

# Entrepreneurship and Small Business Management (AgEc 3102)

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# Out line

- Chapter-1: An overview of an entrepreneurship
- Chapter-2: How to Start a small business
- Chapter-3: Legal forms of business organizations
- Chapter-4: Developing a business plan
- Chapter-5: Business environments
- Chapter-6: Managing a small business



# Chapter One

## An overview of an Entrepreneurship



# Discussion

- What is entrepreneur?
- What is entrepreneurship?



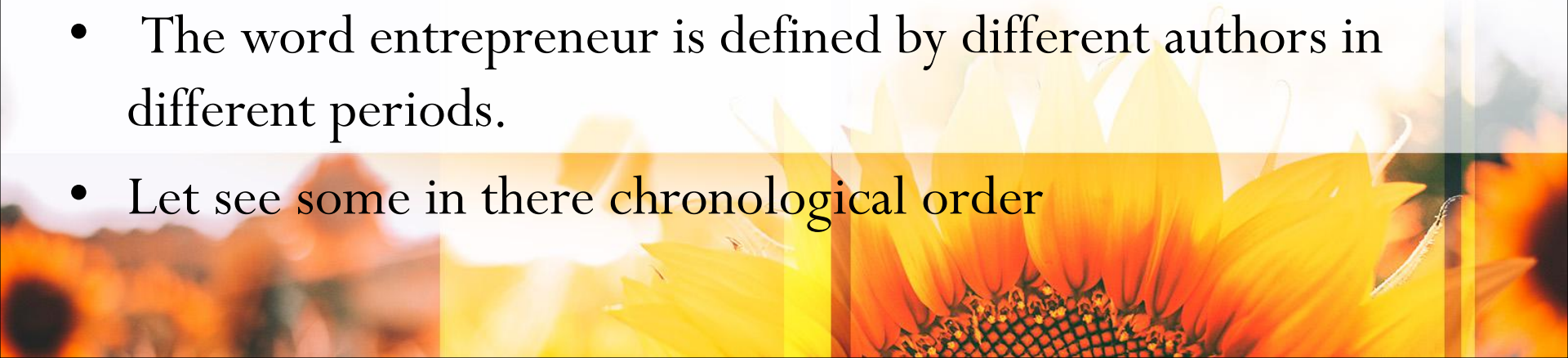


# Definitions of Entrepreneur(s)

- The word entrepreneur stems: from the French word 'entreprendre' meaning one who undertakes or one who is a 'go-between'.
- In other words, it implies a person who starts an enterprise.
- Besides, different field of studies defined entrepreneur in various ways.
- For instance, economists view entrepreneur as a fourth factor of production along with land, labor and capital.
- Still others feel that entrepreneurs are innovators who come up with new ideas for products, markets or techniques.



- To put it very simply, an ***entrepreneur*** is someone who perceives/see opportunity, organizes resources needed for exploiting that opportunity and exploits it.
  - For instance, Computers, mobile phones, washing machines etc are all examples of entrepreneurial ideas that got converted into products or services.
- The word entrepreneur is defined by different authors in different periods.
- Let see some in there chronological order



## Cont.....

- From the historical point of view, the French economist Richard Cantillon was the first to introduce the concept 'entrepreneur' in the early 18<sup>th</sup> century.
- Accordingly, an **entrepreneur** is a person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise (Cantillon, 1725).



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- According to J.B. Say (1803), an **entrepreneur** is an economic agent who unites all means of production- land of one, the labor of another and the capital of yet another and thus produces a product.
  - By selling the product in the market he pays rent of land, wages to labor, interest on capital and what remains is his profit.
  - He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.



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- Schumpeter (1934) defined *entrepreneurs* are innovators who use a process of shattering the status quo of the existing products and services, to set up new products, new services.
- According to David McClelland (1961), an *entrepreneur* is a person with a high need for achievement.
  - ❖ He is energetic and a moderate risk taker.

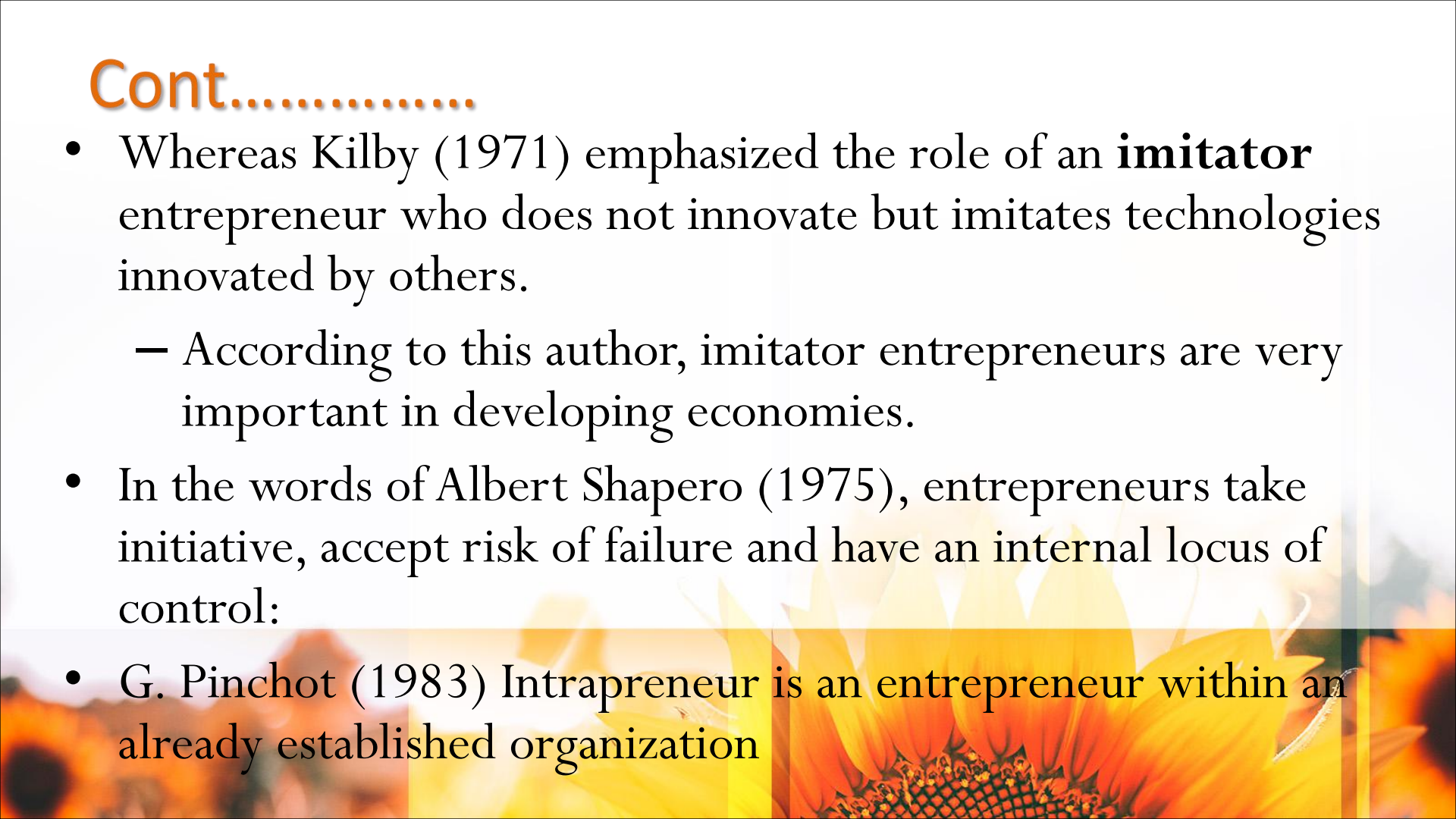


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- Peter Drucker (1964), an **entrepreneur** is the one who searches for change, responds to it and exploits opportunities.
  - ❑ Innovation is a specific tool of an entrepreneur hence an effective entrepreneur converts a source into a resource.

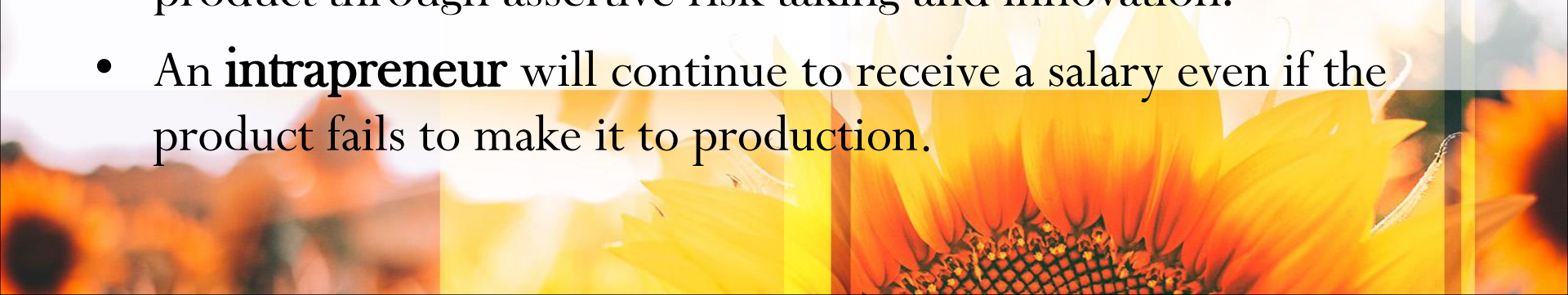


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- Whereas Kilby (1971) emphasized the role of an **imitator** entrepreneur who does not innovate but imitates technologies innovated by others.
    - According to this author, imitator entrepreneurs are very important in developing economies.
  - In the words of Albert Shapero (1975), entrepreneurs take initiative, accept risk of failure and have an internal locus of control:
  - G. Pinchot (1983) Intrapreneur is an entrepreneur within an already established organization
- 
- A decorative background image featuring a close-up of a sunflower with bright yellow petals and a dark brown center. The image is partially obscured by a semi-transparent white rectangular area that serves as a backdrop for the text.

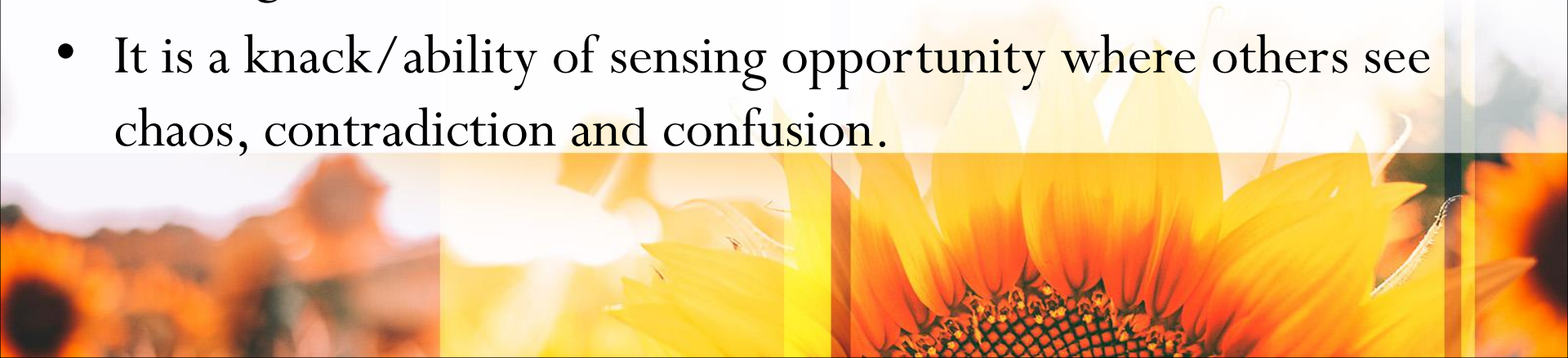
# Difference between Intrapreneur and Entrepreneur

- An intrapreneur is an employee who is given the authority and support to create a new product without having to be concerned about whether or not the product will actually become a source of revenue for the company.
- **Intrapreneur** is person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation.
- An **intrapreneur** will continue to receive a salary even if the product fails to make it to production.



# Definitions of Entrepreneurship

- Entrepreneurship can be described as a process of action an entrepreneur undertakes to establish his enterprise.
- Entrepreneurship is also a creative activity.
- It is the ability to create and build something from practically nothing.
- It is a knack/ability of sensing opportunity where others see chaos, contradiction and confusion.





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- According to Peter Drucker **entrepreneurship** is defined as ‘a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation.’
- Entrepreneurship is a discipline with a knowledge base theory.
- It is a dynamic and risky process.
- It involves a fusion/combination of **capital, technology and human talent**.

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- Entrepreneurship is equally applicable to big and small businesses, to economic and non-economic activities.
- Entrepreneurship is a process. It is not a combination of some stray incidents.
- Entrepreneurship is a philosophy- it is the way one thinks, one acts and therefore it can exist in any situation be it business or government or in the field of education, science and technology or poverty alleviation or any others.



# Definitions For Entrepreneurship Based On Chronological Order

- Cantillon (1730) viewed Entrepreneurship as 'self employment of any sort.'
- Schumpeter (1934) equated Entrepreneurship with the concept of innovation applied to a business context while emphasizing the combination of resources.
- Penrose (1963) viewed Entrepreneurship as the activity that involves identifying opportunities within the economic system.
- Leibenstein (1979) defined Entrepreneurship as activities necessary to create or carry on an enterprise where not all markets are well established or clearly defined and/or in which relevant parts of the production function are not completely known.

