

## **CHAPTER 5: ENTREPRENEURSHIP EDUCATION/ DEMONSTRATE UNDERSTANDING OF ENTREPRENEURSHIP**

### **5.1 Introduction**

Demonstrate understanding of entrepreneurship unit of competence is among the seven basic competencies units offered in all the TVET Level 6 qualification. The unit covers the knowledge, skills, and behaviour required to demonstrate understanding of entrepreneurial culture. It entails understanding of an entrepreneur, entrepreneurship and self employment by identifying entrepreneurial opportunities, creating awareness, developing and applying business innovative strategies. This unit is important for employment creation, bridging unemployment and increasing innovativeness in economic development thus economic growth.

The critical aspects of competency to be covered includes; distinguish entrepreneur and business persons, identify entrepreneurship opportunities and their legal aspects, identify business resources for self employment, generate business ideas, analyse business life cycle, develop business and financial plan, prepare executive summary and present business plan in accordance with principles and policies governing entrepreneurship. The basic resources required include check list, research tools and machines. The unit of competency cover seven learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements, thus creating trainee's an opportunity to demonstrate knowledge and skills in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

### **5.2 Performance Standard**

Apply entrepreneurship and self-employment understanding, identify entrepreneurship opportunities and develop innovative business strategies in accordance to principles of entrepreneurship, business procedures and strategies and requirement for entry into self-employment and government policies.


### **5.3 Learning Outcomes**

#### **5.3.1 List of learning outcomes**

- a) Demonstrate understanding of who an entrepreneur is
- b) Demonstrate knowledge of entrepreneurship and self-employment
- c) Identify entrepreneurship opportunities
- d) Create entrepreneurial awareness
- e) Apply entrepreneurial motivation
- f) Develop business innovative strategies
- g) Develop business plan

### 5.3.2 Learning Outcome No 1: Demonstrate understanding of who an entrepreneur is

#### 5.3.2.1 Learning Activities

Learning Outcome No 1: Demonstrate understanding of who an entrepreneur is	
 Learning Activities	Special Instructions
1.1. Distinguish entrepreneurs and business persons as per principals of entrepreneurship 1.2. Identify types of entrepreneurs as per the principles of entrepreneurship 1.3. Identify ways of becoming an entrepreneur as per the principles of entrepreneurship 1.4. Identify characteristics of entrepreneurs as per the principles of entrepreneurship 1.5. Explore factors affecting entrepreneurship development as per principles of entrepreneurship	Outline the qualities of a good entrepreneur.

#### 5.3.2.2 Information Sheet No3/LO1: Demonstrate understanding of who an entrepreneur is



##### Introduction

This learning outcome aims at equipping the trainee with knowledge of understanding best who is an entrepreneur, who he socially is, his characteristics, how an entrepreneur differs from business person, types of entrepreneurs, characteristics of entrepreneurs, factors affecting entrepreneurship, development as per the principles of entrepreneurship.

##### Definition of key terms

**Entrepreneur:** It is a person who creates initially small business and strives to maximize potential of their venture while simultaneously minimizing risk.

**Entrepreneurship:** This is a process of designing, launching and running a new business which often initially a small business along with its financial risks.

**Self-employment:** This is where an individual is in control of his/her own business, makes decisions affecting and enjoys all the profits of that business and incurring all the losses.

**Business environment:** Are those factors that affect the operations of a business. They may be internal or external environment.

**Small scale enterprises:** It is a type of an enterprise marked by a limited number of employees and limited flow of materials and finances.

### Content/Procedures/Methods/Illustrations

#### 1.1 Distinguish between entrepreneurs and business Persons

Table 7. Distinction between Entrepreneurs and Business person

Entrepreneur	Business person
An entrepreneur is an investor and the first creator of a product. He invests time, energy and money on his own idea. He doesn't start business from an unoriginal idea.	A business person can make a business out of an unoriginal business or product idea. He enters into existing business, such as franchising and retailing. He chooses a hot and profitable business idea regardless of whether it is original or a borrowed idea.
Entrepreneurs are more concerned on changing the world. They want to pursue their passion and achieve an ultimate goal.	Most business persons are doing business for profit, livelihood, for reaching their own boss.
Entrepreneurs takes crazy risks, and don't care of losing time and money just to pursue their passion.	Businesspersons take calculated and managed risks. They cannot afford to lose money or suffer from bankruptcy.
An entrepreneur is a friend and a leader. He finds peers and people whom he will never treat as machines.	A businessman is an employer and a manager. He hires to help his business grow.
An entrepreneur sees customers as his source of duty and fulfillment.	Businessperson sees customers as his source of sales and revenues.
Entrepreneurs try hard to beat his worst competition.	A businessperson tries harder to beat his competitors and win the competition
Entrepreneur sees the world as duty rather than an opportunity. Works as an artist his product is a masterpiece.	Businessmen sees the world as an opportunity. Businessmen doesn't waste any time

#### 1.2 Types of entrepreneurs

- a) **Innovator:** They come up with completely new ideas and turn them into viable business ideas.
- b) **Imitators:** They are the types who copy certain business ideas and improve upon them.
- c) **Small scale entrepreneur:** It is a type of entrepreneur that involves small business ventures. They lack the scale to attract venture capital but are funded by family and friends. Examples are; groceries, Consultants, carpenters and hairdressers.

- d) **Scalable start-up entrepreneur:** Entrepreneurs start their company believing that their vision can change the world. Their funding comes from venture capital and they hire the best employees. Finding a scalable and repeatable business is the ultimate goal of the business. Examples are; Facebook, online shops, Instagram etc.
- e) **Large company entrepreneurship:** through sustaining innovation, offering new products in order to meet with changing customers' needs and advanced technology. Often companies do this by partnering with or buying innovative companies. Examples are; Microsoft, Samsung, Google, etc.
- f) **Social entrepreneur:** It is where an entrepreneur creates product and services to solve social need and problems. This can be non- profit, profit or hybrid. E.g. safe point trust by Marc koska which works to redesign medical tools and introduce inexpensive non-reusable syringes for underfunded clinics the world.

### Importance's of entrepreneurship

- Create jobs: As much as entrepreneurs create job themselves. They also create a number of jobs opportunities with their business venture and as their businesses grow so the opportunities available increases.
- Creates change: When entrepreneurs make a product or explores ideas, it brings in change and improvement in the world.
- Entrepreneur give to the society: The more the money they make the more in taxes they pay which in turn funds public services. E.g. Bill Gates the founder of Microsoft is the biggest donor in charities and non-profit organization.
- Entrepreneurship have independence: They are their own boss this enables to work to their capacity and towards achieving the specific goal.
- Freedom of ideas: They are free to implement and make any change in the operation of the business.

### Disadvantages of entrepreneurship

- Risk of business failure - There is no certainty of success.
- Long working hours especially in early stages of implementation.
- Income is varied and uncertain - It is difficult to estimate the income that you will be able to get in particular day or month.

### 1.3 Identify ways of becoming an entrepreneur

- **Be a risk taker:** Humans are generally risk averse, but part of being an entrepreneur is recognizing the risk that you should take. Successful entrepreneurs know which risk to take and which they shouldn't.
- **Exercise:** That is put the idea into action
- **Learning:** Getting new ideas from established entrepreneurs.
- **Networking:** Analyzing gaps in the market where you can invest in and working together with entrepreneurs of your area of specialization.
- **Trust yourself:** Being determined to achieve your goals.
- **Challenge yourself:** Compare yourself with the already established entrepreneurs.

- **Visualize goals:** Determine the needs and requirements of your goals.

#### 1.4 Characteristics of entrepreneurs are identified as per the principles of Entrepreneurship.

##### Characteristics of Entrepreneurs

- **Self-motivated:** when you want to succeed you need to be able to push yourself. You aren't answerable to anyone else as an entrepreneur and that means that it's hard to get moving without anyone to make you.
- **Risk taker:** successful entrepreneurs know that sometimes it's important to take risks. Playing it safe sometimes never lead to success as a business owner.
- **Flexible:** Have the ability to be able to change as needed. Staying on top of your industry and be ready to adopt changes in the process and product as they are needed.
- **Passion:** Successful entrepreneurs are passionate. They feel deeply about their product or service or mission.
- **Basic money management skills and knowledge:** Understand how money works so that you know where you stand and so that you run your business on sound principles.
- **Network:** Being able to connect with others and recognize partnership opportunities can take you a long way as a business owner.

