taking.

#### 3. Income levels

This defines the differences in social economic status of individuals in the society. People with lower income levels tend to seek for opportunities to earn a living and are most likely to undertake entrepreneurial career compared to their counterparts.

#### 4. Age structure

Young people at the age of 25 years, single and without many personal assets and dependants find it easy to make career decisions to start a business.

It is a much harder decision when a person is 50 years and married, has teenage children preparing to go to University. Young people usually have the need to explore and are negative about outcomes as compared to the older. They find fun in idea generation and experimentation and can easily succeed in business as a career.

#### 5. Changing age structure

Changing age structure on the other hand presents entrepreneurial opportunities. Middle aged people provide market, for instance the aging population in the United States provide opportunities to sectors like health and home developers for retirees. In Uganda, the increasing number of younger people provides cheap labour and market for luxury goods and services.

#### 6. Gender differences

Men are more inclined towards entrepreneurial business than women with similar background because women face more difficulties in the venturing process as compared to men. For instance, in acquiring resources to start and support their businesses.

Similarly, women and men have different needs and wants. This implies that an entrepreneur must provide those different needs to satisfy the market.

#### 7. Family background

Parents act as initial role models and the parents active in a family business influence the future entrepreneurial intentions through changing attitudes and beliefs. For instance, people who have a close family member who is self employed are more likely to follow an entrepreneurial career.

#### 8. Family size

Individuals who grow up in large extended families exposed to life challenges like inadequate facilities and support and are forced to survive on their own turn to the environment for opportunities in terms of business undertakings thus entrepreneurial career.

#### 9. Family succession/inheritance

Through inheritance people are able to identify opportunities and use family income to exploit those opportunities, for example Madhivan, Mukwano, e.t.c.

10. Changing roles and responsibilities of family  
These present opportunities to entrepreneurs, for instance, when single headed families change to marriage, the needs and wants change.  
Therefore entrepreneurial focus goes to these changes as opportunities to exploit. As the family responsibilities increase, people tend to seek for additional income and they are lured into the entrepreneurial career.

## **SOCIAL ENTREPRENEURSHIP**

This is the creation of innovative enterprises to make positive and sustainable impact on society or the environment. It involves one taking up something that he/she loves to do and turning it into a project that benefits the community and create meaning in his/her own life.

### SALIENT FEATURES OF SOCIAL ENTREPRENEURSHIP

1. Decision making power is not based on ownership.
2. There is limited distribution of profits and minimum amount of paid work.
3. There is a formulated mission to create and sustain social value and benefit the communities.
4. There is participatory and collective nature involving various stake holders.
5. It is characterized by changing opportunities lying in the hands of every individual.
6. There is engagement in innovation, adaptation and learning.

### OBJECTIVES OF SOCIAL ENTREPRENEURSHIP

1. To improve living standards of people by creating new jobs.
2. To generate new goods and services.
3. To activate citizens' participation at all levels.

4. To nurture democratic processes.
5. To integrate new-comers, marginal groups, immigrants and vulnerable groups of the population.
6. To develop intercultural competence.
7. To create wealth through investments.
8. To improve the image of the local areas.
9. To use regional resources in a creative and effective manner.
10. To empower to change their lives and to get motivated.

### **Who is a social entrepreneur?**

This is someone who recognizes a social problem and uses entrepreneurial principles to organize, create and manage a venture to make social change. Social entrepreneurs are individuals with innovative solutions to society's most pressing problems.

### **N.B :**

Social entrepreneurs are commonly associated with the voluntary and non-profit sectors, but this need not to preclude making a profit. Business entrepreneur measure performance in profit return while social entrepreneurs assess success in terms of social impact.

### **CHARACTERISTICS OF SOCIAL ENTREPRENEURS**

1. Personal leadership.  
Social entrepreneurs lead by example. They have an ability to influence other people.
2. Ethical and principle centred  
Social entrepreneurs are principle centred in the sense that they make decisions on rules and values.
3. Goal oriented and visionary  
Social entrepreneurs start with a positive vision and then set attainable goals to reach that vision.

#### 4. Good listeners

Social entrepreneurs listen to people's ideas and comments to learn from their mistakes. This allows them to improve their performance.

#### 5. Risk takers

Social entrepreneurs take moderate risks that have a reasonable chance of success. They try to lessen risk by involving many other people.

#### 6. Empowering

Social entrepreneurs believe in and use the potential of the people they help.

#### 7. Advocators

Social entrepreneurs speak up and take action for what they believe is right even if there is opposition.

#### 8. Optimistic and flexible

Social entrepreneurs tolerate uncertainty. Despite changes, they are positive and determined to succeed.

### **What are social enterprises?**

Social enterprises are businesses with primarily social objectives whose surpluses are reinvested for that purpose in the business or in the community rather than being driven by the need to maximize profits for shareholders and owners.

### CHARACTERISTICS OF SOCIAL ENTERPRISES

1. They have clear stated objectives that benefit the community.
2. They have developed creative ways to work together with a strong volunteer base.
3. They use trading activities to achieve goals and financial self-sufficiency.
4. They strive towards equality of opportunity and encourage diversity in their volunteers and paid staff team.
5. They use entrepreneurial skills of the private sector to fulfill a strong social mission.

6. The governance and structure of the organization is based on equal participation by the work force and stakeholders rather than fulfilling shareholders' demands.
7. There is a clear set of ground rules or constitution for how the organization operates.
8. Everyone is valued in the organization and this demonstrated by the behavior of the stakeholders.
9. The organization strives towards honesty, integrity, humanity and enthusiasm for a positive difference in the community.
10. Effective communication systems are important for keeping everyone informed and consulted.

### TYPES OF SOCIAL ENTERPRISES

#### 1. Non-profit

This is an enterprise that does not make financial profits from delivering its goods and services and relies on donations for funding.

#### 2. For profit

This is an enterprise that sells its products for profits but focuses on creating sustainable positive impact.

#### 3. Hybrid social enterprises

This is an enterprise which mixes non-profit and for profit strategies.

Examples of social enterprises in Uganda include micro finance organizations, schools, hotels, e.t.c. Social enterprises have a "triple bottom line" i.e to impact on society, create profit and impact on the environment. The short form for triple bottom line, i.e people, profit and planet (3Ps).

### MERITS OF SOCIAL ENTERPRISES

1. Social enterprises have the ability to raise capital at below market rates due to the ethical investment industry.

2. The labour costs are below average as staff seems willingly to work for below market rates in support of the values of social enterprises.
3. They offer many ways of contributing to solving world's social and environmental problems.
4. It is easier for social enterprises to access publicity.
5. They enhance creativity and innovativeness of individuals.
6. They empower individuals to make positive contribution in their communities.

#### COMPARISON BETWEEN SOCIAL ENTERPRISES AND BUSINESS ENTERPRISES

<b>SOCIAL ENTERPRISES</b>	<b>BUSINESS ENTERPRISES</b>
1. End goal is sustainable impact.	- End goal is profit maximization.
2. Seeks to achieve long-term results.	- Aims at short-term/immediate results.
3. It is a combination of non-profit, for profit and hybrid forms of business.	- It is purely for profit form of business.
4. There is social and environmental benefits for communities.	- There is profit or money returns for private investors.
5. Aim to serve the vulnerable, disadvantages and under-served	- The target market served is only potential customers.
6. There is empowerment for partners in development.	- Offers superior services that meet customer needs.
7. The impact is social,	



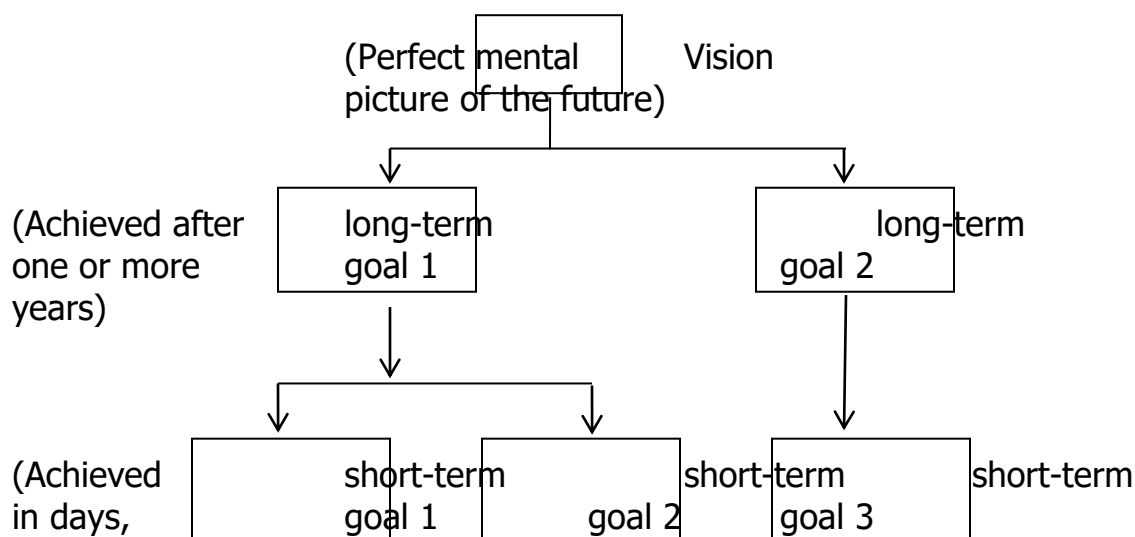
environmental and economic development.	- The impact is production of new goods and services.
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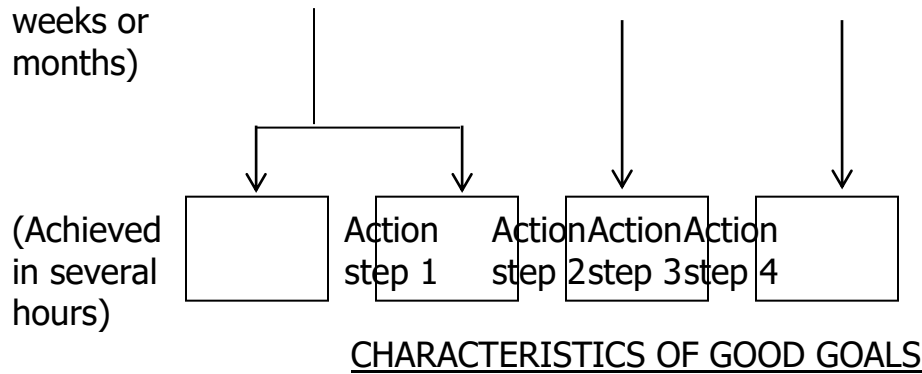
### STEPS INVOLVED IN BECOMING A SOCIAL ENTREPRENEUR

1. Discovering vision, passion and skills. This involves one discovering where he/she wants to be in future, what he/she loves to do and she/he is good at doing.
2. Identifying opportunities in the community. This involves spotting opportunities for social entrepreneurship from the community for instance, social investment funds, foundations, e.t.c.
3. Matching the vision with community opportunity.
4. Acting and spreading change.

### DEVELOPING GOALS AND STEPS FROM A VISION

In developing goals from the vision, one should start at the top level and move down the levels to action steps. In moving from each level to another, one should decrease the difficulty of the task and time it would take to achieve the task as shown below;





Good goals should be;

1. Specific
2. Measurable
3. Achievable
4. Realistic
5. Time bound
6. Challenging
7. Inspiring

### **CHARACTERISTICS OF GOOD ACTION STEPS**

Good action steps should;

1. Produce a clear impact
2. Have clear start and end times
3. Measure results or actions
4. Be simple
5. Be in logical order
6. Further the progress towards achieving a goal.

## **SOCIAL ENTERPRISE PLANNING**

Identifying personal preference is the first step in planning a social enterprise. The planning must include clearly identified threats and opportunities in the community.

### **STRUCTURE OF A SOCIAL ENTERPRISE PLAN.**

1. Introduction
  - Title

- Vision statement
- Summary of enterprise
- 2. Theory of change
  - Explanation of vision
  - Impact
  - Outcomes
  - Activities
  - inputs
- 3. The opportunity
  - Impact area
  - Current reality research
  - Impact potential
- 4. The innovation
  - Root cause analysis
  - Solution/product description
  - Innovation mix
- 5. Management and operations
  - Management roles and responsibilities
  - Delivery of products and operation of activities
  - Timeline
  - Strategic partners
  - Impact on society
  - Impact on environment
- 6. Sustainability
  - Budget
  - Start up funding strategy
  - Renewal of resources/profit making
  - Profit management

### WAYS TO MAKE A SOCIAL IMPACT IN THE COMMUNITY

1. Making the world a better place.
2. Increasing the quality of life of others.
3. Turning a wrong into right
4. Preventing the end of something good.

### SOCIAL ENTERPRISE OPPORTUNITY IDENTIFICATION

Opportunities are not things in the world waiting to be found. Social entrepreneurs must use their creativity, research and innovations to create

enterprise opportunities. Opportunities change as the world changes. One can expect opportunities one identifies to develop as he/she develops. Opportunity identification is not a one-time process but should be repeated to uncover new and different opportunities.

## **THE THEORY OF CHANGE**

The theory of change concept is unique from other processes where one starts with a plan and work his/her way through the plan. One should start with the end goal ( for instance, to end poverty, educate children, e.t.c) and then work his/her way backwards to accomplish one's theory of change.

- Vision. It is a long term ultimate goal.

- Impact

One should determine the long-term results of his/her activities and know how the results lead to the accomplishment of the vision. Does it address the root cause or support something related to the vision that is necessary for its achievement? For instance, increasing farmers' technology which leads to better crops that are part of the achievements of the vision to end hunger.

- Outcomes

This involves one understanding the direct results of his/her activities. It is important for one to be able to measure the outcomes. For instance, the number of children educated, the number of people employed, e.t.c.

- Activities

This is what one directly does. It involves activities that one's enterprise does to achieve an impact, for instance, training children, hosting a water sanitation workshop, cleaning a community, e.t.c.

- Inputs

This is what one puts in to achieve the vision. It includes all the resources needed to accomplish the project. These can be natural resources, (for instance, land, water, trees) technological resources (for instance computers), human resources (people), financial resources (money), or information resources (knowledge).

Example of theory or change (Refer to text by NCDC, page 134)

## **THREATS TO COMMUNITY DEVELOPMENT**

### 1. Dependency

Dependency is a state of needing to rely on somebody or something for help or support especially financial support. This is caused by ignorance and inequality.

Ignorance refers to lack of information or knowledge.

Inequality is when one group has different wealth, privileges, rights, status and opportunities compared to others.

Without similar conditions and information, community members become dependent on those with information and power to know what is right and make decisions.

### 2. Discrimination

This involves unfair treatment of one person or group usually because judgments about their place and family of birth, age, religion, gender, income level, or physical and mental ability.

This leads to apathy where people do not care to change things and feel powerless to do so. It also prevents the entire community from development by excluding certain groups or individuals.

### 3. Dishonest

This is the basis for corruption and exploitation.

Corruption is when who are in charge of community resources abuse their power and position to redirect the resources to themselves or their partners for private benefit.

Exploitation is to take selfish or unfair advantages of a person or situation for personal gain. If individuals benefit privately, then the community as a whole cannot access those resources for development.

## STRATEGIES OF SOCIAL ENTERPRISES

There are many ways for social entrepreneurs to positively impact community development.

The following are the three most common strategies for community development that are used by social entrepreneurs around the world.

#### 1. Increasing access to goods and services.

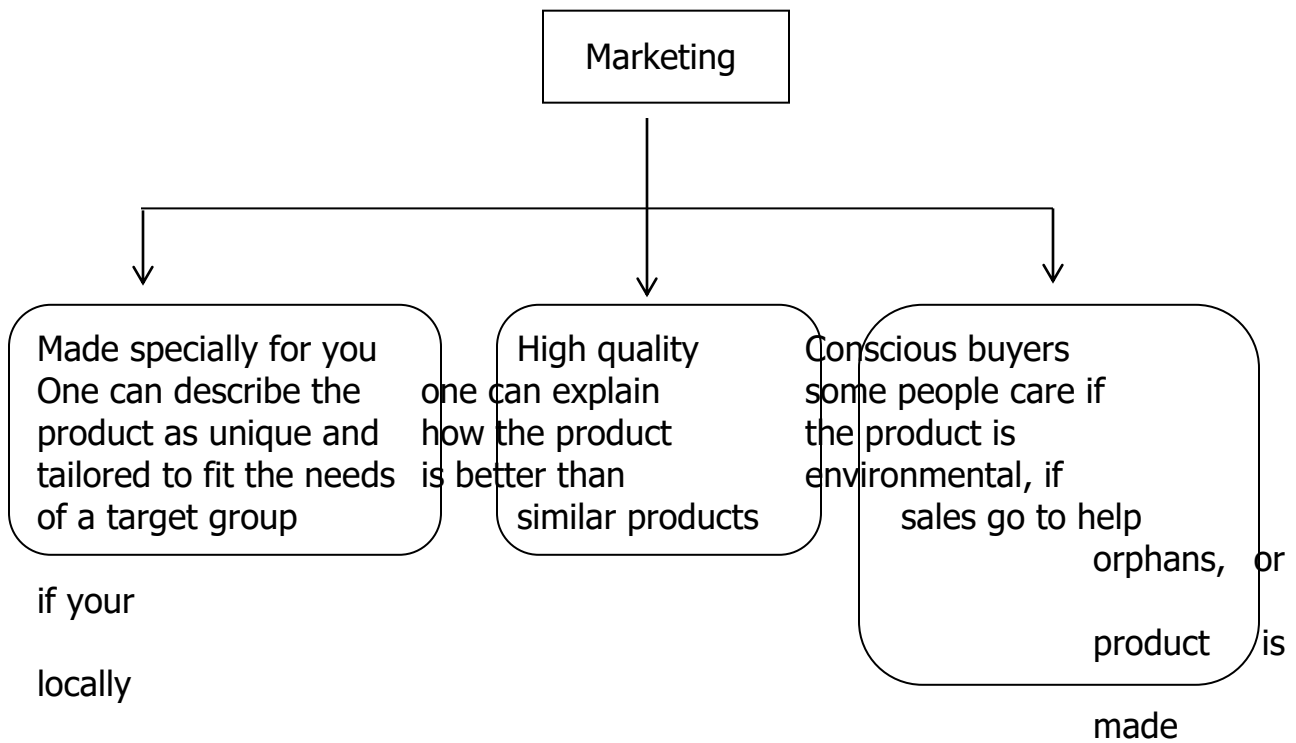
Basic goods and services include food, health services, housing, waste management and education.

#### 2. Increasing knowledge through education and awareness.

Without education and awareness, people can be left behind, taken advantage of or ill prepared to live in and understand the dangers and opportunities of their environment, for instance, increased awareness of diseases such as HIV/AIDS give people the knowledge to avoid transmission, recognize the symptoms and seek proper treatment.

MARKETING SOCIAL ENTERPRISE PRODUCTS

This involves using materials available to create a product that either solves a need in the community or appeals to the needs of the customers. To sell the product, the following are the 3 options for marketing or sales strategies.



ENVIRONMENTAL THREATS

Social entrepreneurs turn threats facing society and environment into opportunities to make profits and conserve the environment, for instance, energy efficient stove social enterprise.

Energy efficient stoves produce less smoke and improve health of families and communities. They help to prevent deforestation and conserve the environment.

NATURAL RESOURCES

A natural resource is something important for people's survival/needs which is available from the earth in a limited quantity, for instance petrol, minerals, forests, lakes, e.t.c.

### COMMON ENVIRONMENTAL THREATS CAUSED BY UNSUSTAINABLE USE OF RESOURCES

1. Deforestation
2. Pollution (air, water, sound)
3. Land degradation/loss of soil fertility
4. Displacement of people, animals, insects/loss of biodiversity
5. Destruction of wetlands
6. Depletion/exhaustion of non-renewable resources such as minerals.
7. Overexploitation of resources, for instance over fishing, overgrazing.
8. Vibrations that weaken buildings by causing cracks, for instance from stone quarries.
9. Global warming as a result of destruction of the ozone layer.
10. Poor health as a result of water logging
11. Moral decay
12. Accidents
13. Loss of environmental/natural beauty as a result of waste materials.

### WAYS OF REDUCING ENVIRONMENTAL THREATS CAUSED BY UNSUSTAINABLE USE OF RESOURCES

1. Through setting environmental standards to be observed by businesses.
2. By recycling of used products.
3. Through undertaking compulsory environment impact assessment of all new businesses.
4. Through conserving sources of raw materials, for instance by reforestation.
5. By looking for alternative packaging materials such as paper bags that can easily decompose and save the environment.
6. Through ensuring proper garbage disposal.

7. By conserving the soil through terracing, planting of trees mulching, e.t.c
8. Through treating of industrial wastes.
9. Through looking for alternative sources of energy, for instance, use of electricity, biogas to reduce deforestation.
10. By avoiding use of chemicals which are dangerous to plants, animals and human life.
11. By using silent machines and tools, for instance, silent generators.
12. By compensating those who may have been displaced from their respective home areas.
13. By providing workers working in businesses that discharge gases and exhaust fumes with protective equipment like masks to minimize health risks.

## **CLIMATE CHANGE AND GLOBAL WARMING**

Climate is a pressing environmental threat caused by increasing amount of carbon dioxide and other gases in the atmosphere.

Global warming is an increase in the temperature of the planet (earth).

### **EFFECTS OF CLIMATE CHANGE**

1. Melting of glaciers in mountainous areas of Uganda causing rivers to increase in size and change course which leads to loss of farm land and displacement of people (Eco-refugees).
2. Changing the pattern of seasons. As the rainy season in Uganda changes, farmers are found to lead an uncertain life style. Farmers lose crops, adapt to new crops and are encouraged to migrate to urban areas. This negative effect on farmers causes food prices to increase which affects the entire population.



3. Causing extinction of species which cannot survive the changing temperatures. Species go extinct or relocate, biodiversity lost and tourism affected which causes the economy to lose.
4. Changing vegetation belts from forests to savannahs, and savannahs to deserts cause people to migrate to areas with better growing conditions or into cities and slums. Hence people are able to produce low yields for income and food prices increase.

### WAYS OF SAVING NATURAL RESOURCES

Resources can be saved using the 4 Rs, i.e;

1. Reduce

This involves increasing the amount of natural resources used, for instance, save fire wood and charcoal by using energy efficient stoves.

2. Re-use

This involves finding alternative ways to use natural resources in new ways or to increase the life of natural resources. For instance, filling plastic bottles with mud and using them to build a house.

3. Recycle

It involves collecting natural resources or waste that would be thrown away or burned and bringing them to a recycling facility in order to turn it into a new product. For instance, collecting plastic bottles and selling them to a recycling facility.

4. Repair

This involves finding a way to repair and use a product again or natural resource that is broken instead of wasting it. For instance, if a bicycle instead of throwing it away, convert it into a machine that can create electricity.

### SUSTAINABILITY OF SOCIAL ENTERPRISES

Sustainability can be financial sustainability, i.e ability of the enterprise to finance itself or impact sustainability, i.e the ability of the impact to continue and be long lasting without putting in more resources or efforts.

This is the most important element distinguishing a social enterprise from a charity enterprise. This is because charity enterprises are often dependent on the good will of wealthy individuals to fund their work.

Again the mission of social and environmental improvement is the most essential part of a social enterprise which makes it different from a business enterprise. All businesses as long as they make profits are sustainable and can use the profits for expansion.

However creating a private profit for the people owning the enterprise is not a social mission.

Social enterprises cannot usually be sustainable as business enterprises. For a social enterprise, the social mission is the most important goal and profit is only important if it helps to sustain the achievement of the social mission.

### INNOVATION IN SOCIAL ENTERPRISES

Social innovation refers to establishing new better ways to accomplish a social mission. It involves social entrepreneurs being creative in applying an existing idea in a new way or new situation.

#### **N.B:**

(i) Innovation is about action, not simply having an idea. It is about results.

(ii) Innovation involves change.

(iii) Innovation must be seen as an improvement in the eyes of at least some of the people not affected. Otherwise one may just call it a mistake.

(iv) Innovation involves/takes forms, i.e one changing what he/she is doing where he/she is doing it, with who, how, e.t.c.

### IMPACT ASSESSMENT FOR A SOCIAL ENTERPRISE

- Measuring impact in a social enterprise is the equivalent of measuring profit in traditional for profit business. Profits help a business entrepreneur to know when he/she is being successful. Likewise impact assessment indicates what is working out and what is not working out for a social enterprise.
- It provides a valuable opportunity for social entrepreneurs to listen to the people they work with which is a necessary step to solving a

problem. Asking questions and listening through surveys or face to face interviews which clients give a chance to social entrepreneurs to understand how effective or ineffective about their enterprises.

## OPPORTUNITIES FOR SOCIAL ENTREPRENEURSHIP (Local and global opportunities)

### 1. Social investment funds

These are from various sources, i.e from donations of wealthy individuals, corporations and banks. They are similar to business investment funds in that money given is paid back over time. They differ from regular investment funds because they generally expect less or no returns on the money invested in the enterprise.

### 2. Foundations

Foundations generally give grants (money which is not paid back). They distribute new start-up grants for new social enterprises.

### 3. Community based organizations.

NGOs and local opportunities. CBOs (Community Based Organisations) and NGOs are organizations which do not earn profits but have a social mission. They aim to improve social and economic conditions in whatever way they can by providing opportunities for funding, employment, partnership, e.t.c.

### 4. Governments and embassies. Governments often provide policies, grants, technological support and other incentives to support people who are working to positively impact society and environment. Foreign embassies also set aside funding for 'local solutions to local problems'.

### 5. Social entrepreneurship as a career option.

Social entrepreneurs face unlimited opportunities for creating a better world in which to live. In countries with high unemployment levels, it is a promising career option for youth who do not want to join the long line of job seekers. Nowadays there are new courses, on-line resources and job opportunities for social entrepreneurs.

## IMPORTANCE OF SOCIAL ENTREPRENEURSHIP

### 1. It creates sustainable impact on society and environment by addressing root cause instead of creating short term solutions.

2. Social enterprises are leaders in innovation and therefore have wide spread effects on the way people live and work.
3. Social entrepreneurship if practiced by many people, it leads to more sustainable infrastructural development.
4. Social entrepreneurs are transformative forces, i.e people with new ideas to major problems.
5. It integrates new comers, marginal groups, immigrants, vulnerable groups of the population.
6. It helps in using regional resources in a creative and effective manner.
7. It empowers people to change their lives and to get motivated.
8. It improves the image of local areas.
9. It helps in creating wealth through reinvestments and generation of investments.
10. It helps in activating citizens' participation in decision making at all levels.
11. It helps in developing intercultural competence.

## **BUSINESS PLANNING**

Business planning is an activity that involves the organization, implementation and follow-up of the different business activities right from the beginning of the business.

### **What is a business plan?**

This is a written document that summarizes the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives of a business are to be realized. It involves a study on whether the business idea will be viable and feasible.

## TYPES OF BUSINESS PLANS

There are 2 types of business plans, i.e formal and informal business plans.

- Formal business plans

These are plans with detailed documents that usually follow a standard format. It is necessary for obtaining outside funding for the business.

- Informal business plans

These are plans that consist of almost anything. They are not presented to others. It is a planning tool for the business owner.

### RATIONALE FOR WRITING A BUSINESS PLAN

The following are some of the reasons for writing a business plan;

1. To test the feasibility of the business idea. It enables the entrepreneur to establish whether the idea for starting the business is possible or not.
2. To give the business the best possible chances of success. It encourages the entrepreneur to pay attention to both the broad operational and financial objectives of the business and details such as budgeting and market planning.
3. To secure funding such as loans. The business plan enables the entrepreneur a much better chance of getting the money he/she needs to continue operating.
4. To attract investors. Investors normally need a well-written document they can take away and study before they make any investment commitment.
5. To make business planning manageable and effective. It helps an entrepreneur to see what goals have been accomplished, what changes need to be made, or what new directions the business should take.

### USERS OF A BUSINESS PLAN

- Internal users
  1. The entrepreneur and management

It enables the entrepreneur to be aware of the variables that can affect the success or failure of his/her business.

## 2. Employees

Business plan shows each employee's duties and responsibilities which help them to work towards accomplishment of set goals/targets. Therefore workers use it to know where the business is going and their role in it.

- External users

### 1. Financiers

These include banks, individuals, investors, e.t.c that require the business plan to enable them understand the business itself, the type of products/services it is planning to produce, the nature of the market and qualifications of entrepreneur and management team (staff).

### 2. Suppliers

With it, suppliers can extend trade credit which is a source of funds to the business. A well presented business plan can be helpful in gaining the supplier's trust and securing favourable credit terms.

### 3. Government

Government departments such as NEMA and tax authorities require a business plan to monitor and control the various activities of the business, for instance, environmental protection against pollution.

### 4. Customers

A well presented business plan assures customers and if they are convinced of the business's continued existence, they gain confidence and become loyal to its products.

## IMPORTANCE OF PREPARING A BUSINESS PLAN

1. It encourages the entrepreneurs and people involved in the proposed business to think about it in a systematic way, i.e it helps the entrepreneurs and his/her staff to focus on important issues and activities for the new venture.
2. It defines the specific goals and objectives of the business which help to serve as bench marks to measure the progress of the business in implementing the planned activities.

3. It consists of an action plan which acts as a time table for implementation of various business activities in a sequenced way. This helps the entrepreneur to ensure that different activities are implemented at the right time as planned.
4. It provides the entrepreneur with information about where the business is going (future of the business).
5. It helps the entrepreneur to identify challenges in advance and lay strategies of overcoming the challenges before they affect his/her business operations.
6. It helps the entrepreneur to monitor the performance of his business over time using the set goals and objectives as a standard of measurement. If checks are made particularly against goals and objectives, it acts as a useful indicator on how well the business is doing which helps the entrepreneur to run a more efficient business in future.
7. It helps the entrepreneur to calculate and pay the exact amount of tax to the government basing on the profits of the business without which the business might be made to pay higher amounts of tax.
8. It helps the entrepreneur to get financial assistance from the bank, individuals or investors since it is used as a means of showing the lenders how the business will succeed.
9. It is used in assessing the viability and feasibility of a business. It assists the entrepreneur to select the most suitable business opportunity based on his ability to meet the business needs.
10. The business plan helps the entrepreneur to obtain permission to operate legally as it is used by different government departments to control and monitor the activities of the proposed business.
11. It is used in making investment decisions such as merging.

#### STEPS INVOLVED IN PREPARING A BUSINESS PLAN

1. Selecting a business opportunity or type of business to engage in, for instance, trading business, service provision business, manufacturing, agro business, e.t.c.
2. Conducting market survey for a selected type of business. This involves gathering information from respondents by communicating with them.
3. Collecting all the relevant data concerning the different aspects of the business and establish the costs of different items like machinery and equipment, raw materials, transport, e.t.c.
4. Drafting the business plan.
5. Discussing the drafted business plan with technical/knowledgeable or experienced people in the similar business.
6. Making a final business plan.
7. Finalizing the business plan process by preparing an action plan for the implementation of the planned activities.

### ELEMENTS/COMPONENTS OF A BUSINESS PLAN

In the business plan preparation, the entrepreneur is expected to have broken down all the contents of the plan under the following sub headings;

1. General description of the business.
2. Statement of mission, goals and objectives.
3. The Marketing plan
4. The Production plan
5. The Financial plan
6. The Organisational plan (Administrative/Management plan)
7. The Action plan

#### **General description of the business**

This involves giving summarized information about the business. Therefore general description of the business involves establishing the name, address and location of the business, the type of business being planned, the needs of the market it seeks to fulfill, a summary of how the intended business will be



different from other businesses (uniqueness) as well as making an analysis of the strengths, weaknesses, opportunities and threats (SWOT) that the business is likely to face.

## **Statement of mission, goals and objectives**

These are brief statements indicating why the business is in operation, its long term and short term targets.

### **(i) Mission statement.**

This is a brief statement that indicates the purpose of the business. It is the very reason why an organization exists. It is the unique aim of the organization that distinguishes from others providing an overview of the firm's operation with respect to its products/services. For instance, 'To provide quality dairy products while ensuring that our customers are satisfied, our employees are in conducive working environment and that our shareholders are expecting good returns from their investment.

### **(ii) goals**

A goal is something (target) that one intends to achieve in a given period of time (long-term) using a given amount of resources. They are based on the mission statement, for instance, from the above mission statement, the goals can be "To provide high quality products to our customers.

### **(iii) Objectives**

These are specific targets to be achieved in a specific period. They are short-term targets that an entrepreneur sets to achieve established goals. For instance, 'To increase productivity by 100% in one year', 'To increase sales by 10% in 8 months' 'To develop and maintain labor productivity'.

### **N.B:**

Goals and objectives must be SMART, i.e

- S – Specific
- M – Measurable
- A – Achievable
- R – Realistic
- T – Time bound

- Specific means the objectives must be clear to guide the manager's action, for instance 'To increase sales by 20%' is a clearer objective than 'To increase sales by a reasonable percentage'.

- Measurable means that one must be able to measure and compare performance with the set standards. For instance, 'To increase sales by 20%, there is a way of measuring it. However, there is no way one can measure an objective of increasing sales by a reasonable percentage.
- Achievable means that they are within one's capabilities. For instance, increasing sales by 10% must be something one has ever achieved or based on the effectiveness and efficiency of the firm's marketing strategies.
- Reliable means the objectives should not be wild or unachievable.
- Time bound means there must be a time lag/period within which objectives are to be achieved.

## **Marketing plan**

A marketing plan is an analysis of the possible position and opportunities of a business being planned in the present market situation. It is an analysis of the marketing objectives, strategies and activities to be followed so as to have improved marketing of the proposed product in order to fight competition.

### FACTORS CONSIDERED WHEN PREPARING A MARKETING PLAN

#### 1. Target market

Here the entrepreneur to establish who his/her customers are, where they are located, their needs, their buying patterns, i.e how often they buy goods and services of the entrepreneur.

#### 2. Nature of the product or service to be offered

The entrepreneur has to describe his/her products or services and its value to the customers, establish how the products are packed and the features which make his/her products different from those of competitors.

#### 3. Position of competitors

The entrepreneur is required to know the position of firms dealing in similar products like his/hers. This is possible through conducting market research to find out their weaknesses and strengths (SWOT analysis)

#### 4. Pricing strategies and policies

Under this aspect, the entrepreneur determines the prices at which he/she is to offer his/her products or services while putting into consideration the current market prices of substitute products.

#### 5. Sales targets (expected sales volume)

The entrepreneur has to establish his/her projected sales per given period of time, for instance, per week, month, e.t.c

#### 6. Distribution strategy

This involves selection of distribution channels for goods and services. The entrepreneur should select a number of distribution channels out of which he/she can select the ones he feels are better in respect of reaching many customers and are cost effective.

#### 7. Sales promotion and advertising strategy

This takes the form of analyzing the various ways through which the entrepreneur will communicate and influence the customers, i.e the various methods of advertising and promotion of products while considering their cost.

#### 8. Terms and conditions for selling

Here the entrepreneur is required to establish the terms of selling he/she is going to adopt. For instance, selling on credit, cash basis or instalment selling.

#### 9. Projected marketing expenses

The entrepreneur is required to establish the expenses he/she is likely to incur in marketing his products or services. For instance, advertising and sales promotion expenses, commission paid to sales representatives, e.t.c.

### **Production plan**

A production plan is an analysis of the projected needs for producing (manufacturing) the proposed products or services. It involves how the entrepreneur is going to carry on production of the proposed good or service.

#### FACTORS CONSIDERED WHEN PREPARING A PRODUCTION PLAN

##### 1. Business site and location

Under this aspect, the entrepreneur established where to locate his/her business as well as the cost of land (site) and its size, cost of putting up business buildings.

##### 2. Production/manufacturing process, flow of work and lay out.

The entrepreneur is expected to show the flow of work, how the machines will be laid down and how they will be used.

### 3. Plant capacities required

This involves establishing the abilities of production machines in relation to market demand both in the short and long run to meet the demands of the market.

### 4. Quantities to be produced or services to be provided.

Quantities to be produced are determined by the market share, i.e number of customers for the business.

### 5. Production standards and quality objectives to be met during production.

### 6. Machinery and equipment to be used in production.

The entrepreneur has to establish the type of machinery and equipment he/she will use while considering various factors like cost and technical specifications, their production capacities, the source and terms and conditions for payment of machinery and equipment, e.t.c.

### 7. Raw materials to be used.

The entrepreneur establishes the type of raw materials he/she will use to make his/her products. He/she should consider various factors like cost of raw materials, their quality, terms and conditions of payment, e.t.c.

### 8. Labour requirements

It requires the entrepreneur to establish the type and number of workers he/she will use in production, their skills, cost of hiring them and other incentives the workers will be entitled to, such as lunch, transport, medical care, e.t.c. Ways of ensuring safety of workers during production are also established.

### 9. Packaging

The entrepreneur establishes how the products will be packed, where he/she will buy the packaging materials, their cost, how much will be required per production cycle, how they will be stored.

### 10. Utilities that will be needed by the business.

These include water, power, telephone, e.t.c. the entrepreneur established whether water and power will be required. In case water is required, he/she has to establish whether it is safe for the intended purpose and in case power is required, the power consumption per production cycle has to be established. In case a generator will be used the fuel consumption has to be established.

### 11. Means of transporting raw materials and finished products.

This aspect requires the entrepreneur to establish how raw materials will be moved to production centres and how finished products will be delivered to the target market.

The entrepreneur establishes whether the business will require delivery vans, their cost and fuel consumption.

12. Inventory control plans for stock, work in progress and finished products. The entrepreneur establishes the tools he/she will use, for instance, re-order level, lead time, e.t.c.

13. Disposal of the waste products.  
The entrepreneur has to establish the amount of waste he/she has, how waste products will be disposed off and at what cost, whether the wastes can be converted into other products, i.e they can be recycled.

14. Production control requirements  
Production control refers to the activities undertaken to ensure that the product is produced in the shortest time possible and at the right time using the best and cheapest method but of the correct quality.

15. Research and development plans about developments in production and new methods of production.

16. Steps of monitoring changes in technology that can affect the production process.

## **Financial plan**

A financial plan is an analysis of the financial requirements of the proposed business. It involves estimating the business operations in monetary terms. It indicates projections of the trading, profit and loss account, balance sheet and the cash flow statement. It covers the following areas;

1. Total cost required to set up and operate the proposed business.
2. How the proposed business will be financed, i.e the different resources of funds, for instance, own funds, loans, trade credit facilities, grants, gifts and offers friends and family, sale of personal property.

3. How the money will be used or spent on different needs of the business, i.e fixed and working capital requirements as well as the overhead costs.
4. Profitability of the proposed project in terms of returns on investment. This can be determined using trading, profit and loss account.  
The financial plan therefore focuses on the total capital requirements of the business. Business requires different forms of capital, i.e fixed and working capital.

(i) Fixed capital

This refers to the money held up in permanent assets of a business. It consists of property held permanently for continuous use in the production process. For instance, land, buildings, machinery, furniture, e.t.c

(ii) Working capital (direct costs)

It refers to amount of money used to meet the daily operating needs of the business. For instance buying stock (supplies), raw materials, fuel/transport, direct labour costs, stationery, spare parts, cash for uncertainties, e.t.c.

(iii) Overheads.

These are costs that cannot easily be traced to a particular product, i.e they do not directly affect the cost of producing a particular product.

Unlike direct costs/working capital, overheads do not vary with the level of output, i.e they keep being incurred regardless of the level of output. They include;

- Indirect expenses like rent, insurance, telephone, operating license, e.t.c.
- Selling and distribution overheads. These are indirect expenses incurred during the selling and distribution of goods and services, for instance, advertising, sales promotion, delivery expenses, wages to salesmen, insurance for delivery vans, free gifts and samples given to potential buyers, e.t.c.
- Administrative overheads. These are indirect costs incurred by the business during the formulation of organization policies, direct control, management and supervision of its affairs, for instance, general expenses, postage and stationery, telephone expenses, heating and lighting, administrative salaries and allowances, printing, depreciation of office equipment, e.t.c.