- So, while defining the concept, **Entrepreneurship**, laid emphases on a wide spectrum of activities such as:

- ✚ Self-employment of any sort.
- ✚ Creation of organizations.
- ✚ Innovation applied to a business context.
- ✚ The combination of resources.
- ✚ Identification and exploitation of opportunities within the economic system or market.
- ✚ The bringing together of factors of production under uncertainty.

**Innovation** is the process of translating an idea or invention into a good or service that creates value or for which customers will pay.

- So, any action that involves one or all of the above activities can be regarded as entrepreneurship.



# Difference Between Entrepreneur And Entrepreneurship

- The term entrepreneur is used to describe men and women who establish and manage their own business.
- The process involved is called entrepreneurship.
- Entrepreneurship is an abstraction/idea whereas entrepreneurs are tangible people.
- Entrepreneurship is a process and an entrepreneur is a person.
- Entrepreneurship is the outcome of complex socio-economic, psychological and other factors.
- Entrepreneur is the key individual central to entrepreneurship who makes things happen.
- Entrepreneur is the actor, entrepreneurship is the act.
- Entrepreneurship is the most effective way of bridging the gap between science and the market place by creating new enterprises.
- An entrepreneur is the catalyst who brings about this change.

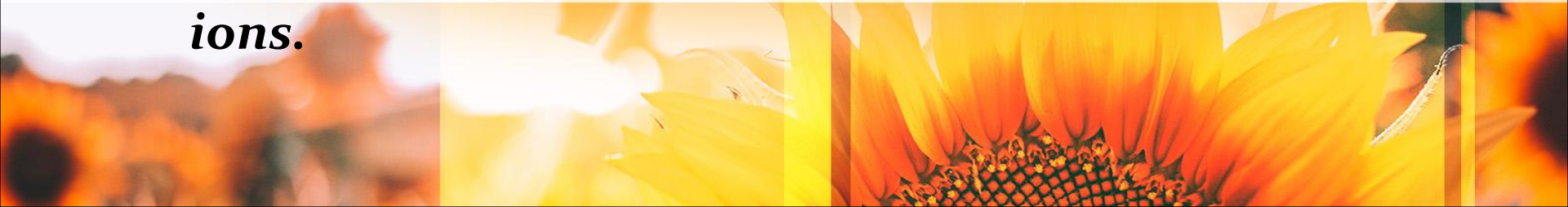


# Definition of Enterprise

- What is enterprise?
  - Entrepreneur is a person who starts an enterprise.
  - The process of creation is called entrepreneurship.
  - The outcome of the actor and the act is called the **ENTERPRISE**.
  - An **enterprise** is the business organization that is formed and which provides goods and services, creates jobs, contributes to national income, exports and over all economic development.

# Entrepreneur Vs Manager

- The difference between **Entrepreneur** and **Manager** can be drawn clearly on the following grounds:
  1. A person who creates an enterprise, by taking a *financial risk* in order to get profit, is called an entrepreneur.
    - An individual who takes the responsibility of *controlling* and *administering* the organization is known as a manager
  2. An entrepreneur focuses on business *startup* whereas
    - The main focus of a manager is to manage *ongoing operations*.



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3. *Achievements* work as a motivation for entrepreneurs.
  - On the other hand, the primary motivation is the **power**
4. The manager's approach to the task is *formal* which is just opposite of an entrepreneur.
5. An entrepreneur is the **owner** of the enterprise while a manager is just an **employee** of the company.
6. A manager gets **salary** as remuneration for the work performed by him. Conversely, **profit** is the reward for the entrepreneur



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7. The major driving force of an entrepreneur is ***creativity*** and ***innovation***. As against this, a manager maintains the ***existing state*** of business.
8. While entrepreneur is a ***risk taker***, the manager is ***risk averse***

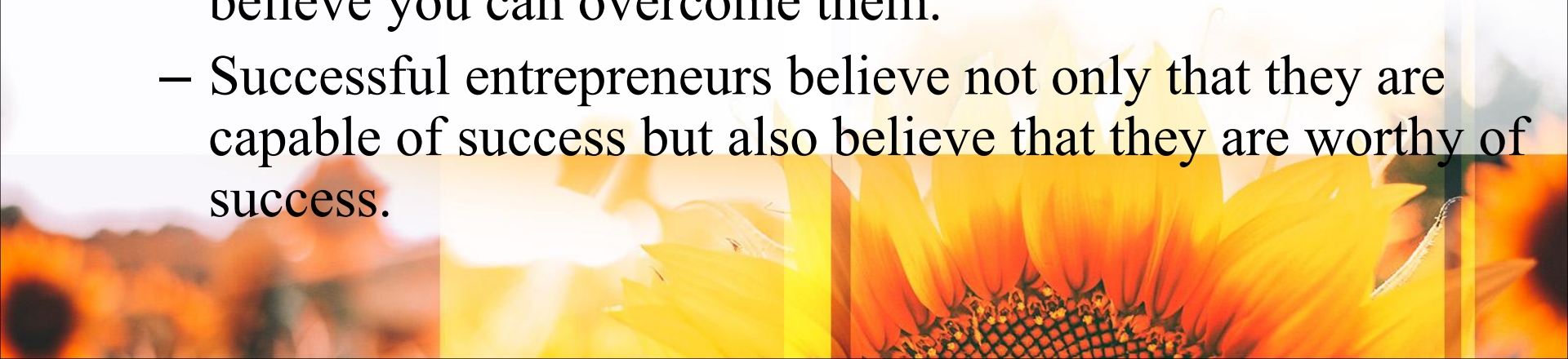


# Characteristics of Successful Entrepreneurs

- While there is no recipe (formula) for becoming a successful entrepreneur, certain characteristics are associated with entrepreneurial success.
- Some of them are listed as follows:
- **They do what they love most:** According to researches, one of the most important qualities associated with successful entrepreneurship is *passion/desire*.
  - *If your mind can conceive it, and your heart can believe it, then you can achieve it!.*
  - Entrepreneurs typically care more about what they are doing than how much money they might make.
  - They must earn an income, of course, or they cannot continue to be entrepreneurs; however, the amount they earn often is *secondary* to achieving their goals.



- **They have self confidence on what they are doing:**
  - This is another key quality of successful entrepreneurs.
  - If you are thinking that you would like to be an entrepreneur, do you have confidence in your ability to succeed?
  - Every entrepreneur encounters problems, and you have to believe you can overcome them.
  - Successful entrepreneurs believe not only that they are capable of success but also believe that they are worthy of success.

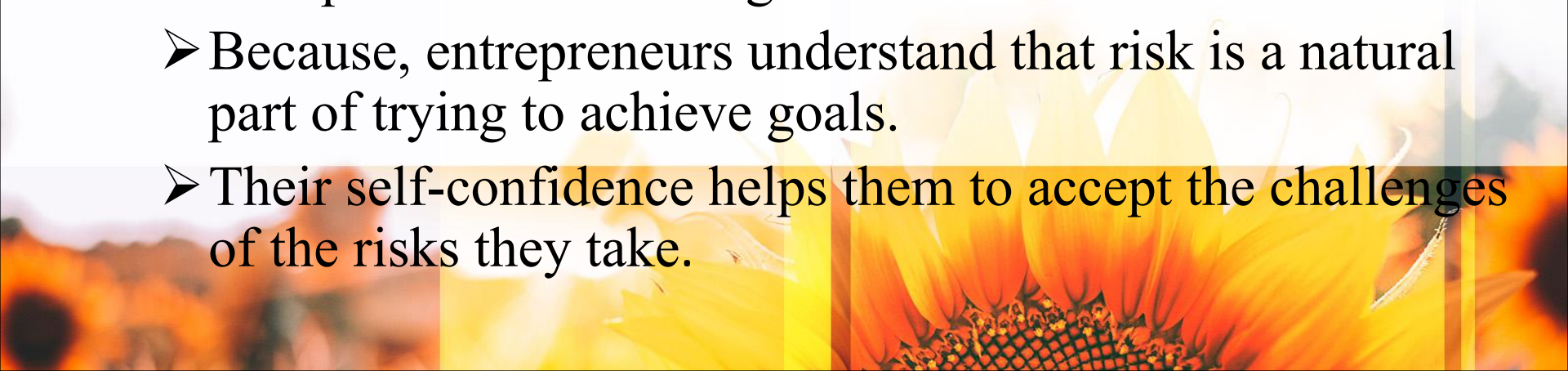


- **They have self reliance:**

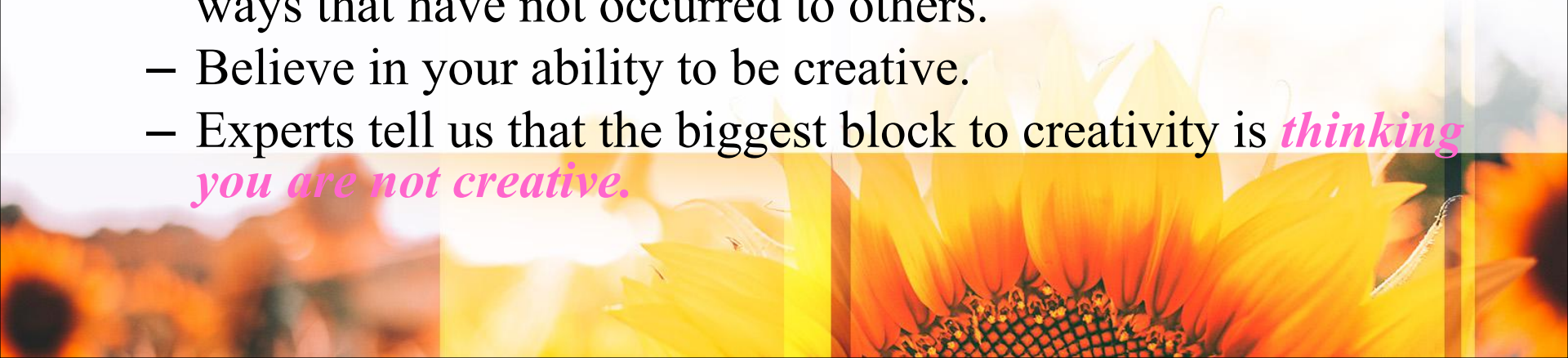
- When we say entrepreneurs are self-reliant, it implies that they do not wait for others to tell them what to do.
- They are self-starters and feel confident making decisions.

- **Entrepreneurs are also risk takers:**

- While most people try to avoid risk, successful entrepreneurs are willing to take risks.
- Because, entrepreneurs understand that risk is a natural part of trying to achieve goals.
- Their self-confidence helps them to accept the challenges of the risks they take.



- **Entrepreneurs tend to thrive (succeed) on competition.**
  - ✚ While they may actively compete with others, they are more likely to compete against themselves.
  - ✚ In other words, they are constantly trying to improve their own performance regardless of what others may be doing.
- **Most entrepreneurs are creative.**
  - It means they find innovative ways to solve problems.
  - They always look for new and better ways to do things i.e. ways that have not occurred to others.
  - Believe in your ability to be creative.
  - Experts tell us that the biggest block to creativity is *thinking you are not creative.*



- **Entrepreneurs are also willing to learn (are information seekers):**
  - They may already know a great deal, yet they recognize that no one knows everything, and that they can learn valuable information from others.



- Accordingly, entrepreneurs can acquire skills if they are willing to learn them or they can hire people to work for them who have the needed skills.
- In either ways, **the following skills** are considered to be important for the success of the entrepreneur's business.
- **ABILITY TO PLAN:**
  - The ability to plan is a key skill for entrepreneurs.
  - They must be able to develop plans to meet goals in a variety of areas, including finance, marketing, production, sales and personnel (hiring and maintaining productive and satisfied employees).





- **COMMUNICATION SKILLS:**

- ✘ Entrepreneurs should be able to explain, discuss, sell and market their good or service.
- ✘ It is important to be able to interact effectively with your business team.
- ✘ Additionally, entrepreneurs need to be able to express themselves clearly both verbally and in writing.
- ✘ They also should have strong reading comprehension skills to understand contracts and other forms of written business communication.



# MARKETING SKILLS:

- A business's success or failure is very dependent on whether
  - The business reaches the market (its potential customers),
  - Interests the market and results in those in the market deciding to buy.
- Good marketing skills, that results in people wanting to buy your good or service, are critical for entrepreneurial success.



# BASIC MANAGEMENT SKILLS:

- The entrepreneur must be able to manage every component of a business.
- Even if entrepreneurs hire managers to attend to daily details, they must understand if their business has the right resources and if those resources are being used effectively.
- They must ensure that all the positions in their business are occupied by effective people.

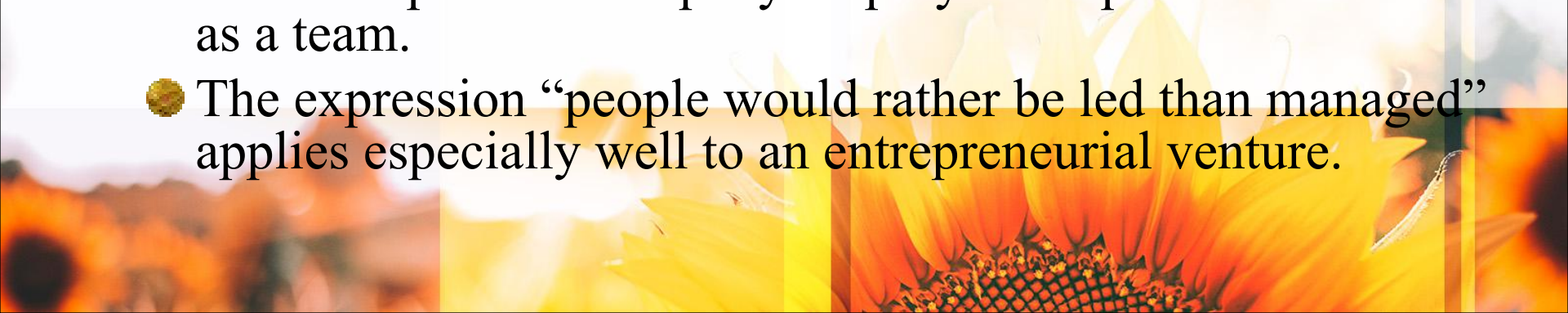


- **TEAM BUILDING SKILLS:**

- Because entrepreneurs usually assemble a team of skilled people who help them achieve business success, they must be able to effectively develop and manage the team.