#### 1.5 Factors affecting entrepreneurship development are explored as per principles of Entrepreneurship

Entrepreneurship is influenced by various factors:

- Economic development.
- Culture.
- Technological development.
- Education.
- Political factor
- Legal factor
- Capital

These conditions may have both positive and negative influences on the emergence of entrepreneurship.

a) **Economic factors:** Economic environment exercise the most direct and immediate influence on entrepreneurship. These factors include:

- Capital.
- Labor.
- Raw materials.
- Market.
- Infrastructure.

b) **Social factors:** These can go a long way in encouraging entrepreneurship. In fact it was the highly helpful society that made the industrial revolution a glorious success in Europe. Main components of social environment include:

- Caste factor.
  - Family background.
  - Attitude of the society.
  - Education.
  - Cultural values.
- c) **Technological factors:** Technology has influenced entrepreneurship development through innovations and use of internet to gather new and existing information.
- d) **Education:** Many entrepreneurial theorists have propounded theories of entrepreneurship that concentrate especially upon psychological factors. They may include:
- Need achievement.
  - Withdrawal of status respect.
  - Motives.
- e) **Political and government** changes in government policy can have a very huge effect on the business in question. Example the tobacco industries have been on forced to put warning labels on their product and lost the right to advertise on the television.

## Conclusion

This learning outcome covered on the distinction between entrepreneurs and businesspersons, identify types of entrepreneurs, identify ways of becoming an entrepreneur, identify characteristics of entrepreneurs and explore factors affecting entrepreneurship development as per the principles of entrepreneurship.

## Further Reading



Read more from internet on “*Ways of coming up with a Business plan*”

### 5.3.2.3 Self-Assessment



#### Written Assessment

1. Which of the following is not a principle of entrepreneurship?
  - a) Accountability
  - b) Flexibility
  - c) Vision
  - d) Laziness
2. Which of the following does not affect entrepreneurship economically?
  - a) Infrastructure
  - b) Education
  - c) Labor
  - d) Business

3. Identify types of entrepreneurship?
  - a) Large scale entrepreneurship.
  - b) Researcher entrepreneurship.
  - c) Small scale entrepreneurship.
  - d) Medium scale entrepreneurship.
4. Identify characteristics of an entrepreneur?
  - a) Passionate
  - b) Risk taker
  - c) Prayerful
  - d) Reliable
5. Entrepreneurship is a person who create initially small business risks his/her capital to maximize profit and minimize risks
  - a) True
  - b) false
6. Define entrepreneurship.
7. Identify principles of entrepreneurship.
8. Give five traits of an entrepreneur.
9. Describe the factors affecting entrepreneurship.

#### **Oral Assessment**

1. Distinguish between entrepreneur and business person.
2. Discuss factors affecting entrepreneurship development.
3. Identify ways of becoming an entrepreneur.

#### **Practical Assessment**

Kamau has got a good business idea, capital and has identified a better location to conduct his business. Using examples, identify six factors that Kamau should consider that his business lasts longer.

#### **5.3.2.4 Tools, Equipment, Supplies and Materials**

- Business Plan Template
- Computers
- Video clips
- Internet
- Case studies
- Mobile phone
- Overhead projectors
- Business journals
- Newspapers and Handouts
- Writing materials
- Films

### 5.3.2.5 References



Angels, Dragons and Vultures (2012) by Simon Aelaud. *Venture capital advice for entrepreneurs*.

Starting a successful business. *Start up and grow your own company* (2008) by Morris, M.J.

The \$100 startup (2012) by Chris Guillebeau.

The entrepreneur equation: *evaluating the realities, risks and rewards* (2011) by Roth, Carol.


*To be an entrepreneur, just get on with it* (2016) by Deruan Miriam.

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### 5.3.3 Learning Outcome No 2: Demonstrate Knowledge of entrepreneurship

#### 5.3.3.1 Learning Activities

Learning Outcome No 2: Demonstrate knowledge of entrepreneurship and self-employment	
 Learning Activities	Special Instructions
2.1. Distinguish between entrepreneurship and self-employment as per principles of entrepreneurship 2.2. Analyze the importance of self-employment based on business procedures and strategies 2.3. Identify requirements for entry into self-employment according to business procedures and strategies 2.4. Determine the role of an Entrepreneur in business according to business procedures and strategies 2.5. Identify the contributions of entrepreneurs to national development as per business procedures and strategies 2.6. Explore entrepreneurship culture in Kenya as per business procedures and strategies 2.7. Distinguish between Born or made Entrepreneurs as per entrepreneurial traits	Provide the requirements of self-employment.

#### 5.3.3.2 Information Sheet No3/LO2: Demonstrate Knowledge of entrepreneurship



##### Introduction

This learning outcome equips the trainer with knowledge on how to differentiate and understand the relationship between entrepreneurship and self-employment, the importance, the contributions to the economy and how to explore different entrepreneurship opportunities.

##### Definition of key terms

**Entrepreneurial traits:** These refer to characteristics of entrepreneurship and are always possessed by the entrepreneurs. All the entrepreneurs possess these characteristics and they distinguish them from the other persons.

**Entrepreneurship culture:** It is the behavior that is possessed by most of the individuals. Are also the attributes, values, beliefs, and behavior in which an individual learns from one generation to another i.e. behaviors of carrying out entrepreneurship activities e.g. starting up a business.

**Self-employment:** This is where one is his/her own boss, is in full control of the business, makes all decisions affecting the business and enjoys all the profits of the business or incurs all the losses of the business. an individual can even hire employees to work for him or her.

**National Development:** This explains the benefits accrued from entrepreneurship to the nation. It may include benefits like revenues, employment, cohesion, infrastructure [lights roads, electricity] increased imports and exports among others.

### Content/procedures/methods/illustrations

#### 2.1 Distinguish between entrepreneurship and self-employment

To distinguish means recognizing the differences between two aspects in this case entrepreneurship and self-employment.

Table 8. Differences between entrepreneurship and self-employment

<b>Entrepreneurship</b>	<b>Self-employment.</b>
Doesn't have to physically be at the workplace, they have partners and employees who run the entire business for them hence flexible.	The individual is very hardworking and should be at the workplace for them to make money hence rigid.
Emphasizes on creating opportunity even though there may be no actual work or no income. Hopes for growth and expansion, is tolerant of great risk i.e. he is concerned about risk and reward	Emphasizes on maintaining a secure income and remain working – not tolerant of great financial risk.
Has invested in different businesses.	Normally have one business
Not everyone can be an entrepreneur, it is a title bestowed upon you. To become an entrepreneur when people see you as creative, inspired and overcome challenges	Anyone can be self-employed because anyone can have a business idea, register a company and try to make the business work.
One cannot start a business as entrepreneur i.e. I am self-employees, but one day I strive to be an entrepreneur.	One can start as self-employed and not as an entrepreneur.
You can have people go are working with you and not just under you i.e. partners.	You can have people working for you i.e. employees.
The business outruns the existence of the owner because, workers are working with him hence understand vision, mission and value of the business.	If one decides to retire, the business dies as well because workers are working for him, hence just run the business of the owner, they do not understand the mind of the owner.

## 2.2 The importance of self-employment

To analyze means to interpret and explain in detail the importance of self-employment based on business procedures and strategies. The importance includes:

### i. Being your own boss

One is control of all key decisions affecting his business because it is your business you have started. You work for your clients. Clients state what results they expect from you, but they do not direct your work. You are your own boss therefore you decide when and where and how to work to get the job done.

### ii. Flexibility

To decide hours of operation, working conditions, business location. You do not have to go where your employer forces you to do work.

### iii. Harmony with your life

If you are working for yourself, chances are you will be doing ok that you enjoy hence self-fulfillment.

### iv. Income generating

If all goes well and you are making money, chances are you will make more money than you did while working for someone else.

### v. Profitable

You get to enjoy all the business profits. If your business is doing well, you may not have to share proceeds with anyone else. The fruits of your labor will all be yours because you own the vineyard.

## 2.3 Requirements for entry into self-employment

- i. Identify business structure:** Determine whether your business will operate as a sole proprietorship or partnership. You can also set your business up as a limited liability company or as a corporation.
- ii. Register your business:** Apply to receive employer identification number. Also register your business with state and local tax offices.
- iii. Licenses and permits:** Seek for licenses and permits required to operate a business.
- iv. Record keeping:** Create and maintain accurate records. Items to list in your records are details of customers, dates sales or purchases, amount of sales, taxes collected on sold items and unsold.
- v. Taxes** – be aware of the taxes that apply to the business to ensure you are fully compliant.
- vi. Will you enjoy your work?** – You can only run a business you are passionate about because it brings happiness that satisfies your life goals. You will have to run a business that fill the sense of your purpose.

#### 2.4 The role of an Entrepreneur in business

- **Initiator:** One who initiates the process of creating a business by coming up with the idea for the business and planning out how to turn that idea into a reality.
- **Risk taker:** He is the biggest risk taker in business because he is the one who invests capital and accountable in the face of failure.
- **Allocator:** He allocates various resources in the organization. These resources include; manpower, machines, funds, etc.
- **Forecasting:** He should be prepared on how to deal with various forecast changes such as strikes, machine breakdowns, budget cuts, legal policies, political or social unrest, technological advancement etc.
- **Adhering to legal norms:** To ensure the enterprise adheres to legal norms and policies. Not pertaining to this can mean serious legal consequences.
- **Reduces risk:** Best achieved by bringing people that can help the organization grow. These people can be stakeholders or investors that have stake in the company.