## STRUCTURE OF A FINANCIAL PLAN FOR A MANUFACTURING BUSINESS

### Business name and address

PARTICULARS/ITEM	UNIT COST (SHS)	AMOUNT (SHS)
<u>Fixed capital requirements</u>		
- Buying of land	XXX	
- Construction of buildings	XXX	
- Buying of machines, equipment and tools	XXX	
- Buying furniture	XXX	
- Buying of delivery vans	XXX	
- Total fixed capital requirements		XXX
<u>Working capital requirements</u>		
- Raw materials and other inputs	XXX	
- Labour costs (wages)	XXX	
- Marketing expenses	XXX	
- Total working capital requirements		XXX
<u>Overheads</u>		
- Rent	XXX	
- License fees	XXX	
- Utilities (power, water, telephone)	XXX	
- Selling and distribution overheads	XXX	
- Total overhead costs		XXX
Estimated total cost for the project.		XXXXX

### Financing of the business

PARTICULARS	AMOUNT (SHS)
Own sources	XXX
Family contributions	XXX
Grants	XXX

### Financial plan

**Example** : You have been given a loan of Ug. Shs. 50,000,000 to start a furniture workshop. Prepare a financial plan for your project.

Business name and address

PARTICULARS	UNIT COST (SHS)	AMOUNT(SHS)
<u>Fixed capital requirements</u>		
Land	6,000,000	
Construction of buildings	9,000,000	
Buying of machines	8,000,000	
Tools and equipment		
Motor vehicle	<u>6,000,000</u>	
Total fixed capital requirements		29,000,000
<u>Working capital requirements</u>		
Raw materials/stock (timber, nails, e.t.c		
Labour costs	10,000,000	
Fuel/transport	4,300,000	
Total working capital requirements	<u>700,000</u>	
<u>Overhead costs</u>		1,500,000
License fees		
Administrative overheads	200,000	
Selling and distribution overheads	3,400,000	
Electricity	800,000	
Insurance	1,000,000	
Total overheads	<u>600,000</u>	
Total estimated cost for the project		<u>6,000,000</u> <u>50,000,000</u>

### **Organizational plan**

This is an analysis of the frame work around which people, machinery/equipment and other physical parts of the plan (business plan) are put together to have a moving/successful organization.

It covers the following aspects;

- (a) The framework/structure around which people, machines are put together to have a moving enterprise (organization structure). This looks at the reporting relationships, tasks and responsibilities of the workers.
- (b) Recruitment, selection and induction training. This looks at the number of workers to be employed, their qualifications, experience, skills and age.
- (c) Rewards to employees, i.e salaries, wages and other fringe benefits to be given to staff, for instance, medical, transport, lunch and housing allowances, e.t.c.
- (d) Performance, monitoring and evaluation i.e performance appraisal.

### CONSISTENCE OF THE BUSINES PLAN



The six components of a business plan must be put together to make a coherent business. Therefore all these components should be consistent with each other in the following ways;

1. The proposed business activities should be consistent with its stated objectives and goals, i.e they should be seen as leading to the attainment of its objectives and goals.
2. The marketing plan should be feasible in a given environment and at the same time consistent with the production plan.
3. The business should have sufficient resources, labour and funds to support its production plans and undertake its marketing activities.
4. The projected cash flow should allow the production schedules and marketing activities to be carried out without interruptions.
5. The organization structure being proposed for the business must be capable of enabling it to implement its production, marketing and financial plans efficiently and effectively.

### **Action plan (Business implementation plan)**

This is a management tool that involves laying out a series of sequenced steps that enable the entrepreneur to implement the planned activities of a business in a sequenced way to meet its set targets.

#### IMPORTANCE/USES OF AN ACTION PLAN TO AN ENTREPRENEUR

1. It helps and guides the entrepreneur to remain focused during implementation of his/her business activities.
2. It helps the entrepreneur to identify business obstacles (barriers) in advance and take appropriate measures to overcome them.
3. It helps the entrepreneur to locate the various sources of information and the resources needed for a business.
4. It helps the entrepreneur to obtain feedback on the progress of the business.
5. It helps an entrepreneur to identify strengths, weaknesses, opportunities and threats of his/her business and those of competitors.

6. It serves as a table for implementing the business plan (business activities)

### FORMAT OF AN ACTION PLAN

This varies from one type of business to another. There are 2 formats, i.e

#### Format 1 :

Activity	Time frame

#### Format 2 :

Time frame	Activity	Person in charge	Resources needed	Remarks

### MONITORING OF BUSINESS OPERATIONS

This involves the activities of managing and controlling the business properly so as to obtain the desired objectives of the business.

#### TOOLS OF MONITORING USED IN BUSINESS

These are established techniques that an entrepreneur can use to monitor and control performance of his/her business. They vary from one business to another but the commonly used include the following.

##### 1. Sales targets

These are targets set in relation to sales for a specified period of time, for instance, weekly, monthly, quarterly or yearly. The entrepreneur compares the planned sales and actual sales and devises ways of overcoming the weaknesses in case of failure to achieve the set sales target.

## 2. Production targets

These are targets relating to production for a given period of time. It helps the entrepreneur to monitor the business by periodically comparing the planned output and the actual output and devises means of correcting deviations.

## 3. Stock records

This involves keeping up to date records regarding stock. This involves use of tools for effective store management like stock taking, physical stock counting, use of stock cards, e.t.c.

This helps the entrepreneur to monitor the inflow and outflow of stock in business by knowing stock sold and stock that has remained unsold in the business.

## 4. Cash flow statement.

It is a monitoring tool showing the entrepreneur how much and from where the business will get cash and how it will be used over a given period of time, for instance, a week, month, quarterly, half year or in a year. It shows whether the business will have enough cash to cover its projected expenditure or not. This helps the entrepreneur to know in advance his/her likely position, i.e whether it will be a deficit or surplus and prepare accordingly.

## 5. Departmental reports

This is information given by departmental heads about the performance of their departments in relation to set goals. This helps the entrepreneur to compare actual performance with the set targets and adopt strategies to overcome weaknesses in case of failure to achieve them.

## 6. Accounting records

These include cash books, purchases and sales day books, receipt books, requisition books, e.t.c. These records can be checked daily, weekly or monthly to monitor the performance of the business, for instance cash balances in the cash books, daily cash sales in the receipts, daily credit sales in the sales invoice book, daily purchases, e.t.c.

## 7. Sources of business funds (loan repayment schedules)

Sources of business funds like loans can help in monitoring the performance of the business. This is because lenders will always be having a keen interest in the borrowing business to ensure that borrowed funds are managed efficiently and repaid promptly. Failure to pay the borrowed funds according to the loan

instalments agreed upon indicates poor performance of the business (going concern problems).

8. Balance sheet

This shows the financial position of the business as at a given period of time, i.e it shows the relationship between assets and liabilities.

9. Work order forms

These are purposely prepared to keep an accurate record of customers' orders and allocate the work to the workers. They help the entrepreneur to maintain on the work to be done. The structure of the work order form depends on the nature and size of the business but the following are usually common to all businesses.

*Format 1*

Date	Customer name	Description of work	Employee no.	Start time	End time	Work order no.

This can be used when the firm has got many workers. In this case the entrepreneur prepares a one-sheet daily work schedule describing the tasks each employee must work on. It is sometimes called the **Master daily work schedule.**

*Format 2*

Date	Customer name	Address	Telephone	Start time	End time	Work order no.

This format is used when the entrepreneur contracts small jobs which he/she can do him/herself because he/she does not yet have employees. This is referred to as the **Daily work order schedule.**

**N.B** : For examination purposes a student can prepare a work order form combining all the features in the two formats.

10. Work schedules

These are particularly made for proper management of time by workers. These are prepared on a daily basis and should be flexible to adjust to different forms of changes/disruptions. After they have been prepared, all workers should get a copy. Work schedules help the entrepreneur to keep the workers busy on the job as well as satisfying his customers since their work is completed well and on time.

*Format*

Date	Task to be done	Worker's name	Supervisor's name	Start time	End time

Importance of scheduling work in an enterprise

Scheduling work is important in the following ways;

- (1) It helps workers to complete assigned task/work on time.
- (2) It facilitates sequencing of time as certain jobs need to be completed before others.
- (3) It helps the entrepreneur to coordinate/compare the work in his/her business with those of competitors.
- (4) It helps to avoid overlapping of functions in an organization.
- (5) It enables the entrepreneur to meet the demands/orders of his/her customers on time.

11. Operational budget

This is a statement which shows a summary of the projected incomes and expenses of a business. It helps the entrepreneur to monitor performance of a business. It helps the entrepreneur to monitor performance of the business by comparing actual and planned incomes and expenditure.

Steps in preparing an operational budget

- (1) Setting the business goals and objectives for the period to be budgeted for.
- (2) Setting the activities to be carried out and their time table.
- (3) Estimating the sales to be made.
- (4) Estimating the cost of goods/services to be sold.
- (5) Calculating the gross profit.

- (6) Estimating the operating expenses.
- (7) Determining the net profit.
- (8) Determining the tax payable (if any).
- (9) Determining the profit after tax.

Format

DESCRIPTION/DETAILS	AMOUNT(SHS)	AMOUNT(SHS)
Estimated/projected sales		XXX
<u>Less : Estimated/projected cost of sales;</u>		
Item	XXX	
(i)	<u>XXX</u>	
Item		<u>XXX</u>
(ii)		XXX
Projected cost of sales		
Projected gross profit		
Less : Projected selling, general/admin.	XXX	
Expenses/operating expenses	XXX	
Advertising	XXX	
Rent	XXX	
Electricity	XXX	
Salaries and wages	<u>XXX</u>	
Water bills		<u>XXX</u>
Miscellaneous		XXX
expenses		<u>XXX</u>
Total estimated expenses		XXX
Projected net profit		
Less : Projected tax		
Projected profit after tax		

Importance/uses of an operational budget to an entrepreneur

- (1) It helps an entrepreneur to calculate/estimate his/her costs of production in advance by considering the anticipated items of expenditure in a given period.
- (2) It helps an entrepreneur in prioritizing expenditure basing on the income since the budget shows all items of expenditure in a given period.

- (3) It helps an entrepreneur in pricing his/her products appropriately basing on his/her estimated costs of production so as to get his/her desired profits.
- (4) It helps an entrepreneur to estimate his/her gross profit/loss basing on estimated sales and the cost of production/cost of sales.
- (5) It helps an entrepreneur to calculate his/her estimated net profit/loss by considering his total estimated expenses and compare it to the planned gross profit.
- (6) It helps an entrepreneur in monitoring his/her business operations since it provides business with direction and purpose, for instance, the estimated sales.
- (7) It helps an entrepreneur to know his/her sources of income or capital for the business where he/she plans in advance where to get funds to finance business operations. For instance bank loans, personal savings, e.t.c.

## **PRODUCTION MANAGEMENT**

### **What is production?**

Production is an activity aimed at bringing a physical change in a good or service (product) to make it more useful. It is an activity that results in the creation of goods and services for the satisfaction of human wants.

### **What is Production Management?**

This is a process of planning for production in a business and ensuring that the production plans are put into efficient operation. It involves making production decisions about different questions such as; what kind of product to be made?, how much should be produced?, what equipment is required, what should be the plant lay out, how much inventory can be kept, e.t.c

### **What is a product?**

A product can be defined as a good or service that a business produces for sale, for instance, a motor cycle, treatment from a doctor, advice from a lawyer, a hair cut, e.t.c.

### THE PRODUCT CONCEPT

A product can be understood by viewing it from different level, i.e

(i) Actual product.

This is the physical product defined by its design, packaging and brand name.

(ii) Core product.

This refers to the benefits of a product that actually satisfies the customer's need.

(iii) Augmented product.

This refers to the additional consumer service and benefit built around the actual and core product.

### TYPES OF PRODUCTS

Products are divided into tangible and intangible products.

1. Intangible products (Non-material goods)



These refer to services that can be used to satisfy human wants, for instance, services offered by a teacher, a doctor, lawyer, transport, banking services, e.t.c.

## 2. Tangible products

These are products which are physical (can be touched) and seen. They are divided into durable and non-durable goods.

### (a) Non-durable goods.

These are products designed to last a relatively short period of time, for instance, perishable items like milk, bread, vegetables, e.t.c

### (b) Durable goods

These are products designed to last a relatively long period of time, for instance, refrigerators, cars, radios, television, e.t.c.

These are further sub-divided into;

(i) Consumer goods. These are goods that are consumed/used by consumers as final users, for instance, home appliances like refrigerators, sugar, clothes, shoes, e.t.c.

(ii) Producer/industrial goods. These are goods that are used as inputs for further processing or for use in doing a business activity, for instance, industrial machinery and equipment, vehicles, supplies like office stationery. They are sometimes called **Capital goods**.

## ELEMENTS OF A PRODUCT

Elements of a product refer to the attributes/features/characteristics which make a product different from others (what makes the product unique). These include the following;

### 1. Branding

This refers to the process of making a product different from others by giving it a name that will be known and remembered by customers, for instance, branding make Coca Cola different from Pepsi

### 2. Product design/shape/model

Entrepreneurs should always strive to design their products to look different from those of competitors so as to make them appealing to customers, for instance, cameras, cars, computers come in different designs/shapes.

### 3. Packaging

One should consider the nature of the packaging material so that the design of the product conforms to the planned packaging material.

#### 4. Labeling

Usually products are labeled with a view of identifying a particular brand. Labeling can be done through bar coding, use of unique colours, logos, trademarks, symbols, e.t.c.

#### 5. Product distribution

This involves making a product conveniently more available by a firm than its competitors.

#### 6. Method of sales promotion

Here entrepreneurs use unique techniques to promote their sales, for instance, unique pricing of products.

#### 7. Technology used in production

Entrepreneurs normally use unique methods of production that come up with quality output than their competitors.

#### 8. Blending

This involves combining varieties or grades to obtain a mixture of a particular character, quality or consistence, for instance, blended tea leaves, tobacco, e.t.c.

### DESIGNING AND DEVELOPING THE RIGHT PRODUCT

The image and profitability of a business largely depends on its product design. This is because the design continues to be used for a long period of time. Therefore while designing the product to be manufactured and sold, a number of factors are considered.

#### Factors considered when designing/developing a product

##### 1. Product attributes

The entrepreneur should ensure that he/she uses product attributes like shape, colour, texture, brand name, durability, quality, e.t.c. that are appealing to his/her customers.

##### 2. Local and government regulations

One should consider that his/her product conforms to both local and government regulations (standards) prescribed by the responsible supervisory authorities, for instance, Uganda National Bureau of Standards.

3. Needs/wants of the market to be satisfied.

The entrepreneur should develop a product in response to what prospective customers want.

However, this is possible through conducting market research.

4. Availability of raw materials which the product requires.

The entrepreneur should consider whether raw materials are available and at costs that will leave him/her with a profit.

5. Feasibility and viability of a product.

The entrepreneur should examine the extent to which the product can be produced (feasibility) and its profitability (viability)

6. Necessary skills for production of a product.

The entrepreneur should consider the availability of labour with the required skills to perform the production of the intended product.

7. Nature of the packaging materials to be used.

The entrepreneur should ensure that the design of the product conforms to the planned packaging materials.

8. Features of the competing products

This requires the entrepreneur to identify the products of potential competitors, analyse their strengths and weaknesses that are likely to impact on his/her intended product. This analysis enables the entrepreneur to develop a product better than those of his/her competitors.

9. Machinery to be used in production.

The entrepreneur should consider the current status of technology and scientific developments in the field so as to come up with the required machines as well as understanding the technical aspects of producing the intended product.

### IMPORTANT ASPECTS IN THE PRODUCTION OF GOODS AND SERVICES

For entrepreneurs to be in position to retain the market of his/her product and out compete others, there are various production related aspects which he/she must consider carefully in the production process. These include;

### 1. Quality of the product

The entrepreneur should aim at producing a product of right quality as demanded by customers. To achieve this, the entrepreneur is required to have regular control over raw materials and the production process so as to come up with good quality products. Such control is known as quality control.

### 2. Technology, its source and technical skills for the production process.

Technology is ever changing. Therefore entrepreneurs are expected to make necessary changes in technology so as to satisfy the needs of their customers. Under technology the entrepreneur should consider the source of machines/equipment and tools as well as spare parts for repairing/replacement.

### 3. Raw materials and their acquisition

It is important to use good quality raw materials so as to have quality products. In order to have quality raw materials, one should look for good and reliable sources of raw materials and store them properly and ensuring mixing of raw materials in the appropriate proportions.

### 4. Production support services

These are services that help one in maintaining efficiency and quality in production, for instance, financial services, advisory services (for instance lawyers), consultancy services (audit firms), technical services (for instance engineers), e.t.c.

### 5. Production process

This is how the business is going to produce or procure the desired goods and services. It involves carrying out the following;

- Market research
- Developing a product idea
- Translating an idea into a product
- Sourcing/acquiring raw materials
- Carrying out actual production while observing quality standards.
- Packaging the product
- Branding the product
- Storing the product
- Distributing the product
- Making a follow up with customers to find out how the product is performing in the market.
- Making improvements desired in the product.

Therefore it is important for the entrepreneur to be in full control of the production process to ensure maximum output and profitability. However, maximum profitability can be achieved if production costs are low.

### WAYS OF LOWERING/REDUCING/MINIMISING COSTS OF PRODUCTION IN A BUSINESS

1. Ensuring ways of efficient and effective methods of production.

This is achieved through studying the methods of production to be employed in the production process and ensure that they are efficient and effective. This is because inefficient methods of production lead to increased costs of production.

2. Use of cheap but quality raw materials.

Entrepreneurs should buy their supplies or raw materials from cheapest sources so as to minimize costs of production.

3. Fixing time standards for all operations.

Minimum and maximum time should be noted and the time for the process standardized. This helps to avoid wastage of time as well as decreasing production costs.

4. Use the appropriate technology in production.

The entrepreneur should ensure use of machines which make work easier and lessen the labour force so as to minimize labour costs and other costs that may arise from use of inappropriate technology.

5. Ensuring close and constant supervision and monitoring of workers and the production process to ensure that work is going on well as planned.

This helps to avoid relax times, unnecessary movements and repetitive operations.

6. Training and developing employees to perform efficiently as per the set targets should be encouraged.

This equips workers with the necessary skills and perform tasks in the shortest time possible.

7. Employing skilled and experienced labour force.

The entrepreneur should consider use of workers with the required skills to perform production of the intended product. This minimizes costs arising from damage as a result of inexperienced and unskilled workers.

8. Spelling out duties and responsibilities for each employee to minimize conflicts, duplication of services, lack of coordination and wastage of services. This helps to decrease costs of production.
9. Studying the lead time of suppliers of raw materials or other supplies. This helps to ensure that raw materials are received in time and avoid disrupting the production process. This avoids unnecessary delays in the production process.
10. Awarding tenders for supplies and raw materials to competent, reliable and affordable suppliers so as to avoid disruptions, losses and unnecessary delays in the production process.
11. Laying off redundant workers. The business can lay off some redundant workers or employ part time workers to cut down the costs of maintaining employees at the station throughout the year.
12. Proper handling and storage of both raw materials, semi-finished goods and finished goods. This helps to minimize damage, waste and losses.
13. Buying raw materials and other supplies in bulk so as to take advantages of trade discounts and at the same time ensure adequate provision of both raw materials, finished and semi-finished products.
14. Encouraging specialisation and division of labour. This promotes efficiency in production which leads to increased output and thus decreased cost of production.
15. Motivating workers by ensuring good working conditions. Providing a conducive working environment motivates workers to be productive leading to increased output and decreased cost of production.
16. Using cheap means of transport for both raw materials and finished products so as to minimize the cost of production in terms of transport.
17. Using alternative sources of energy like solar, bio gas so as to minimize power costs.

18. Recycling products and raw materials that have been damaged due to production errors so as to avoid wastage and losses.
19. Providing supporting facilities whenever possible to ease the process of handling work or moving products and raw materials from one place to another, for instance, cranes and other mechanical aids that can be used when moving heavy loads. This increases output and decreases cost of production.
20. Lobbying the government through business associations like Uganda Manufacturers Association, Uganda Small scale Enterprises Association, e.t.c for low tax rates, tax holidays, which help to minimize production costs.

## **PURCHASING SKILLS**

Purchasing refers to keeping the business supplied with the required goods and services at the right time and at the right price. It is done in accordance with the requirements of the business either for production or operational (trading) process.

For a trading business, purchasing involves the following activities;

- (a) Determining the needs (goods) of a business in respect to the quantity and quality.
- (b) Checking on where the goods can be sourced from and ordering for them.
- (c) Receiving and checking the delivered goods.
- (d) Storing the goods
- (e) Paying for the goods.

## PRINCIPLES OF PURCHASING

The main principles of effective procurement/sourcing of materials in business include;

### 1. Right quality.

The right quality of any item comprises the features and characteristics which are relevant to its ability to meet a given need.

### 2. Right quantity

This depends on the level of the stock an entrepreneur wants to maintain, availability of finance to finance purchases and their costs, the consumption rate of raw materials in terms of time and quantity, e.t.c.

### 3. Right price

The price should not necessarily be the highest and lowest but should be the lowest price consistent with quality specifications to leave the entrepreneur with a profit.

### 4. Right time

Proper timing of purchases is important to avoid excessive stock and stock out problems. In determining the right time when goods will be delivered to the business premises, the entrepreneur should consider the lead time of the supplier, the place of buying raw materials and the mode of transport.

### 5. Right place

Raw materials should be received and stored as near the factory as possible in order to minimize the cost and time involved in issuing and carrying them to the factory.

## PROCEDURE OF PURCHASING GOODS, RAW MATERIALS AND EQUIPMENT FROM SUPPLIERS

The procedure includes the following;

### 1. Determining the business needs.

This is done through market surveys in order to know who the business customers as well as establishing their wants. Therefore the entrepreneur is able to know how much to stock, the materials and equipment he/she needs to produce goods for sale to customers.

### 2. Identifying potential suppliers.

This involves determining which suppliers sell the goods, materials or equipment needed by the business.

### 3. Contacting suppliers

The entrepreneur does this by either visiting the suppliers' offices personally or using cost-effective communication means (writing an inquiry, making a call). The aim is to get information regarding the kind of goods, raw materials or equipment each supplier can provide.



#### 4. Selecting the best suppliers

Here the entrepreneur compares the quotations received from different suppliers and selects one with the most favourable terms and conditions in terms of price, credit, discounts, reliability, e.t.c.

#### 5. Ordering for goods.

Having selected the best supplier, the purchaser then places an order requesting for the supply of a particular item. This can be by filling a pre-printed form, writing an order letter or by verbal ordering (purchaser uses WOM).

However, no large firm or government department can place an order verbally.

#### 6. Checking the goods as soon as they are received.

Goods received are checked for damages to ensure those that are damaged during transportation, and those not ordered for are excluded (sorted out) and returned to the supplier.

#### 7. Checking the invoice for accuracy.

This involves checking to see whether the invoice is correct by comparing it with the delivery note.

#### 8. Making payments

This involves paying the supplier for the goods ordered and receiver either by cash or cheque. The purchaser should ensure that a receipt is received from the supplier to acknowledge receipt of cash/payment by the supplier.

### PURCHASING OF RAW MATERIALS

Raw materials are basic materials (inputs) from which products are made through a transformation process, for instance, cotton, timber, clay, plastics, nylon, e.t.c.

#### Factors considered when selecting raw materials for a manufacturing firm.

##### 1. Sources of raw materials.

Raw materials that are nearer to the business are preferred to those far.

##### 2. Cost of raw materials.

Cheap raw materials which are affordable and of acceptable quality are preferred to the expensive ones.

##### 3. Quality of raw material.

Entrepreneurs usually select good quality raw materials in order to produce high products needed by customers.

4. Terms and conditions of payment for raw materials.

Most entrepreneurs select raw materials from suppliers who offer favourable terms of purchase, for instance discounts, credit facilities etc.

5. Consistency and reliability of the supplier of raw materials.

The entrepreneur should ensure that the raw materials selected are available whenever she/he needs them. Again the entrepreneur should select a supplier who can supply raw materials whenever they are needed.

6. The lead time of the supplier of raw materials.

Lead time refers to how long it takes an entrepreneur /purchaser to order and receive the requirements /ordered goods of the business. The entrepreneur should always choose a supplier of raw materials whose lead time is short so as to avoid stock outs of raw materials and loss of customers to competitors.

7. Communication with the supplier of raw materials.

Most entrepreneurs select suppliers whom they can communicate to easily so that whenever raw materials are required, the supplier can easily be accessed.

8. Amount of waste from the production process.

Businesses prefer to use raw materials that produce fewer wastes to those that produce many wastes.

9. Quantity required by the entrepreneur.

The entrepreneur should determine the level of stock of raw materials he/she wants to maintain and the consumption of raw materials per production cycle. The entrepreneur should ensure that there is always sufficient quantities of raw materials whenever required so as to maintain the production schedules of the business.

## **THE CONCEPT OF INVENTORY**

Inventory refers to the stock of goods held in the business at a given period of time.

### TYPES OF INVENTORY

1. Raw materials

These are goods used in the course of production to produce other goods.

2. Work in progress (semi-finished goods)

These are goods which are still in the production process but are not yet completed.

3. Finished goods

These are goods which have been completed (gone through the production process) awaiting sale to customers.

4. Goods under repair

These are goods that may be damaged during the production process or distribution and need repair.

5. Office supplies

These are materials which are used to support the production process, for instance stationery, cleaning materials like soap, detergents, e.t.c

### INVENTORY MANAGEMENT

Inventory management involves activities aimed at ensuring that the right quantity and quality of stock required is supplied at the right time.

However, effective management of inventory requires a sound system of inventory control.

#### INVENTORY CONTROL

This refers to the system which ensures that the right quantity and quality of inventory required is supplied at the right time without unnecessary costs being incurred. It includes control of raw materials, finished goods, office supplies and goods under repair.

### TOOLS FOR INVENTORY MANAGEMENT

1. Re-order level

This refers to the minimum level below which the stock should not fall before fresh (new) orders are placed. It reminds the entrepreneur to place new orders before the stocks run out.

2. Lead time

This refers to the time it takes from when an entrepreneur places an order for goods to when the ordered goods are received. If the lead time is long, then the entrepreneur has to place large orders or place his/her orders earlier to avoid stock outs.

### 3. Working capital

This is the amount of money used to meet the daily financial operating needs of the business. Working capital helps an entrepreneur to determine the volume of his/her operations. For instance the amount of goods he/she can buy at a given time.

In case the entrepreneur has a small working capital, then he/she has to place small but many repetitive orders.

### REASONS FOR PROPER MANAGEMENT OF INVENTORY IN THE BUSINESS

1. To maintain adequate inventory so as to avoid production stoppage, loss of customers and revenue to competitors.
2. To avoid excessive investment in inventory, i.e to avoid tying up a lot of working capital in inventories.
3. To reduce stock losses while in stores through theft, expiry of products, damage, unauthorized use, e.t.c
4. To relieve management of excessive supervision of inventory.
5. To minimize storage costs in terms of rent.
6. To encourage proper accountability for the goods which have been purchased and issued.
7. To allow flexibility in production scheduling as well as marketing. This is possible by ensuring that inventories are available whenever required for production or sale.
8. To ensure efficient use of raw materials.
9. To ensure timely replacement of raw materials for production or goods for sale.

10. To meet demand fluctuations and avoid expensive and embarrassing stock-outs through ensuring that inventories are available whenever required for production or for sale.

## THE CONCEPT OF STORES MANAGEMENT

Stores refer to places where stocks of raw materials or goods are kept before they are issued for production or sold and dispatched to the business which orders for them. It is important that an entrepreneur manages his/her stores properly so as to avoid losses through theft, damage, unauthorized use, expiry, e.t.c.

### TOOLS FOR EFFECTIVE STORES MANAGEMENT

1. Stock cards (Bin cards)

These are cards used for recording stocks received and issued from the store.

#### Format

Business name and address

Tel : .....

STOCK CARD

Name of item: ..... Item no.:.....

Minimum stock level: ..... Card no.:.....

Maximum stock level: ..... Re-order level:.....

Date	of	Quantity	Date	of	Amount	Issued to	Balance	Authorised
------	----	----------	------	----	--------	-----------	---------	------------

receipt	received	issue	issued			by

## 2. Stock requisition and issue forms

This refers to a document that shows details of goods being requested for and the corresponding record of issues. The person in need of goods fills it and gets it authorized by the responsible person and sends it to the store that is to issue the item.

### Format

Business name and address Tel. :.....			
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; display: inline-block;">           STOCK REQUISITION FORM         </div>			
			Date:
.....			
			No.
.....			
Department : .....			
Description	Quantity	Rate	Amount
Authorised by: .....		Supplied from Bin no.: .....	
Received by:.....		Entered in Bin card stores ledger by:....	

## 3. Physical stock counting

This refers to the counting of stock physically to find out what is available in the store and cross check to what is expected to be there as per the stock cards. This is done by store keepers to find out how much of the stock is left so that more can be ordered or to devise ways of getting rid of the slow moving goods that might expire before they are sold or used.

## 4. Stock reconciliation

This refers to the process of updating and balancing all the records regarding what is in the store so as to give a true record of what should be there. After updating and comparing the records, the records are then checked to what is physically in the store. This helps the entrepreneur to decide whether to order more goods or not.

Under stock reconciliation, the total amount issued on the stock cards is reconciled with the total on requisition forms, the balance on stock cards is reconciled with the balance on the stores ledger, e.t.c.

#### 5. Stock taking

This refers to the actual counting of stock available in the store. Under this technique, the entrepreneur counts his/her stock one by one so as to establish the amount of stock available in the store.

#### 6. Computerised stock control

## **LABOUR REQUIREMENTS**

An employee is a person who works for the business in return for a wage or salary. He/she can provide skilled, semi-skilled or unskilled labour.

### TYPES OF LABOUR

#### 1. Skilled worker

This is any worker who has some special skills, knowledge and ability in his work. He/she may have attended a college, university or technical school or may have learned the skills on the job.

#### 2. Semi-skilled worker

This is a worker who possesses certain skills in his/her area of work and can be able to perform tasks in his/her area with close supervision.

#### 3. Unskilled worker

This is an employee who possesses no special training and whose work involves the performance of the simple duties which require the exercise of little or no independent judgement or previous experience although familiarity with the occupational environment is necessary.

### NEED FOR LABOUR IN AN ENTERPRISE

The following are the reasons why it is necessary to recruit workers in an enterprise;

1. To increase production of goods and services.
2. To manage business operations.
3. To combine with other factors of production to aid production.
4. To facilitate the exploitation of the would-be idle resources.
5. To promote good public image of the business, for instance, employing public relations officers, marketers, e.t.c.

### LABOUR PLANNING

This refers to determining the number of workers, skills and wages or salaries of labour force (getting the right men at the right jobs).

Factors considered when deciding on the number and type of employees to work in a planned business.

1. Type of skills required for a particular business.

The entrepreneur should consider the work to be done by an employee in relation to the production process and establish whether the worker has the required skills, for instance carpentry skills for carpentry business, negotiation and communication skills for marketing, e.t.c.

2. Number of jobs available

This varies with the size of the business such that the smaller the business, the less the jobs available and hence the smaller the number of employees.

On the other hand, the more the jobs available, the higher the number of employees that are needed.

3. Cost of hiring labour in relation to business output and profits.

High costs involved in hiring labour reduce business profits and consequently few people are employed and vice versa.

4. Family members supporting the business.

Presence of many family members who can support the business in terms of labour results into fewer employees being recruited and vice versa.

5. Level of demand for the products.



High demand for the business products forces the entrepreneur to employ many workers to increase output while low demand for business products results into fewer employees being recruited.

6. Level of technology used in business.

Use of high technology (capital intensive) in business limits the number of workers while low levels of technology used in production leads to many workers being employed.

Factors considered when recruiting workers in an organization.

1. Age of the employee

Employers tend to employ people above 18 years more than those below 18 years as this would be taken as child labour according to the law.

2. Cost of the employee

Labour whose cost is relatively low and affordable is preferred to those who are expensive.

3. Gender/sex of the employee

Most entrepreneurs employ more men than women arguing that women have a lot of responsibilities and they need to balance between domestic and work place duties. This can make them inefficient at work than men.

4. Number of workers needed

For bigger businesses, the number of workers needed is relatively big as compared to smaller businesses that require less labour.

5. Working experience of the employee

Employers tend to recruit workers with the required experience to perform the job so as to increase output as compared to those with little or no work experience.

6. Type of skills required i.e ability of the workers

Employees who possess the skills required in production are recruited more than the semi-skilled and unskilled.

7. Health conditions of the employee.

Employers normally employ workers with good health status as they are in position to be at work compared to workers with poor health associated with high levels of absenteeism from work.

#### 8. Size of the business

The smaller the size of the business the less the jobs available hence the smaller the number of workers and vice versa.

#### 9. Marital status of the employee

Most employees prefer people who are single because they are always committed to work and are flexible compared to married people with a lot of responsibilities and at times inflexible.

#### 10. Languages spoken by the employee

Some businesses require people who can speak a variety of languages, for instance, radio and television stations and journalists.

This is due to the nature of the business that consists of customers with varied languages.

## **PRODUCTION MACHINERY, EQUIPMENT, TOOLS AND FACILITIES**

### - Machinery :

This refers to a group of machines in general that gets work done. A machine on the other hand refers to a device in which each part works together with the other to perform a function. For instance, a sewing machine, vending machine, washing machine, e.t.c.

### - Equipment

Equipment are things needed to do some work. They are machines which are specific for particular functions. For instance, office computers, calculators, typewriters, e.t.c.

### - Tools

A tool is any instrument or apparatus which is held in the hands for doing some work, for instance, an axe, hammer, spade, e.t.c.

### Factors considered when selecting machinery, equipment and tools.

#### 1. Cost

Machines whose cost is relatively low and affordable are purchased more than those which are very expensive.

#### 2. Capacity of machines and equipment

Machinery with higher production capacity that enables his/her customers' demands is normally selected than one with low production capacity.

3. Ease in maintenance and repair.

Machinery that has spare parts and repair services available are more selected than those whose spare parts and maintenance services are scarce and expensive.

4. Flexibility for adjustment

Entrepreneurs usually select machinery that can easily be adjusted to the changing needs (tastes and preferences) of customers.

5. Availability of complimentary components/spare parts

Machinery and equipment whose complementary components are readily available is more preferred to that with limited complementary machines.

6. Simplicity and ease of use of machinery and equipment

The machinery and equipment to be bought should be easy to operate so as to ensure proper use and minimize machinery accidents especially to workers.

7. Guarantee given by the manufacturer

Guarantee given by the manufacturer/seller in terms of efficiency, durability, maintenance and safety devices encourages businesses to select that kind of machinery compared to those without guarantee.

8. Source of machinery and equipment

Entrepreneurs usually buy machinery from reliable suppliers than from less reliable suppliers.

9. Productivity and efficiency of machinery and equipment

More efficient machinery is usually preferred to inefficient machinery.

10. Durability/useful life of machinery and equipment

Machinery which is more long lasting is usually selected to decrease unnecessary costs of buying or replacing other machinery.

11. Terms and conditions for payment for machinery and equipment.

Most entrepreneurs select machinery of suppliers who offer favourable terms of purchase, for instance discounts, credit facilities, e.t.c.

12. Government policy in relation to conservation of the environment.

Entrepreneurs should consider government regulations in relation to environmental protection. For instance, protection against pollution resulting from dangerous gases from industries, exhaust fumes, noise and vibrations caused by heavy industrial machinery.

## **TECHNOLOGY FOR SMALL ENTERPRISES**

Technology refers to know-how, design and intellectual input of doing things. Entrepreneurs should realize new technological developments such as internet, cell phones, energy saving light bulbs that may have an effect on the operations of their businesses. Again they should know that technology is constantly changing the demands of their customers.

The entrepreneurs can be aware of new technologies by attending trade exhibitions, contracting small business development agencies and visiting other areas to gain ideas regarding technologies which would be appropriate to their local conditions.

### CHARACTERISTICS OF APPROPRIATE TECHNOLOGY

1. Simplicity

Appropriate technology is simple to use. The user of such technology is able to apply it without encountering problems.

2. Availability

Technology that is most appropriate is that which is available locally.

3. Flexibility

Appropriate technology must be flexible enough to adopt to changing times in the future.

4. Efficiency

Technology should be in its utilization of the local resources.

5. Cost effectiveness

The overall benefits should be greater than the cost of the technology.

6. Effectiveness

Appropriate technology should be the one that fits in the objectives of the user.

## 7. Durability

Appropriate technology is one that is durable and requires less maintenance and repairs.

### PRODUCTION EQUIPMENT AND FACILITIES

The common equipment and facilities required to produce a good or service include;

#### 1. Plant lay out and civil works

Plant lay out refers to the arrangement of physical facilities such as machinery, equipment, furniture, e.t.c. within the factory/business premises in such a manner that there is the quickest flow of work at the lowest cost and least amount of handling in processing a product from receipt of materials to shipment of the finished product.

The plant lay out looks at;

- (a) Storage facilities for raw materials, goods in process and finished goods.
- (b) Space required for movement and provisions for emergency outlet.
- (c) Room for future expansion.
- (d) The process flow and flow of materials.
- (e) Means of inter-departmental communication.
- (f) Disposal of industrial waste.

The facilities related to civil works include;

(i) Buildings including factor/workshop and stores, rooms for tea/lunch and breaks.

(ii) Basic infrastructure facilities such as outdoor works made up of utilities like water, electricity, e.t.c.

#### 2. Choice of technology and machinery

In the production process, the equipment needed depend on the kind of technology and machinery chosen. There are 2 types of technology, i.e **labour intensive technology** which is best for a country with cheap labour and **capital intensive technology** which needs skilled labour and appropriate for developing countries.

#### 3. Plant capacity

Production of a good or service depends on the capacity of the machine used to produce it. Plant capacity may be defined in two ways;

(i) Feasible normal plant capacity. This refers to the volume or number of units that can be manufactured during a given period.

(ii) Normal maximum plant capacity. This is the capacity which is technically attained and often corresponds to the installed capacity guaranteed by the supplier of the machine.

## **PLANT LAY-OUT**

### TYPES OF PLANT LAY-OUTS

There are three types of plant lay-out, i.e for manufacturing businesses, service businesses and trading businesses.

#### 1. MANUFACTURING BUSINESSES/UNITS

In case of manufacturing firms, the plant lay-out may be divided into four sections, i.e

##### (a)Product line lay-out.

This is where the machines and equipment are arranged in one line depending on the sequence of operations required for the product. Under this, machines are grouped in one sequence where materials are fed from one machine to another, for instance in a paper mill.

##### (b)Process lay-out

This is where machines of similar type are arranged together in one place, for instance in a maize milling factor.

##### (c) Location lay-out/fixed position lay-out

This is where the product being produced is fixed at one location. In this case, the equipment/tool, labour and other components are moved to that location, i.e all facilities are brought and arranged around one work centre.

##### (d)Combined lay-out

This involves the combination of all other lay-outs above. Most manufacturing firms use the combined plant lay out.

#### 2. TRADING BUSINESSES

Under trading units, there are 3 kinds of lay-outs. They include;

(a) Self service layout

This involves positioning of goods in such a way that customers can lead themselves through the store. This cuts down on the number of sales personnel and allows customers to select merchandise for themselves. For instance, in supermarkets, departmental stores, groceries. In these stores, the necessities should be placed at the rear of the store.

In addition, use of attractive colours and lights is important so as to direct attention to interior displays.

(b) Full service layout

This type of layout is used by enterprises which sell to fewer number of customers or higher priced products like furniture, office machines, hardware items, sports ware, good quality shoes, e.t.c.

(c) Special service layout

These are used in stores that require special design, for instance television repair workshop. In this case a good retail layout should be the one which saves rent, time and labour.

### 3. SERVICE BUSINESSES

Service establishments such as entertainment centres, hotels, restaurants, e.t.c must give due attention to client convenience, quality of service, efficiency in delivering services and pleasing office ambience. Therefore the layout should be designed in a fashion which allows quick and convenient access to the facilities offered by the service establishment.