- **LEADERSHIP SKILLS:**

- One of the most important leadership skills an entrepreneur must have is the ability to develop a vision for the company and to inspire the company employees to pursue that vision as a team.
- The expression “people would rather be led than managed” applies especially well to an entrepreneurial venture.



# Functions of Entrepreneur(s)

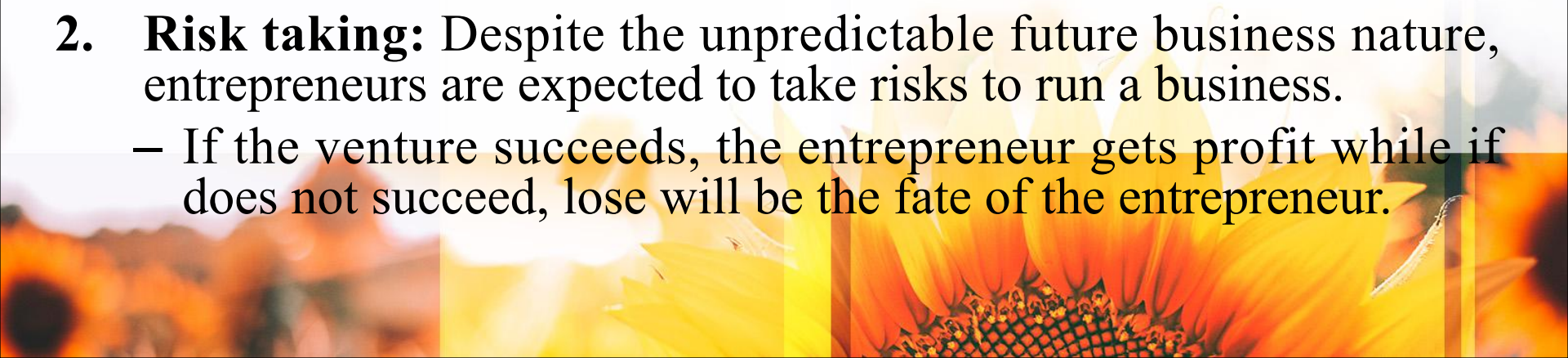
1. General functions of entrepreneurs
2. Specific functions of entrepreneurs





# 1. General functions of entrepreneurs

- Broadly speaking, there are three most important general functions performed by entrepreneurs.
  - These are: innovation, risk taking and organizing.
1. **Innovation:** One of the most important functions of an entrepreneur is innovation.
    - ✓ Innovation implies doing new things or doing of things that are being done in a new way.
  2. **Risk taking:** Despite the unpredictable future business nature, entrepreneurs are expected to take risks to run a business.
    - If the venture succeeds, the entrepreneur gets profit while if does not succeed, lose will be the fate of the entrepreneur.

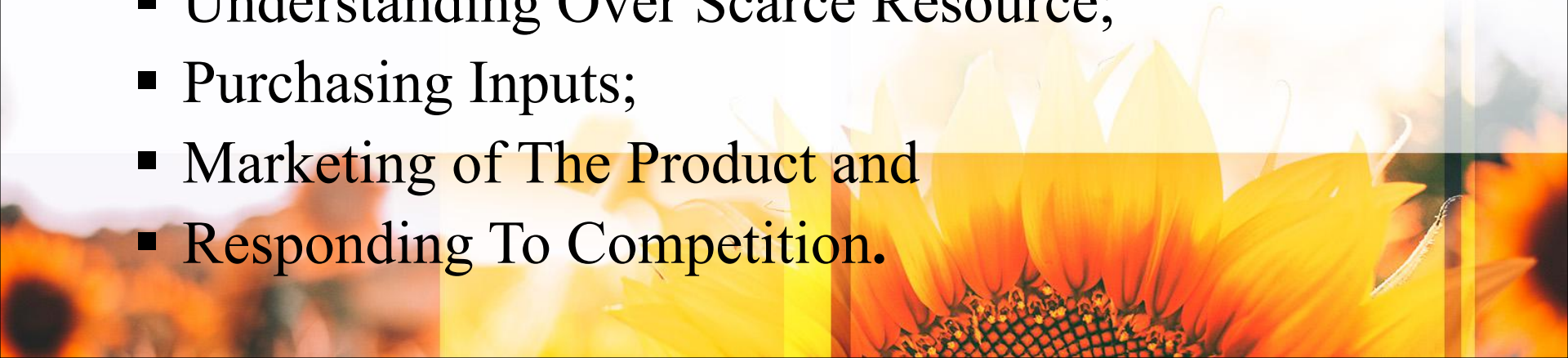


3. **Organizing:** organization and management of the enterprise is the main function of an entrepreneur.
- It implies bringing together the various factors of production.
  - The purpose is to allocate the productive resources in order to minimize losses and reduce costs in production.
  - While organizing, ***human resource*** and ***physical resources*** are among the two types of resources that are coordinated.
  - Entrepreneurs coordinate human resources to create enterprise or a group of committed people.



## 2. Specific Functions of Entrepreneurs

- Kilby has classified the specific functions of entrepreneurs into **four** groups.
- I. **Exchanges relationship:** This aspect, among others, mainly constitutes
  - Perceiving/seeing Market Opportunity;
  - Understanding Over Scarce Resource;
  - Purchasing Inputs;
  - Marketing of The Product and
  - Responding To Competition.



## **II. Political administration:** includes

- Dealing with the public bureaucracy/ administration;
- Managing human relations within the firm and
- Managing customer and supplier relations.

## **III. Management control:** This aspect of entrepreneurs mainly

constitutes managing *finance* and *managing* production.

## **IV. Technology:** following points will be worth to mention.

- Industrial engineering (minimize inputs with a given production process);
- Upgrading process and product quality, and
- Introducing new production techniques and products.



# Role of Entrepreneurs

- **An entrepreneur coordinates other factors of production:** this aspect does not only assembling the factors but also to see that the best combination of factors is made available for production process.
- **The entrepreneur also takes risks:** This is one of the important roles of entrepreneurs.
- **The entrepreneur also innovates:** Innovation is assumed to different from invention. While invention is the work of scientists, innovation implies the commercial application of an invention.



# Quiz I

1. What is the difference between entrepreneur and manager?
2. What is enterprise?
3. List down the general function of entrepreneur?



# Chapter 2

## Developing A Business Plan



# Discussion

- What is a business plan?
- Benefits of a business plan?
- How to write a business plan?
- Elements of a business plan?



# Definitions of a Business Plan

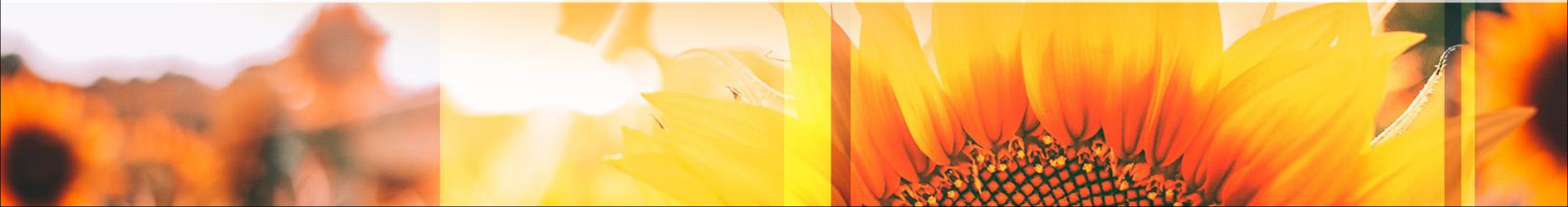
- Bature (2009) described a *business plan* as the road map on the journey to an entrepreneur's success.
  - According to him, it is the key to the successful take-off and execution of the business.
- Ndebbio (2007) stated that **a business plan** is a document showing
  - Where a business is going,
  - How to get there,
  - Through what means and
  - What you will get when you get there.

- **A business plan** is also a road map that provides directions so a business can plan its future and helps it avoid bumps in the road.
- **The business plan** covers what entrepreneurs intend to do with their business and how it will be done.
- **A business plan** also provides a picture of **where you currently are**, **where you want to go** and **what you need to do** to arrive at your destination.

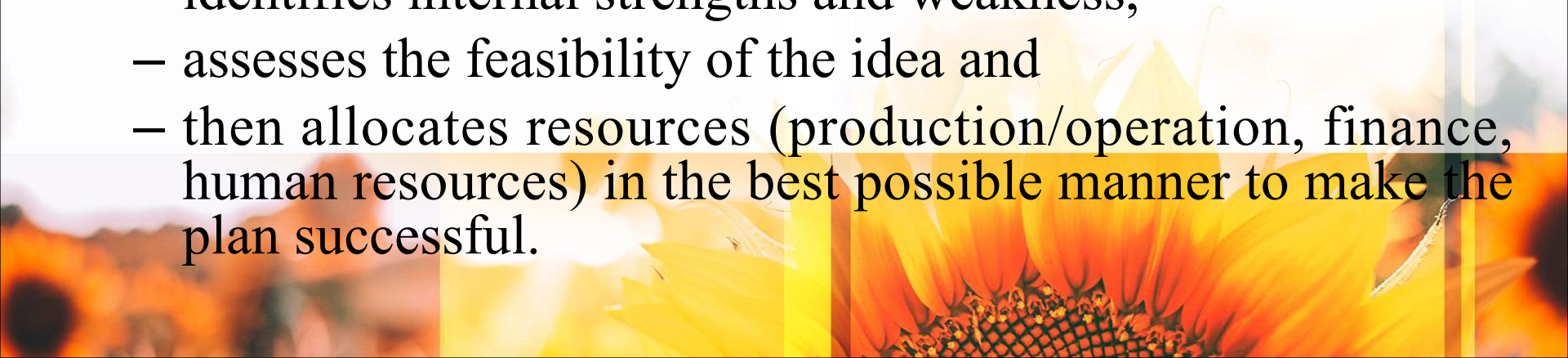




- Investors demand a comprehensive business plan in order to select worthwhile project.
- In order to convince investors of their winning business idea,
  - entrepreneurs have to put ample time and energy into the preparation of a business plan.
- Developing such a plan does not only help the entrepreneur to raise finance, but it also provides a benchmark to monitor the progress of his/her business idea.

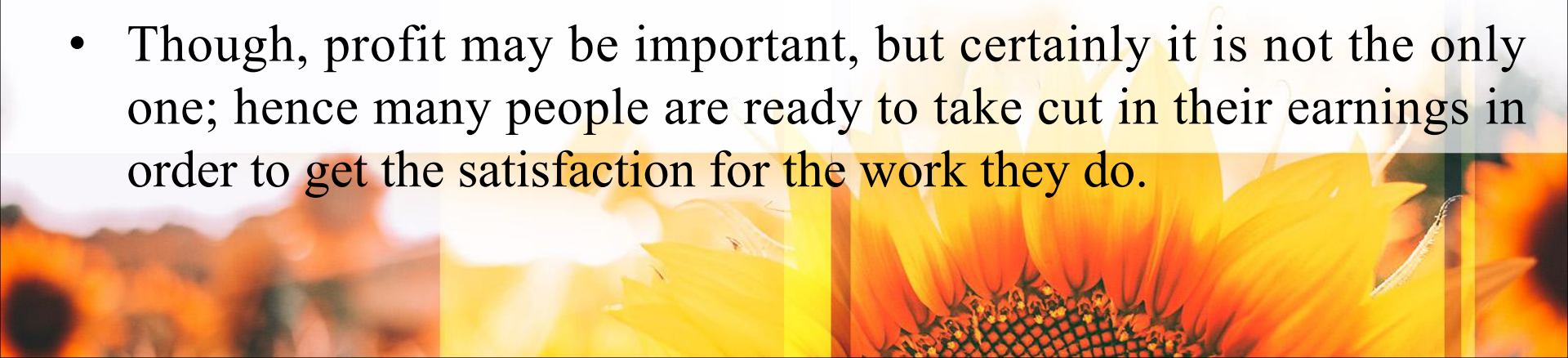


- A business plan is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture.
- A business plan first of all
  - identifies an innovative idea,
  - researches the external environment to list the opportunities and threats,
  - identifies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



# Objectives of the Business Plan

- The main aim of the business is not to simply maximize profit,
  - but the entrepreneur in various ways aimed at satisfying the community's basic needs and in particular, render a service to the whole society.
- By these reasons, an entrepreneur should understand that the business is set up for many reasons.
- Though, profit may be important, but certainly it is not the only one; hence many people are ready to take cut in their earnings in order to get the satisfaction for the work they do.



- In a nutshell, the objectives of the business plan are:
  - ▶ Give directions to the vision formulated by entrepreneur.
  - ▶ Monitor the progress after implementing the plan.
  - ▶ Persuade others to join the business.
  - ▶ To seek loans from financial institutions.
  - ▶ To make as much profit as possible
  - ▶ To maximize sales
  - ▶ To produce the best product in a given market i.e. Satisfy customers with goods and services of real value;
  - ▶ To create new jobs and new wealth;
  - ▶ To diversify the interest of the public.