#### 2.5 The contributions of entrepreneurs to national development

- Entrepreneurs spur economic growth. New products or services created by entrepreneurs can produce a cascading effect, where it stimulates related businesses or sectors that need support the new venture, furthering economic development.
- Boosts national income. Entrepreneurial ventures help generate new wealth, additionally increased employment and higher earnings contribute to better national income in the form of higher tax revenue and higher government spending.
- Entrepreneurs create social change. Through offering unique goods and services, entrepreneurs break away from tradition and reduce dependence on obsolete systems and technologies.
- Community development. Entrepreneurs regularly nurture venture by other likeminded individuals. They also invest in community projects and provide financial support to local charities.
- Conservation of foreign exchange – You are able to produce goods hence no need to import therefore contributing to conservation of foreign exchange.
- Promotion of entrepreneurial culture – They encourage individuals to set up and manage their business and this reduces importation of goods.

#### 2.6 Entrepreneurship culture in Kenya

- Entrepreneurship culture in Kenya is influenced by the following factors:
  - Availability of funds
  - Modern technology
  - Availability of developed infrastructure
  - Appropriate knowledge and skills
  - Appropriate training
  - Government policies
  - Individual strength and talents

- Availability of markets
- Availability of resources
- Culture
- Natural factors
- Political stability
- Competition
- Resource persons and entrepreneurs
- Social security

### **Born or made Entrepreneurs traits**

Born entrepreneurs dream big, take what they want and never stop trying to achieve their goals. They have the following traits:

- Believe in themselves
- Have some security
- Takes charge
- Crafty and innovative
- Outspoken
- Observed with making money
- Fearless and thrive on challenges
- Take huge financial risks
- They can have a business idea that doesn't have to bring income instantly when it is implemented.

Made entrepreneurs are those that are self-made successful individuals. They may have different traits from those who were successful before. They have the following characteristics.

- Determined.
- Enjoy what they do.
- Serious.
- Risk taker.
- Can manage money.
- High level of confidence.
- Recognizes failure.
- Plan everything.

### **Conclusion**

This learning outcome enhanced on distinguishing between entrepreneurship and self-employment, analyzing of the importance of self-employment, and determining the roles of an entrepreneur in a business. It also tackled on requirements for entry into self-employment, understanding the role of an entrepreneur in national development and explore the various entrepreneurship cultures in Kenya in accordance to business

procedures and strategies. Lastly, it covered on the distinction between Born and made Entrepreneurs as per entrepreneurial traits.



### Further Reading

[www.google.com/demonstrateknowledgeofentrepreneurshipandselfemployment](http://www.google.com/demonstrateknowledgeofentrepreneurshipandselfemployment)

### 5.3.3.3 Self-Assessment



#### Written Assessment

1. Which of the following do not influence entrepreneurship culture in Kenya?
  - a) Culture
  - b) Social security
  - c) Psychological factors
  - d) Family
2. The following are roles of an entrepreneur, which one is not?
  - a) Allocator
  - b) Licensing
  - c) Risk taker
  - d) Business planner
3. Which of the following is not a contribution of entrepreneurship in national development?
  - a) Community development
  - b) Family development
  - c) Boosts national income
  - d) Increase in revenue
4. Which of the following is not a requirement to entry into self-employment?
  - a) Registration of business
  - b) Record keeping
  - c) Technology
  - d) Lack of interest in the business
5. Define born and made entrepreneurs.
6. Define self-employment.
7. Discuss requirements to entry into self-employment.

#### Oral Assessment

1. Discuss relationship between entrepreneurship and self-employment.
2. Discuss the importance of self-employment.

### **Practical Assessment**

Identify any entrepreneurship around you. Identify management and discuss the roles of the entrepreneurs.

#### **5.3.3.4 Tools, Equipment, Supplies and Materials**

- Business Plan Template
- Computers
- Video clips
- Internet
- Case studies
- Mobile phone
- Overhead projectors
- Business journals
- Newspapers and Handouts
- Writing materials
- Films

#### **5.3.3.5 References**



Angels, Dragons and Vultures (2012) by Simon Aelaud. *Venture capital advice for entrepreneurs*.


Starting a successful business. *Start up and grow your own company* (2008) by Morris, M.J.

The \$100 startup (2012) by Chris Guillebeau.

The entrepreneur equation: *evaluating the realities, risks and rewards* (2011) by Roth, Carol. *To be an entrepreneur, just get on with it* (2016) by Deruan Miriam.

### 5.3.4 Learning Outcome No 3: Identify Entrepreneurship Opportunities

#### 5.3.4.1 Learning Activities

Learning Outcome No 3: Identify Entrepreneurship Opportunities		
	Learning Activities	Special Instructions
	3.1. Identify sources of business ideas as per business procedures and strategies. 3.2. Generate business ideas and opportunities as per business procedures and strategies. 3.3. Analyze business life cycle as per business procedures and strategies. 3.4. Identify legal aspects of business as per procedures and strategies. 3.5. Assess product demand as per market strategies. 3.6. Identify and evaluate types of business environment as per business procedures. 3.7. Explore factors to consider when evaluating business environment based on business procedure and strategies. 3.8. Incorporate technology in business as per best practice.	Trainees should state business ideas.

#### 5.3.4.2 Information Sheet No5/LO3: Identify Entrepreneurship Opportunities



##### Introduction

This learning outcome aims at equipping students with the knowledge on many opportunities in entrepreneurship. It entails sources of business idea and its generation, analyzing life cycle of a business, legal aspects, product demand and types of business environment, factors to consider when evaluating business environment based on business procedure and strategies.

##### Definition of key terms

**Sources of business:** These are the origins of business idea that can be used for financial gain that is centered on a product that can be offered money.

**Product demand:** A customer's willingness to purchase a product or services at a given price.

**Business life cycle:** They are phases that a business idea passes through from the time it is formed in the entrepreneur's mind to the time business rolls and expands or declines.

**Business legal aspects:** They are legal frameworks through which a business operates.



### 3.1 Sources of business ideas include:

- **Customer surveys:** Customer needs and wants to justify for the service or product that you can offer them.
- **Interests and hobbies:** Most people have founded great successful businesses while pursuing their interests and hobbies i.e. by doing what they love doing in their leisure times.
- **Brainstorming and dreams:** This starts with identifying a problem statement or question. Designing solution to these problems lead to business ideas.
- **Franchising:** It is a situation where sole traders mark distributor of a product gives exclusive rights to independent retailers for local distribution.
- **Mass media:** Include T.V. newspapers, internet, radio, and magazines. They are also a great source of ideas, information and opportunities.
- **Personal experience and talents:** Most of the ideas are also as a result of experience in a workplace.
- **Trade fairs and exhibitions:** Attending such events regularly makes one discover new services and products.

### 3.2 Generate business ideas and opportunities

To generate more business ideas and opportunities, one must be able to do the following:

- Meet new people
- Tap into your interests
- Keep “pain point” journal
- Travel
- Explore new ways of thinking
- Do your market research
- Go online
- Attending educational events

### 3.3 Business life cycle

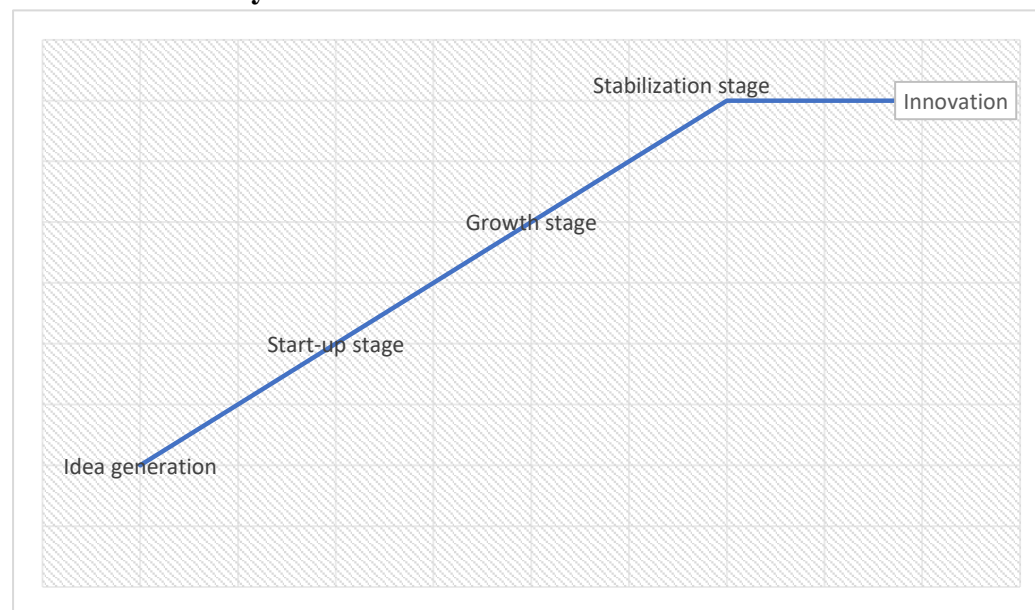


Figure 23. Business life cycle

Business life cycle refers to the phases that a business passes through from time the idea is formed in the entrepreneur's mind to the time business rolls and expands or even declines. Many businesses go through six stages in their life as shown below;

- a) **Idea generation:** This is the preliminary stage for the business. Here, the entrepreneur does a lot of groundwork to assess the viability of the venture he is about to get into.
- b) **Start – up stage:** Activities may involve preparation of a formal business plan, registration of the business, sourcing capital, recruiting and designing the product. During this phase, sales are low but slowly increasing its sales as the time passes by. At this phase entrepreneurship concentrates with marketing their product and services to their target customers business are prone to incur losses in this phase.
- c) **Growth stage:** at this stage of business common experiences may include:
  - Increased sales and profit
  - Wider market coverage in terms of geographical region
  - A growing number of employees
  - Variety of products and services
  - Increased competition
  - Need for additional expenditures
- d) **Stabilization stage:** At this stage, business sales and profits stagnate. The business may also experience intensified competition. Sales may go down due to the presence of competitors in the market, profit margin starts to go down.
- e) **Innovation stage:** Organizations that fail to innovate at stabilization stage are likely to decline. To ensure come back to growth, the entrepreneur is required to re-look

at the way's businesses have been conducted. The cash generation is higher than the profit on the income statement.