### FACTORS TO BE CONSIDERED WHEN DESIGNING A PLANT LAYOUT

1. Nature and size of factory/plant building.

This determines the flow space available for layout. Therefore, when designing special requirements like dust control, air conditioners, e.t.c the nature and size of the factory building should be considered.

2. Type of machinery to be used.

General purpose machines are arranged as per the process layout while special purpose machines are arranged according to product layout.

3. Production process

In manufacturing firms, process layout is economical and efficient. On the other hand, in assembling industries, product layout is preferable.

4. Nature of the product to be produced. For uniform products, product layout is suitable.

5. Plant environment

Noise, heat, pollution, ventilation, light and other aspects should be considered. For this matter, welding and other departments should be located in another hall so that dangerous fumes can be removed through proper ventilation and other safety arrangements.

Therefore the layout should be conducive to health and safety of employees.

6. Human needs

Adequate arrangement should be made for employee facilities like toilets, changing/dressing rooms, resting rooms, washrooms, e.t.c.

7. Repairs and maintenance

Production machines should be arranged in such a way that there is adequate space between them for movement of equipment and people required for repairing machines (A student should look at how his/her bedroom and suitcase are arranged).

### ELEMENTS OF A PLANT LAYOUT

The major elements of a plant layout among others include;

- (i) Security room/section
- (ii) The parking yard
- (iii) The receiving and dispatching section
- (iv) Inspection room
- (v) Warehouse
- (vi) Machinery/processing section
- (vii) Maintenance section
- (viii) Production offices
- (ix) Employee facilities like dressing rooms, serving places for lunch and breakfast (dinning).
- (x) Power/generator room
- (xi) Waste disposal section
- (xii) Frame enclosing items therein

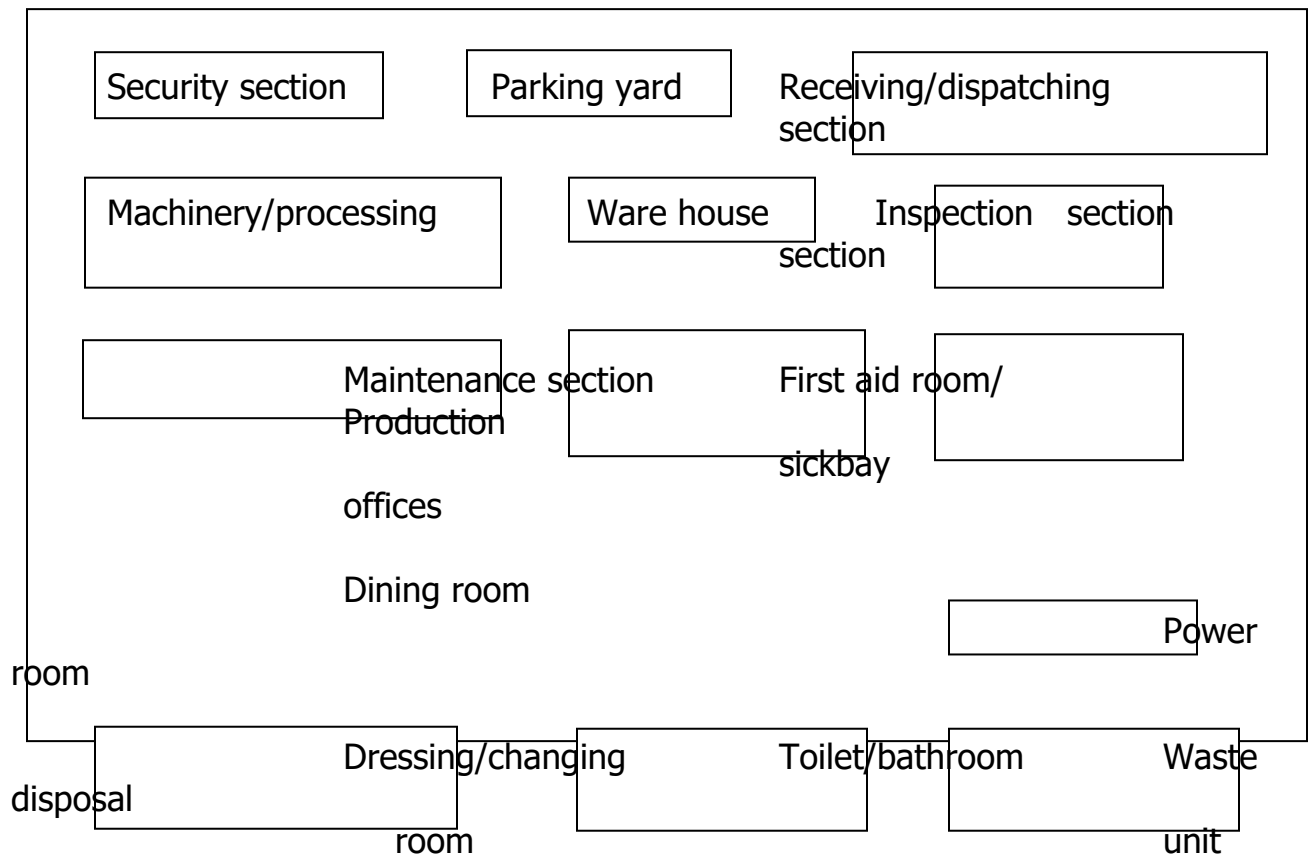


**N.B :**

(a) Plant layout vary from one business setting to another, for instance in a manufacturing firm, things like processing section, inspection room are important yet may not be found in service businesses.

(b) The arrangement for the elements of the plant layout should be logical, i.e items related should be near each other. For instance ware house near the processing room, inspection section near receiving and dispatching points, toilet facilities, disposal sites and the generator room should be located far from the production section and employees.

**EXAMPLE OF PLANT LAYOUT FOR A MANUFACTURING FIRM**



**IMPORTANCE OF A PROPER PLANT LAYOUT**

1. It minimizes material handling costs and time.

2. It allows flexibility in operations.
3. It provides employee safety, convenience and comfort at work.
4. It leads to labour efficiency, proper supervision and control.
5. It encourages economic use of plant building.
6. It improves the work station by ensuring maximum exposure to natural light and ventilation.

## **THE PLANT LOCATION**

This refers to the choice of an area/site for setting up a business or factory.

### Factors considered when selecting a business site;

1. Availability of raw materials.

Some firms are supply-oriented and therefore they are located where raw materials in the business are easily available, for instance sugar factories are located where sugarcane is grown.

2. Availability of market.

Firms which are market oriented are located in areas where there is high demand for their products.

3. Availability of labour.

Firms are always located in areas where labour is easily available to reduce on the cost of hiring labour.

4. Transport and communication facilities.

These are taken into account because they are essential to transport raw materials and finished goods. Therefore a firm should be located in an area with all weather roads and communication facilities.

5. Availability of power

Most of the businesses need electricity for their smooth running. Most of the machines are operated through electric power and use water. This is why most businesses are located in urban areas due to availability of water and power.

6. Availability of support services

Some services like banks, post office, insurance companies, hotels, schools, hospitals attract firms to be located in a particular area. Industrial workers will be interested to work in areas where these facilities are available.

7. Regional government policy regarding business location.

The government may encourage establishment of industries in some areas in an attempt to create employment opportunities in those areas. In addition, it may be a government policy to discourage establishment of industries in an areas in an attempt to conserve the environment. For instance in wetlands, forest reserves, national parks, e.t.c

8. Political climate

Some areas are politically unstable and do not allow economic activities to take place. Therefore entrepreneurs establish their businesses in politically stable areas.

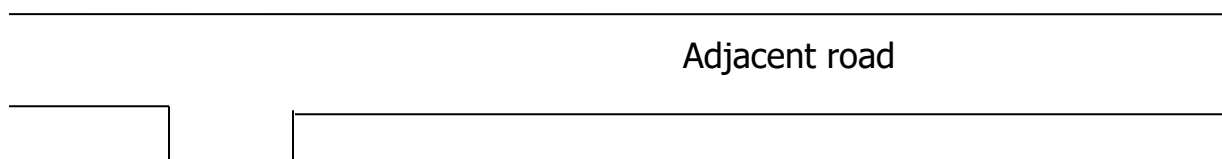
**THE SITE PLAN**

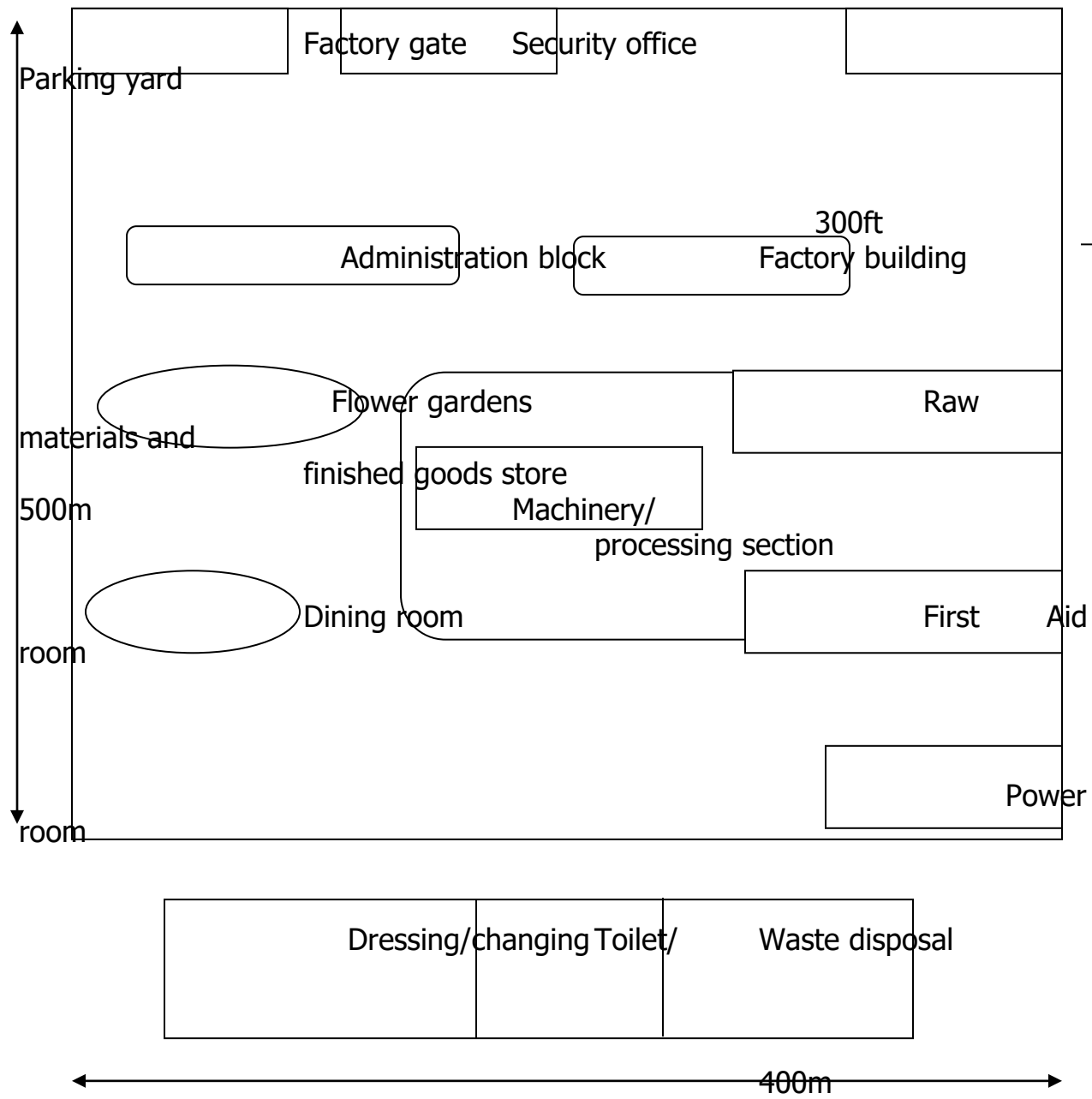
This is a drawing of the entrepreneur’s premises showing the property lines and structures that currently exist on the land, for example factory buildings, fence, garage, flower garden.

CONTENTS OF A SITE PLAN

1. Adjacent streets/roads
2. Site/factory building showing the different sections therein.
3. Scale of the drawing
4. An arrow indicating direction
5. Fence
6. Security office
7. Parking yard
8. Property lines
9. Frame

Example of site plan for a manufacturing unit.





# **COSTING OF PRODUCTION**

What is meant by costs of production?

These are expenses incurred when producing goods and services.

## ELEMENTS OF COSTING

This is an analysis of the various items, which together form the selling price of a manufactured article sold by a small manufacturing unit at a profit.

## TYPES OF COSTS

The costs incurred by a business are categorized into two major groups i.e direct costs and indirect or over head costs.

### **Direct cost /prime cost.**

These are costs that are directly linked to the level of production of goods or services. For instance, when the volume of production rises, the total direct cost incurred rise. These costs include costs of incurred towards purchasing, cost of raw materials, e.t.c as explained below.

#### 1. Direct materials costs.

Direct material costs refer to those materials that can be physically identified and traced to a particular product as part of the finished products. For example, timber in the manufacture of furniture, cotton for cloth e.t.c. Direct costs constitute the largest share of the working capital requirements.

#### 2. Direct labour costs (direct wages)

These are costs of the labour that can be specifically identified or traced with the production of a particular product. For instance, wages for workers who are directly involved in the operation of machines engaged in the production process, those who assemble parts into finished products like in a carpentry workshop, wages paid to carpenters, mechanists, finishers constitute direct labour.

#### 3. Direct expenses

These are expenses that are directly linked with the production of a particular product. For instance, the cost of hiring machinery to produce a particular product, fuel/energy for running the machine, e.t.c.

However, most items falling under this category tend to be indirect expenses.

**N.B:** The total of direct costs is referred to as prime costs. For instance for a carpentry workshop the following would be prime costs.

Item	Cost (shs)
Direct materials – timber	200,000
Direct labour – wages of machinery and joinery staff.	500,000
Direct expenses – fuel/transport	60,000
Prime costs	<u>760,000</u>

### **Indirect/Work/Overhead costs**

These are costs that cannot easily be traced to a particular product. They do not vary with the level or volume of production (output). They may also be referred to as overheads.

Types of indirect costs

#### 1. Indirect materials

These are materials that are not traceable to a particular product. For instance glue, threads, sand paper, lubricant, cotton waste but get used up in the process of production. For a small carpentry workshop, indirect material costs, would include glue, nails, varnish, e.t.c.

#### 2. Indirect labour

This consists of supportive labour of a product, for instance, manager, administrators, watch-men, gate keepers, secretaries, tea girls, e.t.c. Their services are applicable to all sections of a business and cannot be attached or traceable to any particular product. Their cost does not vary with the volume of production. For instance, the gate keeper remains working regardless of the level of production.

#### 3. Indirect expenses

These are the type of business expenses that are not linked to a given product or a given range of production level, for instance factory rent, factory insurance, repair of machinery, electricity, telephone and office expenses.

In case of a carpentry workshop, the following would be the indirect costs.

Item	Cost (shs)
Indirect materials – glue, varnish and nails	20,000
Indirect labour – salary of manager	30,000
Indirect expenses (cash for uncertainties, stationery)	15,000
	<u>65,000</u>

**N.B** : The total of prime costs and production overheads is referred to as production costs.

### OTHER COSTS

#### (a) Selling and distribution overheads

These are indirect costs incurred during selling and distribution of goods and services, for instance advertising, sales promotion, delivery expenses, salary of salesmen, cost of samples given to potential buyers, displays and exhibition materials, printing and stationery (receipt books, price lists, catalogues, invoices, e.t.c), packing cases, insurance for ware house and delivery vans.

#### (b) Administrative expenses

These are indirect costs incurred by the business during the formulation of policy, direct control, management and supervision of its affairs, for instance printing and stationery for administration, postage and stationery, telephone expenses, heating and lighting, depreciation of office equipment, general expenses

### CALCULATING THE TOTAL COSTS OF A BUSINESS

Details	Unit cost (shs)	Amount (shs)
<u>Direct/prime costs</u>		
Direct materials	200,000	
Direct labour	300,000	
Direct expenses	150,000	
Total direct costs		650,000
<u>Indirect/overhead costs</u>		
Indirect materials	100,000	
Indirect labour	250,000	
Indirect expenses	50,000	
Total indirect costs		400,000
Production costs		1,050,000
Selling and distribution overheads	300,000	
Administration overheads	180,000	480,000
Total business costs		1,530,000

## **PACKAGING OF BUSINESS PRODUCTS**

Packaging refers to wrapping, crafting, filling or compressing of goods to protect them from spoilage, breakage, leakage and contamination in the process of transit, storage and use.

### TYPES OF PACKAGING

1. Bottling and canning
2. Bagging or putting in bags
3. Putting in plastic containers
4. Baling or putting in bales (Binywa)
5. Tinning or putting in tins
6. Putting in boxes

**N.B** : The nature of goods determines the types of packaging to use.

### TYPES OF MATERIALS USED FOR PACKAGING

1. Metals i.e aluminium, tin plate and steel
2. Plastic polythene papers, jerry cans, bottles, e.t.c.
3. Wood packing cases
4. Paper – paper boards, corrugated boards, e.t.c.



5. Glass bottles
6. Polyester
7. Hessian/jute for bages, e.t.c

### FACTORS CONSIDERED WHEN CHOOSING THE TYPE OF PACKAGING TO BE USED FOR A PRODUCT

1. Cost of packaging in relation to the value of the goods being packaged. Entrepreneurs should always move in for low cost packaging materials but of quality so as to minimize operating costs and maximize profits.

2. Availability of the packaging materials in the required amounts. An entrepreneur should always ensure that there are always enough and sufficient quantities of packaging materials whenever required so as to maintain production schedules of the business.

3. Nature of the product to be packaged. Liquids are packaged into bottles and cans while cotton into bales.

4. Quality of the packaging materials. It is important for entrepreneurs to stock packaging materials of good quality so as to produce quality products.

5. Source of packaging materials. An entrepreneur should ensure that he or she buys packaging materials from reliable sources so as to minimize losses.

6. Unit cost of packaging materials required for production cycle and inventory levels to be maintained.

7. Purpose of packaging

8. Means of transport to be used.

### IMPORTANCE OF PACKAGING

1. Good packaging materials are usually strong enough to protect the contents from rough handling and external conditions.

2. Well packaged goods are easy to handle and transport to the consumer especially liquids, cereals and flour.

3. Packaging is a means of preserving contents. Goods especially food products and chemicals are protected against atmospheric germs and contamination.
4. Goods packed well and attractively create a good product image. This facilitates the selling of the product because the customer can easily identify the product.
5. The products are usually packed in relatively small sizes. This makes it easy to display the products in retail stores in addition to ease pricing and maintain quality.
6. Packaged goods are easily delivered to customers, for instance by mail order services. This makes their distribution easy.
7. Instruction labels on packaged goods serve as a guide to educate the customers about the content of the usage and the product.
8. Ease of selling. The packaged goods can easily be sold by automatic machines.
9. Self service is also possible with packaged products.

## **QUALITY MANAGEMENT**

What is quality?

Quality refers to the ability of a good or service to meet/satisfy the customer's requirements or wants.

According to International Standards Organisation (ISO), quality is defined as the totality of characteristics/attributes of a good or service that bears on its ability to satisfy stated and applied needs of an individual.

Such attributes may be colour, weight, dimension, chemical composition or physical properties of a good.

### ATTRIBUTES THAT DEFINE QUALITY OF A PRODUCT

### 1. Performance

This refers to the basic or primary operating characteristics of a product, for instance in case of a television, it may mean picture, sound, clarity, e.t.c.

### 2. Features

These are the secondary operating characteristics of a product. They supplement the basic functions of a product, for instance, a DVD player on a computer.

### 3. Durability (product life)

This is the amount of use one gets from a product before it breaks down. The longer the life of the product means its quality.

### 4. Reliability/guarantee (expiry date) of the product.

This refers to the probability of a product failing within a given period of time, for instance, in case of a television that has a one year guarantee, if it breaks down after three months, then it is not a reliable product.

### 5. Conformance

This refers to the degree to which a product's design and operating characteristics meet the set standards like weight, for instance bread which is sold in different weights like 500g or 1 kg. In this case if a loaf of 400g is being sold as 500g bread then it does not conform to the set standards hence it is said to be of poor quality.

### 6. Serviceability

This refers to the speed, competence and ease of repair of a given product. Consumers not only mind about breaking down but also the time before the service is restored, the timeliness which the service appointments are kept, the nature of service dealings with the service personnel.

### 7. Perceived quality

Consumers have different tastes and therefore perceive quality of products differently.

In such circumstances, things like images, advertising, brand names and misconceptions about quality are critical in perceived quality because they lead to consumer loyalty. For instance, where customers say that the quality of products today is similar to the quality of previous products as a result of product brand name and advertising.

## COMMON TERMS USED IN RELATION TO QUALITY

## **Quality policy**

This refers to the overall intentions and direction of a business or an organization with regard to quality as prescribed by the top management. Quality policy is normally expressed and developed by the top management and is communicated to the subordinates/workers. In most cases, it is expressed in the mission statement.

## **Quality planning**

This refers to establishment of what the business or an enterprise is planning to do so as to achieve quality OR refers to establishment of measures that an enterprise is going to adopt so as to achieve quality.

## **Quality control**

This refers to the activities and operational techniques that are used to fulfill the requirements for quality.

## **Quality system**

This refers to the organizational structure, procedures, processes and resources needed to implement quality management.

## **Quality assurance**

It refers to all the planned and systematic activities which are to be implemented within the quality system so as to achieve quality

### CONSUMERS' MISCONCEPTIONS ABOUT QUALITY

Consumers have misconceptions about the following;

#### 1. Price

Usually consumers assume that the higher the price of a good or service, the higher the quality of such a product. However, this may not always be the case.

#### 2. Brand name

Consumers usually assume that some products are superior to others basing on the brand name, for instance one may prefer a DVD player branded 'Toshiba' because of the brand name to that of 'Sony'.

### 3. Durability/guarantee

Here different consumers assume that quality products are those ones that take a long time to expire or break down.

### 4. Consumers' point of view

Consumers perceive quality of products differently due to different consumer tastes and preferences. However, such differences result into various misconceptions about quality of goods and services.

### 5. Origin of the product

Some consumers tend to assume that good quality products are produced from specific places or countries, for instance in Uganda, people tend to assume electronic products from Germany to be of higher quality than those from other countries.

### 6. Size of the product

Consumers consider quality products as those that can serve the purpose while in large quantities.

## FACTORS THAT INFLUENCE THE GENERAL QUALITY STANDARDS OF AN ENTERPRISE

### 1. Selection of raw materials that are used as inputs in production.

The use of poor quality raw materials usually results into poor quality products while use of good quality raw materials yields quality products.

### 2. Cleanliness of the environment under which the product is being developed.

A clean environment helps in the production of quality products compared to an unclean environment.

### 3. Technical specifications regarding quality and quantity.

If there is any change in the technical specifications like in the mixing of ingredients or size of the product, the product quality and quantity is affected, for instance, in a bakery, any alteration in the mixing of ingredients and size, the quality of the bread is affected.

#### 4. Packaging

The way of packaging of a product may affect its quality in various ways, for instance packaging can lead to contamination, damage or expiry if the product is kept for a long time. Therefore the entrepreneur should ensure that the design of the product conforms to the planned packaging material.

#### 5. Storage of raw materials and finished goods.

Poor storage of raw materials and finished goods results into low quality products while proper storage promotes production of quality products.

#### 6. Limits of deviation from set standards.

There are always set standards that should be maintained. However, if there is any deviation from the set standards the quality of the final products will be affected.

#### 7. Machinery used in production.

Use of unsuitable machines in the production process leads to low quality output and vice versa. Therefore the entrepreneur should determine the machines required for production, the technical aspects of producing the product and proper installation of machines.

#### 8. Availability of the necessary skills for production of a product.

This refers to the labour with the required skills to perform the production of the intended product. Usually the use of skilled workers leads to quality output and vice versa.

#### 9. Product design and development.

If the entrepreneur ensures that he or she provides the right design as demanded by customers, it leads to production of quality products. However, if

the entrepreneur does not consider the consumers' wants during product development, it is likely that he or she will produce products of poor quality.

10. Selection of the channel of distribution for the product.

The selection of the distribution channel depends on the nature of the product, for instance, perishable goods and those which do not require a lot of handling like glass need to be distributed through the direct channel so as to minimize the risk of the goods going bad or breaking.

This therefore means that the use of an unsuitable channel of distribution can negatively affect quality of such products and vice versa.

### **QUALITY CONTROL IN BUSINESS**

'Quality control' refers to the various activities and operational techniques employed by an entrepreneur to achieve and maintain quality of a product or service.

OR

It refers to the measures undertaken by an entrepreneur to ensure that high quality products are produced.

#### WHY IS IT NECESSARY TO OBSERVE QUALITY IN BUSINESS?

1. To improve the brand image of the business. This helps the business to expand its market share.
2. To reduce costs of production. This results from minimizing wastage of the raw materials when producing poor quality products.
3. To create consumer loyalty. Quality helps an entrepreneur to maintain his or her customers as he or she has to design and develop a product that conforms to the needs of the customers.
4. To comply with the quality standards prescribed by the relevant authorities, for instance Uganda National Bureau of Standards.
5. To produce quality products. Quality leads to production of high quality products which improves the image and reputation of the entrepreneur's business.

6. To outcompete other competitors in the same line of business through improving on the quality of output.
7. To determine product costs and prices at competitive levels in advance of production.
8. To achieve business objectives concerning quality specifications.
9. To maintain business customers through improved product quality.

## **QUALITY AND PRODUCTION MANAGEMENT**

Quality control involves activities at all phases of the production process, i.e product design, purchase of raw materials, market research, production machines and their installation, production of the product, storage of raw materials and finished products, packing, sale and distribution.

### PHASES AND ACTIVITIES IN THE PRODUCTION PROCESS THAT HAVE AN IMPACT ON QUALITY

1. Marketing and market research for the product.  
This involves collecting and analyzing information relating to markets so as to find out the opinions of potential customers about the product that the entrepreneur intends to produce.
2. Product design and development.  
This stage involves planning the shape, fashion, size and colour of products to be produced.
3. Purchase of production raw materials.  
Poor quality raw materials lead to poor quality products and vice versa.
4. Production of the product.  
This stage involves transforming of the raw materials through the use of inputs like machines into finished products.
5. Packaging and storage of the product.



This involves wrapping and compressing of the products to be produced in various packaging materials so as to protect them from spoilage and damage and for easy transportation. After packaging, the products are then stored.

6. Selling and distribution of the product.

This involves selecting of an appropriate channel of distribution and an effective mode of transportation to enable the entrepreneur's products reach the final consumers.

7. Installation of the product at the user's premises.

After distribution of the product, the entrepreneur or salesperson installs the product at the client's premises. Installation may be free or at a small charge. However, this only applies to those products which require installation like machinery equipment.

8. Technical assessment and servicing of the product.

This is the last stage in the product life cycle. It involves the activities carried out to ensure that the customer is satisfied with the good or service and the entire business enterprise. It includes after-sales activities like checking or ensuring product smooth performance and maintenance/servicing.

### WAYS/MEASURES OF ENSURING QUALITY OF A BUSINESS PRODUCT

1. Ensuring selection of better raw materials.

The entrepreneur should ensure of good quality raw materials so as to produce quality products.

2. Monitoring and supervision of the production process to ensure that the goods produced conform to the set quality standards.

3. Ensuring proper packaging of the product.

The entrepreneur should ensure use of suitable packaging materials in line with the product design.

4. Selecting appropriate production machines and ensuring proper installation of such machines and equipment.

5. Carrying out market research before developing the product and even in the process of making the product so as to understand the needs of the customers.
6. Employing labour with the required skills to perform the production of the intended product.
7. Ensuring proper sale and distribution of the product .

This requires the entrepreneur to select a suitable channel of distribution for his products.

8. Considering the technical specifications regarding quality and quantity of the product to be produced like mixing of ingredients or chemicals, size of the product, e.t.c.
9. Ensuring good/right product design and branding of goods as demanded by the customers.
10. Ensuring a clean environment under which the product is to be produced.
11. Ensuring proper storage of both raw materials and finished products.

#### IMPORTANCE OF QUALITY CONTROL IN BUSINESS

1. It helps to improve the brand image of the business which helps to expand its market share.
2. Quality control facilitates standardization of the business products, i.e it encourages production of uniform goods and services. This helps to create consumer loyalty.
3. It helps to reduce costs of production. This results from minimizing wastage of raw materials when producing poor quality.
4. It enables the entrepreneur to comply with the quality standards prescribed by the relevant authorities, for instance, Uganda National Bureau of Standards.

5. Quality control leads to production of high quality products which improves the image and reputation of the entrepreneur's business.
6. It enables an entrepreneur to determine his product costs and prices at competitive levels in advance.
7. It helps an entrepreneur to maintain his customers as he or she has to design and develop a product that conforms to the needs of the customers.
8. Quality control helps an entrepreneur to out compete other competitors in the same line of business through improving on the quality of output.
9. Quality control enables the entrepreneur to achieve his objectives concerning quality specifications.

## **THE PRODUCT LIFE CYCLE (PLC)**

Product life cycle refers to the combination of various activities that influence the quality of a given business product. PLC merely views an enterprise from the angle of production management. Two other management angles are human resource management and financial management.

### MAJOR EVENTS DURING PRODUCT LIFE STAGES

#### A) INTRODUCTION/DEVELOPMENT STAGE

Here the market size and growth is slight. It is possible that substantial research and development costs have been incurred in getting the product to this stage.

#### CHARACTERISTICS OF THE INTRODUCTION STAGE

1. Sales generally are low and slow and somewhat slow to take off.
2. Profits tend to be negative or very low because of low sales and high unit costs.
3. Competitors tend to be few in number and there may be only one major player in the market place, i.e innovating firm.

4. Production costs tend to be high on a per unit basis because the firm may not have experienced any significant economies of scale.
5. Marketing costs required for creating customers' awareness, interest and for introducing the product into distribution channels are high.

## B) GROWTH STAGE

This is characterized by rapid growth in sales and profits due to an increase in output (economies of scale) and possibly better prices.

### CHARACTERISTICS OF THE GROWTH STAGE

1. Sales increase rapidly. This is due to;
  - (a) Consumers rapidly spreading positive word of mouth about the product.
  - (b) An increasing number of competitors entering the market with their own versions of the product.
  - (c) Promotion effect which is the result of individual firms employing advertising and other forms of promotion to create market awareness and stimulate interest in the product.
2. Declining costs on a per unit basis because increased sales lead to longer production runs and therefore economies of scale in production.
3. Declining unit costs and rapidly increasing profits due to increasing sales.
4. Customers are mainly early adopters and early majority. It is the early adopters specifically who are responsible for stimulating the word of mouth effect.
5. Competition continues to grow throughout this stage. As competitors recognize profit potential in the market, they enter the market with their own versions of the product.

## C) MATURITY STAGE

It is this stage that competition is intense as businesses fight to maintain their market share. Here marketing and financing become the key activities.

This is the time when most profit is earned by the market as a whole. Any expenditure on research and development is likely to be restricted to product modification and improvement and to improve production efficiency and quality.

### CHARACTERISTICS OF MATURITY STAGE

1. Sales continue to grow during the early part of maturity but at a much slower rate than during the growth stage. At one point, sales reach the peak and this peak may last for extended periods of time.
2. Costs continue to rise during this stage because of market saturation and continually intensifying competition. Because of slowing of sales combined with increasing costs, profits reach their highest level and from this point decline.
3. The only remaining customers to enter the market will be the late majority and the laggards. The late majority are by far the most risk averse and most resistant to adopt new products. They are quite price sensitive and as a result will not buy products until their prices have significantly declined. Laggards are the last group to adopt and often do not do so until the product is virtually obsolete and in danger of being displaced by new technologies.
4. Competition is most intense during this stage. This drives changes in costs and profitability.

### D) DECLINE STAGE

In this stage the market is shrinking, reducing the overall amount of profits that can be shared amongst the competitors.

At this stage, great care has to be taken to manage the product carefully. It may be possible to take out some production costs, transfer production to cheaper facility, sell the product into other cheaper markets. Care should be taken to control the amount of stocks of the product. Finally depending on whether the product remains profitable, a firm may decide to end the product.

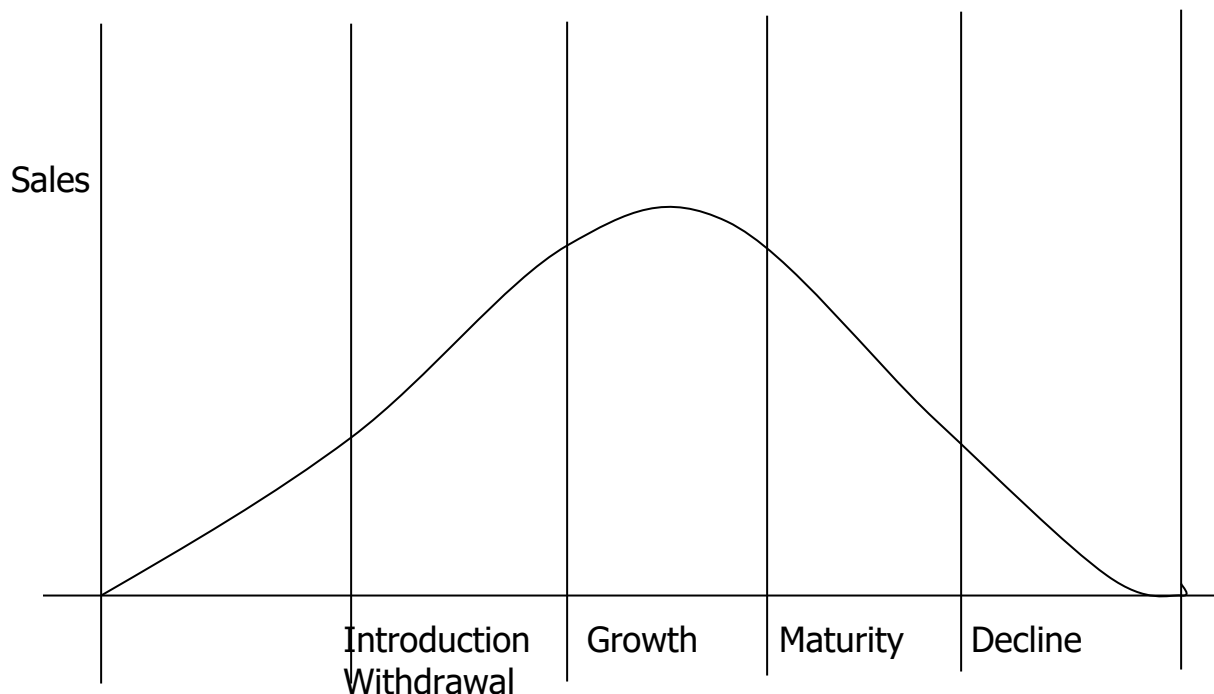
### CHARACTERISTICS OF THE DECLINE STAGE

1. Sales continue to deteriorate through decline. Unless major changes in strategy or market conditions occur, sales are not likely to be revived.
2. Profits continue to erode during this stage with little hope of recovery.
3. Customers again are primarily laggards.
4. There are generally significant number of competitors in the industry at the beginning of decline. However, as decline progresses, marginal competitors will flee the market.

#### E) WITHDRAWAL

Here there is a down turn in the market, for instance, more innovative products are introduced or customer tastes have changed. There is intense price cutting and many more products are withdrawn from the market. Profits can be improved by reducing marketing expenditure and cost cutting.

A GRAPH SHOWING VARIATION OF SALES OVER TIME DURING PRODUCT LIFE CYCLE STAGES



## Time

The following are some of the examples of products that are currently at different stages of the product life cycle.

Introduction	Growth	Maturity	Decline
Third generation mobile phones	Portable DVD players	Personal computers	Typewriters
E-conferencing	E-mail	Faxes	Handwritten letters

### BENEFITS OF PRODUCT LIFE CYCLE IN AN ENTERPRISE

1. It helps the entrepreneur in product decision making.
2. It enables product designers and service providers, government agents and individuals to make choice.
3. It leads to improved product quality.
4. It reduces wastage of products and raw materials.
5. It minimizes production costs through re-use of original data.
6. It enhances the entrepreneur's ability to quickly identify potential sales opportunities.

### PROBLEMS WITH PRODUCTS LIFE CYCLE/CRITICISMS OF THE PRODUCTS LIFE CYCLE

1. In reality, very few products follow such a prescriptive cycle (not all products go through each stage) some go from introduction to decline.
2. It does not in any way predict the length of each phase and it cannot be used to forecast sales with any accuracy.
3. The model is self-filling, for instance, if a marketer decides that a product is approaching its decline phase and stops actively marketing it, the product's sales will almost inevitably decline. This might not have happened had it been managed as if it was still in its maturity stage.

4. It is possible that by improving a product aggressively on an ongoing basis, growth can continue for a long time. The model does not consider this.
5. Successful marketers need to draw on a wide range of data and analysis to help them decide which phase a product is in and whether that phase can be explained.

## **TOTAL QUALITY MANAGEMENT**

Total Quality Management is a method designed to prevent errors such as poor quality products from happening.

OR

It can be defined as an integrative management concept of continually improving the quality of delivered goods and services through the participation of all levels and functions of the organization. It involves ensuring that each stage of manufacturing a product or service is total, i.e 100 percent before it proceeds.

### ELEMENTS/FEATURES OF TOTAL QUALITY MANAGEMENT

#### 1. Quality chains

This emphasizes the linkages between suppliers and customers. The chain remains intact if the supplier satisfies the customer. Failure to meet the requirements in any part of the quality chain creates problems such as delays in the next stage of production.

#### 2. Company/business policy and accountability

Improvements in the quality is achieved if there is a company wide quality policy. Total quality management starts from top with the most senior executive and spread through the business to the employees. For instance, if the managing director lacks commitment, employees are unlikely to commit themselves. Total quality management stresses the role of the individual and aims to make every one accountable for their own performance.

#### 3. Control

Customers' needs will only be satisfied if the business has control of the factors affecting the product's quality. These may be human, administrative or technical matters. The process is only under control if materials, equipment and tasks are used in the same way every time (to be consistent). Methods can be



documented and used to assess operations. Regular audits must be carried out by the firm to check quality.

#### 4. Monitoring process

Total quality management relies on monitoring the business process to find out possible improvements. An entrepreneur has to develop methods to achieve this. The method should reduce variability which is the cause of problems. Variations in the products, delivery times, methods, materials and staff performance often occur.

#### 5. Team work

Total quality management stresses team work as the most effective way of solving problems. It is advantageous in the following ways;

- be used
- (i) A greater range of skills, knowledge and experience can be used to solve problems.
  - (ii) employees' morale is often improved.
  - (iii) problems across departments are better dealt with.
  - (iv) a greater variety of problems can be tackled.
  - (v) it builds trust, improves communication and cooperation
- and develops interdependence.

#### 6. Consumer views

Firms using total quality management must be responsive to changes in people's needs and expectations. To do this, information must be gathered on a regular basis and there must be clear communication channels for customers to express their views.

For instance, some companies issue questionnaires to their customers. The information gathered can be used to identify the strengths and weaknesses of their operations. Such information can be used to monitor and upgrade quality standards.

#### 7. Zero defects

Many business quality systems have a zero defect policy. This aims at ensuring that every product that is manufactured is free from defects. A business that is able to guarantee zero defects in customers' orders is likely to gain a good reputation leading to new clients and improved sales.