# What Are the Benefits of a Business Plan?

- **The bigger picture:**

- This is one of the key advantages of a business plan.
- When you plan your business right, you can get a clearer picture of the business as a whole.
- You can easily connect the dots between strategy and tactics, and everything is easier to work out.

- **Strategic Focus**

- Startups and small business need to focus on their special identities, their target markets, and their products or services tailored to match.

- **Set priorities:**

- It's impossible to do everything at once in a business.
- When you plan your business, you can order things in terms of their importance and allocate your effort, resources and time in an efficient and strategic manner.



- **Manage change:**

- When you plan your business effectively, you can check your assumptions, track your progress and see new developments right from the beginning, allowing you to adjust accordingly.

- **Forces you to be accountable:**

- ☐ When you plan effectively, you set expectations for yourself and a means by which you will be able to track your results.
  - ☐ You can constantly review your business plan in terms of what you expect and what eventually happens.



# 3 Rules For Writing A Business Plan:

## 1. Keep it short

- Business plans should be short and concise.
- The reasoning for that is twofold:
  - ✚ **First**, you want your business plan to be read (and no one is going to read a 100-page or even 40-page business plan).
  - ✚ **Second**, your business plan should be a tool you use to run and grow your business, something you continue to use and refine over time.
  - ✚ An excessively long business plan is a huge hassle to deal with and guarantees that your plan will be relegated/downgraded to a desk drawer, never to be seen again.

## 2. Know your audience.

- Write your plan using language that your audience will understand.
  - For example, if your company is developing a complex scientific process, but your prospective investors aren't scientists (and don't understand all the detailed scientific terminology you want to use), you need to adapt.
- Accommodate your investors, and keep explanations of your product simple and direct, using terms that everyone can understand.
- You can always use the appendix of your plan to provide more specific details.



### 3. Don't be intimidated /Afraid.

- The vast majority of business owners and entrepreneurs aren't business experts.
- Just like you, they're learning as they go and don't have degrees in business.
- Writing a business plan may seem like a difficult hurdle, but it doesn't have to be.
- If you know your business and are passionate about it, writing a business plan and then leveraging your plan for growth will be not nearly as challenging as you think.
- And, you don't have to start with a full, detailed business plan.
- In fact, it can be much easier to start with a simple, one-page business plan —what we call a **Lean Plan**—and then come back and build a detailed business plan later.



# Components of A Business Plan

- Despite the availability of several approaches to organize a business plan, the following elements are considered to be common to most business plans.
- These include:
  1. Executive Summary
  2. Business Description
  3. Market Analysis
  4. Organization Management
  5. Sales Strategies
  6. Funding Requirements
  7. Financial Projections
  8. Contingency Plan
- The brief introduction to each business plan elements is given as follows.



# 1. Executive summary

- In most cases, it is **a one-to three pages** overview of the entire plan's content.
- Besides, the executive summary provides the reader a quick look at the **goals, plans and purposes of the business**.
- A potential lender often uses the executive summary to determine whether it is worth the time to read the entire plan.
- So, Entrepreneurs are expected to be conscious whether their executive summary offers a picture of their proposed operation.
- In other words, the purpose of the executive summary is to catch the interest of the investors and to make them read on.

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- Furthermore; under the executive summary of the business plan,
  - It should also indicate some key financials; the amount of external finance needed and exit opportunities for the investors.
  - Accordingly, this section of the business plan has to provide a **comprehensive overview of the entire business opportunity.**



## 2. Business Description

- This is your chance to describe your company and what it does.
- Include a look at when the business was formed, and your mission statement
  - **Mission statements** describe what an organization does today along with the line of products being made or services being offered
  - **Vision statement** is the articulation of your dream of where you want your business to go in the future.
- These are the things that tell your story and allow others to connect to you
- This is where you explain why you are in business and what you are selling
- If you sell products, describe your manufacturing process, availability of material, how you handle inventory/record and other operational details

- Some of the other questions you can answer in the business description section of your plan include:
  - ✚ What is the business model? (What are your customer base, revenue sources and products?)
  - ✚ Do you have special business relationships that offer you an advantage?
  - ✚ Where are you located?
  - ✚ Who are the principals/leaders?
  - ✚ What is the legal structure?
  - ✚ What are some of the market opportunities?
  - ✚ What is your projected growth ?
- Answering these questions narrows your focus and shows potential lenders and backers/ sponsors how you're viewing your venture.

The customer base is the group of customers who repeatedly purchase the goods or services of a business. These customers are a main source of revenue for a company. The customer base



### 3. Market Analysis

- This is your chance to look at your competition and the state of the market as a whole.
- Your market analysis is an exercise in seeing where you fit in the market and how you are superior to the competition.
- As you create your **market analysis**, you need to make sure to include information on your **core target market**, **profiles of your ideal customers** and **other market research**.
- Part of your market analysis should come from looking at the trends in your area and industry.
- The marketing section of the business plan outlines the enterprise's proposed target market
- **The “4 P’s” of the strategy**
  - **Product/service, pricing strategy, promotional strategy and logistics/place,**



## 4. Organization and Management

- The management section describes the owners and managers of the business, their educational backgrounds and experience
- In fact, there are plenty of indications that your management team matters more than your product idea.
- You are more likely to be successful if needed when you have the **right management** and **organization** for your company.
- Make sure you highlight the expertise and qualifications of each member of the team in your business plan.

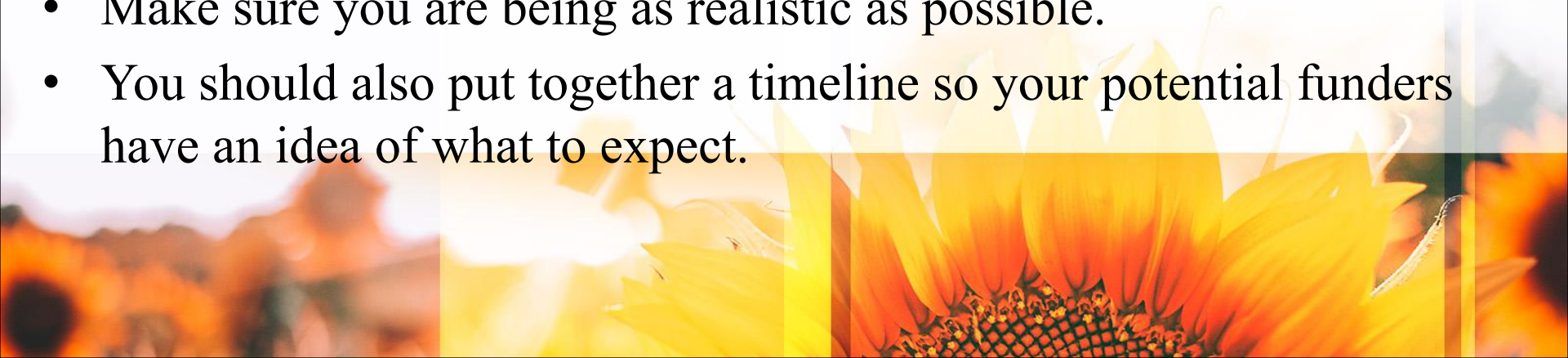


# 5. Sales Strategies

- How will you raise money with your business and make profits a reality?
- You answer this question with your **sales strategy**.
- This section is all about explaining your **price strategy** and describing the relationship between your price point and everything else at the company.
- You should also detail the **promotional strategies** you're using now, along with strategies you hope to implement later.
- This include your social media efforts and how you use press release and other appearances to help raise your brand awareness and encourage people to buy or sign up for your products or services

## 6. Funding Requirements

- Include current and future funding requirements, how the funding will be used and long range strategies that impacts funding request
- Any factor which directly impact your ability to repay your loan should be included
- Here's where you ask for the amount of money you need
- Make sure you are being as realistic as possible.
- You should also put together a timeline so your potential funders have an idea of what to expect.



## 7. Financial Projections

- Finally, the last section of your business plan should include financial projections
- The financial plan contains all of the financial statements, budgets and financial analyses that show the **projected income and expenses** for the enterprise.
- This is especially important if you hope to secure funds for expansion of your existing business.
- Your forward-looking projections should be based on information about your **revenue growth and market trends**.



- Most lenders and investors pay very close attention to the information contained in both the **marketing** and **financial** sections of a business plan.
- Even though it can be time-consuming to create a business plan, your efforts will be rewarded.
- The process is valuable for helping you identify potential problems, as well as help you plan ahead.
- You'll be more organized and better prepared for success.





## 8. Contingency Plan

- Another term for a contingency plan is “exit strategy”.
- A **contingency** is an unexpected event or situation that affects the financial health, professional image, or market share of a company.
- It is usually a negative event, but can also be an unexpected windfall /bonus such as a huge order.
- Anything that unexpectedly disrupts a company's expected operation can harm the company even if the disruption is because of a windfall.
- That is why companies create contingency plans for many possible situations
- So, company management has a pre-researched plan of action to immediately follow.
- Some threats usually covered in contingency plans are crisis management, business continuity, asset security, mismanagement and reorganization.

# ***The Three Tests of a Business Plan***

- The success of a given business plan does not only depend on whether it incorporates the main elements but also expected to pass three test. These include:
  1. the reality test,
  2. the competitive test and
  3. the value test, respectively.
- To have a clear overview about the difference among these tests, they are defined shortly as follows.



# ***1.The reality test:***

- This is the first tests that a businesses plan is expected to pass to determine its success.
- This test is mainly concerned with whether there exist real market(s) for the products or services produced by a given enterprise for which the business plan is developed.



## ***2. The competitive test:***

- After the reality test, a business plan is also expected to qualify for the competitive test.
- The prime target of this test is **to evaluate a given enterprises position relative to its key competitors** in the market.
- In other words, passing this test depends on the management's ability to create an enterprise that will gain an edge/defeat over its rivals.



### *3. The value test:*

- The third test, after the reality and competitive tests, a business plan has to succeed is called the **value test**.
- This test deals with whether the investment **offers investors or lenders an attractive rate of return or high probability of repayment.**





# **Chapter-3:**

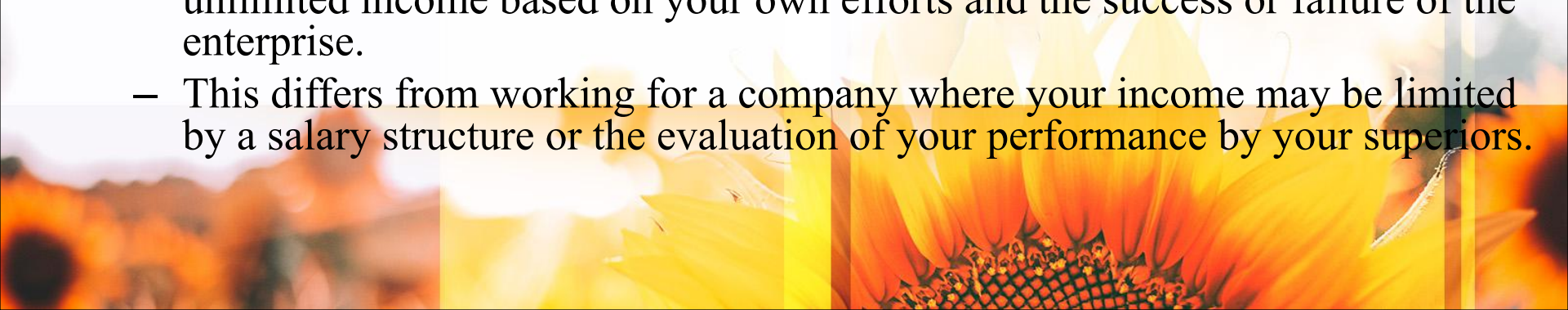
## **How to Start a small business**

- 1. Creating a new venture**
- 2. Buying an existing business**
- 3. Franchising**



# Key Reasons to Start a Business

- Starting a small business is a big step for anyone to take, as it may require leaving the comfort and security of a regular job for a more uncertain financial future.
- Small business success may also require a great deal of planning, enough initial capital to sustain the owner during the start-up period and possibly a bit of luck.
- These are a few key reasons why people make the decision to start a small business.
- **Income Potential**
  - When you start your own business, you have the opportunity to earn an unlimited income based on your own efforts and the success or failure of the enterprise.
  - This differs from working for a company where your income may be limited by a salary structure or the evaluation of your performance by your superiors.



- **Pursuing a Passion/desire**

- ❖ Starting your own business allows you to make a living while pursuing something for which you have a strong passion.
- ❖ You may have a special talent, such as writing, playing music or repairing automobiles that you've enjoyed as a hobby.
- ❖ By turning it into a business, you may find more enjoyment and fulfillment in your work life that can lead to a happier life in general.

- **A Good Idea**

- You may have an idea for a product or service that meets an unfulfilled need in the marketplace.
- By turning your idea into a business, you can be the first to meet that need which can result in a profitable venture.
- You could profit even more by teaching your idea to others or by creating a business model, which you can turn into a franchise.

- **New Lifestyle**

- Depending on the type of business you choose, you may be able to work a more flexible schedule, which can allow you to spend more time with family and friends.

- **Self-Expression/creativity**

- Owning a business allows you to be more creative and express yourself.
- You are not restricted by having to follow a set work methodology, and you're free to change your work processes if you wish.
- You can also create additional products or services to meet customer demands





# Advantages of buying an existing business

- **Groundwork** – the setting up of the business has already been done
- **Finance** – it should be easier to get finance for an established business
- **Market place** – a need for the product or service has already been established
- It gives you the advantage of an established **customer base**.
- People will already know the place, so the costs of **advertising** will be less.
- When you buy an existing business, you may get **employees** who are already working there to stay and work for you.