**Among innovative attempts include:**

- Change of management
  - Repackage the product/service
  - Change the technology
  - New distribution methods
  - Advertise and promote differently
- f) **Decline stage:** This stage is not in normal plan of business. The entrepreneur does not foresee business declining at the start-up stage. Sales and cash flow all decline. Companies accept to extend their business venture by adapting to the changing environment. Firms loses their competitive advantages and finally exits the market.

### 3.4 Business Legal aspects

Businesses operate within a legal framework that for the most part, works. The legal aspects include:

- **Legal entity:** All businesses are categorized as some sort of legal entity that governs the way they are treated under the law. Some business structures are considered free standing entities that have special rights and the owners have limited liability. Others like sole proprietorship, the owner assumes all the liability and rewards.
- **Compliance:** Compliance to local (city and county), state and federal laws will be something that all businesses will need to deal with.
- **Contracts:** Most businesses will enter into a contract with a person or another business at some point in their existence. These contracts are what define how the working relationship will be carried out and who will be responsible for deliverables and payments.
- **Resolving disputes:** The legal system is set up to solve disputes. These disputes usually revolve around some sort of breach of contracts, violation of intellectual property or breaking the law.
- **A necessity that's not the evil:** Having good corporate counsel will make your business better.

### 3.5 Product demand Assessment

This involves determining how many units of products will be sold over the course of a year. Factors to include:

- Go over past sale records
- Use marketing projections to help estimate demand
- Use a competitor's sales data
- Pay attention to the local and global economy
- Estimate sales on recent performance

### 3.6 Types of business environment

Are factors that affect the function of the organization and how organization works directly or indirectly? They include internal environment which affects operations of a company are within the control of management and external environment which are beyond the control of the organization.

#### Internal business environment:

- **Financial:** Finances determine whether your company survives or dies. When money is limited it affects the operations of the business.
- **Employees and managers:** Employees are the major part of your company internal environment. They should be good at their jobs. On other hand managers should be good at handling lower-level employees and overseeing other parts of internal environment.
- **Resources:** Availability of resources can also determine how the business performs. Scarce resources will affect the number of sales made, quality of products or services produced and even the period which the business will last.
- **Company culture:** This consist of values, attitude and priorities that your employees live by. Your staff will infer your values based on the type of people you hire, fire and promote

#### External factors:

- **Competition:** Unless a company has unique features, competition will always be there. When you start a company, you will compete against more establishes and experienced businesses. Competition can either make or break your business.
- **Political:** Changes in government policy can have a very huge effect on the business in question. Example the tobacco industries have been on forced to put warning labels on their product and lost the right to advertise on the television.
- **Customers and suppliers:** Next to the employees, customers and suppliers are the second most important in your business. Suppliers have a huge impact on the cost and customers depend on how good your products are and whether you're advertising makes customers want to buy from you among others.
- **Economical factor:** In a bad economy, even a well-run business may not survive. High interest rates on banks and credit cards will discourage / limit the entrepreneur and customers spending on your products or services.

### 3.7 Factors to consider when evaluating business environment

- **Ability to manage cash:** You need to look at the ability to manage cash flow. Is there a start-up funding for your business? What about ways to keep funding your business each month. Figure out how cash flows will be managed and take a look at your business plan.
- **Passion and persistence:** Are you working with people who will get their jobs done? Do you trust they have passion for the work assigned to them? How will they

approach difficulties in case they face them in the future? You need to ensure that you have the passion to be in that business and the desire to come out of challenges.

- **Market size:** It's one of the most important factors when evaluating a business opportunity. Researching the market and figuring out whether there we market for your products and how big it is.
- **Relationships:** What is your relationship with the potential investors or customers? When you have more relationships the chances for your business to run smoothly is high.
- **Management skill sets:** What are the skills of those involved in your business? When looking for the business opportunity to invest in or expand into, look at the management. What skills do they have? Are they appropriate?

### **Incorporation of technology in business**

- Provides for communication with customer: technology affects a firm's ability to communicate with customers. This is best achieved by use of internet.
- Efficiency of operations: Technology also helps a business understand its cash flow needs and preserve precious resources such as time and physical space.
- Security: Most businesses of the modern era are subject to security threats and vandalism. Technology can be used to protect financial data, confidential execution decisions and other proprietary information.
- Business culture and relations: Technology creates a team dynamic within a business because employees of different locations have better interactions.
- Research capacity: A business that has the technological capacity to research new opportunities will stay a step ahead of its competition. For a business to survive, it must grow and acquire new opportunities.

### **Conclusion**

This learning outcome covered on how to identify sources of business ideas, generate business ideas and opportunities and analyze business life cycle, identify legal aspects, assess product demand, identify and evaluate types of business environment, explore factors to consider when evaluating business environment based on business procedure and strategies and demonstrate skill in incorporation of technology in business as per best practices and as per business procedures and strategies.

### **Further Reading**



<https://YouTube/f6nxcfbDFZo>

<https://YouTube/7bMpgBuoZY0>

### 5.3.4.3 Self-Assessment



#### Written Assessment

1. Which of the following is not a legal aspect?
  - a) Legal entity
  - b) Compliance
  - c) Franchising
2. Which one of the following is not a product life cycle stage?
  - a) Innovative stage
  - b) Continuity stage
  - c) Growth stage
3. Which one of the following is not a source of business idea?
  - a) Customer survey
  - b) Personal experience and talents
  - c) Business plan
4. Business life cycle is the phases that a business passes through from the time its generated in the entrepreneur's mind to the time business roll
  - a) True
  - b) false
5. Discuss business life cycle.
6. Identify 5 sources of business idea.
7. Identify types and factors affecting business environment.
8. Identify and discuss 5 legal aspects of the business.

#### Oral Assessment

1. Discuss using examples business environment.
2. What is the content of legal aspects of a business?

#### Practical Assessment

Imagine you are the CEO of XYZ limited; you are required to come up with strategies that will see the business through for some time. Identify factors that you will consider that are beyond your control.

### 5.3.4.4 Tools, Equipment, Supplies and Materials

- Business Plan Template
- Computers
- Video clips
- Internet
- Case studies
- Mobile phone
- Overhead projectors

- Business journals
- Newspapers and Handouts
- Writing materials
- Films

#### 5.3.4.5 References



Angels, Dragons and Vultures (2012) by Simon Aelaud. *Venture capital advice for entrepreneurs.*

Starting a successful business. *Start up and grow your own company* (2008) by Morris, M.J.


The \$100 startup (2012) by Chris Guillebeau.

*The entrepreneur equation: evaluating the realities, risks and rewards* (2011) by Roth,

easytv.com

### 5.3.5 Learning Outcome No 4: Create Entrepreneurial Awareness

#### 5.3.5.1 Learning Activities

Learning Outcome No 4: Create Entrepreneurial Awareness		
 Learning Activities	Special Instructions	
<p>4.1. Explore Sole proprietorship, Partnership, Limited companies and Cooperatives (forms of businesses) as per business procedures and strategies.</p> <p>4.2. Identify sources of business finance are as per business procedures and strategies.</p> <p>4.3. Identify factors for selecting source of business finance as per business procedures and strategies.</p> <p>4.4. Determine governing policies such as; (Increasing scope for finance, promoting cooperation between entrepreneurs and private sector, reducing regulatory burden on entrepreneurs and developing IT tools for entrepreneurs) on Small Scale Enterprises (SSEs) as per business procedures and strategies.</p> <p>4.5. Explore problems of starting and operating SSEs as per business procedures and strategies.</p>	Give examples of sources of business finance	

#### 5.3.5.2 Information Sheet No5/LO4: Create Entrepreneurial Awareness



##### Introduction

This learning outcome aims at equipping trainers with knowledge on making awareness on entrepreneurship by identifying business forms, sources of finances and factors to consider when selecting them, governing policies among others and problems that SMEs encounter.