### BENEFITS OF TOTAL QUALITY MANAGEMENT

1. It helps the entrepreneur to focus clearly on the needs of customers and relationship between suppliers and customers.
2. It helps the entrepreneur to achieve quality in all aspects of business not just product or service quality.
3. It helps the entrepreneur to critically analyse all processes to remove wastage and inefficiencies.
4. It helps the entrepreneur to find improvements and develop measures of performance.
5. It helps the entrepreneur to develop a team approach to problem solving.
6. It helps the entrepreneur to develop effective procedures of communication and acknowledgement of work.
7. It helps the entrepreneur to continually review the processes to develop a strategy of constant improvement.
8. It helps the entrepreneur to utilize human resources better.
9. It helps the entrepreneur to increase flexibility in meeting market demands.

## **QUALITY BUSINESS MANAGEMENT TASKS**

The following are the basic management functions (tasks) in a small enterprise;

### **1. Planning**

This involves the establishment of goals and objectives and the ways in which they can be achieved. In planning an entrepreneur should :

- (i) set goals and objectives of the business.
- (ii) determine the alternative courses of action to achieve the goals and objectives.
- (iii) select the best alternative
- (iv) formulate strategies to translate the chosen alternative into action.

The objective of planning is to try to reduce the uncertainty of the future. It therefore answers questions like; 'what is to be done?', 'when will it be done?', 'where will it be done from?', 'who will do it?', 'how will it be done?'

### ADVANTAGES OF PLANNING

- (a) It gives an entrepreneur direction and course of action.
- (b) It enables an entrepreneur to allocate time frame for the different activities.
- (c) It helps an entrepreneur to set and achieve goals.
- (d) It enables an entrepreneur to make maximum utilization of resources.
- (e) It assists the entrepreneur to evaluate alternatives and choose the best alternative to benefit the business.

#### 2. Organizing

This refers to identification of what activities to be done, grouping activities into sections/departments and delegating the activities to particular individuals to carry them out. For efficient organizing of a business, an entrepreneur should;

(i) identify the tasks that must be performed and group them into sections/departments, for instance, selling and distribution of goods under marketing and receiving and paying of cash under financial or accounts section.

(ii) assign these tasks/activities to individuals and define their responsibilities and authority, for instance, a sales manager can be assigned marketing tasks and an accountant can manage the financial activities.

(iii) delegate this authority to the chosen employees like heads of departments, managers.

(iv) co-ordinate the activities to ensure that they are done as per the plan.

#### 3. Staffing

This is the process of recruiting, selecting, training, developing, compensating and evaluating employees who do the identified tasks. Once activities to be done are identified and grouped into sections, it is important to employ people who will do the identified tasks. It is crucial that the entrepreneur employs the right personnel for effective and efficient performance of the enterprise. It also includes giving employees incentives like good salaries/wages, medical and housing facilities, e.t.c.

#### 4. Leading

This involves motivating and guiding employees about the procedures and methods of work in the organization. Entrepreneurs should therefore;

(i) lead through open communication so that information can be passed to the subordinates and feedback received from them.

(ii) lead by example (walk the talk)

(iii) motivate staff through appreciation of what is done either by word of mouth, give rewards such as recognition, promotion as well as cash and other materials.

## 5. Controlling

This deals with monitoring the goods purchased and sold, money received and paid out, stock and other property of the business.

It consists of actions that are undertaken to ensure that the activities done do not differ from the pre-arranged plans. Therefore the entrepreneur should look at the goals set and find out whether the goals have been achieved as per the plan or not.

In case there is a change from the pre-set plan, corrective measures should be taken to perform in accordance with the plan.

## 6. Communication

An entrepreneur transmits and shares ideas, opinions, facts and information to his suppliers, workers and customers for successful performance. Communication should be open so that employees receive and act on information from the entrepreneur and also give feedback to the entrepreneur.

## 7. Budgeting

A budget is a document showing expected income and expenditure of an enterprise for a given time period. The process of preparing the budget is referred to as budgeting.

After preparing a plan, an entrepreneur is interested in knowing how much it will cost to implement it. A business budget may be made up of sales budget, direct materials budget, direct labour budget, manufacturing overheads budget, cash budget, administrative expenses budget, e.t.c. A master budget is the summary of all the business components and goals for the future prepared to set out specific targets in different areas of the business, for instance, sales, production, distribution, financial, e.t.c.

### **Example :**

**ZAWEDDE POULTRY FARM  
BUDGET  
FOR THE MONTH OF NOVEMBER, 2012**

DETAILS	QUANTITY	UNIT COST (SHS)	AMOUNT (SHS)	AMOUNT (SHS)
<b><u>INCOME</u></b>				
Sale of eggs	10 trays x 30 days	6,000	1,800,000	4,800,000
Sale of layers	500 birds	5,000	2,500,000	
Sale of chicken beddings	10 trips	50,000	500,000	
Total				
<b><u>EXPENDITURE</u></b>				
Building materials:				
Timber	30 pieces	5,000	150,000	
Iron sheets	15 pieces	15,000	225,000	
Nails (all sizes)	10 kgs	2,000	20,000	
Cement	7 bags	30,000	210,000	
Papyrus	10 bundles	3,000	30,000	
Labour	5 people X 30 days	4,000	600,000	
Spray (medicine)	1 unit	150,000	150,000	
Lighting system	1 system	200,000	200,000	

Troughs	5 pieces	15,000	75,000	
Egg trays	30 pieces	2,000	60,000	
Chicks	1000	1000	1,000,000	
Feeds	1 bag per day X 30 days	1,500	450,000	
Total				3,170,000
Balance				1,630,000

### BENEFITS OF BUDGETING

1. It provides managers with a way to cost their plans and see their financial implications.
2. It provides specific goals and objectives that serve as a yardstick for evaluating performance.
3. It reveals potential problems before they occur.
4. It co-ordinates the activities of the entire business by integrating the plans and objectives of various departments. This helps management to ensure that the plans and objectives of business sections like production, purchasing, selling and distribution, e.t.c are consistent with the broad goal of the business, that is;
  - supervising daily cash receipts and expenditure.
  - banking of surplus cash balances
  - settling debts like paying suppliers on due dates.
  - daily record-keeping and production of routine reports like income statements and balance sheets to aid in decision making.
  - paying tax, rent and other expenses.

### CRITICISMS/PROBLEMS OF TOTAL QUALITY MANAGEMENT

1. There is training and development costs of the new system.
2. Total quality management only works if there is commitment from the entire business.

3. There is a great deal of bureaucracy and documents and regular audits are needed. This may be a problem to small firms.
4. Some workers and unions regard total quality management as management by-stress and a way of de-unionising work places.
5. It delegates the determination of quality to quality experts because total quality management is a complicated entity beyond the comprehension of the average employees.

## **WORK PLACE MANAGEMENT**

A work place is an area or place where production of goods and services is done, for instance, a carpentry work shop, a school, bank, shop, e.t.c.

### ELEMENTS OF THE WORK PLACE

There are various aspects of the work place that needs to be managed so as to increase productivity of a business. They include storage and handling of materials, work stations, production machine handling, use and safety, control of hazardous substances, lighting of the work place, welfare of workers, premises and organization of work in the work place.

#### (A) STORAGE AND HANDLING OF MATERIALS

This element looks at how materials used in the production process can be stored and handled well at the work place.

#### **Ways of how materials can be handled and stored in the work place**

1. Removing materials and other items that are not frequently used from the work area and stored away. Such items should only be put outside the storage facility when they are going to be used.
2. Provision of convenient storage facilities like racks for tools, raw materials, finished and semi-finished products.
3. Using a spacious store built under standard specifications for the purposes (storage), for instance, the materials should be stored in dry and safe places to avoid dampness.

4. Providing facilities for handling and removing products/raw materials from one place to another such as cranes, conveyors and other mechanical aids that can be used when moving heavy loads.
5. Using specifically designed pallets such as trays to hold and move raw materials, finished and semi-finished goods.
6. Using store ledgers, bin cards for numbering and classifying materials in the store.
7. Use of coolers or refrigerators where need be, that is, if the raw materials require conditions which are cool like milk, fish, meat and others that require cool conditions.
8. Materials should be stored in easily accessible places especially if they are heavy or bulky.
9. Expired or outdated materials should be disposed of (removed) to avoid contamination of the good ones.
10. If the materials are branded, they should be stored in different storage areas.

### **Advantages of proper handling and storage of materials in the work place**

1. It reduces accidents at the work place.
2. Proper storage and handling of materials reduce material damage and loss.
3. It reduces time wastage.
4. It creates and encourages proper use of space.

### **(B)WORK STATION AND WORK AREA**

This is a particular place where actual production of goods and services is done.

### **Ways of improving the work station.**



1. Providing furniture and other office equipment which is of the right size in relation to the available space, for instance, chairs and benches of correct height with a steady back rest so as to promote efficiency of workers.
2. Providing a stable work surface for each work station. This however, depends on the purpose of the work surface, for instance, a furniture work shop floor or surface differs from that of an office.
3. The work station should suit the type of business, that is, the entrepreneur should ensure that the space is large enough to enable smooth operations of the business.
4. Putting electric and machine switches and other tools within easy reach of workers.
5. Ensuring adequate lighting in the work station so as to improve on the quality of work being done as well as increasing productivity.
6. Putting aside equipment that is not in use to avoid obstruction and accidents in the work station.
7. Providing enough entrance and emergency exits in the work station so that workers can easily escape in case of any danger.
8. Improving on the heat protection of the work station and this can be done by providing ceilings in the work station or by covering metal walls and roofs which insulate materials or use paint which can easily reflect heat.
9. Providing enough natural ventilation by having wall openings like windows, doors, e.t.c for easy circulation of air in the work station.
10. Providing emergency, health and safety equipment in the work station such as fire extinguishers, first aid equipment, safety warning signs, e.t.c.
11. Providing proper hygiene and sanitation facilities at the work station and ensure that they are regularly maintained, for instance, places for meals.

12. Providing adjustable equipment whose height can be adjusted and controlled to avoid bending positions or high hand positions which can inconvenience workers during the production process.
13. Changing work methods such that workers can alternate standing and sitting while at work. This helps to reduce fatigue.
14. Using lifts, levers or any other mechanical measures if required to reduce the work required by the worker.
15. Providing specially designed devices like clamps, vices and other fixtures to hold items firmly/tightly while work is being done. Clamps and vices hold metals, wood, e.t.c while working on it.

### **Advantages of a well designed work station**

1. It enables workers to carry on work conveniently.
2. It enables workers to produce quality work.
3. It promotes efficiency in workers.

(C)PRODUCTION/PRODUCTIVE MACHINE HANDLING, USE AND SAFETY.

This looks at how production machines can be handled safely and used at the work place.

### **Ways in which production machines can be safely handled and used in the work place**

1. Switching off machines in case of any breakdown and reporting immediately to the production engineer or technician if there is anything wrong with any machine than one trying to mend it him/herself.
2. Before switching on the machines, one should ensure that they are checked thoroughly to find out whether all levers are in proper positions.
3. Following instructional labels and guidelines on the use of machines so as to know the safety rules regarding the machines before using or operating them.
4. Making sure that machines are well maintained and have no broken or unstable parts through regular servicing of the machines.

5. Avoiding using machines for something they are not designed for. In addition, one should try not to move machines from where they were originally placed.
6. Switching off production machines whenever they are not in use (running) or whenever there is something wrong with them.
7. Ensuring close monitoring and supervision of workers and the production process by the foreman or mechanical engineer.
8. Cleaning of the machines frequently and oiling all hand lubricating points daily to minimize wear.
9. Training of workers on the usage and maintenance of machinery to minimize machine accidents and damage.
10. Attaching proper guards or warning labels to dangerous moving parts of machines and power transmission equipment.
11. Re-designing facilities like guards which interfere with visibility, production or maintenance so as to permit seeing of what one may be doing.
12. Using safety devices which can prevent running or operation of machines while workers' hands are in danger.
13. Providing safety devices for any part of the body which is exposed to any danger while handling machines, for instance, hand gloves, helmets, gumboots, masks, overalls.
14. Using mechanical devices for feeding machines so as to avoid hazards and increase production.
15. Installation of warning devices which can alert in case of any likely danger.
16. Making use of the closest point when plugging in the machines.

17. Avoid messing up with machines if they are still plugged in or still running.

### **Importance of using production machines safely**

1. It helps to avoid machine accidents.
2. It helps to maintain efficiency of the production machines.
3. It helps to avoid depreciation of machines at a high rate.
4. It helps to avoid unnecessary expenses in repair and maintenance of production machines.

### (D) CONTROL OF HAZARDOUS SUBSTANCES

This element is concerned with how dangerous substances at the work place can be managed to avoid losses, enhance quality and reduce health complaints of workers.

### **Measures that can be taken to manage/control hazardous substances at the work place.**

1. Providing adequate and appropriate types of protective equipment like helmets, masks, face shields, ear plugs, gloves, gumboots to reduce exposure to hazardous substances.
2. Training and instructing workers on how to use and maintain protective equipment and regularly administer their use.
3. Making sure that workers exposed to dangerous substances wash their hands with soap or any other recommended detergent before eating food or drinking anything.
4. Making sure that all flammable, that is, those which can easily catch fire like petrol acid, paint, e.t.c are kept and covered in containers so that they are not easily exposed.
5. Substituting hazardous substances or chemicals with those that are less hazardous, for instance, substituting organic solvents with inorganic one if possible.

6. Making sure that workers read and understand instructions of using hazardous substances or chemicals before using them.
7. Ensuring adequate provision of emergency, health and safety facilities like fire extinguishers, first aid equipment, e.t.c.
8. Ensuring adequate lighting in the work station so as to avoid accidents resulting from hazardous substances as well as increasing productivity.
9. Providing warning labels on hazardous substances or areas to minimize accidents especially those which can easily catch fire.
10. Introducing or improving local ventilation for easy circulation of air in the work station.
11. Ensuring proper disposal of hazardous substances to minimize health risks of workers.

### **Importance of controlling hazardous substances at the work place**

1. It helps to avoid losses since some substances can easily affect others.
2. It helps to avoid accidents especially those which can easily catch fire.
3. It helps to minimize health risks of workers.
4. It enhances quality in production.

### **(E)LIGHTING OF THE WORK PLACE**

This element is concerned with how the lighting system at the work place can be improved for a quality working environment.

### **Ways of ensuring/achieving proper lighting of the work place.**

1. Maximizing the use of the natural lighting system by providing enough ventilators, windows and doors.
2. Using proper colour of paint which can easily reflect enough light, for instance, painting the ceiling and walls with white or bright colours and ensure that walls are kept clean.

3. Providing artificial lighting where necessary adequate for any type of work being done, for instance, adding light sources by installing reflectors.
4. Reducing obstruction and eye strain from glare by repositioning of lamps or shielding. Workers should be positioned in a way that they do not face bright light from windows or other sources.
5. Making arrangements to lock out light completely in cases where it is not needed. However, one should ensure that there is enough air circulation, for instance, in photo studios especially where development of films is done.
6. Cleaning windows regularly to let in natural light especially glass windows.
7. Adding sky lights and ensure that they are always kept clean.
8. Cleaning and maintaining light fixtures and replacing bulbs regularly.
9. Providing specific lighting or adjustable lamps for special types of work.

### **Importance of proper lighting at the work place**

1. It improves productivity of workers.
2. It helps to improve quality of the products.
3. It enables one to see objects being used clearly.
4. It is important for safety of workers and machines.

### **(F) WELFARE FACILITIES FOR WORKERS**

This element looks at how welfare facilities for workers can be improved in order to increase their morale and productivity.

### **Measures that can be used to promote/improve welfare facilities for employees.**

1. Providing adequate supply of food or feeding facilities especially when the workers are to spend relatively long periods of time at the work place.
2. Providing regularly cleaned sanitary facilities close to the work place such as washing facilities, washing soap, water, cleaning towels, e.t.c

3. Providing resting time (break) for tea and lunch and resting places so that workers do not become tired and bored.
4. Providing enough supply of free, safe and cool drinking water for workers at the work place.
5. Providing places of convenience, that is, toilets which should be separate for men and women and should always be kept clean.
6. Providing incentives to workers to motivate them such as medical allowances, transport allowances, accommodation, e.t.c at the work place.
7. Providing recreational facilities for workers at the work place to entertain them such as soft music, television, e.t.c.
8. Providing adequate and appropriate types of protective gears like helmets, masks, face shields, ear plugs, gloves, gumboots, e.t.c for workers while at the work place.
9. In cases where workers need special clothing, staff should be provided with such special clothing. However, private changing rooms should be provided if workers are to use work place clothes (uniforms).
10. Putting in place user-friendly facilities for the disabled at the work place.
11. Providing separate, comfortable and hygienic places for meals.
12. Providing first aid equipment and training first aid providers.
13. Providing adequate storage for workers' belongings like clothing, motor cycles, bicycles, e.t.c
14. Ensuring that sound pollution is minimized at the work place.

## **Importance of welfare facilities of workers**

1. It improves workers' health.
2. It enhances the working morale of workers.
3. It increases productivity since workers will be happy and interested in what they are doing.
4. It improves the working relationship between workers and employers.

### (G) PREMISES OF THE WORK PLACE

This element looks at how management can improve on the work place lay out, working conditions and organization for better efficiency and increased productivity at the work place.

#### **Ways of improving work place premises lay out ,working conditions and organization**

1. Providing a sign post for the business for easy identification.
2. Providing a clean environment conducive to all workers so as to promote increased productivity.
3. Ensuring enough natural ventilation by having more roof and wall openings like windows, doors, e.t.c.
4. Providing enough entrances and exits at the work station so that workers can easily escape in case of danger.
5. Improving on the heat protection of the building and this can be done by covering metal walls and roofs with insulating materials or use paint which can easily reflect heat.
6. Providing adequate lighting system suitable for the employees and the work done to allow perfect vision.
7. Providing passage ways which should be regularly cleared or provide barriers to keep them clean.
8. Providing enough fire extinguishers within easy reach of the workers. However, one should ensure that workers know how to use such equipment.



9. In case there are sources of noise, heat, fumes and welding, these should be out of the work station or provide enough barrier or exhausts.
  10. Providing proper hygiene and sanitation facilities at the work station and ensure that they are regularly maintained, for instances, places for meals.
  11. Arranging machines and tools properly for easy and proper movement of the workers and materials without obstruction.
  12. Avoiding irregular, entangles/complicated or frayed (worn) wiring connections from the work place.
  13. Providing specially designed devices like trays, vices and other fixtures which can be used to hold items firmly while doing work.
- (H) ORGANISATION FOR WORK WITHIN THE WORK PLACE  
(WORK ORGANISATION)

This looks at how work at the work place should be properly organized to optimize production and job satisfaction.

### **Measures that can be undertaken to ensure proper work organization**

1. Using work schedules to ensure that work is completed on time and that a given piece of work is done effectively and efficiently according to the schedules.
2. Encouraging specialisation or division of labour, that is, sharing of tasks among the workers.
3. Eliminating some tasks by using machines which can combine some operations and improve efficiency.
4. Using group work or quality circles to improve productivity and quality.
5. Organising tasks for workers in shifts so as to avoid work being done by similar people all the time.

6. Making frequent re-arrangements of work place lay out, order or production operations to improve production flow.

### **Importance of proper work organization**

1. It avoids duplication of work.
2. It avoids conflicts within the workers.
3. It promotes optimum use of resources.
4. It enhances job satisfaction of workers.

### **PRODUCT PROMOTION**

Promotion of goods and services refers to the process of informing, persuading and influencing the consumer's decision in buying a good or service.

### **OBJECTIVES/AIMS/PURPOSE OF PROMOTION**

1. To increase sales.
2. To stabilize sales.
3. To increase market share
4. To increase profits
5. To inform the public about the availability of the entrepreneur's product.
6. To constantly remind consumers about the availability of products.
7. To target a particular segment (section) of the market and so position of the product.
8. To stimulate buying.
9. To outcompete other firms, that is, to fight competition in the market.
10. To retain the existing market.
11. To promote publicity of an enterprise and also acquire good will.
12. To persuade the consumers to buy the products of an entrepreneur instead of buying from other producers.

### **THE PROMOTIONAL MIX**

This refers to the combination of various activities/methods undertaken by an entrepreneur to promote his product. It includes sales promotion, advertising, publicity and personal selling.

### **TYPES OF PRODUCT PROMOTION**

## (A)SALES PROMOTION

Sales promotion refers to the various activities undertaken by an entrepreneur to increase the sales of goods and services.

### **Methods/ways used by entrepreneurs to promote sales (sales promotion)/Elements of promotion**

1. Giving a product a distinct name (branding) for instance, Nomi, Omo, Safi, e.t.c. This helps the customers to differentiate a product from similar products of other enterprises. This helps customers to self-select a product and it creates customer loyalty.
2. Giving samples. The entrepreneur may offer a sample product to consumers when introducing it to the market. A sample may be attached to another product or may be delivered door to door. This enables consumers to try out a product and may be induced to subsequently buy the product.
3. Giving gifts. This involves giving different gifts to consumers free of charge with the intention of creating awareness of the advertiser's name and message, for instance, calendars, caps, T-shirts, shopping bags, umbrellas, drinks, pens, e.t.c. on which the advertisers' name or logo is imprinted.
4. Offering price reductions (discounts). This is a deliberate attempt by producers/suppliers to slightly lower the prices of his products so as to increase his or her sales. However, this is done for a specific period hoping that new and old customers will continue to buy even if the price reduction is removed. For instance, Jomayi Christmas season price reductions.
5. Advertising of products in newspapers, radio, television, posters, sign posts, music, banners, bill boards, election displays (neon signs), calendars, brochures, fliers, e.t.c.  
This involves spreading of information about one's products to the customers to whom the entrepreneur wants to sell his or her products.

6. Attractive/proper packaging. Entrepreneurs can use attractive packaging materials in order to position the products in the minds of the buyers, for instance, the containers of cow boy and those of different cosmetics.
7. Personal selling. This involves employing sales personnel who go on moving from home to home or door to door or offices advertising the products.
8. Renovation of business premises. This involves improving the quality of business premises like shopping outlets. For instance, fuel stations in Uganda like Total and Shell have embarked on aggressive campaign of improving the outlets of their fuel stations aimed at attracting more customers.
9. Proper arrangement/display of the products outside and inside the business premises. This involves having a neat and well arranged sales room where goods can easily be seen using attractive lights inside the sales room.
10. Use of selective credit facilities and installment selling like hire purchase. These may motivate many people to buy especially expensive commodities thereby promoting sales.
11. Use of non-productive value methods like providing free and convenient parking space, sales guides to customers, e.t.c. these are mainly used by supermarkets and help to promote a firm's products.
12. Showing excellent knowledge of the products, its benefits and use. It is the duty of every business man to show his or her customers how whatever they are selling is used and its value. This advertises the product effectively and may lead to a purchase.
13. Being polite to customers. This may be through caring for the customer's needs. This should be done by the sales persons to attract more customers.
14. Communication with customers and understanding their requirements. This can be done through press releases which may be published with fewer costs and may be direct if the entrepreneur is in close contact with his or her customers. This helps the entrepreneur to

listen to the complaints and comments that customers usually pass over to him or her.

15. Organizing prize awards (contests). This is where the entrepreneur announces a competition through mass media offering a number of prizes. Simple questions are then asked to encourage many people to participate and in this way, they will buy the manufacturer's products.

### **Importance of carrying out sales promotion in business**

1. It leads to increased sales. This is because promotion of goods and services creates market for the entrepreneur which leads to increased profits.
2. It helps the business to become popular and also acquire good will as a result of the various promotional activities undertaken.
3. It informs new customers about availability of the entrepreneur's products. This makes the goods and services of the entrepreneur become known to the public.
4. It helps the entrepreneur to retain his or her market share so that he or she does not lose some of his or her customers to competitors.
5. It persuades the consumers to buy the products of an entrepreneur instead of buying from other producers.
6. It helps the entrepreneur to introduce new products or designs. It informs the public about new styles, fashions and tastes of the product. This is especially done through the use of samples and gifts.
7. It helps the entrepreneur to constantly remind consumers of the availability of his or her products hence increasing sales in areas of low or declining demand.
8. It creates direct contact between the business man and the customers such that other middlemen are not able to increase prices which lower demand for a given firm's products.

9. It promotes publicity of the entrepreneur thereby helping him or her to outcompete his or her competitors.

## (B) ADVERTISING

This refers to the spreading of information about one's product(s) to the consumers.

OR

It can be defined as the spreading of information concerning an idea, product or service to induce action in accordance with the intent of the advertiser.

### TYPES/FORMS OF ADVERTISING

There are mainly 2 types of advertising, that is;

1. Informative advertising

This is the type of advertising that gives information to the general public about the availability of goods and services. Information given includes types of goods, where they are found, their prices, uses, details about handling goods and the side effects of using the products. For instance, 'Cigarette smoking may be harmful to your health.'

2. Persuasive advertising

This is advertising intended to induce/entice/lure the general public to buy a good or service. It tends to be very attractive. Here appealing words or phrases, pictures and slogans are used in order to encourage people to buy. It may however, not give side effects of using a product.

### **Other forms of advertising include;**

1. Mass or collective advertising

This is a form of advertising where many businesses dealing in related goods or services carry out advertising together as a group.

2. Direct advertising

This is a form of advertising intended for a specific (particular) group of consumers, for instance, advertising fair and lovely powder for babies.

### 3. Indirect advertising

This is advertising of goods or services to the general public. Here no particular class of customers is targeted but the general public, for instance, advertising that Omo washes brightest.

## **Aims/purpose of advertising**

### 1. To stimulate buying

Entrepreneurs advertise their products so as to encourage people to buy them even if they did not intend to buy.

### 2. To arouse interest

Most adverts especially on T.V and magazines are aimed at increasing people's interest towards the given goods and services.

### 3. To create desire

By advertising the benefits and satisfaction one is likely to gain from using a particular good or service, they encourage prospective customers to admire/desire and they buy the product. For instance, 'Smoke Boss cigarette and become a boss'.

### 4. To convey/pass on information

Many advertisements are intended to give the public information about a product, for instance its quality, price, use, where it can be found, e.t.c.

### 5. To introduce new products or designs.

Some advertisements are intended to inform the public about new styles, fashions and tastes of a product, for instance, a new brand of Samsung cellular phone, a new model of Mercedes benz car, e.t.c.

### 6. To attract new customers

Advertising a product by giving its good qualities attracts customers, for instance, 'Fair and lovely for a lovely skin which is smooth'.

### 7. To sustain customers

Entrepreneur repeatedly advertise with the aim of keeping the already existing customers in the market, for instance MTN, UTL, Century bottling company, continuously advertise so as to maintain their market share.

8. To inspire/create confidence in consumers.

There are advertisements that give prospective customers confidence in using a good or service, for instance, 'We Care' for Warid telecom.

9. To enter a new market by spreading of information about one's product to the customers.

10. To fight competition in the market through continued advertisements.

### **Importance (merits) of advertising to an enterprise**

1. It increases a firm's sales due to increased demand for goods and services. When more advertisements are carried out, people will demand more goods leading to mass production hence increased profits.
2. It helps an entrepreneur to introduce new products or designs into the market.
3. It facilitates large scale production. This is because it creates increased demand which usually results into large scale production with its associated advantages.
4. Due to increased production, it stimulates research and development activities. This is because competing producers have to find ways of how to improve their products so as to outcompete those of other competitors which calls for research in production.
5. It persuades the consumers to buy products of an entrepreneur instead of buying from other producers.
6. It helps the entrepreneur's business to become popular and also acquire good will. This is because it helps to build reputation and image of the advertiser and creates customer loyalty.



7. It helps the entrepreneur to constantly remind consumers of the availability of his or her products hence increasing sales in areas of low or declining demand.
8. It informs new customers about the availability of the entrepreneur's products. This makes the goods and services of the entrepreneur known to the public.
9. It helps the entrepreneur to retain his or her market share so that he/she does not lose some of the customers to competitors.
10. It creates direct contact between the businessman and the customers such that other middlemen are not able to increase prices which may lower demand for a given firm's products.

### **Disadvantages/Limitations of advertising**

1. Some advertisements are persuasive and misleading.  
Consumers may be misled to buy goods they do not require which is a wastage of personal and national resources.
2. It increases the operation costs of the firm.  
This increases the cost of production and consequently the price of the final consumers have to pay for the product.
3. Some products being advertised turn out to be inferior to what the consumers had expected.  
A product may be considered as having certain values which it does not really have, for instance a herbal medicine may be advertised as something that cures more than 20 different ailments while it cannot .
4. Advertising may make stronger firms outcompete weaker ones.  
The weaker or outcompeted firms may be forced out of the market resulting into monopoly with its associated disadvantages.
5. Some advertisements may introduce irrelevant factors such as over-praising a product or de-campaigning other products in order to promote the advertised commodity. This may be annoying to consumers to some extent.

6. Unsuccessful advertisements are a wastage of money to the manufacturer. Producers may spend a lot of money advertising their products and yet sales are not forthcoming (increasing) making a loss to the business.

### METHODS/WAYS OF ADVERTISING

#### 1. The press

Here written information is disseminated to prospective customers. It enables the advertiser to communicate to a large number of people, for instance, newspapers, magazines/periodicals, e.t.c.

#### 2. Radio

This is where advertisements are broadcast from transmitting radio stations, for instance, radio Simba, CBS, Capital FM, e.t.c

#### 3. Television

This is where advertisements are brought to the attention of viewers and listeners at the same time. Products are demonstrated and well seen. In Uganda, television stations that advertise include UBC, NBS, Bukedde T.C, e.t.c

#### 4. Outdoor advertising

This involves the use of poster, bill boards, electronic displays (neon signs), sign post and banners.

#### 5. Exhibitions

This is an arrangement where a seller makes the goods known to consumers by displaying in one place. Trade exhibitions may not have specific (fixed) places. The venue keeps on changing according to the sellers' interest. However, no entrance fee may be charged to the general public, that is, free entrance to an exhibition ground.

#### 6. Trade fairs

This is an arrangement where different producers of goods or services assemble themselves in a particular place and display their goods to the general public. For instance, in Uganda, UMA organizes a trade fair every year in October at Lugogo show grounds.

### 7. Window display

This involves placing goods behind glass windows of shops, well arranged in order to attract customers who bypass and make their choice.

### 8. Door to door advertising

This involves employing sales persons who go on moving home to home, door to door or office to office advertising the products especially consumer goods.

### 9. Spoken work (loud speakers)

This is where information about goods and services is conveyed verbally using loud speakers fixed on mobile vehicles and most cases use local language to appeal to the local population. For instance, advertising music concerts, goods of a business, herbal medicine, e.t.c

### 10. Specialty advertisement

This is where entrepreneurs offer special articles to their customers bearing their brand names, trademarks and symbols like T.shirts, key holders, pens, caps, umbrellas, e.t.c.

### 11. Cinema and films

This is effective when advertising house hold goods in a heavily populated area or goods intended for teenagers who usually have a greater liking for films and cinema shows. It is however, not a popular method.

### 12. Use of jingle bells, music and attractive lights to attract attention of customers.

This method is mainly used by big saloons and supermarkets.

## FACTORS CONSIDERED WHEN SELECTNG AN ADVERTISING MEDIUM

### 1. Age group

Goods and services which appeal to teenagers and youths are advertised through magazines, television, cinema and films. On the other hand, advertisements for adults and aging people are done through radio and newspapers.

### 2. Social and education status of the target market.

Advertisements intended for ordinary people are usually done through radio and posters. However, advertisements intended for the wealthy and elite class, television, newspapers and magazines are appropriate.

3. Economic status of the target group.

Entrepreneurs usually use television and magazines when advertising to the rich. On the other hand, radio and outdoor advertising appeals mostly to the ordinary people.

4. Geographical area that the media can cover.

Advertisements to be conveyed to a wide geographical area are usually done through newspapers, radio and television. However, outdoor advertising and window display are most effective for advertisements targeting customers in a small/defined (local) area.

5. Cost of the medium

Expensive products are better advertised through expensive media like television, newspapers and magazines while cheap goods and services are advertised through cheap media like radio.

6. Speed and urgency of the information

Urgent information on goods and services in the market should be advertised in the fast media like radio and television while magazines, trade fairs and exhibitions tend to take long.

7. Message performance (life of an advertisement)

Radio and television advertisements last only for a few seconds and are over while magazines and outdoor adverts like banners, bill boards last for a long period of time.

8. Media used by competitors

Entrepreneurs should analyse the media used by competitors so as to be able to choose a better media than that used by competitors.

9. Nature of the product to be advertised.

Usually consumer goods are best advertised through radio, television, newspapers, magazines and outdoor advertising. However, specialized trade journals are appropriate for industrial goods.

10. Channel of distribution of products.

The use of newspapers, radio, television is more effective for a long distribution channel for products as they possess a wide coverage. However, for a direct (short) channel, the use of window display, fliers, banners, bill boards, sign posts and posters is more effective.

11. Message to be communicated

Goods or services which require detailed information to be advertised are better advertised through written forms of communication like newspapers and magazines.

On the other hand, the use of television, bill boards and posters is more appropriate for goods that require less detailed information and visual image to be advertised.

12. Language to be used in the advertisement

For effective communication, entrepreneurs are usually advised to advertise in languages which the target customers use and can easily understand.

13. Availability of the medium

Advertisers use media which are in their reach or readily available than those which are non-existing, for instance, a trader near a radio station uses a radio instead of travelling long distances to place advertisements in newspapers or television.

### LIMITATIONS TO EFFECTIVE ADVERTISING IN UGANDA

This refers to the barriers to successful spreading of information about one's products to the consumers. They include;

1. Having many radio stations

Each individual has a favorite station that he or she listens to. This means that when an entrepreneur uses one radio station to advertise, he or she will not reach all the intended customers of his or her goods and services.

2. Growing number of newspapers

There are many newspaper publications meaning that readers may not have time or may not actually buy the particular paper where an advertisement appears.

3. Lack of interest by people for newspapers

Some people who are literate may not be willing to buy and read newspapers. In addition compared to the population, the number of copies of the dailies printed is less. Therefore newspapers may not be effective for advertising some products.

4. Temporariness of some media

Some media are temporary, for instance, newspapers, radio and television. Newspapers are hurriedly read and forgotten that day.

#### 5. Low levels of education of the population

This renders most of the advertising media like newspapers, magazines, banners, flyers and telephone directorate unattractive (useless) as they may not be understood by some people.

#### 6. Poor reading and listening culture in Uganda.

The press like newspapers, magazines and journals which are in form of writing are not read. In addition the listening culture of the people is so poor especially the youths who mostly prefer listening to music yet they contribute the biggest percentage of customers for different goods and services.

#### 7. Language differences

There are varied languages yet English that tends to be used cannot be understood by all people. Still entrepreneurs tend to advertise using few local languages.

#### 8. Social-cultural and religious rigidities

Some cultures and religions have negative attitudes towards certain advertisements, for instance, adverts for beer, wines, cigarettes, condoms, music festivals and discos, may not attract particular groups of people like the Muslims. This therefore means that however much one may advertise his or her products he or she may not attract their attention.

#### 9. Misconceptions about advertising.

Some people tend to maintain that advertised goods are of poor quality. This means that people with negative attitudes may not be attracted by the advertisements made.

#### 10. Poor infrastructure

Such as poor communication networks, roads, etc. since advertising involves spreading of information about one's products through various means, it cannot be successful in areas where movement and communication cannot take place, for instance, in villages yet the biggest population is found in such areas.

#### 11. Limited skilled man power in the advertising industry.

These are specialists in the field of advertising who carry out advertising on behalf of producers, traders and other organizations that would like their goods or services to be advertised. In Uganda, this industry is still under-equipped.

12. High cost of advertising

Some media like newspapers, television and bill boards, are expensive to entrepreneurs especially those who operate on small scale. Such entrepreneurs may not be able to raise the amount by the medium and hence resort to cheap and inefficient methods of advertising.

13. Low profit levels of firms

Most of the businesses in Uganda are operating on a small scale due to inadequate capital hence low profit margins coupled with high taxes charged. The low profits made cannot allow these firms to carry out research and at the same time advertise their products.

PREPARING ADVERTISING MESSAGES FOR GOODS AND SERVICES

Advertising involves presenting or oral, non-oral or visual messages regarding a product, service or idea. When preparing an advertising message, one should be careful so as to make the message be understood by the target group. The most cost effective means of advertising for an entrepreneur who operates on small scale would be a sign post and posters. When using a sign post or poster the following should be noted;

- (i) the sign post should be clear and visible.
- (ii) it should be able to give the prospective customers an idea about the goods and services being offered by the firm.
- (iii) the sign post should not be expensive.

CRITERIA/GUIDELINES FOLLOWED WHEN PREPARING AN ADVERTISING MESSAGE (In case of a sign post)

1. The space provided should be used carefully, that is, one should not fill the whole space with words or pictures but instead spread his or her message within the space in such a way that it is well balanced.
2. The message should include important information about the business like the location, address, telephone contact, services being offered, e.t.c
3. The headlines should be identified and emphasized, that is, the benefits that one will gain from using the products of the business should be identified and highlighted, for instance, discounts, gifts, e.t.c.

4. The message should be specific and show the services offered properly.
5. The content of the advertisement should be simple and easy to be understood by the prospective customers.
6. The advertisement should be easy to recognize and should be put in a place where everybody can see it.
7. The entrepreneurship should emphasize the use of certain things to attract customers like use of attractive colours.
8. If there is any unique design to be used in the advertisement, it should be catered for within the logo of the business.
9. The entrepreneur should be honest in his or her advertisement, that is, he or she should be able to deliver what he or she has promised in the advertisement.

**AREAS/ELEMENTS/CONTENTS/COMPONENTS OF AN ADVERTISING MESSAGE**  
**(for instance a sign post or poster)**

1. An attractive name of the business.
2. Address and location of the business.
3. Business contacts
4. Business logo
5. Brief details of the product (goods or services) offered.
6. Benefits of the products to the customers.
7. Other benefits to the customers like discounts if any.
8. Diagrams/illustrations that are relevant.
9. A catching word/persuasive phrase (slogan). This is a word(s) that the advertiser uses to attract the attention of the prospective customers. For instance, 'we care', 'simply the best', 'where quality matters', 'your true source', e.t.c.

**Example of a sign post**

KATWE FURNITURE WORKSHOP



P.O. BOX ....  
KAMPALA

"Dealers in sofa sets, office furniture, coffee sets, beds, cup boards, ward robes,  
e.t.c"

(Free delivery services for large quantity buyers)

"Give your home a new look"

LOCATED AT KIBUYE, ENTEBBE ROAD

TEL : 0777 125598

### (C)PERSONAL SELLING (Creative selling)

This is a promotional strategy where a team of sales persons are employed to sell directly to the customers so as to increase the sales of a business. The sales persons visit customers in their homes and offices and discuss with them about new or existing products sold by them. They educate customers as to why they need the product they had never bought.

However, to do this effectively, the sales person must understand well the features of the product and its uses.

#### **Qualities of a good sales person**

He or she should;

1. have knowledge about him or herself, his or her firm, the products of the business and their qualities, the target customers, competitors as well as the selling techniques.
2. have attractive personality, that is, the capacity to attract and influence customers.
3. be honest and sincere, that is, he should be one who talks the truth, does not cheat or steal.
4. be polite to the buyers, that is, care for other people's feelings.
5. have the ability to access customers, that is, have the ability to approach a person since customers have different characters.

#### **Importance of personal selling to an enterprise**

1. It enables the entrepreneur through the sales persons to deal directly with the customers. This allows the customers to get explanations of how the product works.

2. It provides a two way communication channel which helps the entrepreneur to meet his or her customers' requirements (needs) as regards prices, quality, services offered, e.t.c as well as increasing the sales for his or her products.
3. It enables the entrepreneur to negotiate specific needs of different customers as regards prices, quality, services offered, e.t.c
4. It helps an entrepreneur to have wide market coverage by employing sales agents in various geographical areas.
5. It helps an enterprise to develop good relations with business customers since they communicate directly through sales persons.
6. It helps an entrepreneur to gain feedback about his or her products concerning suggestions for improvement.
7. It helps in winning customers' confidence about the good or service.