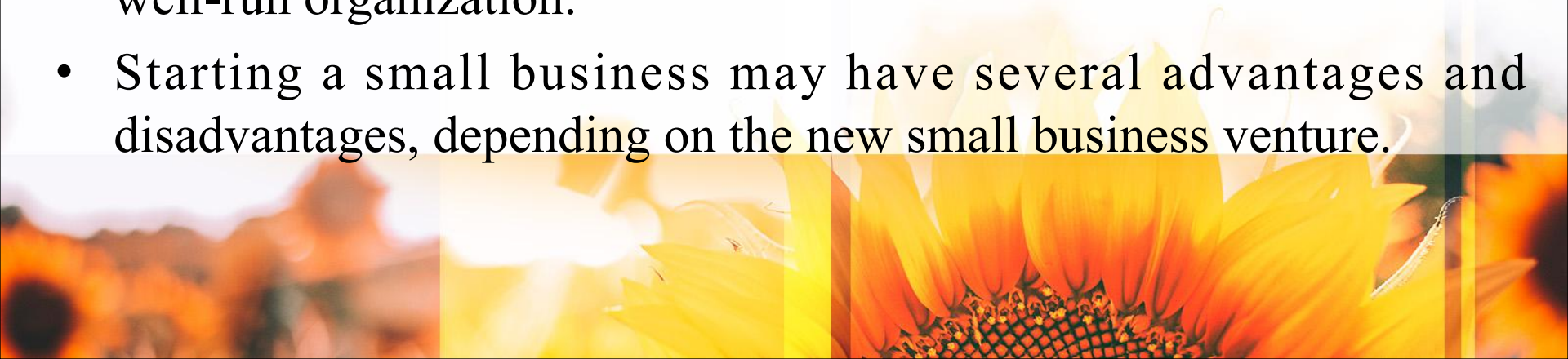


# Disadvantages Of Buying An Existing Business

- **The reasons why the current owner is selling** – what impact does this have on the business
- **Finance** – a large amount of capital will be needed for cash flow and for professional fees for solicitors, surveyors, accountants etc.
- **Investment** – The purchase will probably mean a large initial investment, usually much higher than it will require to start a business from scratch.
- **Stock and Equipment**- some stock may be damaged or obsolete, old equipment may need to be replaced
- **Employees** – staff morale maybe low if the business has been badly run or they are not happy with the news boss
- **Market** -If the company's products have not been received well by the market, it will be difficult to gain market share for these products as compared to a new product.

# Advantages and Disadvantages of a Start-Up Business

- A business is considered a **start-up** if an entrepreneur begins a business based on a unique idea and takes it all the way from the planning stage to actually running the business.
- With the proper amount of education, work and experience, entrepreneurs may be able to start and grow a small business into a well-run organization.
- Starting a small business may have several advantages and disadvantages, depending on the new small business venture.



# Advantages: of starting a new business

## **1. Freedom of choice** in all aspects of the business.

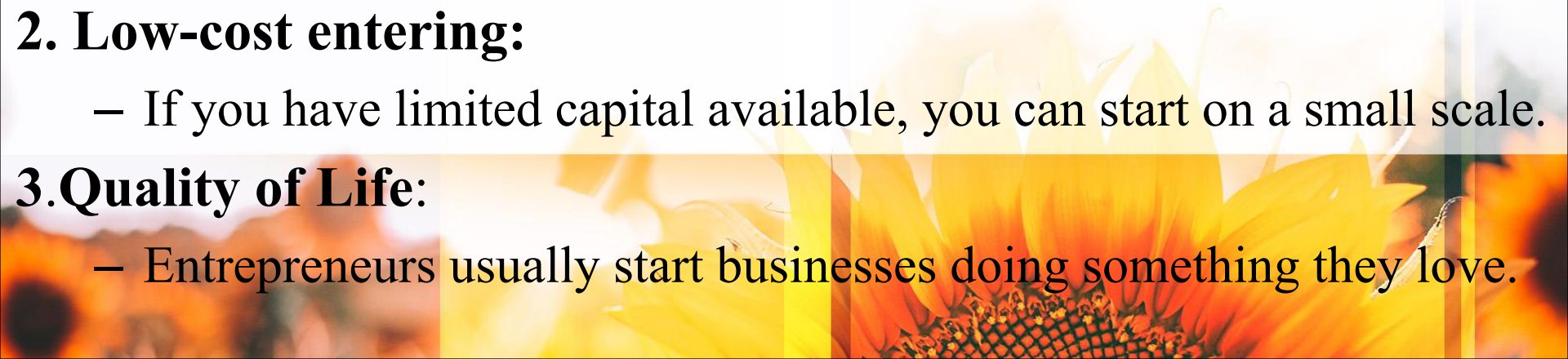
- Creativity can play a big part in starting and operating the business.
- The owner is in control of all aspects of the business, including the location and what the operation is to look like.

## **2. Low-cost entering:**

- If you have limited capital available, you can start on a small scale.

## **3. Quality of Life:**

- Entrepreneurs usually start businesses doing something they love.



**4.Team solidarity:** Smaller teams tend to be closer teams.

- As a member of a small team, I simply spend more time with each of my team mates than I could with a big team.

**5.Freedom to question everything:**

- When engineering teams are allowed to question why they are building something, incorrect or unnecessary features can be changed or scrapped early in the development process.
- This saves time and results in a better product.



# Disadvantages: of starting a new business

## **1.High commitment:**

- You'll need to spend more time and effort to start up.
- This will include developing your customer base, establishing lines of credit and supply and finding experienced staff.

## **2.High risk:**

- Success depends totally on you and your business talents.
- That's why future of your business remains uncertain and nothing can be taken for granted.





### 3.Delayed profitability-

- Where the market may not already be established, it may take longer to become profitable

### 4.More responsibility:

- All of the details of starting the business, including licenses, marketing, naming the business, finding product sources, etc. are the responsibility of the owner.
- It's impossible to say if the **startup** is right option for someone.
- It depends on two things:
  - your attitude to **risk** and **your experience**.

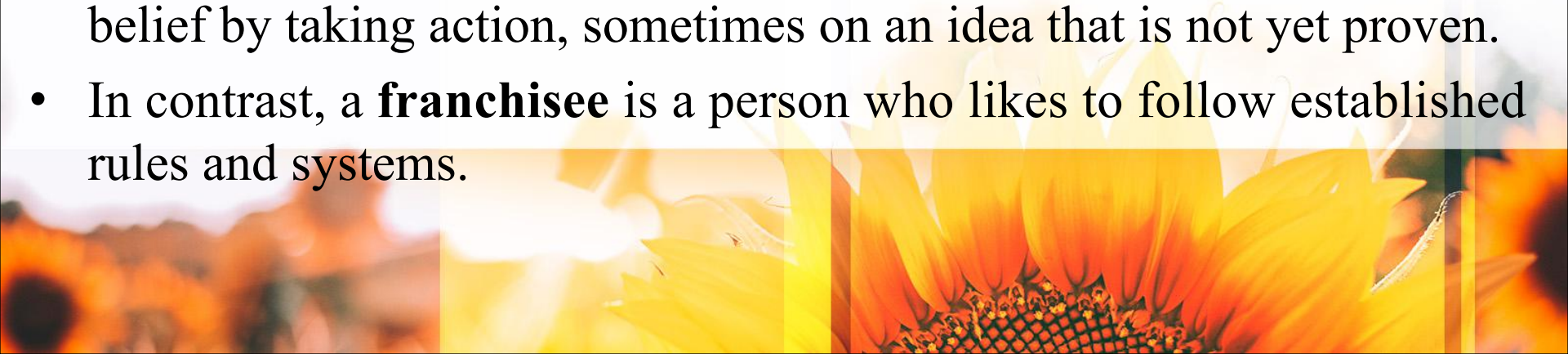


# Franchising

- Essentially, **franchising** is a plan of distribution under which an individually-owned business is operated as part of a large chain.
- **Franchising** is a system used by a company (the **franchisor**) which gives the individual dealer (you, the **franchisee**) the right to market the franchisor's product or service by using the franchisor's trade name, trade marks, reputation, and way of doing business.
- A **franchisor** is the party granting the right, and the **franchisee** is the party buying the right



- The **Franchisee** and **franchisor** are the two key players in a franchised system but they play two very different, yet interdependent, roles.
- The **Franchisor** is the provider of the Franchise System and the Franchisee is the purchaser of the franchise business.
- In broad terms, the **franchisor** is an entrepreneur, an “ideas” person who has vision and belief, and who is prepared to back up their belief by taking action, sometimes on an idea that is not yet proven.
- In contrast, a **franchisee** is a person who likes to follow established rules and systems.



# **The Advantages For The Franchisor**

- A business owner can take advantage of franchising their business in terms of achieving a rapid expansion and low-risk financial gains, as well as from a management perspective.
- 1. Fast expansion to different locations**
  - 2. Business growth with a minimum risk**
    - The responsibility of any potential failure lies more or less on the shoulders of the individual franchise owner.
  - 3. Elimination of employee-related issues**
    - The franchisees are independent business owners who are your partners in a way.
    - They employ their own managers and staff, so you will not need to worry about hiring and dealing with new employees.



## **4. Delegation of management**

- In relation to the above benefit, you will enjoy more free time to focus on other important business development issues

## **5. In the know of the market situation**

- You will be able to anticipate shifts in demand and other consumer related matters through the franchisees' regular reports and feedback.

## **6. Reduced liability**

- If a customer suffers damages due to the negligence of the franchisee, this usually does not affect legally the franchisor (although, their reputation will certainly suffer).





# Disadvantages For The Franchisor

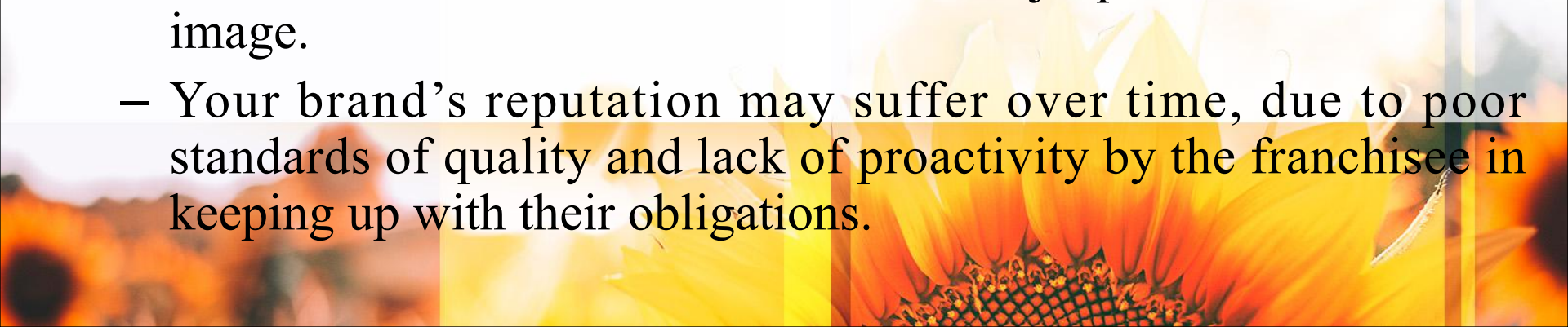
- **Initial investment**
  - All types of business planning, related to the outset of the franchise will need financial backing.
- **Decreased profits**
  - You will have to share profits with the franchisees.
  - The franchisor receives only a small percentage of the enterprise's revenue in the form of a royalty fee.
  - **Royalty fee** is ongoing fee that the franchisee pays to the franchisor. This fee is usually paid monthly or quarterly and is typically calculated as a percentage of gross sale
- **Shared know-how**
  - The secret of your business operations, the know-how, will be out in the open.
  - This carries the future risk of third parties gaining access to your successful business model processes and use them for their own profit

- **Less control**

- The advantage of delegating certain managerial responsibilities to your franchisees will naturally result in you having less control over key business operational processes.

- **Damaged reputation**

- Having less control over how each franchise business is run and managed means that there's a risk of having to deal with difficult franchisees who cut corners and jeopardies the business image.
- Your brand's reputation may suffer over time, due to poor standards of quality and lack of proactivity by the franchisee in keeping up with their obligations.



# The advantages and disadvantages of buying a franchise

- So, let's explore the advantages and the disadvantages of franchising for the franchisee.

## The Advantages of Franchising

- It is appealing to become your own boss and run a business under a popular brand, right? Here's why:
  1. You don't need previous business experience
  2. You buy into a proven and successful business model
  3. Financing your franchise is often much easier than starting up a small business
  4. Franchises have less chance of failing than start-up businesses
  5. You instantly become recognizable via the brand name
  6. You are provided with ongoing support

# The Drawbacks of Franchising

## 1. You need to secure the initial investment

- It is your obligation to find the financial resources to buy into a franchise business.

## 2. You are expected to comply with the established business standards

- You enter into a legal agreement with the franchisor, which describes your responsibilities and obligations.
- You'll be expected to run your business by following certain rules and standards.
- This means that you can't independently make any important business decisions without consulting the franchisor, first.

## 3. Beware of other franchisees' misconduct

- Unfortunately, franchisees from the same network may put less effort and show less care when running their business.
- This means that if the brand's name suffers, the damaged reputation of the business will affect everyone involved.



# **Chapter-4:**

## **Legal Forms Of Business Organizations**

- **Sole proprietorship**
- **Partnership**
- **Corporation**
- **Cooperatives**
- **Factors affecting the choice of form of business ownership**





# Introduction

- Brown and Dow (1997) define **Business** as all of the activities of an individual or group of individuals in producing and distributing goods and services to customers.
- Business wants to know the needs, wants, goals, values etc. of prospective and potential consumer before they can sell their goods to them.
- Business therefore is involved in the production of goods and services, undertake organizing, managing, and marketing.
- The resources used by the businesses include human, material and financial resources.