##### Definition of key terms

**Forms of Business:** They are different business structures like sole proprietorship, partnerships, limited companies, corporations among others.

**Governing policies:** These are written regulations and laws laid by the government that businesses must comply with.

**Small Scale Enterprises:** This is a privately owned and operated business characterized by a small number of employees, require small capital to start etc. A business is regarded as small depending on the regulations of a country.



## Content/procedures/methods/illustrations

### 4.1 Forms of businesses are explored as per business procedures and strategies

#### 1. Sole proprietorship

This is a form of business that is owned by one person.

##### Advantages

- It needs no charter to establish it.
- There are few casts that are related to its establishment.
- All the profits go to the owner of the business without sharing with anyone.
- Easier to raise startup capital that is from the owner's savings.
- You are your own boss.
- Flexible to start your business at any location, anytime of the day.
- Motivation because you get all the profits.
- One has a personal contact with customers hence can be able to respond to their requests.

##### Disadvantages.

- In case of loses, the sole proprietor bears all the loses by himself/herself.
- The sole proprietor will have to work very hard to sustain the business hence leaving less time for leisure/recreation.
- A sole proprietor has unlimited liability that is a creditor with a claim against a sole proprietor would normally have a right against all of his/her assets whether business or personal.
- Poor and uninformed decisions made by the owner of the business may lead to the collapse of business completely.
- One has nobody to discuss the business problems with.
- One has limited finance or capital hence the business will remain small.

#### 2. Partnership

It is a relationship that exists between two or more persons carrying on a business common with a view to making profit. It is an agreement when two or more persons combine their resources in a business with a view of making profit. When two or more persons wish to form a partnership, then it is recommended that they agree on the terms upon which to form a partnership. This is done in writing signed off as agreed by all the partners and therefore it becomes a partnership deed or agreement.

##### Contents of partnership agreement

- Name and address (s) of the firm and the partners.
- Capital to be contributed by each partner.
- The profit-sharing ratios expressed as a fraction or percentage.
- Salaries to be paid to the partners.
- Any interest to be charged on drawings by the partners.
- Interests to be given on partners on their capital balances.
- Procedures to be taken on retirement or admission of a new partner.

### 3. Membership

It has a minimum membership of two (2) and a maximum of fifty (50) except for professions firms, e.g. lawyers, doctors whose maximum membership is twenty (20).

#### Types of partnerships

- **General partnership:** in this, all the members share the management of the business and each is personally liable for all the debts and obligations of the business. Each partner is responsible for and must assume the consequences of the actions of the partner.
- **Limited partnership:** some members are general member who control and manage the business and may be entitled to a greater share of profits. A legal document setting out specific requirements must be drawn up for a limited partnership.

#### Advantages

- Additional capital can be raised in case a sole trader is not able to raise sufficient capital.
- There is increased expertise in certain areas of business because of existence of many partners who are skilled differently.
- Informed decisions and judgments can be made since the partners are involved in the decision-making process.
- It is a tax pass through entity.

#### Disadvantages

- Wastage of time in decision making since all the partners must be consulted which takes time.
- All partners are liable to payment of all the losses that accrue in the business.
- Some members have limited liability while others have unlimited liability.
- Can be dissolved at any time either due to the exit or death of a partner.
- If one partner is inefficient or dishonest, everybody loses.

### 4. Limited companies:

It is a type of business structure that has been incorporated at company's house as a legal 'person'. It is completely separate from its owners. It can enter into contracts using its own name and it's responsible for its own actions, finances and liabilities.

#### Characteristics of a limited company

- Separate legal existence- It is its own separate legal person from the owners of the business.
- Limited liability- Shareholders are legally responsible for the debts of the company only to the extent of the nominal value of their shares.
- Flexibility in taxation- Members of the corporation have the ability to choose the form of taxation that makes the most sense for the business i.e. can choose to be taxed as Subchapter corporation or Subchapter corporation.
- Simplicity in operation- Does not require to have shareholders meetings, appoint the board of directors to run the company i.e. Simplicity in operation while the

corporation with no shareholders meetings, therefore there is no attendant preparation of filing of minutes of the meetings i.e. simplicity in documentation.

### **Advantages**

- Protection of the company's name- It is an entity separate from its owners, and its own rights, responsibilities and liabilities, can file a lawsuit or can be sued in its own name.
- A limited company is tax efficient i.e. tax flexibility
- Personal liability is limited. - Debts are only to the extent of the nominal value of their shares.
- Perpetual existence – Owners of the entity can change without triggering the dissolution of the company unless stated otherwise in the articles of the organization. A member's death, retirement, withdrawal etc. doesn't mean that the company must cease to operate.
- Less paperwork – Having limited company operating agreement to create rules that govern your business hence less paperwork for compliance of rules of your state.
- High status of the company will attract investors and customers.

### **Disadvantages**

- Required to pay a registration fee to company's house to incorporate i.e. legal formalities.
- Company name is subject to certain restrictions.
- More complex and time-consuming accounting requirements.
- Strict procedures for withholding money from the business.
- Owners lose control when the original owners hold less than 51% of shares.
- Selling of shares is expensive because of the commission paid to banks to aid in selling shares and costs of printing the prospectus.

## **5. Cooperatives**

It is a group of individuals who have specific common needs. Its purpose is to improve the economic status of the members.

### **Advantages**

- Tax advantage: Exempted from income tax and surcharge on its earnings up to a certain limit. It is also exempted from stamp duty and registration fee.
- Democratic management: Managing committee elected by members on the basis of one member one vote irrespective of the numbers of shares held.
- State assistance: This is done by the government as they see cooperatives as an effective socio-economic instrument of change therefore offered grants, loans, financial assistance to make their work more effective.
- Open membership: Anyone can join irrespective of their color, age, religion, economic status and there is no limit on maximum members.
- Limited liability: The liability is reduced to the extent of their capital in the cooperative societies.

- **Social service:** The basic philosophy of cooperatives is self-help and mutual help. Thus, cooperative foster fellow feeling among their members and inculcate moral values in them for a better living.

#### **Disadvantages**

- **Lack of mutual interest:** All members are not imbued with a spirit of cooperation and such absence breeds mutual rivalries among its members.
- **Corruption:** In a way, lack of profit motive breeds fraud and corruption in management. This is reflected in misappropriation of funds by the officials for their personal gains.
- **There is slow decision making** since all members of the managing committee have to be consulted.
- **Less capital incentives** which does not appeal to long term investors.

#### **4.2 Sources of business finance are identified as per business procedures and strategies**

- **Owner's capital:** It is the only source of capital for the sole trader starting business. This type of capital through when invested is often quickly turned into long term fixed assets which cannot be readily converted into cash.
- **Ploughed back profit:** It is the most basic source of funds for a company. Firms profit by selling a product for more than it cost to produce.
- **Borrowings:** like individuals, companies can borrow money. This is done privately through bank loans or publicly through a debt issue.
- **Overdraft:** Is a form of a loan from a bank. A business becomes overdrawn when it withdraws more money than is available in the account. This leaves a negative balance on the account. It is often a cheaper way of raising capital.
- **Leasing:** A business has the use of an asset but pays a monthly fee for its use and will never own it. A business looking to purchase equipment may decide to lease if it wishes to improve its immediate cash flow.
- **Issue of shares:** A company can generate money by selling part of itself in the form of shares to investors which is known as equity funding.

#### **4.3 Factors to consider in selecting source of finance of the business.**

- **Cost of capital:** Every source of capital comes with a cost. The cost of getting capital should not be extremely high. Most businesspeople prefer debt to equity because its cost is low due to interest tax shield they are not taxed, which lowers the cost of capital.
- **Risk of the business:** When choosing a source of finance, one should consider how much risk the business will face when they acquire that source of capital. That source of capital should not put the business at a very high risk.
- **Control of the business:** Owners of the business who do not want to lose the control of the business would rather finance the business using debt rather than equity which will dilute the ownership of the business.

- Purpose of the borrowing: If the reason for acquiring the source of finance is to purchase noncurrent assets, the business would rather use long term sources of finance to fund acquisition of non-current asset.
- The size, status and ability of the business to borrow: If the business has assets which it can use as collateral, it can consider borrowing loans from financial institution.

#### **4.4 Governing policies on Small Scale Enterprises (SSEs) are determined as per business procedures and strategies**

All the state governments provide technical and other support services to businesses through their directorates of industries. The government accords the highest preference to development of the small scale enterprises by forming and implementing suitable policies and promotional schemes. Thus, government play supportive role in developing entrepreneurs. The following are common areas of support:

- Development and management of industrial estates.
- Suspension/deferment of sales tax.
- Power subsidies.
- Capital investment subsidies for new units set up in a particular area.
- Seed capital/margin money assistance scheme.
- Priority in allotment of power connection, water connection.
- Consultancy and technical support.