### **Disadvantages of personal selling**

1. It is a very expensive method in terms of salaries and wages to sales persons. In addition, the free gifts and samples given to customers make it expensive.
2. Some sales persons do not give out samples to customers. They tend to use them for their own consumption and in the end the products are not known to the public.
3. Traveling salesmen face a lot of risks and problems like road accidents, high way robbery and bad weather.
4. It cannot effectively be carried out where many products are involved since this will call for employment of very many sales persons.
5. Some attendants in the show rooms may be rude and unfriendly to customers.

## **Ways of carrying out effective personal selling**

The process of personal selling involves eight steps, that is, pre-sale preparation, prospecting, demonstration, handling objections, closing the sale and the post-sale follow up.

### **Pre-sale preparation**

This involves recruiting, employing, training and motivating of sales persons. At this stage, sales persons acquire knowledge about his or her firm, the products of the business and their qualities, the target customers, competitors as well as the selling techniques.

### **Prospecting**

This stage involves the salesperson meeting face to face with the customers. However, before meeting the prospective customer, the salesperson must fully understand their habits, preferences, income levels, attitudes, e.t.c so as to be able to select the right sales appeal.

After that, the salesperson introduces him or herself and the product to the customer in a polite and self respecting way.

### **Presentation**

This step involves opening up the sale and it deals with gaining the customers' attention. Here the salesperson is required to present the product to the customer mentioning and explaining briefly the unique features that may not be self evident. The salesperson tells the prospective customer the price, terms and conditions of payment or delivery, e.t.c.

### **Demonstration**

This stage involves the salesperson displaying and demonstrating how the product works or how it will help to meet the customer's needs. Here the sales person explain the utility (usefulness) and unique qualities of the product so that the prospective customer realizes the need for a good or service to satisfy his or her wants. This is done to maintain the customer's interest and arouse desire.

However, the sales person should not be in a hurry to impress the customer and should not avoid controversy.

### **Handling objections**

Usually presentation and demonstration are likely to bring doubt and questions in the customer's mind. Therefore the salesperson should clear all these doubts and objections by convincing the customer but without entering into controversial arguments and without showing his or her temper. The salesperson should endeavour to convince the customer that he or she is making the best use of his money by buying the product.

However, he or she should avoid proving that his or her product is superior to those of the competitors and if the customer does not buy even after all the objections, the salesperson should let him or her go without showing temper, that is, the salesperson's motto should always be 'The customer is always right.'

### Closing the sale

This steps involves the salesperson guiding the customer in making a choice but without imposing any view on him or her. For a successful closing, some adjustments in price and other things may sometimes be necessary. In closing the sale, the item bought should be packed properly and handed over to the customer with speed and accuracy.

Sometimes if the customer has bought an article, the salesperson should show and suggest an additional sale, for instance if one has bought a shirt, the salesperson can suggest to him any other item like a vest, socks, e.t.c.

This is referred to as additional sales but requires a lot of skill and tactics. Sales should be closed in a cordial manner so that the customer gains interest to buy or visit the shop again.

### Post-sale follow up

This is the last stage in the personal selling process. It involves activities carried out to ensure that the customer is satisfied with the good or service and the entire business enterprise. It also includes after-sales services like free installation of the product, checking and ensuring its smooth performance and offering other after-sales services.

This helps the entrepreneur to secure repeat sales and evaluate the effectiveness of the salespersons.

(D)

PUBLICITY

This is the communication through significant unpaid presentations about the organization in the impersonal media.

### **Distribution channels for goods and services**

A distribution channel (chain of distribution) refers to the arrangement or path through which products move from the producer to the final consumer.

#### **Types of distribution channels**

Distribution channels are classified according to the number of middlemen involved. They are mainly 3 types;

##### 1. Manufacturer to consumer (short/direct channel)

This involves the manufacturer or importer selling directly to the final consumers. The producer may sell directly through his or her retail store/outlets, for instance, Bata shoe company or through door to door selling. It is common for consumer designed products, industrial heavy machinery, industrial chemical, agricultural products, e.t.c.

##### 2. Manufacturer to retailer to consumer (medium channel)

Here the producer sells to big retailers like chain stores (multiple shops), which in turn sell to consumers. It is common for consumer goods and other durable consumer goods like computers, washing machines, television sets, refrigerators, radios, e.t.c.

##### 3. Manufacturer to wholesaler to consumer (long channel)

The producer sells to wholesalers who in turn sell to retailers and the retailers sell to the final consumers. It is widely used in distribution of goods like cosmetics, food stuffs, drugs, e.t.c.

Other types of distribution channels include;

##### 4. Manufacturer to agent to retailer to consumers

In this channel, the manufacturer supplies his or her agents with goods who sell to retailers and retailers finally sell to consumers.

## 5. Manufacturer to agent to wholesalers to retailers to consumers

Here the producer supplies goods to his agent and the agent sells to the wholesaler who in turn sells to retailers and the retailers finally sell to the consumers.

### **Middlemen in the channel of distribution**

Middlemen refer to wholesalers, retailers, agents that serve as intermediaries (who connects) between the manufacturer and the consumers. They are two types, that is,

#### 1. Merchant middlemen

These are middlemen who buy goods and handle them as their property before reselling. They include retailers and wholesalers.

#### 2. Agent middlemen

An agent middleman is a person who is employed by another person to represent him in dealing with third party. An agent holds goods on behalf of the seller (principal/owner) and the goods never become his or hers, for instance, factor agents, brokers, del-credere agents, e.t.c.

### RETAILERS

A retailer is a trader who buys goods from wholesalers in large quantities and sells them to the consumers in small affordable quantities.

### **Functions/role of the retailer in the channel of distribution**

(A)To consumers

#### 1. Holding of stocks

The retailer holds stock at convenient places for the consumers hence the consumer is relieved of the burden of storing goods.

#### 2. Providing variety for consumers to make choice

They stock goods from different producers and this enables him or her to satisfy the needs of his or her customers who may have different preferences.

### 3. Providing miscellaneous/extra services

Many retailers nowadays offer free delivery of goods to the customers' premises, repair and after-sales services.

### 4. Stores goods until they are demanded by the consumers.

Some goods are demanded seasonally and when the selling season is over, the retailer stores them safely until another season.

### 5. Providing credit facilities

The retailer gives credit facilities to his trustworthy customers and in some cases agrees to receive the amount in instalments. This enables customers to enjoy/use the goods without immediate payment.

### 6. Supplying information to the public.

The retailer informs his customers about the new goods of producers. This is done through displaying at his shop and even educating the consumers about the new goods so as to satisfy their wants.

### 7. Anticipation of consumer demand

Since the retailer is in direct contact with the customers, he is in position to foretell their wants in terms of tastes and fashions and stock goods accordingly.

### 8. Retailers bring goods nearer to consumers.

This is done by transporting goods from the producers or wholesalers to his or her shop. This saves the consumer the costs of transport.

## (B)To the wholesaler or producer

The retailer

### 1. helps in market research.

Since the retailer has personal contact with the customer, he is able to study their tastes and requirements and pass on this information to the producer or through the wholesaler. This helps the manufacturer meet the preferences of the consumers.

### 2. provides transport for the goods he has bought from the wholesaler or producer thereby relieving him or her of the burden of transport.

3. provides continuous working capital to the wholesaler or producer by paying cash for the goods bought from the wholesaler. This encourages continuous production.

4. buys goods in large quantities from the wholesaler.

This saves the wholesaler the burden of looking for storage facilities or ware houses to store the goods.

5. Publicity is provided to the wholesaler/producer's goods.

The retailer advertises the products of wholesalers/producers by displaying the goods in his or her shop.

6. Serves as a link between a wholesaler or producer and the consumers through providing the wholesaler with the outlet for his products.

Therefore the wholesaler is relieved of the burden of marketing and distributing his or her goods to many consumers scattered all over the country.

## WHOLESALEERS

A wholesaler is a trader who buys goods from the manufacturer and sells them to the retailer in small quantities.

### **Functions/role of the wholesaler in the channel of distribution**

(A) To the producer

1. The wholesaler relieves the manufacturer of the trouble of finding out suitable storage space and ware houses to stock goods producing by stocking goods and keeping them in his or her warehouse until they are demanded by retailers or consumers.

2. The wholesaler provides transport for the goods bought from the manufacturer to his warehouse. This saves the manufacturer transportation expenses.

3. The wholesaler sometimes relieves the manufacturer of the burden of packing, branding or grading goods before they are sold to retailers and consumers.



4. The wholesaler offers the manufacturer continuous working capital by purchasing goods for ready cash or by settling their accounts for the goods bought on credit in time. This enables the manufacturer to maintain continuous production.
5. He advertises goods of the producer. This is done by displaying goods in his or her shop or ware house and informing the retailers or consumers about the existence of such goods. Therefore the manufacturer is relieved of spending money on advertisements and sales promotion activities.
6. Anticipation of demand. Since the wholesaler is in close contact with retailers, he or she is in a much better position to judge changes in demand that may occur and order for the goods in advance accordingly. This saves the producer the risk of either over production or under production.

#### (B) TO THE RETAILER

1. He allows credit to some of his trustworthy retailers. This enables the retailer to carry on his business. This enables the retailer to carry on his business with less capital. Further, credit facilities from the wholesaler allows the retailer to also sell goods on credit to consumers.
2. Offers ready supply of goods to the retailer. The retailer buys goods in small quantities from the wholesaler when he or she needs them. This relieves the retailer of tying up his small capital in goods by stocking them in large quantities.
3. Informs the retailer about new types of products of the producers for which the market may be made. He or she therefore offers a constant supply of new products to the retailer to meet/satisfy the needs of the market or customers.
4. Some wholesalers offer free transport to the retailers. This saves the retailer of transport expenses.
5. Helps the retailer by breaking bulk, that is, he sells to the retailer in affordable quantities.

#### (C) TO THE CONSUMER

The wholesaler helps to keep prices stable. He or she does this by buying goods in large quantities and stocking them such that in case of prices falling as a result of over production, the wholesaler absorbs the excess by stocking it. Similarly, when the price is going up because of under production, the wholesaler releases goods from his stock hence checking price fluctuations in the market.

### DISADVANTAGES OF MIDDLEMEN

1. Middle men tend to overcharge their customers and they do this because they want to make a lot of profits.
2. Some middlemen tend to dilute some products so that they get more units to make large profits. This is especially so with liquid items like milk, jik, juice, e.t.c
3. Hiding of commodities. Some middlemen create artificial shortages by hiding certain goods in order to sell them whenever prices have increased. This makes consumers pay higher prices especially for essential goods like sugar, soap, salt, e.t.c.
4. Sale of defective goods. Some middlemen sell defective/expired products to the customers which may be harmful to them especially food stuffs like drinks.
5. Wholesalers exploit manufacturers by not buying goods from them in time. This leads to overproduction that can result into losses to the producers.
6. The profit margins of wholesalers tend to be too high as compared to those of the manufacturers and retailers in most cases. This forces them to charge high prices hence exploitation of customers.
7. Sometimes wholesalers provide incorrect information to the manufacturers regarding the market situations. This may lead to over or under production by the producer.

### Factors considered when selecting a distribution channel

### 1. Nature of the product

Producers of bulk and heavy products like industrial machinery sell directly to the final consumers so as to minimize transportation costs. Similarly, perishable items are sold through the short channel to avoid the risk of going bad.

On the other hand, light and durable goods are sold through the medium channel as they can easily be kept for sometime in the stores of the middlemen, for instance, T.V sets, radios, e.t.c.

### 2. Value of the product

High value commodities which do not need a lot of handling are distributed through a shorter channel. On the other hand, a longer distribution channel is more appropriate for low value products so as to minimize the distribution costs.

### 3. Nature and size of the market

For a small market located in a narrow area direct selling is preferable. On the other hand, in a market composed of numerous and widely scattered buyers, direct sale is not economical especially if the purchases are in small quantities.

### 4. Nature of the business

Manufacturing and trading businesses can use all distribution channels available while for agri-business, single product firms and service providers the direct channel is preferable.

### 5. Availability of middlemen

Absence of desired type of middlemen calls for direct selling. On the other hand, existence of the required middlemen who are able to provide all the relevant services to the customers enables the entrepreneur to use either medium or the long channel.

### 6. Urgency of the product

Products which are needed urgently by the consumers in a short period of time always need to be distributed through the short channel. On the other hand, goods which are not urgently needed by the consumers may be distributed through other channels.

### 7. Scale of production

Small scale entrepreneur who lack sufficient capital to handle the marketing task of their output sell their products through the medium or long channel.

However, large scale producers tend to have enough capital to handle the marketing costs and therefore can sell directly to the consumers.

#### 8. Level of competition

High levels of competition in the market require the use of short distribution channel in order to ensure goods are delivered in time so as to outcompete other firms. On the other hand, low levels of competition in the market allow the entrepreneur to use medium or longer channel.

#### 9. Amount of goods to be bought by the consumer

Producers whose customers buy on a large scale sell directly.

However, a medium or long channel is suitable for entrepreneurs whose customers buy in small quantities.

#### 10. Distribution policies of an enterprise

Firms that desire control over distribution and are financially stable use direct selling.

On the other hand firms that lack sufficient funds sell through middlemen so as to reduce on the distribution costs.

#### 11. Cost of the distribution channel/marketing costs

Some goods require special marketing facilities like refrigeration for storage of commodities like fruits, vegetables, e.t.c. Manufacturers who are not in position to meet distribution expenses are encouraged to sell their products through intermediaries like wholesalers and retailers.

However, entrepreneurs with capacity to meet such distribution costs use a shorter channel.

#### 12. Level of marketing risks

Some producers are ignorant about the final users/buyers of their goods. These must sell through middlemen, while others do so to avoid risks involved in distribution of goods such as spoilage, change in fashion, reduction in weight, e.t.c.

On the other hand, producers who have knowledge about who their customers are in terms of size, need, e.t.c and expect minimum risks in distribution of goods sell directly to the consumers (short channel)

## **MARKET MANAGEMENT**

What is marketing?

Marketing is the performance of activities that are necessary to get the goods and services from the producer to the consumer resulting into consumer satisfaction and realization of profits on the part of the entrepreneur.

The main objective of marketing is to ensure that the needs or wants of customers are satisfied while the entrepreneur also makes profits.

The activities involved in marketing include the following;

1. Finding out what customers want.
2. Developing/providing goods and services that meet the needs of customers.
3. Setting prices that customers can afford and are willing to pay at the same time enabling the entrepreneur to make profits.
4. Making the products available at places where customers can easily access them.
5. Promoting the goods by informing and attracting customers to buy them (promotion).

### THE MARKETING CONCEPT

The marketing concept directs the entrepreneur to focus on the efforts for a profit while identifying, satisfying and following up customers' needs. Therefore the policies and activities of a business should be aimed at satisfying the customers' needs while obtaining profitable rather than maximum sales volume. However, to use the marketing concept, a small scale business should consider the following;

1. Carrying out market research, that is, determine the needs of the customers.
2. Market strategy, that is, developing a competitive advantage.
3. Target marketing, that is, select specific markets to serve.
4. Marketing needs, that is, determine how to satisfy the needs of the market.

What is a market?

A market is an arrangement here buyers and sellers come into contact to exchange a well defined commodity using a given medium of exchange.

### THE TARGET MARKET POPULATION

A target market population is where the likely buyers of the entrepreneur's products are to be sourced from.

OR

Is where an entrepreneur is supposed to sell his or her goods or services. Examples include children, women, men, students, organizations like schools, hotels, hospitals, e.t.c.

Factors that determine the target market population

1. Income levels of the people

Higher income earners possess higher demand hence leading to a bigger target market population.

On the other hand, low income levels lead to low levels of demand which leads to a smaller target market population.

2. Market share of the business

The bigger the market share, the bigger the target market population while a smaller market share means a small target market population.

3. Rate of competition

The higher the level of competition in the market, the smaller the target market for an entrepreneur as many producers are fighting for the same market.

On the other hand, less competition in the market leads to a bigger target market as the entrepreneur is able to get more customers and sell more.

4. Trends in the market

This includes changes in population, life styles, economic situations and government policies. For instance, an increase in population means an increase in demand ceteris paribus and therefore a bigger target population.

However, changes in economic situations like increased inflation and high taxes result into a low target market as they tend to reduce the purchasing power of the consumers.

5. Consumption habits of the consumers

Smokers spend more on cigarettes, sports people spend more on sports related activities and drunkards spend more on alcoholic drinks. This implies that a bigger market exists when consumers are addicted to consumption of certain commodities as compared to situations where consumers are less attracted to particular commodities.

6. Age and sex composition of consumers

Different age groups require a variety of different specified products, for instance, skirts and jean trousers by teenagers while children mostly demand

toys, sweets and ice cream. This results into high demand for such products and hence leading to a big market as opposed to the market of products not engaged by such categories of consumers.

## **MARKET RESEARCH**

Market research is the systematic process of collecting and analyzing information relating to markets and opinions of the public about the products of a firm to enable present and future decision making. It is an aid to trade where producers come to know what people's opinions are regarding a particular good or service.

### AIMS/OBJECTIVES OF CARRYING OUT MARKET RESEARCH

1. To find out the type and nature of products preferred by consumers at a given time.
2. To find out the quality of products consumers desire to buy.
3. To determine the quantity/volume of products to be put on the market, that is, how much is likely to be bought now and in the future.
4. To find out consumers' reactions on the prevailing prices.
5. To increase sales/turnover of a firm.
6. To determine the best channel of distribution of goods and services for possible areas where the distribution channel is most appropriate.
7. To find out and follow up the effectiveness of advertising and sales promotion on the sales of a particular product.
8. To assess the level of competition with rival firms, for instance, Crown bottlers may carry out market research to determine its share and how its products are competing with those of Century bottling company.

### METHODS OF COLLECTING DATA IN MARKET RESEARCH

#### 1. Interviewing.

This method is used to collect about customers knowledge, opinions, attitudes, preferences, their buying patterns. It involves face to face discussions between the researcher and the respondents about the problem at hand.

#### 2. Observation.

This method involves watching/seeing certain things/factors in a given market in order to arrive at general conclusions about the entire market. For instance, a firm wishing to start processing fruits may observe the customers to find out whether they buy processed juice or not in order to enable it make decisions

whether to or not to process fruits. This method can be used to collect information which people do not want to give freely.

### 3. Questionnaire

This involves asking all respondents similar structured questions. The questions are presented in written form and sent to respondents who are supposed to return the questionnaires after filling in the required information.

### 4. Sampling

This is where the manufacturer selects an area which reasonably represents the entire market to carry out testing using the sample products. The product is then launched into that particular area, for instance, a town, a city, a village and research is done thereafter.

Respondents may be required to answer questions on different aspects of the product like price, quality, brand name, e.t.c. The answers are then analysed to help the manufacturer modify his commodity before supplying it to the entire market.

### 5. Surfing/use of the internet

This is where information is gathered through surfing from different web sites from the internet.

### 6. SWOT analysis

This method involves collecting data by a business through gathering information about its strengths, weaknesses as well as its opportunities and threats from the outside environment.

## SOURCES OF DATA FOR CONDUCTING MARKET RESEARCH

### 1. Company employees/workers

This is a source of information about the customers' likes and dislikes. This is because workers usually work more directly with customers and hear complaints about entrepreneur's products. They may also be aware of the items consumers request that the business does not offer.

### 2. Competitors/competition

This is where data is collected by monitoring the activities of competitors in the same line of business. This may provide important information about customers' demands that were overlooked and they may be capturing part of the market by offering something unique.



### 3. Customers

Here the entrepreneur talks to the customers to get their feelings about his or her products and asks them where improvement can be made.

### 4. Company records and files

These can provide information that the entrepreneur can refer to, for instance records relating to sales, complaints, receipts, where customers live, where they work from, how much they buy, e.t.c. This enables the entrepreneur to check on the effectiveness of advertising.

## CHALLENGES FACED WHEN CONDUCTING MARKET RESEARCH

### 1. Language difference

Uganda lacks a national language and this makes researchers sometimes miss the information they desire to get due to inability to communicate in the languages understood by the different respondents/customers.

### 2. Inadequate/insufficient funds

It is very expensive to carry out market assessment. Small firms with limited capital may not be able to undertake it and this greatly affects their planning.

### 3. Inadequate skills to handle data collection

There is limited manpower to effectively and efficiently handle market assessment. This leads to inaccurate interpretation of information from the public.

### 4. Inadequate co-operation from the consumers.

Some people refuse to answer the questions, others give wrong answers while some chase away the researchers. All these distort research findings and conclusions.

### 5. Changes in demographic factors like population, age, sex, e.t.c all of which affect the findings.

### 6. Insecurity/hostility in some areas which hinders effective data collection.

### 7. There is also possibility of getting information from a biased sample/source.

## IMPORTANCE OF CARRYING OUT MARKET RESEARCH FOR A PRODUCT

1. It helps the entrepreneur to assess the effectiveness of his or her advertising and promotional activities.
2. It helps an entrepreneur to find out the response of customers to new products and developments that he or she has introduced in the market.
3. It helps an entrepreneur to identify problems in the current product or service and find areas for improvement so as to fulfill the customers' demands.
4. It helps an entrepreneur to identify changing market trends that may affect his or her sales and profit levels presently and in the future.
5. It helps an entrepreneur to find out his or her market share, that is, the number of consumers he or she is serving in the market.
6. It helps the entrepreneur to find out who his or her customers are, where they live, what they want and their buying patterns.
7. The entrepreneur gets to know the people's opinions regarding a particular good or service.
8. The entrepreneur gets to assess the most favoured designs, sizes, styles, flavours and packages which consumers want most.
9. It helps the entrepreneur to identify his or her competitors, their activities and strategies and devise ways of outcompeting them.
10. It helps an entrepreneur to collect information which can be used as a basis for decision making.

### MARKETING TECHNIQUES USED IN BUSINESS

This refers to the tools that may be employed by the entrepreneur so as to carry out his or her marketing effectively. They include the following;

1. Marketing decision making

This involves making the right decisions on how to market and distribute the products.

## 2. Effective communication

This is an activity that takes place when a message is sent from one party to another so that it is understood and acted upon if necessary, for instance, "All airtime sold here".

Communication with customers in this sense will be aimed at conveying the message about the goods and services.

## 3. Display

This involves making the items of the entrepreneur known by strategically arranging them in certain positions so as to attract attention and arouse the interests of the viewers. This causes curiosity, lead to inquiry, generation of interest and eventual purchase.

## 4. Promotion and advertising

These refer to the means used to get the message about one's products reach the intended customers. This can be done by sponsoring games, giving gifts. This boosts the entrepreneur's market share as well as his total sales.

## 5. Offering discounts/price reductions

This is a deliberate attempt by the entrepreneur to slightly lower the price of his products to encourage customers to buy. Prices are reduced for a specific period and it is hoped that the new and old customers will be encouraged to buy even when the price reductions are removed.

## 6. Negotiation

This involves bargaining with customers on how best the entrepreneur's products can be sold and distributed. It is important to reach a mutual understanding and make one feel that he or she has been given a better deal, for instance, negotiating for fair prices.

## 7. Quality improvement

This helps an entrepreneur to meet the needs of the market and attain a bigger market share.

## 8. Personal selling

This involves sending a group of individuals, that is, salesmen to visit the customers in their homes, offices and discuss with them about the new products as well as the existing products sold by the firm. It involves direct interaction

between the customers and salesmen where customers' opinions about the firm's products can easily be obtained.

#### 9. Favourable pricing policies and strategies

This helps the entrepreneur to capture a wider market as well as obtaining more profits, for instance, a low price but profitable can be charged to enable the entrepreneur's products to penetrate the market or survive competition in the market.

### MARKETING OBJECTIVES

There refer to the objectives that may be followed by an entrepreneur when fixing prices for his or her goods or services. They include the following;

#### 1. Early cash recovery objective

This is where the entrepreneur sets a price that will lead to quick recovery of cash either because of the cash needs of the business or because of future uncertainties. In this case, the price set will be relatively low.

#### 2. Market penetration objective

Here an entrepreneur may set a relatively low price so as to stimulate growth of the market and to increase his or her market share.

However, before doing this, he or she should bear in mind certain factors which favour setting of low prices, for instance, to discourage competition.

#### 3. Market skimming objective

This is where a high price is charged by the entrepreneur to take advantage of existence of buyers who attach a high prestige value to his products and are willing to pay a high price for it. However, the price may be gradually lowered as the value attached to the product declines and buyers become conscious of price.

#### 4. Product line promotion objective

Here the entrepreneur sets a price that will promote his or her sales of a particular product and the entire product line, for instance loss leader pricing where a popular product may be priced lower or even at a loss so as to attract buyers who buy it in large quantities or to induce a bigger number of buyers to buy other products of the enterprise.

#### 5. Satisfying objective

This is where an entrepreneur sets a price that satisfies his marketing objectives and at the same time leads to realization of profits, for instance, an entrepreneur may set a price that maximizes returns but accompanied with a lot of uncertainties while others

may be satisfied by setting a price that yields less returns but with less uncertainties.

## PRICING OF GOODS AND SERVICES

This refers to the activity that involves attaching of monetary values to goods and services at which the entrepreneur is to offer his or her products for sale.

### FACTORS CONSIDERED WHEN DETERMINING PRICE FOR A PRODUCT

#### 1. Marketing objectives

In this case, the price set by the entrepreneur should be in line with the specific marketing objectives of the firm, for instance, profit maximization, attaining a high percentage of market share, e.t.c

#### 2. Costs of production

The price charged should be able to cover the expenses incurred and leave the entrepreneur with a profit. This therefore means that the higher the costs incurred to produce a particular product, the higher will be the price to be charged and vice versa.

#### 3. Price of competitors

If a product has close substitutes, then the entrepreneur should charge similar prices or even lower than those of other entrepreneurs.

#### 4. Elasticity of demand for the product

The entrepreneur should charge relatively low prices for commodities whose price elasticity of demand is elastic and relatively higher prices for commodities with inelastic demand.

#### 5. Quantity particular customers are able and willing to buy.

When customers are able and willing to buy in large quantities, the entrepreneur should charge a relatively low price so as to maximize sales. On the other hand, a relatively higher price should be charged where customers are buying in small quantities.

#### 6. Nature of the product

Seasonal products like umbrellas, success and Christmas cards are usually sold at higher prices than products which are not seasonal in nature such as salt, soap, sugar, e.t.c

## COMMON METHODS OF PRICING PRODUCTS

### 1. Cost-oriented pricing

This is where the price is largely set basing on the cost of producing a product, that is, the higher the cost of production, the higher will be the price and the lower the cost of production, the lower will be the price and the lower cost of products ,the lower will be the price.

### 2. Competition-oriented pricing.

Here fixing of prices is determined basing mainly on the prices of competitors for the same or similar products. The entrepreneur may keep his/her prices lower or higher than those of competitors in view of certain considerations, for instance, high quality considering.

### 3. Demand-oriented pricing

Under this method, a higher price is charged when the demand for the product is strong and a lower price is set where demand is low even when the cost of production is the same in both cases.

### 4. Supply-oriented pricing

This is pricing based on how much is supplied and the number of competing suppliers or a similar product, for instance, if there are very many suppliers then more will be supplied and hence a low price will be set and vice versa.

### 5. Bargaining/haggling

Here the price is determined by the discussion of prices and other conditions between the buyer and the seller with an aim of reaching an agreement on the price of the product. The buyer keeps on increasing the price he or she is willing to pay and the seller keeps on decreasing the price he or she is willing to offer his product until a final price that favours both is reached.

### 6. Auctioning/bidding

This is where the seller offers a product for sale and calls for bids and anybody interested in buying is free to offer his or her own price. In this case the higher bidder sets the price and eventually takes the commodity. This method is commonly used by government departments, for instance, Uganda Revenue Authority and Bank of Uganda especially when disposing off used items like computers, furniture, e.t.c.

### 7. Fashion-oriented pricing

This is where prices are determined basing on the different fashions, designs or models. For instance, some people prefer shoes manufactured by Bata shoe company while others prefer electrical appliances sold by Ssebagala and sons.

#### 8. Value-oriented pricing

This is where prices are determined basing on the value of the product, for instance, high value commodities like gold, diamond are highly priced than water and transport as a service may be priced lower than medical care.

#### 9. Resale price maintenance

This is a system of setting prices by manufacturers for retailers to sell at. For instance, in Uganda, it is usually done by newspaper publishers who fix retail prices for their newspapers.

#### 10. Price leadership

This is practiced by firms with the largest share in the market. The prices are kept very low for a given period of time so as to outcompete the inefficient and high cost firms. After throwing out the inefficient firms, prices are then increased by the remaining firms. In Uganda, this method is mainly used by fuel companies like Total, Shell, e.t.c.

#### 11. Offers at fixed prices

This is mainly done by monopoly firms and government departments which fix prices at which certain services are to be supplied, for instance water and electricity bills.

#### 12. Government policy pricing

This is where government dictates prices of some essential products like sugar, salt, petrol, e.t.c. This is done through price controls where the government may set either a minimum or maximum price.

## **CUSTOMER CARE AND CUSTOMER RELATIONS**

Customer care and Customer relations help in working towards the improvement of sales of the business. Since the customer is taken to be the king, the entrepreneur needs to take care of him/her properly, show concern and attention, e.t.c.



## WAYS THROUGH WHICH AN ENTREPRENEUR CAN ENSURE GOOD CUSTOMER RELATIONS

1. Being honest to customers, that is, being trustworthy while handling business transactions which customers and suppliers, financiers and competitors.
2. Handling customers' complaints well. It is important to address issues or complains that are presented by customers, for instance, underweight, over priced products, wrong size, contaminated products, e.t.c.
3. Offering prompt and excellent services to customers. Customers need to be given good attention and should be served whenever they show interest for the goods or services.
4. Being pleasant, that is, liking and doing the job with happiness. Businesses should be done happily especially through verbal and non-verbal communication so as to promote good care and relations.
5. Provision of customer care when carrying out business transactions, for instance, welcoming and greeting the customers.
6. Having knowledge of the products, that is, having ability to explain to the customers information concerning the products such as use, handling, storage, e.t.c.
7. Offering technical and after sales services like packaging, transport, free gifts, e.t.c.
8. Improving on the quality of products regularly depending on the market demands.
9. Being efficient and available to assist the customers from time to time.
10. Offering occasional price reductions or discounts to customers.
11. Extending credit facilities to trustworthy customers.

12. Being clear when communicating to customers.

## **COPING WITH COMPETITION**

What is meant by competition in business?

Competition is the battle between businesses to win consumer acceptance and loyalty.

### TYPES OF COMPETITION IN BUSINESS

There are four types of competition, that is, perfect competition, monopolistic competition, oligopoly and monopoly.

#### (A) PERFECT COMPETITION

This exists in a market in which no single buyer or seller has influence over the products sold in the market. There are many firms selling identical products with no firm large enough, relative to the entire market, to be able to influence market price.

#### **Features/characteristics/conditions of perfect competition**

1. Large number of firms

There are large numbers of firms in the industry. Each firm in the industry is so small and its output so negligible that it exercises little influence over price of the commodity.

2. Large number of buyers

There are very large numbers of the product. If any consumer purchases more or purchases less, he or she is not in position to effect the market price of the commodity.

3. The products are homogeneous

The goods produced by all firms in the industry are identical. In the eyes of the consumer, the product of one firm (seller) is identical to that of another seller.

4. No barriers to entry

The firms in a competitive market have complete freedom of entering into the market or leaving the industry as and when they desire.

### 5. Complete information

The consumers and producers possess perfect information about the prevailing price of the product in the market. The consumers know the ruling price, the producers know costs, the workers know about wage rates, e.t.c.

### 6. Profit maximization

For perfect competition to exist, the sole objective of the firm must be to get maximum profit.

## (B) MONOPOLISTIC/IMPERFECT COMPETITION

This is a market where multiple firms offer variations of the same product or multiple products are offered each with variations. This variation may be in quality, price, durability, e.t.c, for instance the restaurant industry.

### **Features of monopolistic competition**

#### 1. Large number of sellers

There are a large number of sellers producing differentiated products. Each seller produces a very small part of the market supply. So no seller is in position to control price of the product.

#### 2. Product differentiation

Every producer tries to keep his product dissimilar than his or her rival's product in order to maintain his separate identity.

#### 3. Freedom of entry and exit

This leads to stiff competition in the market. It also enables new firms to come with close substitutes. Free entry and exit maintains a normal profit in the market for a longer span of time.

#### 4. Existence of selling cost

Due to product differentiation, every firm has to incur some additional expenditure in the form of selling cost. This cost includes sales promotion expenses, advertising expenses, salaries of marketing staff, e.t.c.

#### 5. Absence of interdependence

Large number of firms are different in their sizes and each firm has its own production and marketing policy. So no firm is influenced by another firm.

#### 6. Two dimensional competition

Monopolistic competition has two types of competition aspects, that is, price competition where firms compete with each other on the basis of price and non-price competition where firms compete on the basis of brand, product quality, advertisement, e.t.c.

#### 7. Concept of group

A group means a number of firms producing differentiated products which are closed related.

#### 8. Downward sloping demand curve.

In monopolistic competition a firm has an elastic demand curve. This means it can sell more at a lower price and vice versa.

### (C) OLIGOPOLY

This is a market dominated by a small number of participants (firms) who are able to collectively exert control over supply and market prices. There are significant barriers to entry, for instance, commercial and military air craft manufacturers.

### **Characteristics of oligopoly**

#### 1. Interdependence

The firms are interdependent in making decisions. This is because the competition is less and any change in price and product by any firm will have a direct influence on the fortune of its rivals which in turn retaliate by changing their price and output.

#### 2. Existence of advertising and selling costs

The firms employ aggressive and defensive weapons to gain greater share in the market and to maximize sales. They therefore incur a great deal on advertising and selling costs.

#### 3. Group behavior

The firms under oligopoly are interdependent as they are in a group. Profit maximization may not be valid in this case.

#### 4. Elements of monopoly

Under oligopoly with product differentiation, each firm controls a large part of the market by producing differentiated product. In such a case it acts in its sphere as a monopolist.

#### 5. Price rigidity

Prices tend to be rigid and sticky. If any firm makes a price-cut it is immediately retaliated by the rival firms by the same practice of price-cut. There occurs price war hence under oligopoly no firm resorts to price-cut without making price-output decision with the other rival firms. The net result will be price rigidity.

### (D) MONOPOLY

This is an enterprise that is the only seller of a good or service. There is no competition in the market. Without government intervention a monopoly is free to set any price it chooses and will usually set the price that yields the largest possible profit.

#### **Features of monopoly**

1. One seller and a large number of buyers. It is an imperfect market structure where there is only one seller of a product with a large number of buyers. No buyer's reaction can influence the price.
2. No close substitute. A single producer produces a single commodity which has no close substitute.
3. Strong barriers to entry into the industry exists. There is a strong barrier on the entry of new firms. Since the monopolist has absolute control over production and sale of the commodity, certain economic barriers are imposed on the entry of potential rivals.

N.B: For more characteristics on different types of competition refer to the Economic text books.

#### WAYS OF COMPETITION IN BUSINESS

##### 1. Pricing

Most people want a good deal. If a similar service could be offered for a cheaper price, one stands a chance of winning customers' loyalty.

##### 2. Packaging

This includes the way one decorates his or her premises, the way the salesperson dresses, neatness and colour of the products, wrappers or containers and neatness in packaging.

### 3. Improving quality

The better the quality, the more the product would be suitable for the use for which it is intended. By improving the quality of the products, it is possible for the enterprise concerned to attract a large share of the market.

### 4. Offering convenient services

This includes staying open late or during lunch when other businesses are closed, for instance, some commercial banks close at 6:00pm and even work for long hours on weekends.

### 5. Treating customers with respect.

People generally choose to go where they are treated with dignity. Never argue with a customer. Therefore one should adopt the attitude that the customer is always right no matter how wrong he/she is.

## FACTORS CONSIDERED IN ANALYSING COMPETITION.

### 1. Description of competitors.

This involves identifying and characterizing these businesses which do compete the entrepreneur's business.

### 2. Size of competition

This involves finding out the various indicators of size of one's competitors, for instance, analyzing the assets and sales volume, number of employees, number of branches, e.t.c of the major competitors.

### 3. Profitability of competitors

This involves trying to determine how profitable the business is among those enterprises already in the field.

### 4. Operating methods

This involves trying to determine the relevant operating methods for each of the major competitors, for instance, operating hours, product pricing, packaging quality of product, methods of selling, e.t.c.

## FACTORS AFFECTING COMPETITION

### 1. Mobility and accessibility overlap

Freedom to travel opens up a much wider geographical area of competition. This is because consumers can do their shopping near home, work or elsewhere.

### 2. Product overlap

This involves selling of products by different kinds of firms that are similar to each other. For instance, big discount stores sometimes combine with grocery stores to provide one-stop shopping for all customers' needs.

### 3. Level of substitution

For instance, movie theaters compete for a share of the going-out public while bus companies compete for the traveling public.

### 4. Public awareness

Because of so many products on the market, potential customers have to be made aware of the usefulness and desirability of a particular product or service so that they can get around to buy it. They also need to be aware of where it is sold and where the business is located.

### 5. Product priority

To get customers to allocate part of their spendable income to one's business, he or she has to take advantage of their wants and needs. One has to find out how he or she can instill in the consumer a high priority for his or her product or service. The consumer has to make decisions about priority, what he or she needs, wants, can afford and prefers.

## **SUSTAINABLE COMPETITIVE ADVANTAGE**

Competitive advantage is an advantage that a firm has over its competitors, allowing it to generate greater sales or retain more customers than its competitors.

It enables a business to survive against competition over a long period of time.

### WAYS OF MAINTAINING A COMPETITIVE POSITION IN BUSINESS

#### 1. Advertising

This involves reaching potential customers in order to attract their attention and build priority for one's product or service.

#### 2. Creating a good business image

After the customer is attracted by some type of advertising, he or she is influenced by the business image, for instance, good customer relations.

### 3. Ensuring customer convenience and services

This may include convenient business location, quick delivery, repair services, acceptance of returns, e.t.c. All these services help to build customer loyalty.

### 4. Competitive pricing

Businesses that operate efficiently can usually afford to price competitively because their costs are lower. The mistake done by small businesses is to try to under-price the competition before they get their costs down. This kind of competition leads to losses or very low profits and result in a decrease in competitive advantage.

However, reducing prices is not the only way to compete nor necessarily the best way.

### 5. Providing sales prices

This helps to sell seasonal or special items. Here new customers shop by the sale. They will buy other products at regular prices while they are in the shop and the quantity sold at the sale price will make up for the lower unit profit.

### 6. Everyday low prices

Some firms have a standard policy of competitive pricing at all times without advertising specific sales. Some items can be specially purchased by a retailer or distributor at a very low cost.

The savings are passed on to the customers as a 'special sale'.

## POSITIVE EFFECTS OF COMPETITION

1. It results into better customer satisfaction. With competition producers always ensure that the products/services they offer give the consumer maximum satisfaction in order to induce consumers to buy the products/services.
2. It leads to more efficient production. It makes producers to find production methods that are efficient in terms of using less raw materials, using less time and producing better quality.
3. It leads to better employee remuneration. It forces employers to pay their highly skilled employees good salaries especially when those employees are likely to be taken away by competitors.



4. It leads to product quality improvement. It makes producers to vary their products or services in order to make them better and different from those of competitors. This increases customer satisfaction.
5. It encourages entrepreneurs to work harder and excel. This boosts self esteem when one does well.

### NEGATIVE EFFECTS OF COMPETITION

1. It results into small market share due to limited number of customers that businesses are competing for.
2. It creates scarcity of resources like raw materials, employees, e.t.c that become expensive due to high competition.
3. It focuses on winning at any cost and this leads to cheating and hurting other people at times.
4. It hurts entrepreneurs' self esteem if they lose.
5. It makes entrepreneurs believe that winning is more important than playing well. If the business is competing at things at which it is doomed to do poorly, it comes to feel that it is just always a loser and quit trying.

## **PERSONNEL/HUMAN RESOURCE MANAGEMENT**

Personnel management is the process of planning, organizing, compensation, integration and maintenance of people for the purpose of contributing to organizational, individual and societal goals.