# Forms of Business Ownership

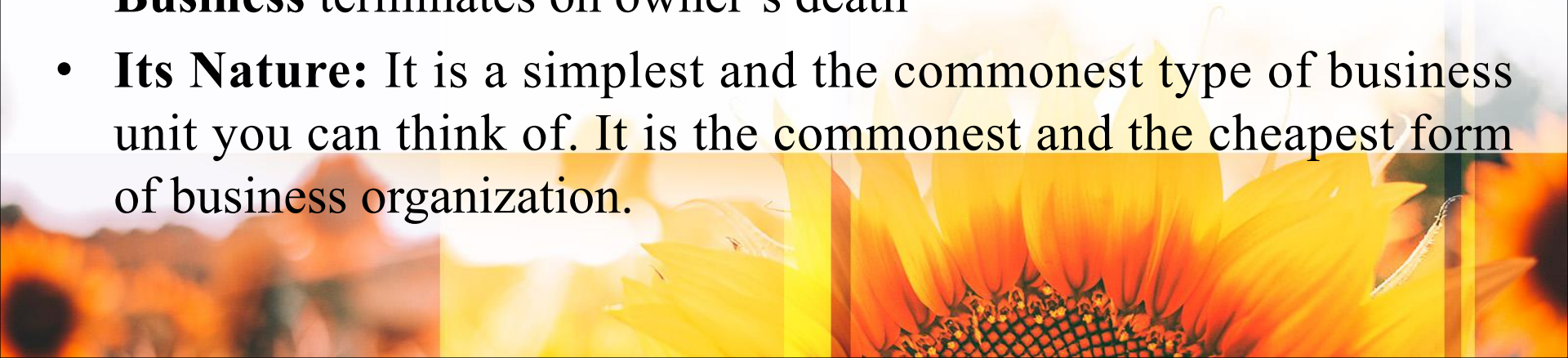
- All business ownership whether individuals or group of individuals or corporation are all referred to as entrepreneurs.
- These forms of business ownership listed will be discussed separately
- **Based on their form:** business organizations are classified as follows,
  1. **Sole proprietorship:** A sole trader is a form of business enterprise in which one man owns and manages the business (Denedo, 2004:2).
    - ☐ These firms are owned by one person,
    - ☐ usually the individual who has day-to-day responsibility for running the business.
    - ☐ Sole proprietors own all the assets of the business and the profits generated by it.
    - ☐ They also assume "complete personal" responsibility for all of its liabilities or debts.
    - ☐ In the eyes of the law, you are one in the same with the business.

# Features of a Sole Trader

- **Ownership:** A sole trader as the name implies is own by one person.
- **Liability:** Unlimited personal liability for all debts and liabilities of business
- **Sources of Capital or Finance:** The capital outlay is provided by the owner. This source of fund could be through: Personal saving, Credit, Borrowing from relatives and Banks etc.
- **Legal Entity:** It is not a legal entity. By law the business and the owner are regarded as one person. They are not different, unlike corporate business; a company is a legal entity, different from the owners.
- **Motive:** It is believe, that a sole trader is into business to make profit.

## Cont.....

- **Method of Withdrawing Capital:** The owner can withdraw his capital anytime from the business without consulting with anybody.
- **No Board of Director:** Because he is the owner, no board of directors that is why he does what is in (vi).
- **Business** terminates on owner's death
- **Its Nature:** It is a simplest and the commonest type of business unit you can think of. It is the commonest and the cheapest form of business organization.





# Advantages of a Sole Trader

- Sole trader is the earliest form of business ownership.
- The advantages are as stated below:
  - **It requires small capital.** Can be established quickly and easily with small cash
  - **Easy to establish:** This is because it requires no formalities and legal processes attached to establishing the business
  - **Ownership of all profit:** The sole trader does not share profit of the business with any one.
  - **Quick decision-making:** The sole trader can take quick decisions since he has no parties to consult or a boss whose permission he must get.
  - **Easy to withdraw his assets:** Proprietorship can be liquidated as easily as it is begun.



## Cont.....

- **It is flexible:** The owner can combine two or more types of occupation as a result of the flexibility of his business e.g. a barber can also be selling mineral and musical records.
- **Personal Satisfaction:** There is a great joy in knowing that a person is his own master.
- **Cordial Relationship**, with workers and customers: Because the sole trader is usually small, the owner can have a very close relationship with his workers
- **Tax saving:** Unlike in companies the profits of the sole trader are not taxed, the owner only pays his income tax.

# Disadvantages of a Sole Trader


- **Bear All Losses and Risks Alone** - the owner of one-man business does not share these risks and losses with any body as it does not share the profits of the business with any body.
- **Limited Financial Resources** - His inability to raise more capital limits its plan of expansion.
- **Unlimited Liability** - Unlimited liability means that in the event of failure of the business, the personal assets of a person can be claimed to pay debts of the business.
- **Lack of Continuity** - When the sole proprietors retires or dies, the business may end like that.
- **Absence of Specialization** - As stated earlier the sole proprietor does so many things by himself. As a result of this, he may not handle aspects of the work efficiently. This negatively affects the prospects of the business.
- **Limitation on Expansion** - Because of limited capital, the sole proprietor may not be able to increase the size of his business no matter how ingénue he is.

## 2. Partnership:

- ✓ Denedo (2004) says **partnership** is an association of two to twenty persons carrying on a business in common with the view of making profit.
  - ❖ The partners contribute both funds and efforts to set up and manage the business sharing profit (or loss) on an agreed basis.



# Features of Partnership

- **Ownership:** It is formed by between 2-20 people and between 2-10 people in case of banks.
  - **Capital:** The initial capital is contributed by partners.
  - **Liability:** Their liability is unlimited except for limited partner.
  - **Formation motives:** They are formed for profit reasons.
  - **Sources of capital:** contribution from the partners ploughing back profit, loans from banks.
  - **Method of withdrawing capital** must be approved by other partners as laid down in their partnership deed.
  - It has **no separate legal entity**.
  - It has **no board of directors**.
- 



# Types of Partnership

- Principally two types of partnership namely; ordinary and limited partnership.
- 1. **Ordinary Partnership** - All members or partner take active part in the management of the business and are generally liable to any loss or risk.
  - ✚ All partners have equal responsibility and
  - ✚ Bear all the risks of the business equally.
  - ✚ All the partners have equal powers, unlimited liabilities,
  - ✚ Take active part and profits are shared equally.
- 2. **Limited Partnership** - Any members in this category, his debts are restricted to the amount of money contributed in running the business.
  - Not all partners take equal part in the management of their business.
  - But there must be a member who bears the risk and also takes active part in the business activities.
  - In other words, in limited partnership, there is at least one ordinary partner who has unlimited liability.



# Sources of Funds for Partnership

- The following method could be used by partner to fund their business.
  - I. Contribution from members
  - II. Ploughing back profits
    - ✓ Is management policy under which all profit are not distributed among the shareholders but a part of the profit is ploughed back or retained in the company
  - III. Borrowing from the bank



# Advantages of Partnership

- The following, are the advantages of partnership:

**I. Greater Financial Resources:** Unlike a one-man, business between two and twenty persons forms the partnership.

- It translates into more capital for such business compare to the one-man business.

**II. Combined Abilities and Skills:** In partnership, there are various partners, with various ideas, i.e. accountants, marketers, bankers, historians, managers etc.

**III. Greater Continuity:**

- Relative to the sole proprietorship, the partnership has a very great tendency of continuity even in death.

**IV. Ease of Formation:**

- Like-one-man business, the partnership is fairly easy to organize as there are few governmental regulations, governing the formation of partnerships

**v. Joint and Better Decision:**

- ✓ That two good heads are better than one and this is applicable to partnership business where joint and better decisions are taken.

**vi. Creation of Employment Opportunities:**

- The large size partnership is in a vantage position to employ more in their business because of its huge financial resources.


**vii. Tax Advantage:**

- Partnership enjoys tax advantage. Taxes are therefore, levied upon the individual owners rather than upon the firm as it are not recognized as a legal entity.

**VIII. Application of Division of Labour:**

- ❖ This is applicable in its managerial and administrative hierarchy.

# Disadvantages of Partnership

- **Unlimited Liability:** If the business fails in the process, assets will be sold to offset their liabilities.
    - ✓ In a situation where the assets can not pay for the debt, the owners' personal belongings could be sold to offset such debts.
  - **The Business is not a Legal Entity:** Most of the partnership business has no legal backing.
  - **Disagreement and Resignation:** Death of a partner can lead to the death of a business especially the active partner.
  - **Decline in Pride of Ownership:** Since the partnership is owned by at least two people the pride and joy associated with ownership is reduced.
    - ✓ Unlike in sole proprietorship where the owner enjoys great pride in his business.
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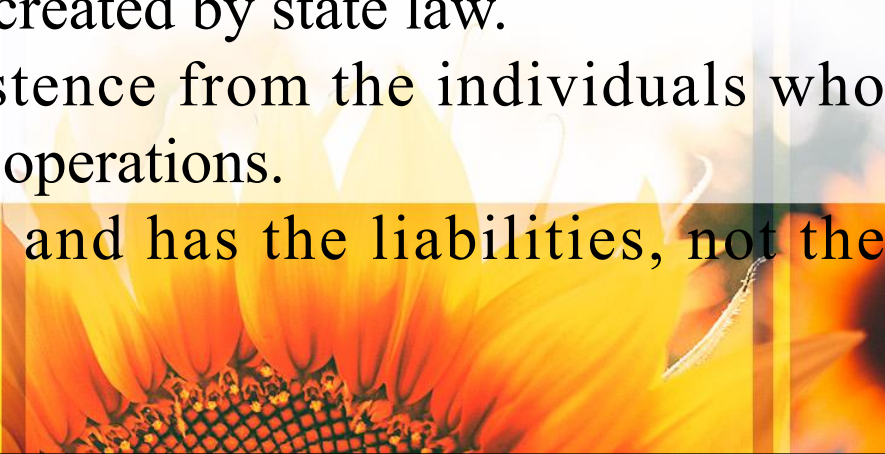
## Cont.....

- **Bureaucracy Leads to Slow Decision and Policy Making:** Meeting that require quorum/required No, may not always be formed.
- **Restriction on Sale of Interest:** There is a difficulty in affecting transfer of ownership.
  - ✓ The interest of operation is not transferable without the consent of other partners.





### 3. Corporation

- A corporation is an independent legal formation owned by a group of shareholders.
  - Due to its distinct legal status, a corporation is awarded several rights and responsibilities, including the ability to borrow and lend funds, hire and fire employees, pay taxes, own assets and enter into contracts.
  - A corporation is its own legal entity (i.e. a pretend person), unlike a sole proprietorship or a partnership created by state law.
  - It has a distinct and separate existence from the individuals who created it, and those who control its operations.
  - The corporation owns the assets and has the liabilities, not the shareholders (or the directors).
- 

# General Characteristics of a Corporation

- **Separate existence.** A corporation through legal fiction has its own legal existence and with that existence come economic rights.
- **Centralized management.** Corporate law provides an organizational structure to operate the business and the capital of many individuals. The basic structure is as follows.
  - Shareholders are the owners of the corporation, directors are elected by the shareholders and are the locus of power.
  - Directors appoint the corporate officers. Directors approve policy and procedures of the operations of the corporation.
  - Corporate officers carry on the day to day activities of the corporation and serve at the pleasure of the board of directors.

## Cont.....

- **Transferability of ownership interest.**
  - This enhances the marketability of the entity and allows for an exit strategy for the owners.
- **Limited liability.** A corporation shields/protects its owners from personal liability for the debt of the corporation.



# Advantage and Disadvantage of Corporation

- The major Advantages of corporations as a form of business are
  - Limited liability of shareholders,
  - Large capital formation,
  - Ease of transfer of ownership,
  - Continuity of existence.
- The Disadvantages of corporations are:
  - Double taxation of profits,
  - Possible conflicts between management and shareholders
  - Government regulations.



## 4. Cooperative

- Cooperative is a word derived from two Latin words meaning – “Working together”. The dictionary meaning of cooperative also implies “working or acting together for a common purpose”.
  - A **cooperative** is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise".
- ❑ Top 3 Major Types of Cooperative Societies
1. Credit Cooperative Societies
  2. Consumers Societies
  3. Producers Societies.





# 1. Credit society

- Credit society was the first type of cooperatives.
- Its objective was to provide credit to the members of the society.
- Credit societies are voluntary and mutual aid associations
- The major function of this type of society is to provide credit on personal security or on the basis of nominal security to its members, who are either cultivators, workmen or lower middle class people.

## 2. Producers Societies:

- A producer's society is organized for the production of goods and services based upon common ownership and management by a group of workers to eliminate the employee-employer relationship.

### 3. Consumers Societies:

- The membership of these societies consists of agricultural workers and the middle class people who organize a consumer store.
- The members of the society earn their independent living and they are not supposed to depend on the consumer society.
- The society only helps them in the better utilization of their income
- And, thus lowering their cost of living, correct weighment, quality goods and reasonable prices are the chief aims of consumer's society.
- These societies were originally started in England where the first store of this kind was launched in 1844.



# The Important Characteristics (or Principles) of a Co-operative Organization

## 1. Voluntary membership:

- This is the first cardinal principle of co-operation.
- A person who has a common interest and is prepared to abide by the rules of the society has the right to join the society as and when he wishes to do so, continue in it as long as he likes, and leave it at his will.

## 2. Open membership:

- Apart from being voluntary in nature, the membership of a cooperative organization is open to all irrespective of race, color, creed, caste, or sex.