#### **4.5 Problems of starting and operating SSEs are explored as per business procedures and strategies**

- **Financial constraints:** Finance has made it difficult to progress and provide quality services. Financial institutions find it hard to consider lending loans to them as they have little assets that could be used as collateral.
- **Competition:** The low comparative advantage in production of certain goods as compared to our trading partners. This has restricted entry to the businesses as production costs may be higher relative to the cheap imported goods.
- **Lack of advanced technology:** Technology is fundamental and a prerequisite to higher output levels and reduced production costs. This has made them not to flourish and participate in regional trading due to low quality output because of the use of obsolete technology.
- **Insecurity:** Security poses a great challenge to small scale business owners in Kenya. Many of the businesses suffer loss due to theft or thug's invasion who steal from them which lead to loss in terms of destruction.
- **Hawkers:** Pose a challenge to small scale businesses because they sell cheaper and their goods are of high quality. Competing with hawkers on prices is debatable since hawkers move from one place to another bargaining on price. Since most of them don't consider a lot of profit but sale of goods.

## Conclusion

This learning outcome was based on exploring the various forms of business, identifying sources of business finance, critical factors to consider while selecting business finance source, determine governing policies for small scale enterprises and explore challenges for starting and operating SSEs.

## Further Reading



<https://www.google.com/Create+Entrepreneurial+Awareness&oq=Create+Entrepreneurial+Awareness>

### 5.3.5.3 Self-Assessment



#### Written assessment

1. Which one is not a form of business?
  - a) Sole proprietorship
  - b) Partnership
  - c) Self-employment
  - d) Limited company
2. Which is not source of business finance?
  - a) Owner's capital
  - b) Borrowings
  - c) Taxes
  - d) Issue of shares
3. Which is not a factor in selecting business finance?
  - a) Cost of capital
  - b) Risk
  - c) Flexibility
  - d) Purpose of the borrowing
4. Discuss partnership membership.
5. Identify sources of business finance.

#### Oral Assessment

Differentiate between private and public limited companies.

#### Practical Assessment

As the manager of your small enterprise, you are required to come up with procedures of starting and operating small and medium enterprises.

#### 5.3.5.4 Tools, Equipment, Supplies and Materials

- Business Plan Template
- Computers
- Video clips
- Internet
- Case studies
- Mobile phone
- Overhead projectors
- Business journals
- Newspapers and Handouts
- Writing materials
- Films

#### 5.3.5.5 References




Angels, Dragons and Vultures (2012) by Simon Aelaud. *Venture capital advice for entrepreneurs*.

Eckhardt, J. T., & Shane, S. A. (2003). *Opportunities and entrepreneurship*. *Journal of management*, 29(3), 333-349.

Kirzner, I. M. (2015). *Competition and entrepreneurship*. University of Chicago press.

### 5.3.6 Learning Outcome No 5: Apply Entrepreneurial Motivation

#### 5.3.6.1 Learning Activities

Learning Outcome No 5: Apply Entrepreneurial Motivation	
 Learning Activities	Special Instructions
<ol style="list-style-type: none"><li>5.1. Determine internal and external motivation factors in accordance with motivational theories.</li><li>5.2. Conduct self-assessment as per entrepreneurial orientation</li><li>5.3. Carry out effective communications in accordance with communication principles.</li><li>5.4. Apply entrepreneurial motivation as per motivational theories.</li></ol>	State examples of motivation to entrepreneurs.

#### 5.3.6.2 Information Sheet No3/LO5: Apply Entrepreneurial Motivation



##### Introduction

This learning outcome aims at enlightening students with information on how to apply entrepreneur motivation through determining both internal and external motivation factors accordance with motivational theories, the communication principle and how to apply entrepreneur motivation into the business as per motivational theories.

##### Definition of key terms

**Internal motivation Factors:** These are factors that aim to motivate the behavior of an individual arising from within the individual because it's naturally satisfying them.

**External Motivation factors:** These are those factors that aim to motivate the behavior of individual in order to receive an external reward or outcome.

**Motivation theories:** These are the forces acting on or within a person that causes the arousal, direction and persistence of reaching a goal.

**Communication Principles:** These are the proven guidelines that are followed in giving and receiving a message to another person with an intention to evoke a response.

**Entrepreneurial Motivation:** It is the process that activates and motivates the entrepreneur to exert higher level of efforts for the achievement of his/her entrepreneurial goals.



## **5.1 Factors for internal and external entrepreneurial Motivation**

Most researchers have classified all the factors motivating entrepreneurs into internal and external factors as follows:

### **Internal factors**

Examples;

- Participating in a sport because its fun and you enjoy it rather than doing it to win an award.
- Spending time with someone because you enjoy their company not because they can further your social standing.
- Volunteering because you feel content and fulfillment rather than needing it to meet a school or work requirement.

### **Factors for internal motivation**

- Curiosity: The desire to know pushes us to explore and learn the sole pleasure of learning and mastering.
- Challenges: These makes us to work at a continuous pace and work hard towards achieving our meaningful goals.
- Recognition: We all have a need to be appreciated and recognized when we do something good.
- Cooperation: Cooperation with others satisfies our need of belonging and achieving our shared goal.
- Fantasy: This involves using our mental and visual image to stimulate your behavior.

### **External factors**

Examples;

- Competing in sports for trophies.
- Completing a task for money.
- Buy one get one free sale.
- Doing things in public for fame etc.

### **Factors affecting external motivation factors**

- Financial rewards: Commission, bonuses, stock options and employees stock plans are compensatory rewards that motivates individual to working even more harder to receive more of it.
- Praise and recognition: Some people aim to be praised and recognized when they do their assigned task properly. This is also a motivating factor as they will do more for them to be recognized.
- Social groups: The need to belong somewhere and to be accepted will trigger some actions making people to work or try things in order to keep them up with the team.
- Consequences: People will opt to do or not to do things as a result of the consequences arising for their actions.

- Promises: This is a commitment by someone to do or not to do something. It's an external motivating factor for some reason's individuals will choose to do or not to certain things in accordance to the promise in question.

### Motivation Theories

Are divided into content theories that focus on what while the motivation theories focus on how. The main content theories are; Maslow's needs hierarchy, Alderfer's ERG theory, Mc Clelland's achievement motivation and Herzberg's two factor theory. Process theories are; skimmers reinforcement, Victor Vroom's expectancy, lockers goal setting theory.

#### a) Maslow – hierarchy of needs

Earliest and mostly widely known. It was developed by Abraham Maslow. It is often showed in the shape of a pyramid.



Figure 24. Maslow's hierarchy of needs. Source: <https://www.verywellmind.com>

- i. **Physiological needs:** Includes most basic needs for humans to survive and are the most dominant of all needs. They include; food, water and shelter. Maslow emphasized that our body and mind cannot function well if these requirements are not fulfilled.
- ii. **Safety and security:** Refer to a person's desire for protection or security. They include; personal security, financial security, health and well-being.
- iii. **Belongingness and love:** Love involves giving and receiving affection. Maslow claimed people need to belong and accepted among their social groups.
- iv. **Esteem needs:** It is respect for a person as a useful, honorable human being. Humans need to be valued and self-respected.

- v. **Self-actualization:** Reflects on an individual's desire to grow and develop to his/her fullest potential.

**NOTE:** According to Maslow, "what humans can be then they must be".

b) **Alderfer –ERG THEORY:** Existence needs, relatedness needs and growth needs. ERG theory says, if the manager concentrates only on one need at a time, he/she won't be able to motivate the employee effectively. He therefore divided the needs into;

- i. Existence needs: it includes needs for basic material necessities.
- ii. Growth needs: is the need for self-development, personal growth and advancement form. This class contains Maslow's social needs and external component of esteem needs.
- iii. Relatedness needs: these are individual need significant relationships. It contains Maslow's social needs and external component of esteem needs.

c) **McClelland theory:** Need for achievement affiliation and power.

This theory differs from Maslow's and Alderfer's theory. This dominant motivator depends on our culture and life experiences. The motivators are:

- i. Achievement motivation: It's influenced by internal drivers for action and pressure used by the prospects of others. Individuals with high need of achievement like to receive regular feedback on their progress and achievements and often like high degree of independence.
- ii. Affiliation motivation: It is a need for love, belongingness and relatedness. They have a strong need for friendships and want to belong within a social group, need to be liked and held in popular regard.
- iii. Authority/power motivation is a need to control over one's own work or work for others. These persons are authority motivated. There is a strong need to lead and succeed in their ideas.

d) **Herzberg-two factor theory.**

Also known as motivation-hygiene theory. This theory says that there are some factors that cause job satisfaction and motivation and some separated factors (hygiene factors).

**Hertzberg's five factors of job dissatisfaction**

- Company policy and administration
- Supervision
- Salary
- Interpersonal relations
- Working conditions

**Hertzberg's five factors of job satisfaction**

- Achievement
- Recognition
- Work itself
- Responsibility

- Advancement

### **Process theories**

#### **a) Skinner's reinforcement theory**

It says that behavior can be formed by its consequences.