OR

It is the process of planning, monitoring, controlling and administering of personnel which include recruitment, motivation, e.t.c in the business/organization.

### NATURE OF PERSONNEL MANAGEMENT

1. It includes the function of employment, development and compensation. These functions are performed primarily by personnel management in consultation with other departments.
2. It is an extension to general management. It is concerned with promoting and stimulating competent work force to make their fullest contribution to the concern.
3. It exists to advise and assist the line managers in personnel matters.
4. It lays emphasis on action rather than making lengthy schedules, plans and work methods. The problems and grievances of people at work can be solved more efficiently through rationale personnel policies.
5. It is based on human orientation. It tries to help the workers to develop their potential fully to the concern.
6. It also motivates the employees through its effective incentive plans so that employees provide fullest co-operation.
7. It deals with human resources of a concern. In context to human resources, it manages both individual as well as blue-collar workers.

### ROLE OF PERSONNEL MANAGER

1. Providing assistance to top management. The top management are the people who decide and frame the primary policies of the concern. All kinds of policies related to personnel or work force can be framed out effectively by the personnel manager.
2. Advising the line managers as a staff specialist. Personnel manager acts like a staff advisor and assists the line managers in dealing with various personnel matters.
3. Counseling. Personnel manager attends to problems and grievances of employees and guides them. He or she also tries to solve them in the best of his capacity.

4. Linking top management and workers. The personnel manager acts as a mediator pin between management and workers.
5. Representing the organisation. Since he is in direct contact with the employees, he or she is required to act as a representative of the organization in committees appointed by government. He or she also represents the organisation in training programs.

### IMPORTANCE OF PERSONNEL MANAGEMENT

1. It enables an organization to get the right people to fill the right positions. This helps to increase productivity.
2. It enables the entrepreneur to avoid overlapping of activities/functions in an organization, for instance, through job description.
3. It enables an organization to develop and maintain labour productivity, for instance, through training, motivation and performance appraisal.
4. It enables an organization to create and ensure good working conditions for workers, that is, good terms and conditions of service.
5. It encourages respect for workers' rights and helps workers to work within the labour legislation of the country. This helps to minimize exploitation of workers by employers.
6. It enables an organization to minimize costs of operation that result from wastage of resources and time. This is because it helps an organization to be filled with the right people with required skills.
7. It enables an organization to be efficient and effective in achieving its set targets, that is, to achieve maximum output by utilizing the available resources.
8. It encourages/promotes a good public image and relations for the organization and the general public through ensuring a honourable exit to workers as well as developing workers in all important aspects of life.

# **PERSONNEL REQUIREMENTS OF A LARGE BUSINESS**

## **1. JOB ANALYSIS**

This refers to the systematic collection and recording of information concerning the job to be performed/done in an organization. It therefore involves the following activities;

- (i) Identifying the purpose of the job.
- (ii) Identifying duties and responsibilities of the position.
- (iii) Stating the terms and conditions of the job.
- (iv) Identifying the knowledge, skills, experience and abilities required to perform the job efficiently and effectively.
- (v) Identifying the reporting relationships, that is, to whom to report.
- (vi) Identifying the performance standards.
- (vii) Identifying the qualifications one should have to perform the job.
- (viii) Identifying the personal qualities and behavior one should possess, for instance, age.
- (ix) Identifying the physical and mental characteristics one should have to perform the job.

Therefore job analysis can be broadly defined as the systematic collection and recording of information concerning the purpose of the job, its duties and responsibilities, terms and conditions, reporting relationship, the knowledge and abilities required to perform the job efficiently and effectively.

## **2. JOB DESCRIPTION**

This refers to a written statement that gives details of the tasks, duties and responsibilities of a particular job and the reporting relationships.

OR

It is a written statement that gives details of content and location of each job. It involves the following:

- (i) Type of the job
- (ii) Location of the job/department.
- (iii) The main duties and responsibilities of the job.
- (iv) Supervision given and reporting line.
- (v) The limit of job holder's authority.
- (vi) Job relationship to other jobs an departments.
- (vii) Any office equipment to be used on the job like computer

(viii) Some terms and conditions of employment

Example of job description for a marketing officer

<p>Business name and address Tel: .....</p> <p>“Dealers in .....”</p> <p><b>JOB DESCRIPTION FOR A SALES MANAGER</b></p> <p>Job title : Sales Manager Department : Marketing Reporting to : Marketing and sales manager</p> <p style="text-align: center;"><u>Main duties and responsibilities</u></p> <ol style="list-style-type: none"><li>1. Directly selling to customers</li><li>2. Allocating areas to sales agents</li><li>3. Keep abreast of what competitors are doing.</li><li>4. Writing timely repots.</li><li>5. Growing the company’s market share.</li><li>6. Maintain a detailed knowledge of the company’s products.</li></ol>
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It should present in present tense:

- A job is a specific position that requires performance of specific tasks.
- A task is an activity that is performed within a limited period of time.
- A duty is a collection of related tasks.

**3. JOB SPECIFICATION**

This is a written statement that defines the qualifications, education backgrounds, skills, experience and personal characteristics an individual must have in order to perform the job effectively and efficiently. It therefore involves outlining the human requirements for a particular job. Such requirements may include;

- (i) Identifying the level of education and training one should have attained to perform a particular job, for instance, degree, diploma, e.t.c
- (ii) Specifying the knowledge, skills and experience that one should possess, for instance, engineering skills.
- (iii) Identifying the personal characteristics that one should have to perform the job such as age, sex, integrity, e.t.c.
- (iv) Identifying the physical requirements.
- (v) Health and appearance (but this is not commonly considered).

An example of a job specification for a sales manager

<p style="text-align: center;">Business name and address Tel : .....</p> <p style="text-align: center;">"Dealers in ....."</p> <p style="text-align: center;"><b><u>JOB SPECIFICATION FOR A SALES MANAGER</u></b></p> <p>Physical requirements : Good health Education qualifications : A minimum of a Bachelor's degree in Commerce majoring in marketing from a recognized University. Working experience : At least a four year's experience in a related field.</p> <p><u>Other requirements :</u></p> <p>(i) The applicant should be between 30 – 40 years. (ii) High level of integrity, confidentiality and ethical standards. (iii) Excellent interpersonal skills. (iv) Ability to speak varied languages. (v) Should be residing in Iganga/Jinja.</p>
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#### 4. JOB GRADING

This refers to the system of evaluating or rating of jobs in order to value where the jobs are divided into grades so as to determine the basic pay for each grade (group). This is done to come up with different payments for different groups of workers, for instance, in a bank, jobs are graded as team leader (Manager), loans officer, tellers/cashiers, security guards and cleaners. So the pay to be given to each worker will always vary according to the grades.

#### 5. JOB PERFORMANCE STANDARDS

This refers to the acceptable competency aspects required for a given job. It is what is the expected to be the output of a given job. This is used to evaluate the performance of the workers and if one fails to perform as per the expected job standards, he or she may be considered as a failure.

#### **Preparing a job advertisement**

A job advertisement should have the following;

- (i) A brief description or background of an enterprise.

- (ii) The job title or post.
- (iii) The main duties and responsibilities of the job.
- (iv) The reporting relationship or line.
- (v) The qualifications, experience and knowledge.
- (vi) The personal specifications like age, sex, marital status, e.t.c.
- (vii) Tenure of office, that is, contract or permanent basis.
- (viii) Remuneration
- (ix) Submission of application and deadline for submission.
- (x) A frame

**An example of a job advertisement for the post of a sales manager**

<p>Business name and address          Tel: .....</p> <p style="text-align: center;">“Dealers in .....”</p> <p>XYZ Ltd is a fast-growing plastic company seeking to recruit a vibrant and experience person to fill the post of Sales Manager.</p> <p>Job title : Sales Manager          Department : Marketing          Reporting to : Marketing Manager</p> <p><u>Main duties and responsibilities</u>          - Directing selling to customers</p>
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- Allocating areas to sales agents
- Keeping abreast of what competitors are doing
- Writing timely reports
- Growing the company's market share
- Maintaining a detailed knowledge of the company's products.

Physical requirements : Good health

Education qualifications : A minimum of a Bachelor's degree in marketing from a recognized university/institution.

Working experience : At least a four year's experience in marketing or a related field.

Other requirements :

- The applicant should be between 30 – 40 years
- High level of integrity, confidentiality and ethical standards
- Excellent interpersonal skills.
- Ability to speak varied languages.

Remuneration : a competitive commercial salary will be given.

Submission of applications :

Qualified and interested applicants should send their applications and academic documents with up to date C.Vs indicating day time telephone contact and at least two referees to the address below not later than 31<sup>st</sup> December, 2012.

The Human Resource  
XYZ Ltd  
P.O BOX 290, Kampala  
Tel : .....

## FUNCTIONS OF PERSONNEL MANAGEMENT

The functions of personnel management include; human resource planning, recruitment, training and development, motivation, remuneration and performance appraisal.

### (A) HUMAN RESOURCE PLANNING

Human resource planning refers to the process of planning for the human resource needs of an organization to ensure that these needs are constantly met.

OR



It refers to the process of determining the current and future human resource needs relative to the organisation's strategic plan and devising the necessary steps to meet these needs.

### **Importance of human resource/man power planning**

1. It enables an organization to identify the right people to be engaged in the right positions.
2. It helps an organization to prepare for eventualities such as death, dismissal, e.t.c
3. It minimizes operational costs and reduces overlapping of functions.
4. It helps to determine the required skills for one to perform a particular job.
5. It helps an entrepreneur to determine the amount and methods of rewarding labour.
6. It helps an entrepreneur to find ways of motivating labour so as to improve labour efficiency.
7. It helps an organization in determining lay-offs, that is, it enables an entrepreneur to identify workers to be laid off as well as the new recruits.

### **(B) RECRUITMENT**

This refers to the process of establishing sources of applicants and encouraging them to apply for the available job.

OR

It refers to a series of steps performed to accumulate a pool of potential job candidates in line with the human resource plan.

OR

It can be defined as the process of accumulating a pool of potential job candidates in line with the human resource plan.

### **Types of recruitment**

Recruitment is categorized into two, that is, General recruitment and Specialised recruitment.

1. General recruitment

This is used when an organization wants a group of workers especially unskilled or lower categories of employees. It may be done in advance and periodically.

2. Specialized recruitment

This is mainly used when an organization wants specialists or higher level executives to fill the available jobs, for instance, an accountant, human resource manager, marketing manager, e.t.c.

THE RECRUITMENT PROCESS

The activities involved in the recruitment process include; job description, job description, job specification and sourcing.

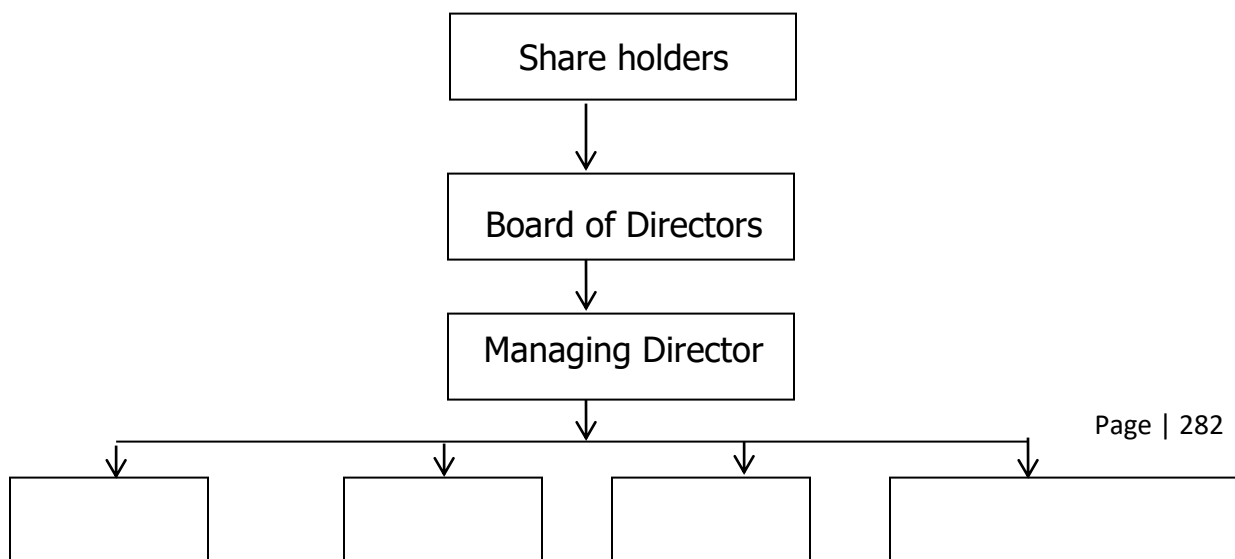
(a)JOB DESCRIPTION

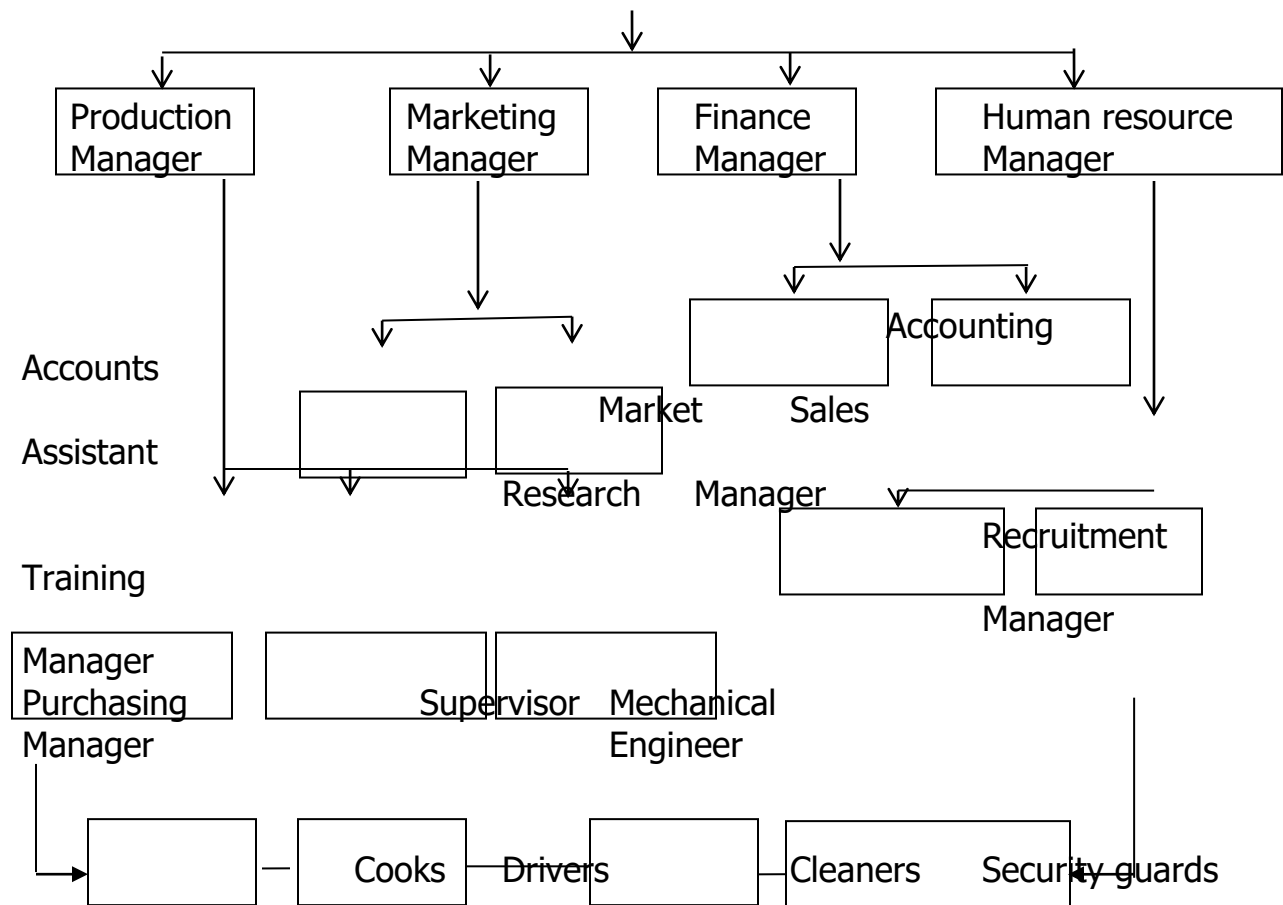
This is a written statement that gives details of content and location of a particular job (department). In this case, content of the job refers to job title, duties and responsibilities of the job and the reporting relationship. However, the content and location of the job is always shown in the organization chart.

An organizational chart/organizational structure

This is a diagram that shows the positions, department and functions of the people in an organization and how they are related.

Example of an organizational chart for a manufacturing business





**N.B** : Organisation chart vary according to the nature and size of the business.

### Importance of an organization chart

1. It indicates the chain of command and the communication channel within the organization.
2. It helps people in the organization to understand the relationship among themselves.
3. It enables the entrepreneur to determine the manpower requirements of the business.
4. It helps the entrepreneur to identify vacant posts in an enterprise.

5. It helps an entrepreneur to coordinate the different departments in an enterprise.
6. It facilitates the smooth flow of information in an organization.
7. It enables people in the organization to understand clearly all the activities of an enterprise and how these activities are related.
8. It shows the responsibilities and work loads of different people and the different departments in an organization.
9. It helps in defining authority in an organization.
10. It helps an entrepreneur when determining wages and allowances to workers.

#### (b) JOB SPECIFICATION

This defines the skills, knowledge, experience, education backgrounds, qualifications and personal attributes like age, sex, e.t.c that an individual should have to perform the job effectively and efficiently.

#### (c) SOURCING

This refers to the various ways of attracting and drawing of skills of various people in the market (labour market) to fill positions open in an organization.

### **Sources/methods of human resource recruitment**

There are two methods, that is, Internal recruitment sources and External sources.

#### **(a) Internal recruitment /sources.**

This is where an organization recruits workers from within itself. This takes the following forms.

1. Promotions. This is a form of internal recruitment that involves moving a worker from a lower position to a higher position, for instance, the Director of studies becoming a Head Teacher.

2. Transfers. This involves moving a worker from one department, job ,or area to another, for instance, in case of a bank, a teller may become a loans officer.
3. Demotions. This is where employees who may have been proved ineffective in performing their tasks are transferred to fill lower positions.

**(b) External sources/recruitment**

This is where employees are got from outside the organization. This takes the following forms;

1. Advertising. This is where an organization advertises its requirements in the media such as newspapers, journals, e.t.c so as to inform the general public about the existing jobs in the organization.
2. Relatives and friends of the current employees especially through networking. Here information about jobs is transmitted to other people informally.
3. Colleges/Universities. Organisations usually visit such institutions and give them their job descriptions for the positions to be filled by capable candidates.
4. Competing organizations. In this case, an organization attracts workers from competing organizations by offering better remuneration packages.
5. Talent spotting/head hunting. This involves an entrepreneur looking around for a particular person who fits the specifications of the job. Under this, the entrepreneur may inquire from friends or institutions.
6. Employment agencies. These are specialized organizations that supply organizations with workers. People who want jobs register with them and the agency looks around to find jobs for them. The agencies usually charge a small fee on registration and usually agree to share the first salary of the employee when employed.

7. Internet. This is where information about certain jobs is entered into the computer and those looking for jobs feed their data also in the system. However, computer networks are usually used by multinational companies.

## PROCEDURES OF RECRUITING EMPLOYEES NEEDED FOR A BUSINESS

It is important for the entrepreneur to have the right personnel. In doing so, one should take note of the following;

### 1. Selection

In selecting workers for one's business, one should check the applicant's track record, how a person behaves, that is behavior and personality, basic ability and experience.

### 2. Interviewing

When interviewing, one should seek to identify in candidates the personal qualities the business needs and try not to be swayed by irrelevant subjective criteria. One should consider only the qualifications, skills and experience required for successful completion of the job. Relevant qualities may include;

- The ability to mix easily and get on with others (including customers, suppliers and fellow workers).
- Possession of certain technical skills.
- Ability to withstand stress, cope with difficult customers, work independently, e.t.c.

### 3. Devising incentive schemes/motivators

One can devise some form of output related remuneration packages which contains a guaranteed minimum level for earnings. This may include;

- Awarding higher time rates to anyone who exceeds a predetermined target output.
- Output related bonuses paid on top of basic wage.

### 4. Training of labour.

It is important that employees are trained to improve their job knowledge, skills and future performance.

## INDUCTION OF WORKERS

This refers to the introducing of new employees to the rest of the employees, giving an overall view of the entire operation and showing them exactly how their jobs fit into the total operation of the business.

### **Factors considered when preparing induction of new employees**

1. Knowing the job.
2. Having a current employee serve as a mentor.
3. Preparing a simple job breakdown.
4. Preparing a simple time table.
5. Arranging the work area
6. Evaluating new employees work on a daily basis.

### **Advantages of induction of new employees**

1. It leads to increased productivity. Adequate training increases skills which improves both the quality as well as quantity of the product due to increase in the level of performance.
2. It improves employee morale. Training improves needed skills which build up confidence and satisfaction of the employee.
3. It reduces employee supervision. A trained employee supervises him or herself. He accepts responsibility and expects more freedom and autonomy and less supervision.

### **HIRING EMPLOYEES WITH DISABILITIES**

When hiring employees with disabilities, the entrepreneur should bear the following in mind;

1. Disabled employees want to be treated as much as possible like other employees.
2. They do not wish to be singled out for special attention.
3. Like other employees, they wish to be seen as individuals, each with individual on-job training needs.

### **EMPLOYEE CONSIDERATIONS**

In recruiting new workers, entrepreneurs should put emphasis on the following;

1. Pay plans

To employees, wages are an important part of their jobs. They expect their pay to reflect the skills and energy they put into the business. If entrepreneurs want to attract and keep good workers, they must take into consideration the rate paid by other firms for a similar job.

2. Fringe benefits

Entrepreneurs should have a set policy regarding all fringe benefits and apply them equally to all employees based on their jobs, for instance, sick leave and holidays, medical allowances, e.t.c.

3. Employee relations

Entrepreneurs have a responsibility to provide the best kind of physical surroundings and to make sure that there is always two way communication with the staff.

4. Working conditions

A good environment can do much to encourage efficiency and good attitudes of workers.

### IMPORTANCE OF RECRUITMENT IN AN ENTERPRISE

1. It promotes publicity of an organization especially external recruitment through advertising.
2. It motivates workers if conducted properly, for instance, internal recruitment through promotions.
3. It helps to infuse (bring in) new ideas and approaches to problems in an organization especially when new workers come with new ideas.
4. It enables an organization to increase man power so as to be effective and efficient in achieving the set targets, that is, it leads to increased output.
5. Recruitment is a sign of an organisation's growth and development.

NOTE :Research about recruitment and induction program.



## EMPLOYEE TRAINING AND DEVELOPMENT

This refers to the processes, programs and activities through which every organization develops, enhances and improves the skills, competences and overall performance of its employees/workers.

### **Purpose of employee training and development**

The reasons for emphasizing the growth and development of personnel include;

1. To create a pool of readily available and adequate replacements for personnel who may leave or move up in the organization.
2. To enhance the business's ability to adopt and use advances in technology because of a sufficient knowledgeable staff.
3. To build a more efficient, effective and highly motivated team which enhances the business's competitive position and improves employee morale.
4. To enable employees develop a greater sense of self-worth, dignity and well being as they become more valuable to the firm and society.
5. To optimize the utilization of human resource that further helps the employees to achieve the organizational goals as well as their individual goals.
6. To provide an opportunity and broad structure for the development of human resources' technical and behavioral skills in an organization.
7. To increase the job knowledge and skills of employees at each level. It helps to expand the horizons of human intellect and an overall personality of the employees.
8. To increase productivity of employees that helps the organization further to achieve its long-term goals.
9. To develop and improve the organizational health culture and effectiveness. It creates a learning culture within the organization.

10. To build the positive perception and feeling about the organization. The employees get these feelings from leaders, subordinates, peers, e.t.c.

### BENEFITS OF EMPLOYEE TRAINING AND DEVELOPMENT

1. It helps to create a pool of readily available and adequate replacements for workers who may leave or move up in the organization.
2. It aids in organization development, that is, by getting more effective decision making and problem solving. It also helps in understanding and carrying out organizational policies.
3. It helps in developing leadership skills, motivation, loyalty, better attributes and other aspects that successful workers and managers usually display.
4. It leads to improved profitability and more positive attitudes towards profit orientation.
5. It helps in inculcating a sense of team work, team spirit and inter-team collaborations.
6. It helps in improving the health and safety of the organization thus preventing obsolescence.
7. It helps to build good employer-employee relationship so that individual goals match with organizational goals.
8. It helps to enhance the business's ability to adopt and use advances in technology because of a sufficiently knowledgeable staff.
9. It helps in building a more efficient, effective and highly motivated team which enhances the business's competitive position and improves employee morale.
10. It enables the employee to develop a greater sense of self-worth, dignity and well being as they become more valuable to the firm and to society.

11. It helps in increasing the productivity of the employees that helps the organization further to achieve its long-term goal.
12. It helps in building the positive perception and feeling about the organization. The employees get these feelings from leaders, subordinates and peers.
13. It helps in increasing the job knowledge and skills of employees at each level. It helps to expand the horizons of human intellect and overall personality.
14. It helps in creating a better corporate image.

## **THE TRAINING PROCESS**

### 1. Identifying organizational objectives

This involves having a clearly defined strategy and set of objectives that direct and drive all the decisions made especially training decision.

### 2. Identifying training needs

These can be assessed by analyzing three major human resource areas, the organization as a whole, the job characteristics and the needs of the individuals.

### 3. Selecting of trainees

Once one has decided what training is necessary, the next step is to find out who should be trained. For a small business, this is very crucial. Training an employee is expensive especially when he or she leaves the firm for a better job. Therefore it is important to carefully select who will be trained.

### 4. Identifying training goals

The goals of the training program should relate directly to the needs of the organization assessed. Course objectives should clearly state what behavior or skill will be changed as a result of training and should relate to the mission and strategic plan of the company. Setting goals helps to evaluate the training program and also motivates the employees.

### 5. Determining training methods

There are two broad types of training, that is; on-the-job and off-the-job techniques.

On-the-job training is delivered to employees while they perform their regular jobs. In this way they do not lose time while they are learning.

Off-the-job techniques include lectures, special study, films, T.V, conferences or discussions, case studies, role playing, programmed instruction and laboratory training.

#### 6. Selecting competent trainers

Those who actually conduct the training depends on the type of training needed and those receiving the training. On-job training is conducted mainly by supervisors and off-job training by either in-house personnel or outside instructors.

#### 7. Training administration

Having planned the training properly, one must now administer the training to the selected employees. A follow up is made to ensure that the goals are being met.

An effective training program administrator should follow the following steps;

- (i) Define the organizational objectives.
- (ii) Determine the needs of the training program.
- (iii) Define training goals.
- (iv) Develop training methods.
- (v) Decide when to train.
- (vi) Decide who should be training.
- (vii) Administer the training
- (viii) Evaluate the training program.

#### 8. Evaluating of training

Employees should be evaluated by comparing their newly acquired skills with the skills defined by the goals of the training program.

Any discrepancies should be noted and adjustments made to the training program to enable it meet the specified goals.

## **WORKERS' REMUNERATION (COMPENSATION)**

Remuneration refers to the wages or salaries paid to the worker in return for services rendered to the organization.

It is at times called compensation or emoluments.

## FACTORS CONSIDERED WHEN DETERMINING PAYMENTS FOR WORKERS IN AN ENTERPRISE

### 1. Profitability of the business/employer

Businesses or organizations which make a lot of profits motivate their workers by paying them higher wages.

However, workers in businesses with low profits being made are paid relatively low wages.

### 2. Level of competition for workers among different employers.

High levels of competition for workers force employers to pay their workers higher wages so as to motivate and retain them. However, absence of competition for workers leads to relatively low wages being paid to employees.

### 3. Level of education and training that a person undertakes.

Workers who have high levels of education are paid higher wages because of the extra period of training incurred. However low wages are paid to those workers with low levels of education.

### 4. Cost of living

Employees who work in areas where the cost of living is high, for instance in urban areas, are paid higher wages than those who work in areas where the cost of living is relatively low, for instance in rural areas.

### 5. Experience and skills required for a particular job.

Higher wages are paid to employees with experience and the required skills relating to a particular job. On the other hand, workers lacking experience and the required skills to perform a particular job are paid less.

### 6. Amount of work/duties and responsibilities being done.

Employees with more tasks to perform than others should be paid highly because of the extra assigned duties while those with less duties and responsibilities should be paid according to the amount of work done, that is, less.

### 7. Nature of employment opportunity.

Permanent workers with guaranteed job security are paid relatively low wages than those doing work which is on contract basis. This is because the job security for contract jobs is usually for a limited/fixed period of time.

### 8. Strength and bargaining power of the workers.

Workers with a lot of bargaining power and whose services are highly demanded by the organization are paid higher wages. On the other hand employers take advantage of workers with low bargaining power through paying them less salaries.

9. Demand for the services being rendered by the workers.

There are workers whose services may be highly demanded than those being offered by others. In such a situation, such workers are paid higher wages than those offering services that the organization would still continue to operate even without such employees.

10. Nature of work being done.

Workers who perform mental/knowledge-based type of work are paid higher wages, for instance, doctors, than those who perform physical type of work like cleaning.

#### FACTORS THAT LEAD TO DIFFERENCES IN WORKERS' EARNING IN AN ENTERPRISE

1. Difference in the level of education and training that a person undertakes. Workers with higher levels of education are paid higher wages than those with low levels of education and training.

2. Differences in the amount of work/duties and responsibilities being done. Workers with more responsibilities earn more than those with less duties and responsibilities.

3. Differences in the cost of living. Employees who work in businesses located in urban areas get higher wages than those working from rural areas.

4. Differences in experience and the required skills. Experienced workers with the required skills relating to a particular job tend to earn higher wages than those who have just joined the organization and lack the skills required.

5. Differences in strength and bargaining power of workers. In some businesses or organizations, workers who have a high bargaining power tend to earn more than those whose bargaining power for higher wages is low.

6. Differences in demand for the services rendered by the employee.

Workers whose services are on high demand in an organization are normally paid higher wages than those whose services are not so much demanded, for instance senior teachers/lecturers are paid higher wages than the junior ones.

7. Difference in the nature of work being done.

In most businesses, works who do mental work are normally paid higher wages than those who perform physical type of work (blue-collar jobs) like sweeping.

8. Difference in the number of hours worked.

Employees who work for long hours are paid higher wages than their counterparts who work for fewer hours.

9. Difference in the nature of employment.

Usually workers employed on contract basis are paid higher wages than those on permanent basis.

10. Differences in risks involved in the work being done.

Normally, workers who perform risky jobs tend to earn more than those doing less risky jobs, for instance, in banks, security guards earn more than the cleaners because of their risky job that involves protecting the organisation's money.

### METHODS USED IN PAYING WORKERS IN AN ENTERPRISE

1. Time rate basis

This is a method of paying workers basing on the number of hours, days or weeks worked, for instance, in a construction firm, workers are paid basing on the number of days worked.

2. Piece/output rate basis

Under this method, workers are paid according to the amount of work done (output) irrespective of time spent to do a particular piece of work.

3. Sliding scale method

This is a method of paying workers basing on the prevailing cost of living. In this case, as the cost of living increases, the wage paid to the worker also increases.

4. Profit sharing method

This is where part of the profits of the business are shared among the workers.

5. Bonus pay

This is an extra pay given to a worker basing on his/her output. It is normally given to workers who are efficient, for instance, those who accomplish their work before the required time. It is an addition to the wage paid to a worker so as to encourage him or her to work harder.

## TYPES OF PAYMENTS TO WORKERS IN AN ENTERPRISE

### 1. Salary pay

This is where workers are given a fixed periodical payment. This compensation is normally paid to mental based workers. Characteristics of a good salary include the following;

- It must be confidential.
- It should be progressive, that is, increasing annually.
- It is personal to the individual in question.

### 2. Wage pay

This is compensation paid to lower workers in an organization. It is normally paid to workers who do physical type of work, for instance, cleaners.

### 3. Contract based payment

This is a method of paying workers an agreed amount of money according to the piece of work done within a limited/fixed/agreed period, for instance, workers in construction firms and personal or organization lawyers.

### 4. Overtime payment

This is where a worker is paid money when he or she works over and above his or her normal working time. In such cases, a given task may be required urgently to be accomplished and therefore the worker has to work for more than the average time and he or she has to be paid an extra amount of the overtime service rendered.

### 5. Shift pay

This is payment to workers who work during unusual or changing working hours. The pay is given so as to compensate workers for the inconveniences and hardships faced especially those who conduct the night shifts, for instance, in a manufacturing business, those who work at night, night watchmen, e.t.c.

## MOTIVATION OF WORKERS

Motivation refers to the process of increasing morale of workers to perform their tasks.



OR

It refers to the process of stimulating labour to take up a desired course of action.

It involves creation of an environment that encourages workers to perform their tasks.

A motive is a need or driving force within people that compels them to perform or behave in a desired way.

Therefore motivation involves identifying the needs and desires of employees and attempting to satisfy them.

### WHY IS IT NECESSARY TO MOTIVATE EMPLOYEES IN AN ENTERPRISE?

1. To enhance productivity of workers so as to attain maximum output out of them.
2. To promote a good relationship between the employer and workers at the work place.
3. To promote publicity of an organization especially promotions and good pay.
4. To improve the standards of living of workers.
5. To prevent workers from looking/seeking for alternative job opportunities elsewhere.
6. To encourage hard work among workers.
7. To enable workers perform and contribute positively towards the success of the enterprise.
8. To develop a positive attitude and a sense of belonging to the enterprise among workers.
9. To minimize strikes and any other forms of indiscipline like late-coming.
10. To minimize costs of recruiting new staff. This is because in absence of motivation, some workers may decide to abandon the job because of dissatisfying factors.

## IMPORTANCE OF MOTIVATION OF WORKERS

1. It enables an organization to enhance productivity of workers and attain maximum output from them.
2. It promotes a good relationship between the employer and workers at the workplace thus creating a good working environment.
3. It promotes publicity of an organization especially promotions and good pay. This results into attraction of more customers.
4. Motivation through good and timely pay helps in improving the standards of living of workers. This in turn encourages commitment of workers towards work.
5. It prevents workers from looking or seeking for alternative job opportunities elsewhere in other organizations. This is because when one is happy with his/her current job, he/she is encouraged to concentrate on that job.
6. It encourages hard work among workers of an enterprise. This enables the organization to meet its set goals and objectives.
7. It makes employees of an organization to perform and contribute positively towards the success of the organization.
8. It makes employees of an enterprise to develop a positive attitude and sense of belonging towards the enterprise.
9. It enables an organization to minimize strikes and other forms of indiscipline like late coming.
10. It helps an organization to minimize cost of recruiting new staff. This is because in absence of motivation, some workers may decide to abandon the job because of dissatisfying factors causing a need to be replaced with new ones but at a cost.

## METHODS/WAYS OF MOTIVATING WORKERS IN AN ENTERPRISE

1. Offering adequate and timely remuneration. This involves ensuring that workers are paid a wage/salary that is adequate for the job and it is paid on time.
2. Ensuring job security. This is the certainty that a person has about his/her continued employment to his/her current job/business.  
Once an employee is assured of his/her job security he/she is motivated
3. Giving fringe benefits such as medical, housing, transport allowances, sick leaves, general welfare, all of which help to motivate workers.
4. Involving and allowing workers to participate in decision making. This makes workers to have a sense of belonging and develop a positive attitude towards the enterprise.
5. Provision of training schemes and sponsoring workers for further studies. This motivates workers and makes them to work with a lot of devotion.
6. Offering on-the-job training. This is an organized effort to equip workers with relevant skills and knowledge while on the job for effective performance. This improves efficiency and productivity of workers.
7. Ensuring promotion prospects. This involves moving of employees from lower level to a higher position. However, this should be done objectively basing on merit (ability shown by the worker).
8. Encouraging open communication to all employees. This involves giving a chance to all employees to openly communicate without any special considerations of a particular group or people. This can be done through various means like suggestion boxes, workers' representatives, e.t.c.
9. Ensuring a pleasant working environment. This can be done through improving on the working conditions, for instance, offering a reasonable work load which encourages efficiency and effectiveness.
10. Organising staff parties, outings and offering gifts at the end of a successful period, for instance, at the end of year. This makes workers to perform and contribute positively towards the organization.

11. Sharing and showing concern for workers' problems. Workers' problems like need for salary advances, sickness, death, e.t.c, need attention from the employer/manager. If not attended to, it kills the morale of workers towards the enterprise.
12. Giving praise to work done especially in public. Praising workers for any good work done motivates them as it shows respect and special recognition.
13. Giving rewards for specific good work results or work well done, for instance, thanking workers. Such rewards by results make workers to work diligently.
14. Conducting performance appraisal on a regular basis. This involves continuous evaluation of employees' performance against the job standards. Here workers are given feedback on how well or poorly they are doing work for the organization. This motivates them (workers) when feedback is given and discussed with their manager/employer.
15. Showing transparency in management especially in management of funds. This requires the administration to be honest and trustworthy to the workers, that is, avoid cheating workers' salaries.
16. Proper management of discipline at the work place. This can be done by putting in place rules and regulations which discourage defection of work, habits, such as absenteeism, rudeness, e.t.c.
17. Encouraging team work. This involves encouraging employees to work in groups (teams) while suggesting solutions to problems or new and better ways of doing work.

## **PERFORMANCE APPRAISAL OF LABOUR IN AN ENTERPRISE**

This refers to the continuous assessing and providing feedback to subordinates (workers) about how well or how poorly they are doing their work for the organization. It gives the strengths and weaknesses of the worker.

OR

It can be defined as a continuous process of evaluating workers' performance against the organisation's job standards.

It is sometimes referred to as **Merit rating assessment**.

### ELEMENTS OF AN EFFECTIVE PERFORMANCE APPRAISAL SYSTEM

#### 1. Relevance

There should be clear links between performance standards for organizational objectives or for a particular job. The performance standards should relate to the objectives of the organization.

#### 2. Reliability

A sound appraisal system should be able to produce consistent judgement. Appraisals made by different independent appraisers/raters should match, that is, different raters should give similar ratings over time.

#### 3. Sensitivity

The system should be able to tell which employees are effective performers and those who are not.

#### 4. Objectivity

Raters should avoid personal friendliness that they feel towards particular subordinates. The results of the performance appraisal should come from objective raters.

#### 5. Practicability

The performance appraisal instrument should be easy to understand and use by managers and employees.

#### 6. Efficiency/comprehensiveness

The performance standards should capture the entire range of employees' responsibilities not only the quantifiable, for instance, sales revenue but also other aspects like customer service without exclusion.

### NEED FOR PERFORMANCE APPRAISAL

1. To identify subordinates/workers who require training, that is, it identifies areas of performance where improvements would occur if appropriate training is taken.
2. To motivate workers to do their present job better by giving them results, recognition of their merit and giving them an opportunity to discuss their work with their managers/employers.

3. To identify in an organization who have potential for advancement/promotion.
4. To determine the future use of an employee, that is, whether he is to remain in the present job, be transferred, promoted, demoted or laid off.
5. To enable the entrepreneur set realistic targets and objectives for workers. Appraisal of workers acts as a basis for disciplining workers, for instance, by taking remedial action plans.
6. To encourage a good working relationship between the employer and his employees especially when feedback is given to the employees about their performance.
7. To evaluate the human resource policies, strategies and programs of an enterprise. Appraisal of workers acts as a basis for redesigning the job or the whole organization structure, for instance, giving more or less tasks to workers.

#### IMPORTANCE/ADVANTAGES OF PERFORMANCE APPRAISAL

1. It enables an organization to identify subordinates/workers who require training, that is, identifies areas of performance where improvements would occur if appropriate training is taken.
2. Appraising workers helps to motivate them to do their present job better by giving them results, recognition of their merit and giving them an opportunity to discuss their work with their managers/employers.
3. It helps to identify employees in an organization who have the potential for advancement or who should be promoted.
4. It enables an organization to judge the performance of workers in relation to the job performance standards.
5. It enables an organization to determine the future use of an employee, that is, whether the employee is to remain in the present job, be transferred, promoted, demoted or laid off.