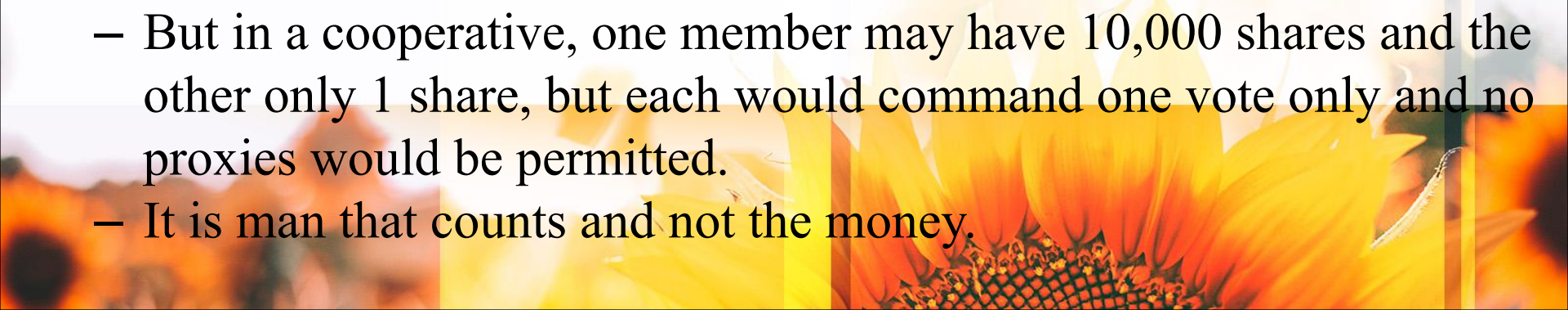
### **3. Finances:**

- The finances of a co- operative society are contributed by members through the purchase of shares.

### **4. Liability of members:**

- Like company organization, a co- operative society may be organized on the basis of either limited or unlimited liability

### **5. Democratic control:**

- Co-operation is democracy in action.
  - ‘One man one vote‘ is the basic element of cooperative democracy
  - But in a cooperative, one member may have 10,000 shares and the other only 1 share, but each would command one vote only and no proxies would be permitted.
  - It is man that counts and not the money.
- 



## **6. Distribution of surplus:**

- Under the provisions of the law, at least 25 percent of the profit must be transferred to the general reserve.
- Likewise, a certain percentage (not exceeding 10) may also be utilized for the general welfare of the local community.

## **7. Service motive:**

- A co-operative society is formed with the basic objective of providing useful service — be it credit, consumption goods, or input resources — to its members and the society.

## **8. Registration and legal status:**

- Being voluntary in character, registration of a co- operative is optional.



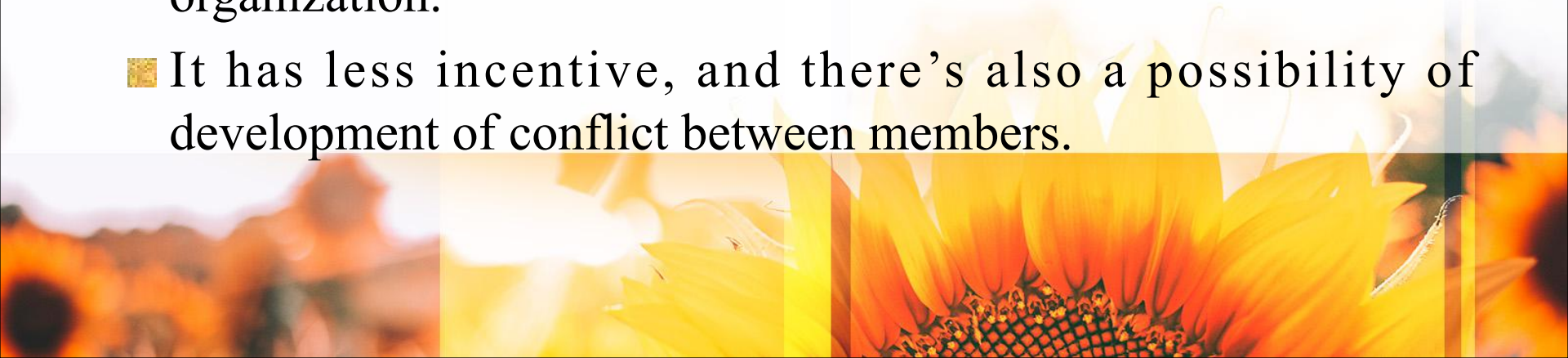


# Advantages: of cooperative

- Easy Formation:
- Limited Liability:
- Perpetual Existence:
- Social Service: The basic philosophy of cooperatives is self-help and mutual help
- Open Membership:
- Tax Advantage :
- State Assistance: Gov't has adopted cooperatives as an effective instrument of socio-economic change
- Democratic Management:

# Disadvantages: of cooperative

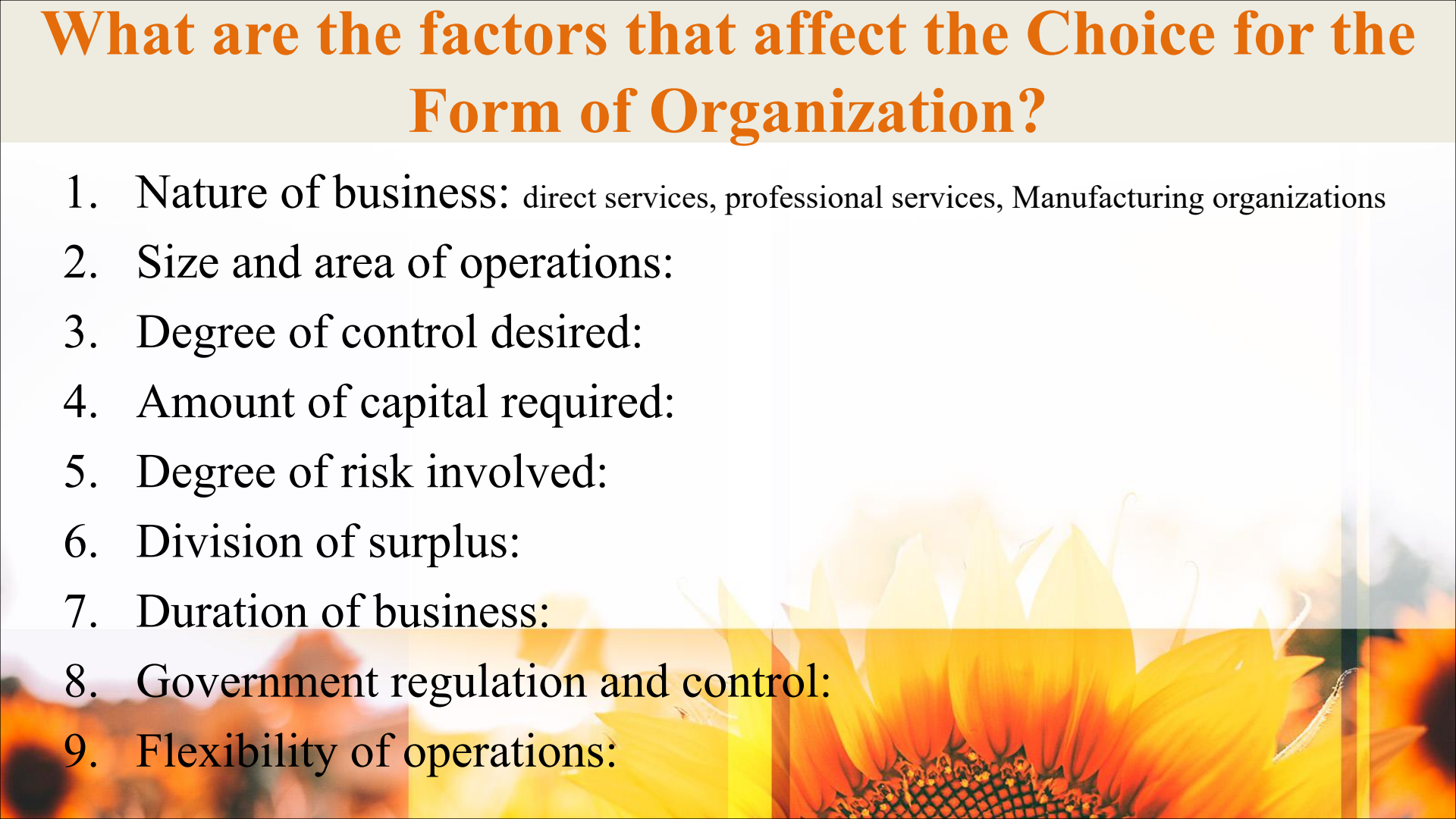
- The important among the disadvantages are:
  - A cooperative organization entails longer decision-making process.
  - It requires members to participate for success.
  - Extensive record keeping is necessary in this form of organization.
  - It has less incentive, and there's also a possibility of development of conflict between members.



# Factors affecting the choice of form of business ownership

- The choice of the most suitable form of business organization is a crucial decision because it affects the **rights** and **liability** of the owners.
- Therefore, the choice should be made with great thought and deliberations.
- Each form of business organization has its own merits and demerits.
- These merits and demerits should be duly considered before selecting the form of organization.
- The factors which affect the choice of the form of business organization are given below:

# What are the factors that affect the Choice for the Form of Organization?

1. Nature of business: direct services, professional services, Manufacturing organizations
  2. Size and area of operations:
  3. Degree of control desired:
  4. Amount of capital required:
  5. Degree of risk involved:
  6. Division of surplus:
  7. Duration of business:
  8. Government regulation and control:
  9. Flexibility of operations:
- 

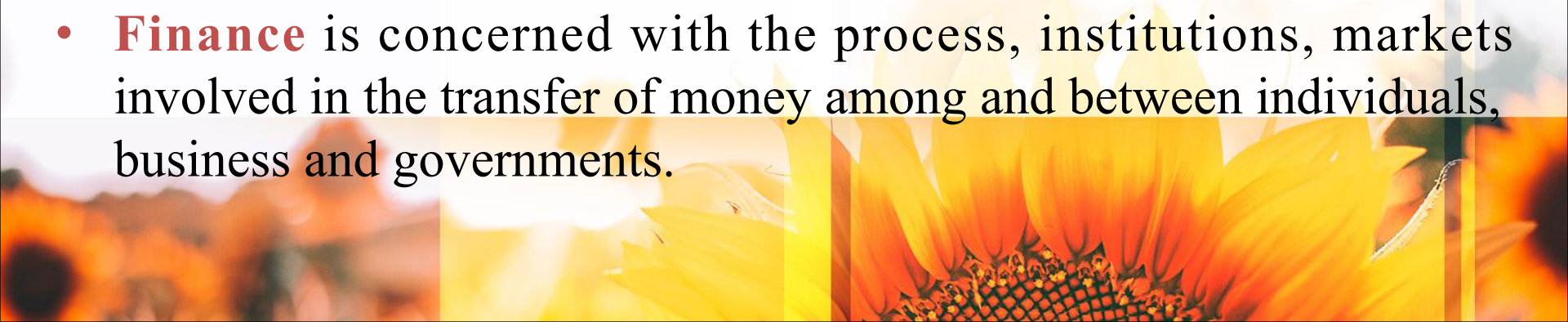
# Chapter 5: Managing a small business





# Financing small business

- What is the difference between finance and financing?
- **Financing** is a complete process or department who works for providing loan or financing aid.
- **Financing** is the act of providing funds for business activities, making purchases or investing.
- **Finance** can be defined as the art and science of managing money.
- **Finance** is concerned with the process, institutions, markets involved in the transfer of money among and between individuals, business and governments.



# The Process of Finance

- Developing a financial plan for entrepreneurial business is done with two objectives. These are
  1. Achieving positive cash flow and
  2. Effectively investing excess cash flow to make the company grow.
- The process of financing entrepreneurial business consists of five basic steps:
- **Step 1:** Estimating month-by-month flow of funds into the business from all the sources, including gains on external investments.
- **Step 2:** Estimating month-by-month flow of funds out of the business, including both operating expenses and capital investments.

# Con't.....

- **Step 3:** Compare inflows and outflows. If cash flow is negative, determine how to make it positive, either by reducing the outflows or increasing the inflows. If cash flow is positive, determine how to invest excess funds most productively.
- **Step 4:** Choose which capital investments should be made for continued growth. Determine the most cost effective combination of inside and outside sources of financing.
- **Step 5:** Establish a system for tracking flow of funds and measuring the return on investment.



# Main types of Financial Resources

- Financial resources are those, which take a monetary form.
  - **Cash** is the most liquid form of resources because it can be used readily to buy other resources.
  - The following are all financial resources, which have a role to play in the entrepreneurial venture.
- I. Cash in hand:** The business has immediate access to this money.
  - II. Overdraft facilities:** Such facilities represent an agreement with a bank to withdraw more than is actually held in the venture's current account.
    - It is a short-term loan, which the business can call upon although overdrafts are normally quite expensive.