In it is stated that reward must meet someone's needs, expectations, must be applied equitably and must be consistent. The desired behavior must be clear and realistic.

#### **b) Vroom's expectancy theory**

Emphasizes on the process and content of motivation. It aims to explain how people choose from the available actions.

The motivation to engage in an activity is determined by appraising three factors. They are;

- i. Expectancy: A person's belief that more effort will result in success.
- ii. Instrumentality: The person's belief that there is a connection between activity and goal. If you perform well, you will get a reward.
- iii. Valence: It is the degree to which a person's values the reward; The result is success.

#### **c) Locker's goal setting theory**

It is an integrative model of motivation. It emphasizes that setting specific, challenging performance goals and the commitment to these goals are key determinants of motivation.

Goals describe a desired future and these established goals can drive the behavior. Achieving the goals, the goal accomplished further motivates individuals to perform.

It is a useful theory which can be applied in various fields.

### **Assessment for entrepreneurial Orientation**

The first dimensions of entrepreneurial orientation to be consistently identified by organizational research were innovativeness, risk taking and pro-activeness. Innovativeness refers to the propensity towards creativity and experimentation through the introduction of new products and services. Risk taking is the degree to which firms, or managers are willing to consider investing in resources. The relationship between pro-activeness and personal initiative is congruent with studies conducted in organizational settings.

## Entrepreneurial Communication Principles

- Completeness: The message must be complete and geared to the receiver perception of the world.
- Concreteness: The clearness of the message
- Courtesy: Approaching the audience in a friendly manner
- Correctness: Message should be grammatically correct and avoid wrong use of verbs.
- Clarity: Clear language is characterized by short and concrete words.

## Application of Entrepreneurial motivation theories

- In the case where there is need for achievement, affiliation and need for power as stipulated by McClelland.
- Where there is need to establish entrepreneurial personality.
- If there is need for high achievement in a particular form of business.

## Conclusion

The learning outcome covered on internal and external motivation, self-assessment and effective communication as well as application of entrepreneurial motivation as per motivational theories, communication principles and entrepreneurial orientation.

## Further Reading



<https://www.google.com/Entrepreneurial+Awareness+Entrepreneurial+Awareness>

## 5.3.6.3. Self-Assessment



### Written Assessment

1. Which is not a theory in motivation?
  - a) Maslow
  - b) McClelland
  - c) Jeanery
2. Identify entrepreneurial communication principles.
  - a) Asking too many questions
  - b) Being concise
  - c) Taking two topics at a time
3. Which one is not among the Herzberg's factors of job satisfaction?
  - a) Achievement
  - b) Work it-self
  - c) Self-motivation
4. Define motivation and its factors.

5. Discuss entrepreneurial communication principles.
6. Giving examples, explain internal and external motivational factors
7. Explain the following terms
8. Communication principles
9. Entrepreneur motivation

### **Oral Assessment**

Apply entrepreneurial motivation theories.

### **Practical Assessment**

Identify and discuss the process theories.

#### **5.3.6.4 Tools, Equipment, Supplies and Materials**

- Case studies
- Computers
- Overhead projectors
- Internet
- Mobile phone
- Video clips
- Films
- Newspapers and Handouts
- Business Journals
- Writing materials

easyvet.com

#### **5.3.6.5 References**



Angels, Dragons and Vultures (2012) by Simon Aelaud. *Venture capital advice for entrepreneurs.*

Starting a successful business. *Start up and grow your own company* (2008) by Morris, M.J.

The entrepreneur equation: *evaluating the realities, risks and rewards* (2011) by Roth, Carol.

*To be an entrepreneur, just get on with it* (2016) by Daruan Miriam.

### 5.3.7 Learning Outcome No. 6: Develop Business Innovative Strategies

#### 5.3.7.1 Learning Activities

Learning Outcome No 6: Develop Business Innovative Strategies	
 Learning Activities	Special Instructions
<ol style="list-style-type: none"><li>6.1. Determine business innovation strategies in accordance with the organization strategies.</li><li>6.2. Demonstrate creativity in business development in accordance with business strategies.</li><li>6.3. Develop innovative business strategies as per business principles.</li><li>6.4. Create linkages with other entrepreneurs as per best practice.</li><li>6.5. Incorporate ICT in business growth and development as per best practice.</li></ol>	Have a clear understanding on innovative strategies

#### 5.3.7.2 Information Sheet No3/LO6: Develop Business Innovative Strategies



##### Introduction

This learning outcome aims at equipping the trainers with knowledge on business innovative strategies in accordance with organizing strategies. It makes the students more creative and creation of linkages with other entrepreneurs and how to incorporate ICT in business for objectives to be achieved.

##### Definition of key terms

**Business innovative strategies:** A plan used by a company to encourage advancements in technology or services usually by investing money in research and development activities.

**Business growth:** This is a stage where the business reaches a point of expansion and seeks additional options to generate more profit.

**Business Development:** Is the creation of long-term value for an organization from customer, markets and relationships normally focuses in achieving long term goals.

**Business strategies:** Are plans put in place by an entrepreneur to undertake business operations and ensure that the strategies are implemented to achieve business goals and objectives.

## Content/Procedures/Methods/Illustrations

### 6.1 Determining business innovation strategies

This is a plan used by a company to encourage advancements in technology or services usually by investing money in research and development activities.

#### Types of business innovation strategies

They can be classified as active, pro-active and reactive.

- a) **Proactive:** Companies with proactive innovative strategies tend to have strong research orientation and first-mover advantage and be a technological market leader. They access knowledge from a broad range of sources and take big bets/high risks.

Types of innovative technologies used in proactive strategy are:

- Incremental: The constant technological process changes that lead to improved performance of products and services.
  - Radial: Breakthroughs that change the nature of products and services.
- b) **Active:** It involves defending existing technologies and markets while being prepared to respond quickly on markets and technologies are proven. Companies using this approach also have broad sources of knowledge and medium to low risk exposure. They tend to hedge their bets. They mainly use incremental strategies.
- c) **Reactive:** It is by companies:
- Which are followers?
  - Have a focus on operations.
  - Take a wait and see approach.
  - Look for low risk opportunities.

They copy proven innovation and use entirely incremental innovations like Ryan air, a budget airline which has successfully copied the no-frills service model of Southwest Airlines.

- d) **Passive:** Companies with passive innovative strategies wait until their customers demand a change in their products or services.

#### Importance of innovation in business

Innovation refers to creating more effective processes, products and ideas. Their benefits include:

- It helps to solve problems easily in business.
- It increases the productivity of the business.
- Innovation makes it easier to market your business hence gaining market share.
- Have a competitive advantage thus making it easier to beat your competitors.
- Enables the business to sustain in any particular environment.
- A business is able to maximize on its return on investment.
- It brings about a positive impact on the company's culture.
- Helps in communication and educational accessibility, coming up with effective innovative communication strategies that ensures that communication flows all around the organization.



## Case study

BMW's innovative strategies.

Case code: BSTR060

Period: 2002-2003.

Organization; BMW.

Publication date: 2003.

Countries: Germany.

Industry: Automobiles and automotive.

The case examines the growth of BMW, a German automobile company into one of the leading automobile producers in the world.

It critically examines the circumstances that made BMW radically change the way it was handling innovative process management at its automobile division. The case discusses the various components of the new innovation process adopted by BMW and evaluates the effectiveness of these components.

Benefits that accrued to the company on account of the changed innovation process in the backdrop of its changing strategic game plan.

## 6.2 Creativity in business development

Business development: it is the creation of long-term value for an organization from customers, markets and relationships. The two important aspects:

- Process
- People

The process is goal oriented and designed to attain a solution to a problem. The people are the active resources that determine the solution. They will sometimes adapt a solution and at other times they will formulate a highly innovative solution. This innovator approaches tasks from unusual angles, discover problems and avenues of solution, questions basic assumptions related to current practices, is more interested in ends, has little tolerance for routine work, little or no need for con-census and often insensitive to others.

## 6.3 Developing innovative business strategies

The five steps for developing the strategy are:

- Determine objectives strategic approach to innovation.
- Know your market i.e. customers and competitors.
- Define your value proposition.
- Access and develop your core capabilities.
- Establish your innovation techniques and systems.

## 6.4 Ways of developing linkages with other entrepreneurs.

- Identify the competitive advantage of a given region and resident enterprises for certain products and services.
- Developing a joint strategy with participation of local stakeholders.
- Linking the local PSD measures to the strategy. Fostering business linkages between entrepreneurs of this sub-sector and related sub-sectors.

- Developing capacity of public and private business service providers.

### 6.5 ICT in business growth and development

ICT: Includes any communication device or application encompassing radio, television, cellular phones, computers, hardware and software.