6. It helps to determine pay rises (increases) which can be given to workers on merit.
7. It acts as a basis for disciplining workers, for instance, by taking remedial action plans.
8. It serves as a basis for evaluating an organisation's policies, strategies and programs.
9. It acts as a basis for redesigning the job or the whole organization structure, for instance, giving more or less tasks to workers.
10. It enables an organization to set realistic targets and objectives for work, that is, setting achievable work targets basing on the previous results.

#### DISADVANTAGES OF PERFORMANCE APPRAISAL

1. It increases the dependency of employees on their superiors.
2. It is a bitter process for most of the employees which can create emotional pressures and stress for the employees.
3. It encourages accountability, approvals and always discourages creativity by employees as well as de-motivating workers.
4. The focus of the performance appraisal process is too narrow. It only concentrates on determining the rewards and punishments for the employees by measuring their past performance.
5. It affects the morale of employees and creates dissatisfaction among them thereby affecting the organizational performance.
6. Performance appraisals are conducted by managers who are often untrained as appraisers. This results into incorrect and unreliable data regarding the performance of employees.
7. It is expensive and time consuming.

## METHODS OF PERFORMANCE APPRAISAL

### 1. Ranking method

This involves ranking employees from the best to the worst. It is usually done according to one's ability on the job in terms of quality and output, that is, merit. The best performers appear to be on top while the least performers appear at the bottom.

### 2. Grading

This involves grouping workers into a series of merit categories usually basing on the total performance. It is based on the ability of each group and in each group, workers who are familiar with the person being appraised do the appraisal collectively rather than the manager/employer.

### 3. Rating scale method

Here the employer focuses on the individual's personal characteristics such as level of intelligence, loyalty, commitment, against each of which is a scale of a certain number of points usually of 5 – 6 on which the manager or employer bases assessment of his/her subordinates; giving each point a remark, for instance, excellent, very good, good, average, weak or poor.

### 4. Behavioural expectation scale

This involves the employer focusing on specific observable behavior of the work in aspects related to his or her job, for instance, workers' relationship with customers and fellow workers, e.t.c. This method gives a clear picture of one's behavior.

### 5. Open ended method

This method involves the appraiser preparing a report about the worker's performance in short sentences. It emphasizes the way the job is done and the employer hints about the workers' performance. It gives the strengths and weaknesses of the worker.

## **EMPLOYEE/LABOUR TURN OVER**

This refers to the movement of employees in and out of a business. However, it is commonly used to refer to the number of employees leaving.

### MEASURING LABOUR TURN OVER



This involves calculating the number of leavers in a period (usually a year) as a percentage of the number employed during the same period. This is known as the 'separate rate' or 'crude wastage rate'.

$$\text{Therefore Crude wastage rate} = \frac{\text{Number of leavers}}{\text{average number employed}} \times 100$$

**Example :**

If a business has 200 leavers during the year and on average, it employed 6000 people during the year. Determine the labour turn over.

$$\text{Labour turn over} = \frac{200}{6000} \times 100 = \underline{3.3\%}$$

**STABILITY INDEX**

This illustrates the extent to which the experienced work force is being retained. It is calculated as follows:

$$\text{Stability index} = \frac{\text{number of employees within one or mre years service now}}{\text{number employed one year ago}} \times 100$$

**CAUSES OF LABOUR TURN OVER**

1. Inadequate wage levels leading to employees moving to competitors.
2. Poor morale and low levels of motivation within the workers.
3. Recruiting and selecting the wrong employees in the first place hence they leave to seek more suitable employment.
4. Abundant local labour market offering more and attractive opportunities to employees.

**COSTS OF LABOUR TURN OVER**

1. It leads to additional recruitment costs.
2. It leads to increased costs of training and replacement of employees.

3. It leads to know-how and customer good will.
4. It lowers productivity and morale and tends to get worse if not dealt with.
5. It causes potential loss of sales, for instance, there is high turn over amongst the sales force.

### BENEFITS OF LABOUR TURN OVER

1. New employees bring new skills, enthusiasm and contacts with them.
2. New employees are resistant to change in most cases.
3. New employees are willing to accept low pay rates.
4. New employees are excited about their new jobs and work harder to please management and clients.
5. Employee turnover allows for flexibility in the way the organization is to run.
6. It allows management the opportunity to restructure departments and functions.
7. A natural level of labour turnover is a way of reducing work force without having to resort to redundancies.

### STRATEGIES TO MINIMISE EMPLOYEE TURNOVER

#### 1. Engaging employees

This involves engaging, retaining and optimizing the value of employees to motivate them to stay in the organization.

#### 2. Increasing knowledge accessibility

The extent of the organisation's collaboration and its capacity to make knowledge and ideas widely available to employees, would make employees stay in the organization.

### 3. Optimizing work force

This can be done through establishing essential processes for getting work done, providing good working conditions and establishing accountability and would retain employees in an organization.

### 4. Empowering employees

Superiors empowering subordinates by delegating responsibilities to them leads to subordinates who are more satisfied with their leader and consider them to be fair and in turn perform up to the superior's expectation.

This helps to enhance the continuity of employees in organisations.

### 5. Ensuring job involving

This involves an individual's ego involvement with work and indicates the extent to which an individual identifies psychologically with his or her job. Workers who have a greater variety of tasks tend to stay in the job.

## **CAPITAL MARKETS IN UGANDA**

Capital markets are meeting places where those who require additional capital seek out others who wish to invest their investible funds. Capital markets deal in the trade of money or capital or financial products such as shares, bonds.

These financial products can also be referred to as security and are normally traded on a stock (security) exchange. In Uganda, the market where securities are traded is called the Uganda Security Exchange (USE).

Here buyers and sellers of securities meet and trade securities at a negotiable price through licensed brokers.

### MAJOR PLAYERS IN THE CAPITAL MARKETS INDUSTRY

#### 1. Brokers/dealers

These are licensed financial professionals authorized to buy and sell shares on behalf of their clients. Brokers execute trade deals on behalf of their clients. They receive a commission for matching buyers and sellers.

Dealers buy shares and later sell them for a profit.

In addition, brokers/dealers provide professional advice to their clients on selection and management of investment.

#### 2. The registrar

This is in charge of keeping records in respect of stocks and shares of a floated company.

**N.B:**

A floated company is one which goes public by issuing its shares to the general public.

### 3. Investment advisors

These are licensed persons who engage in the business of advising their clients about securities on issues of whether it is advisable to invest, purchase or sell securities. They also carry out analysis or reports concerning securities. They can also manage a range of investments under a contract or on agreement with investors.

### 4. Shareholders

These are individuals or companies that purchase shares in a company or business and hence own part of that company.

### 5. Capital Markets Authority (CMA)

This is a government established body which ensures the regulation and development of the capital markets industry.

## PRODUCTS AVAILABLE IN THE CAPITAL MARKETS INDUSTRY

In Uganda, these products include collective investment schemes, bonds and shares (stock) and debentures.

### (A) BONDS

A bond is a long-term contract made between the lender and the borrower that in return financing, the borrower will pay an interest and the face value of the bond when it matures. It is a debt security or certificate that one can buy from the government or company/corporation that promises to pay him or her interest on the money he or she has given. It means that one has lent money to the government or corporation.

### **Types of bonds**

There are mainly two types of bonds, that is, government bonds (securities) and corporate bonds.

1. Government securities. These are divided into three, that is, treasury bills, treasury notes and treasury bonds.

- (a) Treasury bills. This is a short-term government instrument issued regularly to borrow money from the public with a maturity period of one year or less.
- (b) Treasury notes. This is a long-term investment issued in terms of two, three, five and ten years.
- (c) Treasury bonds. This is a long-term investment with a maturity period of ten to thirty years.

**N.B:**

Treasury bills, treasury notes and treasury bonds are sold by the government through the central bank in order to control inflation and also raise money needed to finance government activities. They are sold by auction and they can be bought for more or less than the face value depending on demand. The interest is paid every six months and does not change throughout the term of the product.

- 2. Corporate bonds. Corporate bonds are bonds issued by companies/corporations to the public to raise capital by way of selling shares/stocks. These bonds are risky compared to government bonds since a company may go bankrupt and default on the bond. Therefore the higher the risk on the bond, the higher the return the corporation must promise.

**Reasons for investing in bonds**

- 1. To save for the future.

Investing in bonds can help one to save money that can be used to meet future consumption or investment needs, for instance, setting up a business.

- 2. To preserve and increase capital or receive interest income.

This is because bonds typically have a predictable stream of payments.

- 3. Investing in treasury bills is affordable and simple.

This is because one does not need a lot of money to invest as he or she can begin with shs 100,000 which is currently the minimum amount accepted.

- 4. Fixed capital securities provide individuals/investors with a variety of choices in which to make investment.

- 5. Treasury bills are safe to invest in.

This is because they provide an investor with a sure way of receiving returns.

6. Treasury bills earn investors more interest than they could earn in most bank saving accounts.

### **Factors considered when investing in bonds**

#### 1. Interest rate

Usually, bonds pay interest that may be fixed, floating or payable at maturity. This interest is always expressed as a percentage of the bond face value. Face value of an investment at maturity.

#### 2. Maturity of the bond

This refers to the specific future date on which the investor's/lender's principal will be repaid. Treasury bills have a shorter maturity period to treasury notes and treasury bonds.

#### 3. Call provisions

Before buying a bond, one should always first find out whether there is a call provision that requires the borrower/issuer to repay the investor's principal at a specified date before maturity. In cases where there is a call provision, then one should be sure to obtain the yield to call and the yield to maturity. Usually bonds with redemption provisions have a higher annual return to compensation for the risk that the bonds might be called early.

#### 4. Puts

Some bonds have puts which allow the lender/investor the option of asking the borrower/issuer to purchase the bonds at specified times before maturity. Normally, investors exercise this option when they need cash for certain purposes or when interest rates have increased since the bonds were issued so that the investor can re-invest the proceeds at a higher interest rate.

#### 5. Principal payments and average life

Before investing in bonds, one should consider when he or she needs the principal to be repaid and the kind of investment he or she is seeking within his/her risk tolerance. Some people may choose to invest in short-term bonds because of their safety and stability but with minimum returns.

However, investors seeking greater returns will invest in long-term bonds but such bonds are vulnerable to fluctuations in interest rates and other market risks.

#### 6. Yield

This refers to the return actually earned on the bond based on the price paid and the interest payment received, that is, current yield and yield to maturity/yield to call.

Current yield refers to the annual return on the amount paid for the bond while yield to maturity refers to the total return one receives by holding the bond until it matures or is called.

## (B) COLLECTIVE INVESTMENT SCHEMES (CISs)

These refer to private financial arrangements that pool together resources of many small savers generating a large pool or capital stock.

The pool of funds is managed on behalf of the investors by a professional money manager who uses the money to buy stocks, bonds or any other securities according to the investment objectives that have been established for the scheme.

### **Conditions necessary for effective operation of collective investment schemes**

#### 1. Conducive banking environment

There must be conducive banking environment where banks and insurance companies that act as the collective investment schemes' trustees are well developed.

#### 2. Free markets

There must be free markets to enable managers freely choose where to invest the pooled funds.

#### 3. Strong saving culture

There must be a strong saving culture in society that encourages people to save and invest in collective investment schemes.

#### 4. Stable micro economic system

There must be a stable micro economic system which protects people's investment, for instance, low inflation that protects the value of money.

#### 5. Conducive legal environment

This is the environment that protects investors, for instance, collective investment schemes act that protects investors.

### **Advantages of investing in collective investment schemes**

1. They encourage diversification of risks. Investing in a number of different securities helps to reduce the risk of investing.
2. There is easy liquidity. They give investors an opportunity of liquidating investments easily by selling their units back to the unit trust manager. This is especially the case with shares of open-ended mutual funds that can be redeemed at any time.
3. There are lower transaction costs. By investing in collective investment schemes, investors meet lower costs than if they were to buy and sell individual securities directly. Investors benefit from the fund manager's ability to deal in larger quantities of shares at lower average costs.
4. There is assured investor protection. The collective investment schemes Act and regulations made under it, provide the desired regulatory framework, that protects investors. This protects the investors' funds from fraud, theft and other financial abuses.
5. There is professional management. Collective investment schemes are managed by professionals who are experienced in investing money and who have the skills and resources to research many different investment opportunities. Therefore investors in these schemes get access to professional management of their funds.
6. They are affordable. It is affordable and simple to invest in these schemes. This is because one does not need a lot of money to invest as he or she can begin with shs 100,000 for the initial purchase.
7. They are flexible. The schemes administer several different funds like money market funds, foreign funds, fixed capital funds, e.t.c. and usually allow investors to switch between funds within their 'funds family' at a low or no charge. This enables an investor to change his investment according to his personal needs or market conditions.
8. There is easy monitoring of performance. Normally, they offer prices and the net asset value per share of open-end funds are published in the press and on various internet websites in relation to other markets. This allows the investors to continuously monitor the performance of their investment.



## (C)SHARES

A share is a unit of ownership (capital) in a company.

OR

It is a unit of capital of a company contributed by an individual.

### **Types of shares**

There are two types of shares, that is, ordinary shares and preference shares.

#### 1. ORDINARY (EQUITY) SHARES

These are shares owned by shareholders with no fixed rate of dividends from the company's annual profits.

### **Characteristics of ordinary shares**

- (a) They have no fixed rate of dividend, that is, the amount of profit allocated to them depends upon what remains after all the creditors and other shareholders with a prior claim have been paid.
- (b) There is no special security for such investments other than the soundness of the company.
- (c) When the company is winding up, the shareholders are repaid money after the other shareholders and creditors.
- (d) In good years, the ordinary shareholders may receive higher rates of dividends than the other shareholders but in bad years, there may be no returns at all.

#### 2. PREFERENCE SHARES

These are shares owned by shareholders with a fixed rate of dividends from a company's annual profits.

### **Characteristics of preference shares**

- (a) They earn a fixed rate of dividend, for instance 5% or 10% preference shares.

- (b) The dividend is paid after the creditors but before the ordinary shareholders get anything.
- (c) Capital repayments are also after the creditors but before the ordinary shareholders.
- (d) They stand a proportionately lesser risk than the ordinary shareholders but also earn a lower rate of return.

### **Types of preference shares**

#### (i) Accumulative preference shares

These are shares entitled to a fixed rate of dividend until they are paid.

#### (ii) Non-accumulative preference shares.

These are shares entitled to a fixed rate of dividends but for only years for which a dividend is declared.

#### (iii) Redeemable preference shares

These are shares which can be brought back (redeemed) by the company after a stated period.

#### (iv) Irredeemable preference shares

These are shares which cannot be brought back by the company.

### **ADVANTAGES/BENEFITS OF INVESTING IN SHARES**

1. There is share of dividends. When a company makes a profit, the Board of Directors usually give a percentage of the profits (dividend) to its shareholders.
2. It leads to capital gains. When shares are sold at a price higher than the price at which they were bought, this represents. It is called a capital gain.
3. Members have voting rights. Normally, shares give shareholders the right to attend and vote on important company policies and the company's annual general meetings including making a choice on the directors of the company.
4. It leads to capital growth. If the company is growing, the value of its will also grow hence increased capital.

5. It is a source of collateral security. Shares held in a company can act as collateral security, for instance, when one is applying for a loan in any financial institution.
6. There is transferability of shares. This means that investors are assured of converting their holding in the business into cash at any time they wish.

### DISADVANTAGES OF INVESTING IN SHARES

1. When the company's profits fall, the dividend will also fall and if the company makes a loss, it may be able to pay any dividend.
2. When the company goes into liquidation, shareholders are the last to be paid after all creditors.
3. Shares are faced with fluctuation in price. Their prices go up and down depending on various factors, for instance, due to forces of demand and supply, company performance, e.t.c. However, if the share prices fall, their value lessens and if the company collapses, the shares become worthless.

### (D) DEBENTURES

Debentures are loan certificates representing a certain sum of money lent by the public to the company.

It is a document that gives evidence that a company has borrowed a specified sum of money from the person named on its face and it undertakes to pay a fixed rate of interest for the loan.

### Types of debentures

#### 1. NAKED DEBENTURES

These are debentures that are not secured, that is, no property is pledged against them.

#### 2. MORTGAGED DEBENTURES

These are debentures that are secured, that is, some property is pledged against them.

#### 3. REDEEMABLE DEBENTURES

These are debentures brought back by the company, that is, the amount borrowed against them is refunded by the company after a specified minimum period and before a specified maximum period.

#### 4. IRREDEEMABLE DEBENTURES

These are debentures that are never refunded. The money borrowed against them remains outstanding till the company is liquidated.

### ROLE OF CAPITAL MARKETS IN BUSINESS

1. Provision of long term finance (capital) to business through sale of shares. Through the sale of shares on the capital markets, businesses are enabled to raise funds.
2. Provision of an avenue/market where to sell and buy shares by investors. Capital markets provide members of the public and any other interested individual or company a chance to buy shares.
3. Promotion of the in-flow of foreign capital. Foreign investors who may wish to invest in the country find it easier to do so through the capital market where they easily buy shares.
4. Generation of income to the investors through capital gains and dividend payments. Increased investment by companies due to existence of well organized capital markets leads to more incomes generated.
5. Provision of individuals with a chance to own business through shareholding in enterprises.
6. Promotion of full disclosure and sticking to better accounting and management practices of companies.
7. Diversification of investors' investment risk by enabling them in various products available on the capital market.

### BENEFITS OF CAPITAL MARKETS TO INDIVIDUALS

1. Capital markets provide individuals with a chance to own business through shareholding in enterprises.
2. Individuals are given an opportunity to diversify their investment risk by investing in various products available on the market.
3. They provide an alternative investment and saving option through the purchase of shares and bonds.
4. They are a source of capital through capital gains and dividend payments.
5. They provide an avenue where to sell and buy shares by investors.
6. They encourage full disclosure and sticking to better accounting and management practices of companies.
7. They create more employment opportunities through increased savings and investment.

#### CHALLENGES FACING THE CAPITAL MARKETS INDUSTRY IN UGANDA

1. Undeveloped capital and money markets to transact the sale and buying of financial products.
2. Fear of risks by players, for instance, fluctuations in the value of share capital since the value of shares fluctuate very often.
3. Inflation that affects the value of shares.
4. Inadequate information by the public about the role of capital markets.
5. Unfriendly government policies such as unfair taxes.
6. Undeveloped financial institutions to lend funds for buying financial products.
7. High levels of target players who aim at maximizing profits early.

8. Uncertainty of income in form of dividends since a business may or may not make and declare profits.
9. Unstable economic climate in Uganda that scares away investors who would invest in capital market products.

### CAPITAL MARKETS AUTHORITY (CMA)

CMA is the regulatory body that oversees the capital markets industry in Uganda. It is an autonomous body responsible for promoting, developing and regulating the capital markets industry in Uganda with the overall objectives of investor protection and market efficiency.

#### **Role of capital markets authority**

1. Overseeing the activities of the Uganda Securities Exchange.
2. Development of all aspects of the capital markets with particular emphasis on the removal of barriers to and the creation of incentives for long-term investments in product enterprises.
3. Creation and regulation of a system in which investors are self regulatory to the maximum practicable extent.
4. Creation of a market in which securities can be issued and traded in an orderly, fair and efficient manner.
5. Protection of the interests of investors.
6. Regulation of the operation of a compensation fund.
7. Regulation of the operation of collective investment schemes.

### TOOLS/INSTRUMENTS USED IN SECURING LONG-TERM FINANCE

Capital markets are designed to provide long-term funds to businesses, the government and other institutions.

## TYPES OF LONG-TERM BUSINESS FUNDS

### 1. Leasing

A company can lease out its assets so as to get money out of it for several years. The company can access and use assets by paying for them in small installments and spread over a long time and take full possession on completion of payments.

### 2. Mortgages

Companies can get loans for long periods by mortgaging their assets with any mortgage broker or financial institutions. Property may be used for this purpose. It is an important service of long-term capital for commercial undertakings, insurance companies, pension funds and finance companies.

### 3. Bonds

These are instruments sold by the government to raise funds in building schools, roads and providing other essential services to the public.

### 4. Shares

This is a unit of capital of a limited company.

### 5. Debentures or long-term loans

The company can also raise funds by selling debentures to investors.

## **THE SECURITIES EXCHANGE/THE STOCK EXCHANGE MARKET**

This refers to the actual market where trade in capital markets products/securities takes place. It is where shares and stocks are bought and sold. Stocks are fixed interest loans comprising of government bonds, public bodies loans and public companies debenture stocks, e.t.c.

In Uganda, the market where shares are bought and sold is referred to as the Uganda Securities Exchange (USE).

## THE ROLE OF SECURITIES EXCHANGE/STOCK EXCHANGE MARKET

### 1. Raising capital for businesses.

It provides companies with the facility to raise capital for expansion through selling shares to the investing public.

### 2. Mobilizing savings for investment.

It encourages people to mobilize and redirect the funds which could have been consumed or kept in idle bank deposits to promote business and activity with

benefits for several economic sectors, for instance, agriculture, commerce, industry, e.t.c resulting in stronger economic growth and higher productivity levels of firms.

### 3. Creating investment opportunities for small investors

It provides the opportunity for small investors to own shares of the same companies as large investors. This is because investing in shares is open to both the large and small investors as a person buys the number of shares one can afford.

### 4. Facilitates company growth

A merger agreement through the stock market is one of the ways through which a company can grow. This is because such acquisitions provide an opportunity to expand product lines, increase distribution channels, market shares and acquire other necessary business assets.

### 5. Facilitating growth of the related financial sector.

Institutions like insurance companies and other financial institutions encourage and support savings. Uganda Securities Exchange provides an avenue through which financial securities can be traded by such institutions.

### 6. Enabling government to raise capital for development projects.

Government can borrow money in order to finance infrastructure projects such as sewerage and water treatment works, hospitals, e.t.c by selling securities known as bonds. These bonds can be raised through the stock exchange whereby members of the public buy them, thus loaning money to the government.

### 7. Fostering corporate governance.

USE imposes rules for public corporations that tend to improve on their management standards and efficiency in order to satisfy the demands of their shareholders.

### 8. Facilitating redistribution of wealth.

The USE enables causal and professional stock investors through dividends and stock price increases that may result in capital gains to share in the wealth of profitable businesses.

### 9. Promoting divestiture of government owned companies.

It assists in the divestiture of government owned companies. The privatization process through capital markets includes the floatation of shares (selling of



shares to the public) so as to raise funds and also needs a secondary market for its success.

Through this, members of the public are able to be part of the privatised companies.

10. Serving as a barometer of the economy.

At the stock exchange, share prices rise and fall depending largely on the market forces of demand and supply. The movement of share prices and in general stock indices can be an indicator of the general trend in the economy.

### PROCESS OF BUYING AND SELLING SHARES

Buying and selling of shares on the exchange market is done through licensed brokers/dealers who transact on the floor of USE. So before one begins to invest, one should talk to a few brokers to find out what and how one can invest.

#### **Placing an order**

After one has decided which shares to buy guided by the broker, one decides on the price one is ready to pay for each share and the number of shares one can buy. Normally the broker will advise one the prevailing market prices at which the shares are trading.

Those prices are quoted daily at the exchange and in other various media.

It is important to note that prices of shares are determined by the law of demand and supply. Prices therefore move up and down depending on supply and demand. So companies which are selling many shares on the stock exchange will tend to have low prices (if their business performance and other factors remain constant).

However, companies whose shares are being looked for by buyers and are not available, the stock exchange will have their prices rising high.

Clients may issue different types of orders to their dealers/brokers, for instance,

(i) Market order . These are simple buy and sell orders that are to be executed immediately at current and best market prices.

(ii) Limit order. Here the client specifies the price at which he or she is willing to buy or sell his or her shares. If the price falls within the range the client has given them, the dealer will execute the order. The broker will always act in the best interest

of his or  
price.

her client by buying or selling at the best market

### HOW SHARES ARE BOUGHT AND SOLD

Shares can be bought either during the offer period or from existing shareholders. New issues of shares take the form of initial public offerings (IPOs), where shares are sold in the primary market while the purchase from existing shareholders takes place in a secondary market.

#### PRIMARY MARKET

This is where a company offers its shares to members of the public for the first time. To buy these shares, a Share Application Form (SAF) has to be completed by the prospective investor. The SAF is obtained from a participating broker and authorized selling agents.

After SAF has been completed by the prospective investor, it is then sent to the lead broker and registrar for processing and share allocation. When payment is made, a receipt is issued to the investor.

If the offer is over subscribed, that is, when applications exceed the number of shares available, shares are divided among the applicants according to the allotment criteria and the investor receives a refund for the shares paid for but not allocated. The registrar sends share certificates of successful applicants to the participating broker or authorized selling agent where original SAF were completed. The investor then receives the share certificates from the participating broker or authorized selling agent.

#### SECONDARY MARKET

This is a market where the purchase of shares is from already existing share holders. Here shares are only bought through licensed broker/dealer, which is a firm that buys and sells securities on behalf of investors for a commission or brokerage.

To sell shares in a secondary market, the investor needs to contact a broker (investment advisor) who will provide all the necessary advice.

#### DECISION TO BUY

On making a buying order, the client fills a client application form. This information is found in a booklet called prospectus which is always available in participating banks/centres.

A prospectus is a legal document that gives general and material information on the company history and operations. The main contents in this booklet includes the purpose of issue and use of the share sales proceeds, description of the company's business, a business plan, e.t.c.

Therefore the investor should read and understand the contents of the company's prospectus before deciding to buy its shares.

If the investor is satisfied with the prospectus, he or she completes an order form, sign a purchase transfer form and pays for the number for shares he or she is willing to buy. The broker then issues him or her with a receipt.

On the day the order is executed on the exchange, the broker then sends his or her buying client a purchase contract note showing the number of shares purchased, the price per share and the commission chargeable. This purchase contract note is a legal document that acts as proof of ownership until the share certificate arrives.

The broker then forwards the signed purchase transfer to the registrar through the exchange market. The registrar upon receiving the transfer form from the broker issues a new certificate in the buyer's names and sends it to him or her via the broker.

### DECISION TO SELL SHARES

One can find out how much shares are selling in the market through a broker/dealer, the exchange or from the business page in a local newspaper.

He/she can then contract his/her broker and place an order to sell his/her shares at a price satisfactory to him/her. One should know that share prices go up and down as well, hence a need to guide the broker through a written order about his/her most preferred selling price range.

After the sale note has been executed b the exchange, the broker sends the seller a sale contract note which shows the net sale proceeds payable to him/her. The broker then advises the seller when to collect his/her cheque but this should be done within 24 hours after the exchange stipulated settlement day.

### THE MARKET REPORT

This helps the investor to know the price of the share he/she holds. Therefore the investor is enabled to monitor the trend in the share price movement whether upwards or downwards and also keep informed of the trading activity in the exchange.

DOCUMENTS USED DURING BUYING AND SELLING OF SHARES.

1. Clients information form

CLIENTS INFORMATION FORM	
Form No. ....	
Surname: .....	Other names:.....
Business name (where applicable).....	
Reg. no. ....	
Nationality:.....	ID no.:.....
Passport:.....	
Marital status:.....	
Occupation:.....	
Date of birth:.....	
TIN No.:.....	
Physical address/building:.....	
Floor:.....	
Road/street: .....	
P.O.BOX:.....	
Town:.....	
Fax:.....	

<u>Contact person</u>	
Surname:..... Other names:.....	
Relationship :.....	
Address:..... Tel:..... Fax:.....	
Sign: .....	
Date:.....	
For official use only	
Officer in charge or representative:.....	
Designated supervisor:.....	
A/C No. ....	

2. Purchase contract note

<b>PURCHASE CONTRACT NOTE</b>		
USE trading slip No.:.....	Purchase contract No.:.....	
Trade date: .....	Your order No.:.....	
Settlement date: .....	Your Ref. No.:.....	
Instructing party:.....	Customer's No.:.....	
<b>PURCHASE BY ORDER AND ON ACCOUNT OF</b>		
<b>SUBJECT TO RULES, REGULATIONS AND CUSTOMS OF USE</b>		
<b>Security</b>		
No. of shares	Price	Consideration
<u>Deductions</u>		
Registration		
Contract stamp		
<a href="#">Commission@1.7%</a>		
CMA <a href="#">commission@1.4%</a>		
Total deduction		
.....	.....	
Stock broker	Customer	

3. Share certificate

Company name and address  
SHARE CERTIFICATE

This is to certify that;

Certificate No.:.....

Name:.....
Address:.....

is a registered holder of:

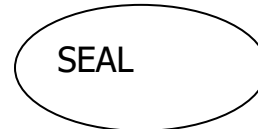
	NUMBER OF ORDINARY SHARES			
(shs million)				
XXX	one	two	three	zero

Ordinary shares of sixty Ug. Shs each fully paid in the above named company subject to the Memorandum of Association and Articles of Association thereof:

Date	Transfer No.	No. of shares

(Name of company)

For and on behalf of .....



### RULE OF THE MAJORITY

Shareholders are expected to contribute in decision making at the Annual General Meeting. Usually the decisions made by the majority shareholders may stand however much an individual shareholder may be against them.

### TRANSFER OF SHARES

Shares are not readily transferable if they were bought in a private limited company. But shares bought from a public limited company are easily transferred from one person to another through the stock market.

### SECURING LONG TERM BUSINESS FINANCE

Limited liability companies that want to secure funds from the public can follow the following steps:

#### (a) Registration

The company must be a limited company registered with the registrar of companies after submitting its memorandum of association and articles of association.

These are legal documents prepared by lawyers for the purpose of registering a company. On registration, the Registrar of Companies issues a company with a Registration certificate.

#### (b) Prospectus

The company should advertise its shares and debentures in newspapers through the prospectus.

#### (c) Application and allotment

The interested investors apply for the shares or debentures that are being sold and the company allots them to the applicants.

for (i) Application: The public and institutional investors apply shares and debentures advertised in newspapers.

applicants and (ii) Allotment: Company allots shares/debentures to advises them.

listed (iii) An offer to sale: This is done through stock markets for companies.

### THE TOOLS USED IN SECURING LONG-TERM BUSINESS FINANCE

#### 1. Stock exchange

This is a market where shares and stocks are bought and sold.

#### 2. Investment banks

These are limited companies which use the capital subscribed by its shareholders to invest in a portfolio of shares and stocks of other limited liability companies for income and long-term growth.

### 3. Pension funds

These are arrangements also known as trusts set up to provide employment of private industry, local and central government with pensions on retirement. The funds are obtained from employers and employees as their contribution. These contributions are invested by the funds trustees.

## COMPANIES THAT TRADE IN STOCK EXCHANGE

The following are the types of companies that can raise funds through a stock exchange;

1. All public limited companies listed on the stock exchange can sell their shares on the stock exchange market. For a company to trade its shares on the stock exchange or offer them to the public, it must meet the following requirements;
  - (a) It must be registered with the registrar's companies.
  - (b) It must publish its prospectus which allows it to advertise for its shares and debentures in the media.
  - (c) It must be a listed company on the stock exchange.
2. Insurance companies
3. Commercial banks
4. Any other organization that is financially sound.

**N.B:** If the shares or debentures of the company are to be sold on the stock exchange, then it must be a listed company. The company should apply for listing, fulfill the required conditions and when application for listing is approved, then its shares can be traded on the stock exchange.

Some of the examples of listed companies in Uganda include British American Tobacco (BAT), Uganda Clays Limited, Bank of Baroda, DFCU bank limited, New Vision and Stanbic bank.

## **BUSINESS TAXES**



What is tax?

A tax is a compulsory charge levied by the government or any other competent authority on persons or on business (individuals, corporations or other legal entities) in order to finance government activities.

Taxes are a general obligation and are not paid in exchange for a specific benefit. Therefore there is no direct relationship between the tax paid and the benefits in terms of public services received by the persons who have paid tax. The amount of money paid by any business depends on the volume of its operations, profits or nature of the business.

It may also depend on the items brought into or out of the country businesses.

What is taxation?

This is the process through which governments obtain money from eligible persons by application of the law. It is a legal compulsory transfer of funds from the public to the fiscal authority irrespective of the exact amount of benefits rendered to the tax payer by the government. Taxes are usually collected by a government agency. In Uganda, this role is performed by URA.

### IMPORTANCE OF TAXATION IN A COUNTRY

1. Taxes are major sources of government revenue to finance the provision of social services and other development services/projects.
2. Taxes are used by the government to protect infant industries so that they can be able to compete with well established industries.
3. Taxes help to improve on the balance of payment position, for instance, the government can increase import duties on certain commodities to discourage their importation.
4. Taxes are used to discourage consumption of harmful products like drugs, spirits, cosmetics, e.t.c. This can be done by imposing high tariffs on such commodities.
5. Taxes are used to reduce income inequalities in an economy, for instance, progressive taxes which help to reduce income gap between the poor and the rich.

6. They help to check on the rate of inflation in an economy thus economic stability through stable prices in the economy. This is achieved by levying high taxes on people's incomes.
7. Taxes guide the level and direction of both private and public economic activities in the country, for instance, government can encourage or discourage an activity in the country by lowering or raising taxes respectively.
8. Taxes are used by the government to control monopoly power. This is done through imposing high taxes which increase the cost of production and this may face the monopolist to run out of the business.
9. Taxes are used by the government to discourage exportation of certain commodities so as to leave more for the local market through high export duties.
10. Taxation is used to combat unemployment, that is, a low tax rate may be imposed on firms that use labour techniques of production and this guarantees employment. Investment incentives like subsidies, tax holidays may be offered to increase investment levels so as to increase employment opportunities.
11. Taxes are used by the government to promote individual responsibility and self reliance, that is, individuals are compelled to work hard and pay taxes to avoid shame and embarrassment.
12. Taxes are used by the government to reduce dependence on other economies in terms of foreign aid, that is, it enables the country to become self reliant and self sustaining. It again reduces the need for borrowing.

#### REASONS WHY GOVERNMENT IMPOSES/LEVIES TAXES

1. To raise revenue. Revenue is obtained through the taxes imposed on various tax paying units and it can be used to finance development activities such as improving infrastructure like roads, schools, hospitals, paying salary to civil servants, e.t.c.

2. To discourage consumption of certain goods which the government considers to be harmful to the society. When the government imposes high taxes on such goods, they become expensive thus discouraging people from consuming them, for instance, drugs, cosmetics, e.t.c.
3. To protect home/infant industries from foreign competing producers. This can be done by imposing heavy import duties on imports which make them expensive to the importing countries.
4. To regulate economic activities in the country. Taxes can be used to guide the level and direction of both private and public economic activities in the country, for instance, the government can encourage or discourage an activity by lowering and raising taxes respectively.
5. To improve on the country's balance of payment position. This can be done by imposing high taxes on imports which makes them expensive to the importing country thus saving the foreign exchange that was originally spent.
6. To control inflation. When high taxes are imposed on the income of individuals, this disposable income become low/lower. This reduces their purchasing power thus reducing the rate at which prices are increasing.
7. To discourage the exportation of certain products. When high export duties are imposed on exports, less of such commodities will be exported to other countries thus leaving more for the local market.
8. To reduce dependence on foreign aid. Taxes can be used by the government to reduce dependence on other economies, that is, it enables the country to become self reliant. This is because a variety of taxes improves on government revenue, reduce budgetary deficits and therefore reduce the need for borrowing.
9. To reduce/correct income inequalities. Taxes can be used to fairly redistribute income among people especially where the tax system is progressive in nature.
10. To combat unemployment. Taxation may be used to solve the unemployment problem in an economy, that is, a low tax rate may be imposed on firms that use labour techniques of production and this

guarantees employment. Also investment incentives like subsidies, tax holidays may be offered to increase investment levels so as to increase employment opportunities.

11. To promote individual responsibility. Taxes can be used by the government to promote individual responsibility and self reliance, that is, individuals can be compelled to work hard and pay taxes to avoid shame and embarrassment.
12. To control monopoly. Taxes may be imposed by the government so as to regulate monopoly power. This is done through imposing high taxes which increase the cost of production and this may force a monopolist to run out of the business.

### BASIC TERMS USED IN TAXATION

#### **Tax base**

This refers to any item or economic activity that is subject to tax. For instance, property, income, profit or any other economic activity.

A tax rate is applied on the tax base to derive a tax liability which is the obligation the tax payer meets.

The rate is represented as either percentage or a fixed/specific value based on units, for instance, the income tax payable by companies is 30%, whereas for hides and skins the export duty rate is \$0.25 per kilogram.

#### **Tax liability**

This refers to the total amount of money that a tax paying unit is expected to pay within a given period of time.

##### Example:

(a) If a company had taxable income of shs 300,000 and the tax rate is 30%, its tax liability will be;

$$= 300,000 \times 30\%$$

$$= 90,000 \text{ shillings}$$

(b) Assume the company is exporting 600kg of hides and skins to USA, its tax liability will be;

$$= 600 \times 0.25$$

$$= \$150$$

## **Taxable income**

This refers to the income liable to taxation.

## **Taxable capacity**

This refers to the extent to which an individual can pay taxes imposed on him/her without affecting his/her standard of living.

To a business enterprise, it refers to the extent to which the firm can pay the taxes imposed on it without affecting its productivity/output.

To the government, it refers to the proportion of the country's gross domestic product (GDP) in form of taxes without causing social, economic and political effects on the economy.

## **Threshold of a tax**

This refers to the amount of money or level of income from which the tax liability (tax obligation) begins.

## **Impact of a tax**

This refers to the firm, person or transaction on which tax is imposed.

OR

It refers to the first point of contact of a tax and the person on which the tax is officially levied.

OR

It refers to first resting place of a tax.

## **Incidence of a tax**

It refers to the person or firm that ultimately/finally pays the tax that has been imposed.

OR

It refers to the burden that tax payment creates on that last person supposed to meet the cost of tax.

OR

It refers to the last resting place of a tax.

## **Average rate of tax**

This refers to the proportion of income that is paid out as tax.

$$\text{Average rate of tax (ART)} = \frac{\text{tax amount}}{\text{total income}} \times 100\%$$

## **Marginal rate of tax**

It refers to the proportion of additional income that is paid out as tax. Therefore

$$\text{Marginal rate of tax (MRT)} = \frac{\text{change in tax}}{\text{change in income}} \times 100\%$$

## **Tax yield**

This refers to the total amount of tax revenue collected from a given number of taxes.

## **Tax evasion**

This refers to the deliberate refusal by a tax paying unit to pay taxes imposed on it.

## **Tax avoidance**

This refers to a situation where the tax payer takes advantage of the loopholes/weaknesses in the tax system so as to pay as little tax as possible or to pay no tax at all.

## **Tax holiday**

This refers to the period of non-tax payment given by the government to reduce consumers' spending and encourage investment spending.

## **Forward shifting of a tax**

This is when the money burden of the tax is shifted by the tax payer to another party that buys the output being taxed, for instance, a manufacturer may shift the burden of tax to the wholesaler who then shifts to the retailer and the retailer finally shifts it to the consumers.

## **Backward shifting of a tax**

This is when a tax paying unit/official tax payer shifts the money burden of tax to the person from whom he buys, for instance, a producer using a given raw material may shift the money burden to the supplier of such a raw material.

### **Tax rebate**

This refers to the tax reduction under special considerations.

### **Capitalization of a tax**

This is a situation where a tax paying unit usually a firm officially increases the value of capital employed so as to reduce tax liability.

### **Hidden tax**

This refers to the tax paid on purchase of goods and services and usually included in the prices of commodities being bought or taxed.

### **Tax haven**

This refers to a situation where a country deliberately offers low tax rates or relaxed/liberal tax laws so as to attract as much foreign investment and trade as possible.

## PRINCIPLES OF TAXATION (Canons of taxation)

These refer to rules (guidelines) that must be observed when assessing, collecting and administering taxes. These include the following;

1. Simplicity. The type of tax and the method of assessment and collection must be simple enough to be understood by both the tax payers and collectors.
2. Equity/fairness. The tax should be levied fairly so that the distribution of tax burden is equitable. This can be done in 2 ways;
  - (i) Horizontal equity. This implies that people earning the same level of income and doing similar jobs should pay the same amount of tax.

(ii) Vertical equity. This means that those who earn in form of money income should be made to pay more tax compared to those who earn less.

**Example:**

Salary	Employee A 2,000,000	Employee B 10,000,000
Tax rate	10%	15%
Tax payable	200,000	1,500,000

3. Convenience. This means that the place, period and seasons in which tax dues are collected should be convenient to the tax payer, for instance, Pay As You Earn (PAYE) is deducted from an employee's employment income by the employer at the point of paying the salary.
4. Certainty. A good tax system is one that ensures that all parties involved are clear of their rights and obligations. The tax should be certain in terms of time, place, manner of payment and amount to be paid.
5. Economical. This principles aims to ensure that the administrative cost of collecting taxes is kept as low as possible both to the collection agent and tax payer.  
According to Adam Smith, the cost of collection and administration of taxes to the collecting agent should not exceed 5% of the tax revenue.
6. Ability to pay. Tax payers should be able to pay the tax assessed on them without much difficulty. The payment of tax should not hinder business operations or affect the S.O.L of an individual.
7. Elasticity. A good tax should change directly with the change in the tax base. If the tax base increases, the tax yield should also increase. This helps government to raise more revenue.
8. Flexibility. A good tax system should be able to accommodate changes in the social economic environmental needs of a country. The government should be able to increase or decrease tax rates depending on its objectives, needs and policies, for instance if the government objective is to reduce unemployment, the tax rates should be reduced.  
However, if the government objective is to fairly reduce income inequalities, the income taxes should be made progressive.



9. Principle of productivity. This states that taxes should yield revenue to the government and at the same time government should be able to calculate correctly in advance how tax yield will be and at what rate tax revenue would flow in (aids budgeting).
10. Principle of comprehensiveness/Canon of diversity. This principle states that the tax system should cover as many aspects of the economy as possible, that is, it should cover all people who earn income in different ways such as salaries, wages, profits, rent, accumulated incomes, e.t.c.
11. Principle of impartiality. This states that the tax system should not discriminate among tax payers, for instance, indirect taxes.
12. Principle of optimality. This states that there should be minimum social costs due to taxation but maximum social benefits are in form of increased government expenditure while social costs take the form of reduced government expenditure.
13. Principle of neutrality. This states that taxes should not have adverse effects on the economic activities, that is, taxes should minimize the distortion of relative prices to check the possibility of poor resource allocation.

#### CHARACTERISTICS/ATTRIBUTES OF A GOOD TAX SYSTEM

A good tax system should;

1. be comprehensive, that is, cover as many aspects of the economy as possible.
2. be simple to be understood by both the tax payer and the tax collector.
3. yield adequate revenue to the economy.
4. promote equity of sacrifice, that is, should ensure social and economic justice.
5. avoid double taxation, that is, should avoid taxing an item more than once.

6. direct resources to priority areas hence stimulating savings, investment and productivity.
7. recognize basic rights of the tax payers, that is, tax payers should not be harassed, inconvenienced and exploited by the tax authority.
8. be convenient, that is, at a time and place convenient to the tax payers.
9. be certain, that is, tax payers made to know when and where to pay the taxes.
10. be flexible, that is, should be easy to adjust depending on the changes in the income of the tax payer.
11. be impartial, that is, not discriminate among tax payers.
12. be economical, that is, the cost of collecting and administering the tax should not exceed 5% of tax revenue.
13. ensure economic stability, that is, should cause instabilities in the economy like inflation.

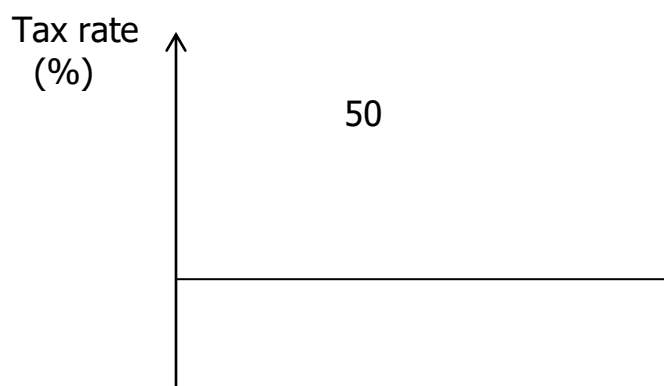
### CLASSIFICATION (TYPES) OF TAXES

Tax can be classified according to the proportion of one's income that is paid as tax, method of calculation of tax or according to the mode of payment.

#### (A) CLASSIFICATION ACCORDING TO ONE'S INCOME PAID AS TAX

##### (i) Proportional tax

This is the one where the tax rate is constant regardless of the different levels of income, for instance, corporation tax which is currently 30%.



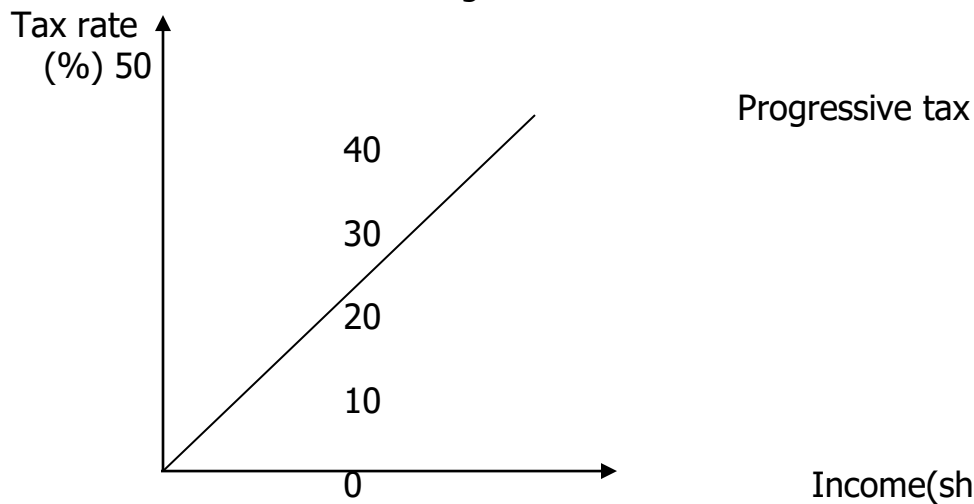
40  
30  
20  
10  
0

Proportional tax

Income(shs)

(ii) Progressive tax

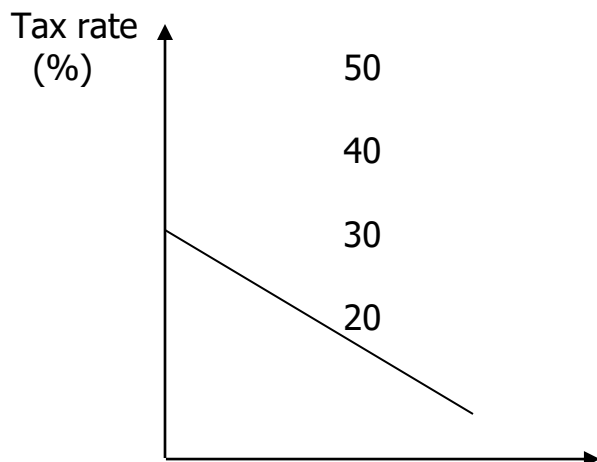
This is where the tax rate increases as the income increases. Therefore the burden of tax is heavier on higher income earners.



Progressive taxes reduce the tax incidence of people with lower income as they disproportionately shift the burden to those with higher incomes.

(iii) Regressive tax

This is the one where the rate of tax decreases as a person's income increases. The burden is proportionately greatest on low income earners.



10	Regressive tax
0	Income(shs)

## (B) CLASSIFICATION OF TAXES ACCORDING TO METHOD/MODE OF CALCULATION OF TAX

In this case, calculation of taxes may be based on the value/volume of the product being taxed.

### (i) Advalorem tax.

This is a tax measured as a percentage of the price of the imported good. These taxes are usually imposed on expensive and luxurious items like jewelry, cosmetics, e.t.c.

### (ii) Specific tax

This is a fixed monetary tax per physical unit of good imported, for instance, shs 100,000 per ton of sugar.

## (C) CLASSIFICATION ACCORDING TO METHOD/MODE OF PAYMENT

There are 2 broad categories here, that is, Direct and Indirect taxes.

(i) Direct taxes. These are taxes levied on the income and property of individuals and business entities. The burden of tax is directly borne by the person paying it.

### **Types/forms of direct taxes**

(a) Income tax. This is the tax levied on profits or income earned by an individual or business entity. It takes two forms, that is, Personal income tax and corporation tax.

Personal income tax. This is the tax levied on income of individuals and it is normally a progressive tax.

Corporation tax. This is a tax levied on corporations or company profits and it is normally a proportional (flat tax rate) tax base on the net income of the company.

**N.B:** Tax base for income taxes includes profits from business rent and royalties leasing assets and income from investments like shares, debentures and other securities, income from employment, e.t.c.

(b) Wealth tax. This is a tax imposed on accumulated wealth, capital or savings of an individual or business entity. It may be levied on land, buildings, shares or other investments.

(c) Capital gains tax. This is the tax levied on profits received from the sale of capital assets, for instance, sale of property and investments like stocks, bonds, precious metals, e.t.c.

(d) Estate duty. This is a duty levied on the estate of the deceased person. This is levied either before or after the property in the estate is shared out to different beneficiaries and is based on the market value of the estate.

(e) Gift tax. This is a tax on gifts or gratuitous acquired property.

### **Advantages of direct taxes**

(i) Direct taxes;

1. are certain, that is, tax payers are informed in advance when, where and how much to pay. This enables the tax payer to prepare the sacrifice of taxation hence reducing tax evasion.
2. redistribute income. This is because they are progressive in nature. This reduces income inequality.
3. are convenient. This is because they are collected at the time tax payers have earned sufficient funds, for instance, PAYE where payments are made in installments.
4. are progressive in nature, hence they tend to be fair to the low income earners.
5. act as a built-in stabilizer of the economy, that is, they have an internal mechanism of correcting economic instabilities such as inflation, income inequalities, e.t.c.

6. are flexible, that is, they can be increased or reduced according to the requirements of the economy.
7. are easy and simple to understand by the tax payers therefore people can be willing to pay.
8. are economical to collect by the government, for instance, PAYE system where the government deducts the tax from the tax payers' salary.

### **Disadvantages of direct taxes**

1. they are characterized by a lot of tax evasion and avoidance and this reduces the government revenue, for instance, people in the private sector find it very easy to evade taxes.
2. The cost of collection is at times high. This is because government has to employ many officials and pay a lot to do the collection and administer, thus they tend to be less productive.
3. The government is usually not sure about how much revenue it will collect especially in developing countries where there is a lot of corruption in tax administration.
4. They tend to discourage investment especially when they are regressive in nature, for instance, high profit tax may leave the firm with less profit to plough back.
5. Due to low taxable capacity in developing countries, little revenue is collected from direct taxes since majority of people are poor where very few people earn above the threshold of income tax.
6. Direct taxes discourage entrepreneurship especially where the rates of corporate taxes are high.
7. High direct taxes lead to inflation in an economy, for instance, when profit taxes are high, traders increase prices of goods which may cause inflation.
8. High rates of direct taxes make the people resent the government in power hence making it unpopular.

9. Direct taxes tend to discriminate among tax payers especially when tax assessment is not based on impartiality.

(ii) Indirect taxes

These are taxes that are levied on goods and services, paid by an individual or business entity and shifted to the final consumer.

**Types/forms of indirect taxes**

(a) Customs duty (Import and Export duty). This is a duty levied on goods that cross national border points either a imports into the country or exports leaving the country.

(b) Excise duty. This is the duty levied on the production or importation of specific goods with a view to influence their consumption and or supply in the local market, for instance, tax on socially undesirable and luxurious goods.

(c) Sales tax. This is a tax levied as a percentage on goods and services sold.

(d) Value added tax (VAT). This is a tax on consumption of goods and services. It is levied on value added at every stage in the chain of production or distribution of goods and services.

**Example** : Assuming there are 3 levels in the chain of distribution as follows;

Level 1 : Importation of goods with taxable value of shs 10,000

Level 2 : Sale of goods by the importer to the retailer at shs 15,000

Level 3 : Sale of goods to a final consumer by the retailer at shs 35,000

**Solution** :

Level 1 : VAT is charged at importation.

$$\text{VAT payable} = 10,000 \times 18\% = \text{shs } 1800$$

Level 2 : VAT is charged on the value added

$$\text{Value added} = 15,000 - 10,000 = \text{shs } 5000$$

$$\text{VAT payable} = 10,000 \times 18\% = \text{shs } 900$$

Level 3 : Value added = 25,000 - 15,000 = shs 10,000

$$\text{VAT payable} = 10,000 \times 18\% = \text{shs } 1,800$$

(i) Total VAT from the 3 levels =  $1,800+900+1,800 = \text{shs } 4500$

(ii) VAT charged to final consumer =

= consumer purchase price X VAT rate

=  $25,000 \times 18\%$

= 4,500 shillings

From the above, it is clear that, though VAT is collected at three levels, the one who bears the burden is the final consumer.

### **Advantages of indirect taxes**

1. They are convenient to the government and tax payers. This is because they are collected when people have money to spend.
2. Indirect taxes tend to contribute more to government revenue especially in developing countries where incomes are low. This is because they have a wider coverage.
3. They are flexible, that is, the tax rate can easily be adjusted depending on the desired objectives of the government.
4. They promote hard work among tax payers because in an attempt to meet the increasing prices of commodities and maintain the standard of living, people are forced to work hard so as to sustain their economic welfare.
5. They assist in overcoming balance of payments (BOP) problems. This is achieved through increasing selective import duties and decreasing selective export duties so as to reduce the volume of exports hence increasing foreign exchange earnings.
6. They are difficult to evade because they are embedded in the prices of commodities and these commodities must be bought at all costs, that is, during the buying of goods and services, taxes are paid.
7. They are used to safe guard the health and morality of citizens. This can be done by imposing high taxes on goods likely to affect the health and morality of the citizens, for instance, drugs, cosmetics, e.t.c. This makes their prices prohibitively high resulting into few people who can afford them.



8. They are used to protect infant industries against unfair foreign competition. This is done by imposing high tariffs on imports which make their prices relatively higher than domestic prices hence making them less competitive.
9. They reduce tax resentment (ill-will against taxation). This is because they are built-in prices of commodities and people may not notice that they are paying tax.
10. Indirect taxes are used to achieve economic stability especially by imposing high taxes on imported goods so as to minimize imported inflation.
11. Indirect taxes are impartial in that they do not discriminate among tax payers thus the government is able to raise more revenue.
12. They are economical to collect by the government since government does not pay the traders who collect the taxes.

### **Disadvantages of indirect taxes**

1. They encourage trade malpractices especially in foreign trade where traders may attempt to evade taxes through smuggling. Under declaring the value of imports all of which have adverse effects on the economy.
2. They reduce economic welfare of citizens. This is because the poor may not cope with increasing prices due to indirect taxes.
3. They lead to increased cost of production and this adversely affects the level of investment, production and employment levels within an economy.
4. Indirect taxes like import duties interfere with the freedom of trade hence reducing the volume of international trade.
5. Revenue from indirect taxes fluctuates a lot. This is because the amount of revenue collected depends on the volume of purchases or sales which normally fluctuates depending on the prevailing season, economic

situation, e.t.c. Such fluctuation adversely affects planning based on projected revenue from taxes.

6. Indirect taxes spark off/fuel inflation because they lead to increased costs of production which results into increased consumer prices.
7. Indirect taxes when imposed on necessity goods become regressive. This is because necessities are consumed by both the rich and the poor in almost similar quantities, for instance, salt and if they are taxed indiscriminately, the poor are adversely exploited.
8. High indirect taxes cause consumers to change their consumption and expenditure patterns which may reduce their standards of living. For instance, if the government imposes high taxes on beer, people may resort to the local brew.

PROBLEMS/CHALLENGES OF TAXATION IN UGANDA  
(Factors for the low tax base/taxable capacity in Uganda)

1. Low levels of incomes of individuals. The majority of people in Uganda are poor due to low levels of economic activities in the country. Therefore the government cannot raise more revenue due to low investment levels.
2. Presence of a small industrial sector. Most industries in Uganda are small scale leading to low profit margins.
3. Presence of weak tax administrative machinery. Tax administrative system in Uganda is weak and this is reflected in dishonesty and incompetence of tax officials, low level of integrity among tax collectors and assessors all of which account for low tax yield.
4. Existence of a large informal sector. This makes it very difficult to assess tax due to absence of book keeping and this results into under assessment which reduces the taxes collected and over assessment which leads to tax resentment hence tax evasion and this reduces tax revenue.

5. Existence of high levels of unemployment. There are high levels of unemployment and under employment in Uganda which limit the taxable capacity and taxable income hence low tax revenue.
6. Existence of a high dependency ratio. The majority of people are not working leading to many dependants. This reduces the taxable income hence low tax revenue collected.
7. Increased trade malpractices. These take the form of smuggling, under declaration of the value of imports and exports, over invoicing and under invoicing of goods and services, all of which lead to low taxes.
8. High rates of tax evasion and tax avoidance. The government in an attempt to attract foreign investment offer a lot of tax concessions to foreign investors. This however, results into low tax revenue collected.
9. High cost of collection and administration of taxes. Since the cost of collection and administration is high, it tend to reduce the tax revenue collected.

#### SOLUTIONS TO PROBLEMS OF TAXATION IN UGANDA

(Possible solutions to problems limiting tax revenue collection in Uganda)

1. Massive administration should be undertaken by the government especially in the agricultural sector by setting up agro-based industries or industries that add value to agro output. This helps to widen the industrial sector and increase the taxable base.
2. Developing and encouraging use of labour intensive technology to reduce unemployment in most industrial firms hence creating taxable income.
3. Minimizing chances of tax evasion and tax avoidance by sensitizing the business community to keep records of their transactions. This helps to increase tax revenue.
4. The government should check or reduce trade malpractices by creating boards responsible for checking smuggling like the anti-smuggling unit and revenue protection services of URA.

5. The government should improve tax administration by training tax personnel, paying tax personnel attractively, penalizing and dismissing incompetent and dishonest tax personnel.
6. Sensitization of tax payers. The government should sensitize people about the importance of paying taxes. This helps to increase tax compliance and reduce tax evasion and tax avoidance.
7. Modernization and monetizing the agricultural sector to promote commercial agriculture which would increase agriculture income as well as taxable incomes.
8. The government should pursue outward looking investment industries, that is, industries that produce for export. This widens the tax base hence increasing tax revenue.
9. The government should check political insecurity and instability in the northern region so as to boost production/economic activities and increase taxable income.
10. Introduction of a comprehensive tax payers registration in which every tax payer is assigned a tax identification number (TIN) to track the tax payers and tax payment to minimize the incidence of double taxation, tax evasion and improving tax collection.

## **TAX CLEARANCE PROCESS**

This refers to the process of certifying that one has completed his/her tax obligation, that is, has cleared tax(es). It involves the following;

1. Tax Identification Number (TIN). This refers to the computer number assigned to the tax payer for identification purposes. The TIN is known to the tax payer and this number is kept by the tax authorities. It is important for purposes of reference, issuing tax clearances, filing returns and making inquiries.
2. Tax authorities. These are bodies responsible for levying/imposing taxes on tax payers. In Uganda, the tax authorities include the central government represented by Uganda Revenue Authority and the District Administration Authorities. The central government imposes and collects

the import and export duties, income tax, VAT and PAYE while other taxes are imposed and collected by the District Administration Authorities.

## **TAX COMPLIANCE**

This is the degree to which the tax-paying community meets the tax obligations as set out in the appropriate legal and regulatory provisions. Compliant tax payers among others, make timely, proper and accurate declarations to the tax authority and voluntarily settle all the due tax liability.

### LEVELS OF TAX COMPLIANCE

There are basically 4 levels, that is;

1. Tax payers who are fully compliant and are willing to fulfill their obligations voluntarily.
2. Tax payers who reluctantly feel obliged to be compliant. These are tax payers who know that non compliance would be expensive and accordingly comply.
3. Tax payers who show slight resistance to compliance and this more arises from lack of knowledge. When such tax payers are advised and some pressure exerted on them, they simply comply.
4. Tax payers who are non-compliant and exhibit outright resistance to meeting their obligation. This includes some tax payers who take pride in failing the tax authority.

### FACTORS INFLUENCING TAX COMPLIANCE

1. Extent to which the tax system is equitable. A tax system that is fair encourages high levels of tax compliance. On the other hand, an inequitable tax system discourages tax compliance as tax payers tend to feel that the distribution of tax is unfair.
2. Level of tax rates. High tax rates make taxation costly and compel tax payers to avoid payment of tax. Low tax rates encourage compliance.

3. Extent to which the tax laws and tax regulatory framework is simple and easy to understand. Complicated tax laws and long administrative processes make compliance costs high, lead to disputes, delays, avoidance hence leading to non-compliance. On the other hand where the method of tax assessment and collection is simple enough to be understood by both the tax payers and collectors, tax compliance is encouraged.
4. Extent to which the tax burden is spread to all potential tax payers. Unproportionally distributed burden of a tax makes tax compliance difficult and vice versa. In most cases, tax incentives and holiday regimes restrict the spread of the tax burden.
5. Popularity of government and quality of governance including honesty and accountability for public revenue. A government which is unpopular or corrupt discourages tax compliance. On the other hand, a popular government characterized by absence of corruption encourages tax compliance.
6. Quality of business management by tax payers through record keeping forms, business organization and business ethics where business managers are unethical, they are bound to be non-compliant compared to those who are ethical in their business operations.
7. Quality of tax administration. High levels of professionalism, integrity and customer care exhibited by the tax collectors encourage high levels of tax compliance. This is because under such circumstances tax payers develop trust and confidence in the tax authority. On the other hand, tax payers tend to be non-compliant where tax administration is poor.
8. Extent to which tax laws and rules are applied consistently and fairly. Inconsistent application of the rules leads to non-compliance and this is caused by corruption. On the other hand, consistent application of the tax laws and rules encourages tax compliance.
9. Extent to which the tax system is convenient. Convenient place, period and seasons in which tax dues are collected encourages tax compliance. For instance, PAYE tax which is deducted from the employees' employment income at the point of paying the salary. On the other hand, a tax system which is inconvenient encourages non-compliance.

## MEASURES THAT CAN BE UNDERTAKEN TO ENCOURAGE TAX COMPLIANCE IN UGANDA

1. Reducing consumption and embezzlement of tax revenue.
2. Ensuring that taxes are simple to be understood by the tax collectors and tax payers.
3. Ensuring that taxes are equitable, that is, fair.
4. Sensitizing the masses on the role of taxation.
5. Developing a tax payer friendly system of tax collection.
6. Ensuring political stability so as to boost economic activities.
7. Ensuring proper usage of taxes.
8. Using trained personnel to assess and collect taxes.
9. Showing accountability on the usage of tax revenue.
10. Imposing penalties on tax evaders.
11. Shortening the tax payment procedure
12. Strengthening tax implementation laws.
13. Charging low tax rates.

### **TAX ADMINISTRATION IN UGANDA**

The principal players in the Uganda tax administration system are: the Ministry of Finance, the Parliament of Uganda, Uganda Revenue Authority, the tax appeals tribunal and the tax payers.

#### ROLE OF

(A) MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT IN  
TAX ADMINISTRATION

1. Originating and interpreting government tax policies and translating them into appropriate tax proposals for parliament's consideration.
2. Overseeing operations of Uganda Revenue Authority.
3. Funding operations of URA.
4. Linking URA to government departments and other stake holders.
5. Ensuring proper national budgeting, utilization and accountability of revenue.

(B) PARLIAMENT

This is constitutionally responsible for monitoring the performance of all government ministries and departments.

In this regard, URA is accountable to parliament for its performance. URA submits annual reports to parliament to indicate its revenue performance resource management.

It is also responsible for enactment of the laws that guide URA in its operations.

(C) THE UGANDA REVENUE AUTHORITY

There are two major tax authorities in Uganda, the URA which is responsible for the central government revenue and the local government administration (Districts and Urban authorities) which is responsible for collection of local government revenue and this includes;

- (i) property tax and ground rent in urban centres.
  - (ii) fees and dues like licenses, approval of plans, market fees, street parking fees, e.t.c.
  - (iii) graduated personal tax. (This was suspended by 10 years to encourage development of personal income)
- dues, park  
government for income)



determining government The Ministry of local Government is responsible for the rates of tax for the different sources of local revenue.

### **Formation of Uganda Revenue Authority**

Before the formation of URA, taxation in Uganda was administered by four distinct departments in the Ministry of Finance. These were;

(a) Customs and Excise department

This department was responsible for assessment and collection of customs duties principally import duty and excise duty.

(b) Income tax department

This department was responsible for the assessment and collection of personal income tax, PAYE, corporation tax and withholding tax.

(c) Inland tax department

This department was responsible for the assessment and collection of sales tax, commercial transaction levy (CTL), stamp duty and motor vehicle licenses.

(d) Tax policy department

This department was responsible for the development of taxation policy.

There was however, concern over the poor performance of the tax departments and revenue collected was very low.

In addition to the low tax effort, the following short comings affected the tax administration in Uganda;

(a) The tax collecting departments were part of the bureaucratic traditional civil service. The consequence red tape made decision making very difficult.

(b) There was also low morale partly due to low remuneration and this also led to declining professionalism and corruption among the tax collectors.

(c) There was inadequate support to the tax administrators in respect to infrastructure, logistics and other resources.

(d) There was very poor standard of business management and record keeping among the business community.

(e) There was high degree of tax evasion through smuggling, forgery, under declaration and other forms of indiscipline.

- (f) Low level of professionalism and acceptance of corruption as a norm in the conduction of public affairs.

The above factors underlie the decision taken by the government of Uganda to form the URA on 05/09/1991. It was formed by the act of parliament with a view to;

- (a) Modernize the process of tax administration by cutting down bureaucracy through setting up a semi-autonomous tax body.
- (b) Reduce the revenue leakage and corruption in the tax administration.

### **Role of U.R.A in the tax administration**

1. To assess and collect taxes in accordance with the tax law. This is attained through identifying and registering tax payers, providing tax payers with information necessary for them to know their rights and obligations, assessing the tax payers fairly, collecting taxes and enforcing tax collection/recovery where there is default.
2. To account for all the revenue collected to the Ministry responsible for finance. All revenue collected is deposited into the consolidated fund account of the Bank of Uganda.
3. To facilitate trade and investment and this is attained through liaising with other government bodies like the Ministry of Trade and Uganda Investment Authority, to ensure that a good investment climate exists in Uganda and providing quality service through fast track clearance of goods, prompt provision of tax clearance certificate and other vehicle licenses.
4. To advise government on matters of policy related to tax and revenue administration. URA as the implementer of tax policy would easily note matters of inconsistency and loopholes in the tax and revenue laws. This advice is normally contained in the policy change proposals during national budgets process that are forwarded to the ministry responsible for finance.

### **Taxes collected by Uganda Revenue Authority**

1. International trade taxes

These are collected on goods entering (import duty) or leaving (export duty) the country. In Uganda, this role is performed by the Customs and Excise department. In addition, the department collects the following taxes;

- (a) Value added taxes
- (b) Withholding tax
- (c) Excise duty
- (d) Environmental levy

## 2. Domestic taxes

In URA, these taxes are collected by the domestic taxes department and taxes include; corporation tax, individual income tax, rental tax, VAT, e.t.c.

### (D) THE TAX APPEAL TRIBUNAL (TAT)

If a tax payer is dissatisfied with the decision of the URA, the Commissioner General, he or she has a right to appeal to the Tax Appeal Tribunal for a review and resolution of the matter.

Where either the tax payer or commissioner General of URA is not satisfied with the decision of TAT on a matter of law or mixed law and fact, he or she has a right of appeal to the High court. TAT was formed by 1997 Act of Parliament. It has two broad roles;

- (a) To ensure a fair and consistent application of the taxing law.
- (b) To give interpretation on matters of the tax law which are unclear.

### (E) THE TAX PAYER

The tax payer has the following roles as defined by the URA tax payer's charter:

- (a) Every tax payer has an obligation to declare their liability to tax and this would involve;
  - (i) registering with URA as a tax payer
  - (ii) filing complete and accurate tax returns, customs entries and other notices as required by the tax laws.

(b) Every tax payer has an obligation to pay all the due tax as properly assessed and determined by URA.

The charter also defines the tax payer's rights which should be upheld by URA. These include;

(i) to promote equity by;

- applying tax laws and procedures uniformly.
- handling all tax payers' affairs with impartiality.
- presuming the tax payers and their agents honest until otherwise.
- collecting only the fair and correct taxes.

(ii) to ensure secrecy of every tax payer's affairs and use tax information in URA's possession in accordance with the law.

(iii) to facilitate tax compliance by;

- providing tax payers and their authorized agents with clear, precise and timely information.
- ensuring that courtesy and considerate treatment is extended unconditionally to all tax payers.
- responding expeditiously to every tax payer's inquiry, complaint or request.
- explaining the grounds for and derivation of every tax assessment and providing proper technical advice to the tax payers.
- assisting new tax payers to register.
- educating the tax payers and the general community about the tax obligation and rights.

## **BASIC TAX COMPUTATIONS**

### 1. Individual income tax

This tax is imposed on the chargeable income of an individual. Chargeable income is derived from gross income.

#### Gross income:

There are 3 sources of income under the income tax Act, that is, Business income, Employment income and Property income.

The sum of the income from all the three sources above is referred to as 'gross income'. This excludes income that is exempt from tax.

Therefore chargeable income = Gross income – Expenses and losses incurred to earn the income.

#### **Example:**

Cosmos earned income from different sources for the year 2009 as indicated below;

Business income shs 1,000,000  
Employment shs 2,400,000  
Property income shs 500,000

In addition, he incurred expenses and losses amounting to shs 1,200,000 to earn the income shs 150,000 exempted from tax.

Required: Calculate Cosmos's gross income and chargeable income.

Income from all sources	shs
Business income	1,000,000
Employment income	2,400,000
Property income	<u>500,000</u>
Total income	3,900,000
Less : Tax exempt income	<u>150,000</u>
Gross income	<u>3,750,000</u>

Chargeable income = Gross income – expenditure and losses incurred to earn the income.

Chargeable income = 3,750,000 – 1,200,000  
= 2,550,000 shillings

## 2. Employment income

Most people paying individual income tax earn the income from employment and the tax is recovered at source through a system called Pay As You Earn. Employment income includes among others;

- Any wages, salary, leave pay, gratuity and banks.
- Allowances such as traveling, entertainment, housing, medical, e.t.c.
- Value of any benefit, advantage or facility granted to the employee.  
This includes items like cars, houses, e.t.c
- Compensation for termination of a contract of employment.

### Pay As You Earn:

The Income Tax Act obliges employers while making payment of employment income in any month to withhold tax at the prescribed PAYE tax rates and remit the tax withheld by the 15<sup>th</sup> day of the following month of the URA.

### The Tax Rate:

The tax rate for individuals is based on a year. However, in the case of PAYE, the rates are administratively reduced to monthly rates. The individual tax rates are as follows;

Chargeable income (monthly)	
Not exceeding shs 235,000	NIL
Exceeding shs 235,000 but not exceeding shs 335,000	10% of the amount by the chargeable income exceeds shs 235,000
Exceeding shs 335,000 but not exceeding shs 410,000	10,000 plus 20% of the amount by the chargeable income exceeds shs 335,000.
Exceeding shs 410,000	A. 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000 and B. Where the chargeable income of an individual exceeds shs 10,000,000 an additional 10% is charged on the amount by the chargeable income exceeds shs 10,000,000.

Example:

Hassan is employed as a teacher, his chargeable income is 2,550,000 shillings per year. How much tax is he supposed to pay?

$$\begin{array}{r}
 \text{Tax liability} \\
 \text{Chargeable income} \quad = 2,550,000 \\
 \text{Less : Threshold (exempt income) = .....} \\
 \text{Tax there on} \quad = \text{.....} \times 10\%
 \end{array}$$

### 3. Rental tax

The Income Tax Act imposes tax known as rental tax on every individual who has rental income derived from immovable property (land and buildings) situated in Uganda.

The Act provides that 20% of the rental income is to be deducted as representing expenditure and loss to earn the rental income.

The tax rate is 20% of the chargeable rental income in excess of the threshold which is shs1,560,000.

Example:

Jomayi earned shs 2,500,000 as rental income from his house located in Kampala.

Required: Compute his rental tax.

Solution:

	Rental income	=	shs 2,500,000
	Less : Provision for expenditure		
and loss; 20% x 2,500,000	=		<u>500,000</u>
	chargeable income		2,000,000
less : Threshold			<u>1,560,000</u>
			440,000
Rental tax due (440,000x20%)	=		<u>88,000</u>

4. Value added tax (VAT)

Value Added Tax was introduced in Uganda on 1<sup>st</sup> July 1996 and it is administered by the VAT Act. This is tax on consumption of goods and services. It is charged on the value added at each stage in the chain of distribution or production.

It is ultimately borne by the consumer. Currently VAT is 18%.

Example:

Chain of distribution

Stage	Activity	Purchase price (shs)	Selling price (shs)	Value added (shs)	VAT at 18% (shs)
1	Importer at customs	10,000	-	10,000	1,800
2	Importer (local distribution)	10,000	12,000	2,000	360
3	Wholesaler	12,000	15,000	3,000	540
4	Retailer		20,000	5,000	900
5	Final consumer	20,000			3,600

From the example above, the final consumer pays VAT of shs 3,600 (20,000x18%). The total price he or she pays would be shs 23,600 inclusive of VAT.

However, this VAT would have been collected and paid in parts by the different persons in the chain of distribution.

## Value Added Tax computation

VAT = Taxable value x VAT rate

where :

Taxable value is the price of a taxable good or supply excluding VAT. This is also referred to as taxable base.

VAT rate is the percentage used to compute VAT. The current rate is 18%.

### VAT MECHANISM

The VAT mechanism involves three aspects;

- (i) VAT on purchases and expenses. This is called input VAT/tax.
- (ii) VAT on sales. This is called output tax.
- (iii) VAT liability = (output tax – input tax)

Where output tax exceeds the input tax, the tax payer pays the difference as VAT to URA.

However, where the input tax exceeds the output tax, the tax payer claims the difference as a VAT refund from URA.

#### Example 1

Kato, a retailer deals in business that resells sugar bought from Kakira sugar works. In the month of December, 2008, he bought 100 bags at shs 5,000,000 and resold all of it at shs 7,500,000. This implies that;

- (i) Input VAT (VAT on purchases) = 5,000,000 x 18% = shs 900,000
  - (ii) Output VAT (VAT on sales) = 7,500,000 x 18% = 1,350,000
- Therefore VAT liability = 1,350,000 – 900,000 = shs 450,000

Kato will have to pay VAT of shs 450,000 to URA and not shs 1,350,000 which was got from his consumer. Shs 1,350,000 is VAT on sales of shs 7,500,000 but shs 450,000 is VAT on value added by Kato, that is (750,000-500,000) which is shs 2,500,000

#### Example II

Kato bought the same quantity of sugar from Kakira sugar works as above at shs 5,000,000. But this time he did not sell all of it. Kato sold only 50 bags at a total of shs 3,500,000. This implies that;

- (i) input VAT = 5,000,000 x 18% = shs 900,000



(ii) output VAT = 3,500,000 x 18% = shs 675,000

Therefore VAT refund = input tax – output tax  
= 900,000 – 675,000 = shs 225,000

A VAT refund occurs when output tax is less than input tax.

### NON-TAXABLE REVENUE (NTR)

NTR in Uganda collected by URA includes stamp duty and other government non-tax revenue.

### **Stamp duty**

This is a duty payable on all the instruments in the schedule to the stamps Act. The common instruments executed in Uganda include; Transfer of land, Mortgages and Agreements. Stamp duty is chargeable on transfer of land at a rate of 1% of the value of land. The value of land is determined by the chief Government Valuer in the Ministry of Lands.

Stamp duty on mortgages is 0.5% of the value and on agreement is at a fixed rate of shs 5,000.

#### Example 1

Ali purchases land at plot 55 Kampala road for shs 5,000,000. The land has been valued by Chief Government Valuer at shs 7,500,000.

Required: Compute the stamp duty payable.

Solution:

Stamp duty on transfer is 1% of shs 7,500,000 which is shs 75,000.

#### Example II

Mutumba signed a mortgage with Stanbic Bank Ltd for shs 10,000,000 he borrowed. Compute the stamp duty payable.

Stamp duty on mortgage is 0.5% of shs 10,000,00 which is shs 50,000.

## **COMPUTATION OF CUSTOMS DUTIES AND TAXES**

### **Background**

In January 2005, Uganda became of the East African Community, a regional economic body referred to as a Customs Union comprising Kenya, Uganda and Tanzania.

The three countries agreed to the establishment of a Common External Tariff (CET) for all goods originating outside the region. The CET has three tax bands 25%, 10% and 0%.

Under the same agreement, a common law known as the East African Community Customs Management Act (EAC-CMA) was put in place to enforce the implementation of the CET.

The EAC-CMA customs duty which is a charge on goods that cross national border either as input or exports.

### **Computation of import duty**

Customs duty is determined on the basis of a custom value which is the cost of the goods, insurance and freight (cost of transport). This is referred to as CIF value of the goods on which customs duty is charged.

#### **Example:**

Assuming Idris imports soda from South Africa at a CIF value of US \$1,000 attracting 25% import duty, 60% excise duty, VAT 18% and withholding tax 6%. The current exchange rate is Ug. Shs. 173,764. Compute the;

- (i) import duty
- (ii) excise duty
- (iii) VAT
- (iv) withholding tax
- (v) total tax payable

$$\begin{aligned}\text{Customs value} &= \text{CIF} \times \text{Exchange rate} \\ &= \text{US } \$1,000 \times 174,764 \\ &= \text{Ug. Shs } 1,747,640\end{aligned}$$

- (i) Deriving import duty

$$\begin{aligned}\text{Import duty} &= 1,747,640 \times 25\% \\ &= \underline{\text{shs } 436,910}\end{aligned}$$

- (ii) to derive the excise duty value, we add (customs value + import duty)

$$\begin{aligned}\text{Excise duty value} &= \text{customs value} + \text{import duty} \\ &= 1,747,640 + 436,910 \\ &= \text{shs } 2,184,550\end{aligned}$$

$$\begin{aligned}\text{Excise duty} &= \text{excise duty} \times \text{excise duty rate} \\ &= 2,184,550 \times 60\% \\ \text{Excise duty payable} &= \text{shs } 1,310,730\end{aligned}$$

(iii) VAT rate : 18%

import  
rate.

The VAT value is derived by adding the customs value to duty and excise duty. To derive VAT, you apply the VAT

$$\begin{aligned}\text{VAT value} &= 1,747,640 + 436,910 + 1,310,730 \\ &= 3,495,280 \\ \text{VAT} &= 3,495,280 \times 10\% \\ &= \text{shs } 629,150\end{aligned}$$

(iv) Withholding tax (WHT); 6%

customs

To derive WHT, you apply the withholding tax rate to the value;

$$\begin{aligned}\text{Customs value} &= 174,640 \\ \text{Withholding tax} &= 174,640 \times 6\% \\ &= \text{shs } 10,478,4\end{aligned}$$

Therefore the total tax payable by Idris on soda imported from South Africa will comprise of:

$$\begin{aligned}\text{Import duty} &= 436,910 \\ \text{Excise duty} &= 1,310,730 \\ \text{Value Added Tax} &= 629,150 \\ \text{Withholding tax} &= \underline{104,858} \\ \text{Total tax payable} &= \underline{\text{shs } 2,481,648}\end{aligned}$$