ICT can be used in expanding, growing and developing the business in the following ways:

- Social media:** Refers to a wide range of internet based and mobile services that allow users to participate in online purchases, sales, advertising hence the business is able to expand the number of audiences that can be able to see and purchase their products.
- Blogs:** These are online journals hosted on platforms that help advertise the different products of business hence a high probability of increasing market share.
- Wikis:** A collective website where any participant can modify any page or create any new page using a browser, hence people can see images, prices of the products of your business and they can order online hence increased flexibility of the business.
- Media sharing sites:** Allows users to post videos or photographs.

Social media platforms encourage knowledge sharing and businesses. With the current information age, most individuals are connecting using various technological platforms.

Here someone can post their products or services freely among the members and consultation is real time as answers and questions are readily available. This promotes flexibility and customers are able to order from anywhere and their products will be delivered hence convenient for the customers.

### Conclusion

This learning outcome covered on business innovation strategies, creativity in business development, develop innovative business strategies, create linkages with other entrepreneurs and incorporate ICT in accordance with organizational strategies, business principles, strategies and best practice in accordance with the organization strategies. Incorporate ICT in business growth and development as per best practice

### Further Reading



Read more from internet on “*Ways of coming up with a Business plan*”

<https://www.google.com/search?q=entrepreneurship>

### 5.3.7.3 Self-Assessment



#### Written Assessment

1. Identify business innovation strategies.
  - a) Proactive
  - b) Active
  - c) Business plan
  - d) Reactive
2. Which is not a method used in business/ICT?
  - a) Blogs
  - b) Media sharing sites
  - c) Data
  - d) Wikis
3. Which par is the most important aspect in business development?
  - a) Process and data
  - b) Process and customers
  - c) Process and people
  - d) People and data
4. Which is not an advantage of ICT
  - a) Convenience
  - b) Flexibility
  - c) Business growth
  - d) Less audience
5. Develop innovative business strategies.
6. Discuss creativity in business development.

#### Oral Assessment

Discuss business innovative strategies.

#### Practical Assessment

You are required to come up with an enterprise. Identify and discuss business innovative strategies that you will be required to use.

### 5.3.7.4 Tools, Equipment, Supplies and Materials

- Case studies
- Computers
- Overhead projectors
- Internet
- Mobile phone
- Video clips
- Films

- Newspapers and Handouts
- Business Journals
- Writing materials

#### 5.3.7.5 References




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### 5.3.8 Learning Outcome No 7: Develop business plan

#### 5.3.8.1 Learning Activities

Learning Outcome No 7: Develop Business Plan	
 Learning Activities	Special Instructions
<ol style="list-style-type: none"><li>6.1. Describe types of Business as per business procedures and strategies</li><li>6.2. Develop marketing plan as per business plan format</li><li>6.3. Prepare organizational/Management plan in accordance with business plan format</li><li>6.4. Prepare production/operation plan in accordance with business plan format</li><li>6.5. Prepare financial plan in accordance with the business plan format</li><li>6.6. Prepare an executive summary in accordance with business plan format</li><li>6.7. Present business plan as per best practice</li></ol>	

#### 5.3.8.2 Information Sheet No3/LO7



##### Introduction to learning outcome

This learning outcome aims at equipping the students with knowledge on how to plan a business. The students should also know the types of business develop market plan, prepare production plan and financial plans.

##### Definition of key terms

**Marketing plan:** involves identifying target customers, how to reach them and the retention process.

**Organizational/Management plan:** describes how an organization or business is run.

**Financial Plan:** it is a comprehensive evaluation of an individual's current pay and future financial state.

**Business plan:** a written description of your business future, a document that tells what you plan to do and how you plan to do it.

## Content/procedures/methods/illustrations

### Describe types of Business as per business procedures and strategies

There are three major businesses:

1. **Service business:** is a type of business that provides intangible products. They offer professional skills, expertise advice and other products.
2. **Merchandising business:** this type of business buys products at wholesale price and sells the same at retail price. They make profit by selling the products at prices higher than their purchase cost.
3. **Manufacturing business:** it buys products with the intention of using them as materials in making new products. It combines raw materials, labor and factory overhead in its production process.

### Develop marketing plan as per business plan format

To grow your business, you need a marketing plan. The right marketing plan identifies everything from:

- Target customers.
- How to reach them.
- The retention process.

Sectors to include in this plan:

- a) Executive summary: it gives an overview of your plan.
- b) Target customers: describes customers targeted. Describes their geographical profile (e.g. gender, age), their wants and needs.
- c) Unique selling proposition: having a unique selling proposition is very critical since it distinguishes your company from its competitors.
- d) Pricing and positioning strategy: it must be aligned. You should detail the positioning you desire and how you're pricing will support it.
- e) Distribution channels: the advertising can be primarily done online via a search engine. We should choose best marketing network for your products.
- f) Keys to success: there are several benefits of using social media to market our small business. Each of the postings on social media sites will include a traceable link. We need to know how many people click to each link.

### Prepare organizational/Management plan in accordance with business plan format

It describes how an organization or business is run. It allows you to formalize your management structure and operations.

It entails:

1. Determine the need for management plan.
2. Outline your plan.
3. Describe your management structure.
4. List the different aspects of your organization being managed under the plan.

In the description of management, you should:

1. Name your board members.
2. Introduce the key management members.

3. Present the strengths of each individual I the management team.
4. Describe hiring process.
5. Name any outside consultants or advisors you will be hiring.
6. Summarize your management team abilities.
7. Describe relationships between management, ownership and employees.

### **Prepare production/operation plan in accordance with business plan format**

Is a highly detailed plan that provides a clear picture of how a team, section or department will contribute to the achievement of the organizations goals?

It is a manual for operating your organization. It is designed to ensure you accomplish your goals.

It is a key piece of the puzzle for any goal oriented team.

The steps you can take to develop a strong operations plan. That is:

1. Start with your strategic plan.
2. Focus on your most important goals.
3. Use leading not lagging indicators.
4. Do not develop your plan in a vacuum.
5. Communication is paramount.

### **Prepare financial plan in accordance with the business plan format**

It is a comprehensive evaluation of an individual's current pay and future financial state by using current known variables to plan.

It often includes a budget which organizes an individual's finances and sometimes includes a series of steps or specific goals for spending or saving.

It can refer to the three primary financial statements, that is:

1. Balance sheet.
2. Income statement.
3. Cash-flow statement.

Financial plans are the overall/entire financial accounting overview of a company.

### **Prepare an executive summary in accordance with business plan format**

Is a short document or section of a document produced for business purposes?

It summarizes a longer report or proposal or a group or related reports in such a way that readers can rapidly become acquainted with a large body of material without having to read it all.

It is intended as an aid to decision making by managers and has been described as the most important part of a business plan.

Typically, an example will:

- Be approximately 5 – 10% of the length of the main report.
- Be written in language appropriate for the target audience.
- Consist of short concise paragraphs.
- Begin with a summary.
- Be written in the same order as the report.

- Only include material present in the main report.
- Make recommendations.
- Provide a justification.
- Have a conclusion.
- Be readable separately from the main report.
- Sometimes summarize more than one document.

### **Present business plan as per best practice**

It is a written description of your business's future, a document that tells what you plan to do and how you plan to do it.

It should contain:

1. The executive summary.
2. Company description.
3. Market analysis.
4. Competitive analysis.
5. Description of management and organization.
6. Breakdown of your products and services.
7. Marketing plan.
8. Sales strategy.
9. Request for funding.
10. Financial projections.

### **Benefits of a business plan**

1. It helps in management of cash.
2. Enables business owners to develop accountability.
3. Useful in strategic focus.
4. Priorities can be easily set.
5. Easier monitoring of the whole business.
6. Helps in strategic alignment.
7. Realistic regular reminders to keep on track.

### **Disadvantages of a business plan**

1. Is only a plan and does not guarantee success.
2. If the plan is too rigid, some problems may arise, it must be flexible to adapt to market changes.
3. High sales expectations may cause overspending in other areas such as stocking and stuffing.

### **Conclusion**

At the end of the unit of competency the trainee should be able to describe various types of business develop a marketing plan, organizational /management plan, operational plan, financial plan and an executive summary in accordance to business plan format and best practices.





### **Further Reading**

Read further on best practices in developing business plan across region

#### **5.3.8.3 Self-Assessment**



##### **Written assessment**

1. Which is not a type of major business?
  - a) Service business.
  - b) Merchandising business.
  - c) Existing business.
2. Which of the following is a section to include in marketing plan?
  - a) Merchandising business.
  - b) Executive summary.
  - c) Service business.
3. Which is not among the primary financial statements?
  - a) Balance sheet.
  - b) Distribution.
  - c) Income statement.
4. Prepare an executive summary.
5. Develop a business plan.
6. Discuss types of businesses.

##### **Oral Assessment**

1. Define all types of plans.
2. Identify sections in marketing plan.

##### **Practical Assessment**

You want to come up with a business. Select the industry and develop a proper business plan to use.

#### **5.3.8.4 Tools, Equipment, Supplies and Materials**

- Case studies
- Computers
- Overhead projectors
- Internet
- Mobile phone
- Video clips
- Films
- Newspapers and Handouts
- Business Journals

- Writing materials

#### 5.3.8.5 References



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