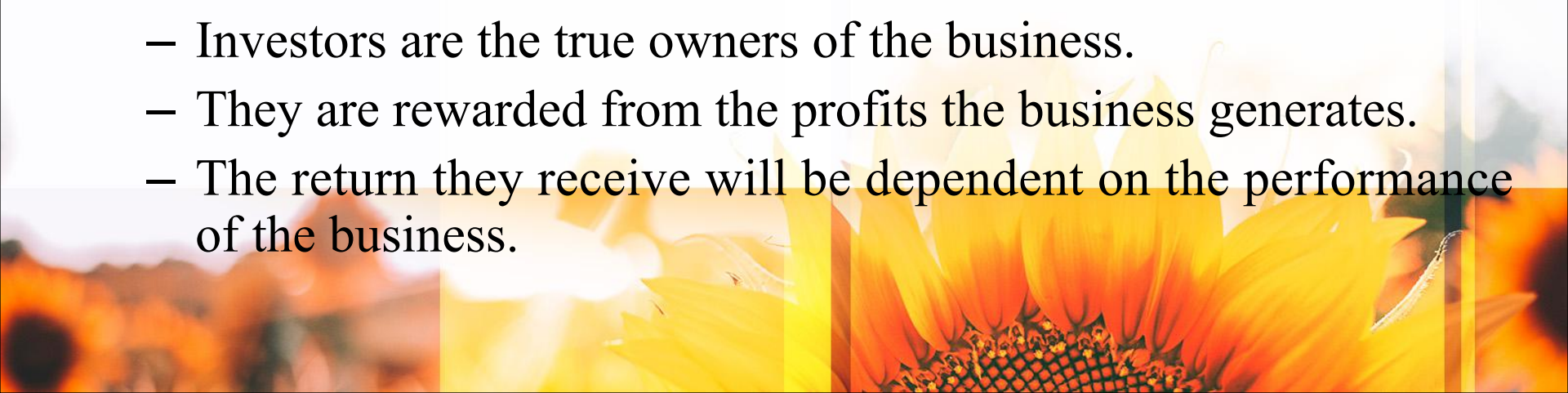


**III. Loans:** They represent money provided by backers, either institutional or private, which the business arranges to pay back in an agreed way over a fixed period at an agreed rate of interest.

- They may be secured against collaterals to reduce the risk of the loan to the backer.

**IV. Investment capital:** This is money provided to the business by investors in return for a part-ownership or share in it.

- Investors are the true owners of the business.
- They are rewarded from the profits the business generates.
- The return they receive will be dependent on the performance of the business.





# Costs of finance

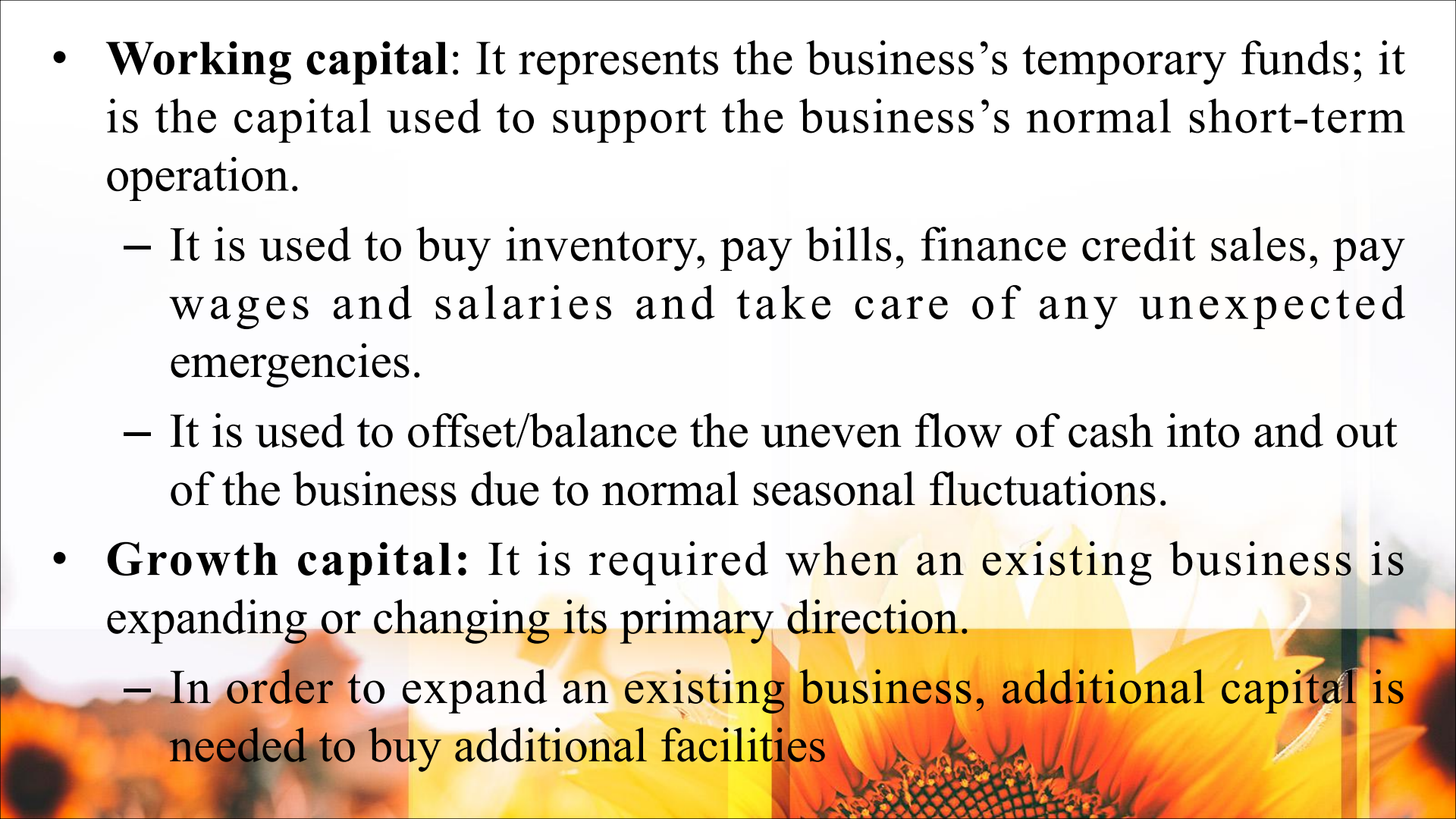
- All financial resources have a cost.
- This cost takes one of two forms.
  1. **Direct cost:** It is the direct charge faced for having an overdraft, the interest on loans etc.
  2. **Opportunity cost:** The potential return lost by not putting the money to some alternative use.



# Capitals of Business enterprises

- **Capital** is any form of wealth employed to produce more wealth for the business enterprise.
- It is commonly categorized into three groups: They are: **fixed** capital, **working** capital and **growth** capital.
- **Fixed capital:** It is needed to purchase the business's permanent or fixed assets such as building equipment, machinery etc.



- **Working capital:** It represents the business's temporary funds; it is the capital used to support the business's normal short-term operation.
    - It is used to buy inventory, pay bills, finance credit sales, pay wages and salaries and take care of any unexpected emergencies.
    - It is used to offset/balance the uneven flow of cash into and out of the business due to normal seasonal fluctuations.
  - **Growth capital:** It is required when an existing business is expanding or changing its primary direction.
    - In order to expand an existing business, additional capital is needed to buy additional facilities
- 

# Sources of finance for entrepreneurial businesses

- *From where can entrepreneurial business obtain the money it needs?*
- The most obvious source would be revenues, or suppliers who may extend credit, or loans from financial institutions, or through stocks/share and bonds.
- Generally speaking, the goal of entrepreneurial business is to obtain money at the least cost and risk,
- whereas the goal of lenders and investors is to receive the highest possible returns on their investments at the least risk.
- There are two major sources of finance for entrepreneurial business. These are **equity financing** and **debt financing**.

# Equity Financing:

- Equity financing represents the personal investment of the owner (owners) in business.
- It typically does not require collateral and offers the investor some form of ownership position in the venture.
- The investor shares in the profits of the venture
- It is sometimes called risk capital because these investors assume the primary risk of losing their funds if the business fails.
- Raising new capital through equity means; giving up some percent of the firm's ownership.

## *The advantages of equity financing include:*

- ✓ It does not have to be repaid as a loan does and
- ✓ It guarantees the investor a voice in the operation of the business and a percentage of any future earnings.



# Some common sources of equity financing

- **Personal Savings:** the main sources of finance to start new businesses, followed by borrowing from friends and relatives. This is money that the entrepreneur saves.
  - As a rule, the entrepreneur should expect to provide at least half of the start-up funds in a form of equity capital
- **Friends and Relatives:** The most important alternative source of finance to own savings is borrowing from friends and relatives.
- **Partners:** Are those who contribute capital together and share profits or losses. There can be general partners and limited partners.
- **Public Stock Sales:** The owner could elect to incorporate and go public by selling stock. This is an effective method of raising needed capital, but it can be an expensive and time consuming process filled with regulatory nightmares.



# Debt Financing

- It involves the funds that the entrepreneur has borrowed and must repay with interest.
- Typically, debt financing requires some assets such as car, house, plant, machine or land which may be used as collateral.

## **Sources of Debt financing:**

- Not all of the sources of debt financing are equally favorable to the entrepreneur.
- Therefore, the entrepreneur should understand the various sources and their characteristics in order to increase the chance of obtaining a loan.

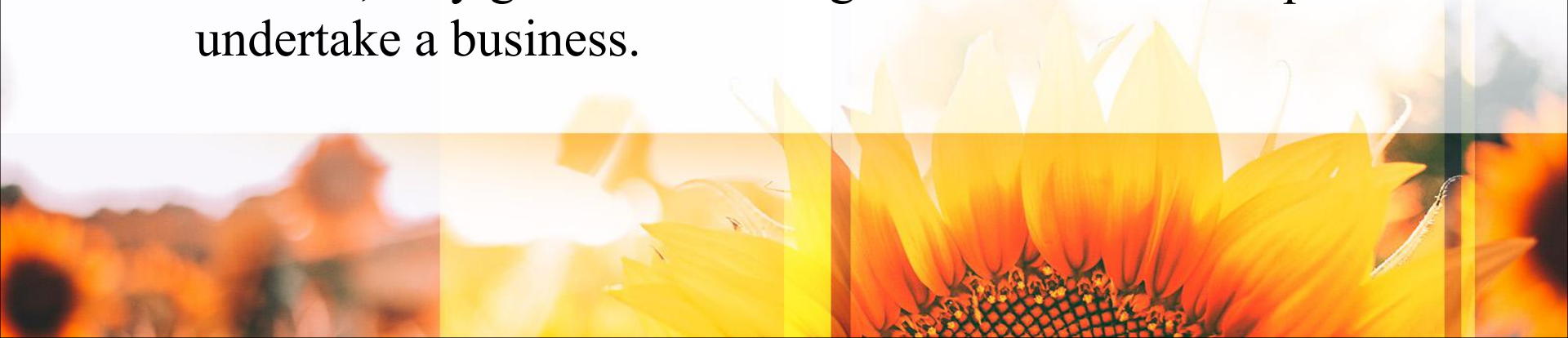


1. **Commercial Banks:** They are the very heart of the financial market, providing the greatest number and variety of loans. They are second only to entrepreneurs as compared to personal savings as a source of capital for launching business.
2. **Commercial Finance Companies:** They are institutions, which finance consumers through companies.
  - They lend to companies so that they can sell on credit to consumers. However, they do not directly finance consumers.
3. **Savings and loan associations:** Are depository institutions established to encourage thrift/saving among the public and create loan able money to small businesspersons.

**4. Stockbrokerage houses:** They do not directly finance money but they mediate the financial institutions, which are ready to lend, and individual businesspersons who need capital for investment with commission.

**5. Insurance companies:** They take the risks associated with doing business.

- Besides, they give a financial guarantee to businesspersons to undertake a business.



# Chapter 6: The Role of Gender in Entrepreneurship



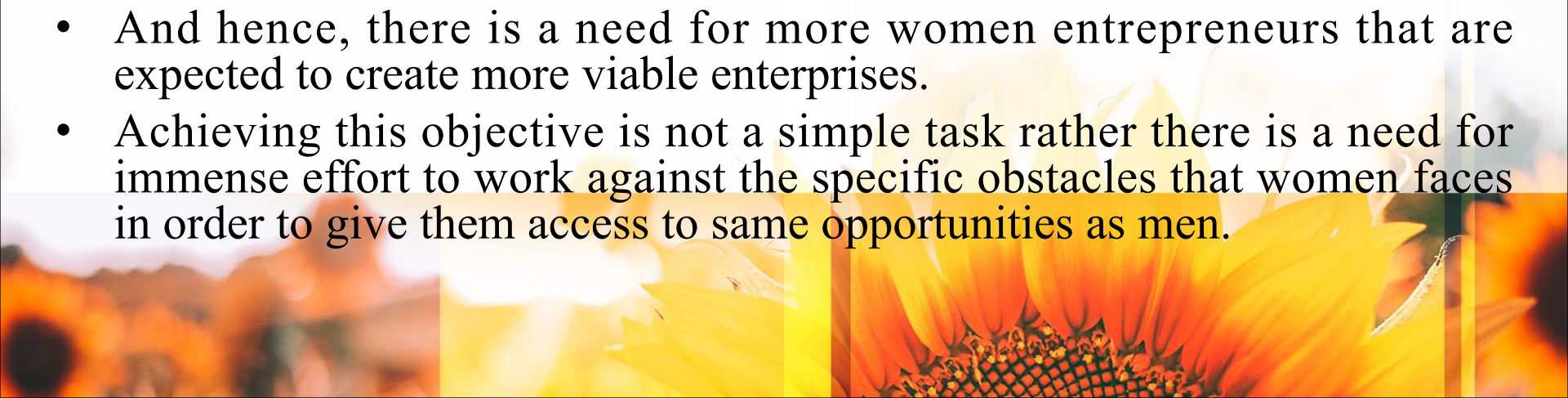


# Introduction

- Women entrepreneurial development is one of the important areas, in which, many countries have been focusing upon as a part of over all human resource development.
- Entrepreneurial development is one of the significant factors for sustainable socio-economic development.
- Especially, development of women is inviting special significance because many Small and Medium Enterprises (SMEs) are well operated through women and though it is less recognized.

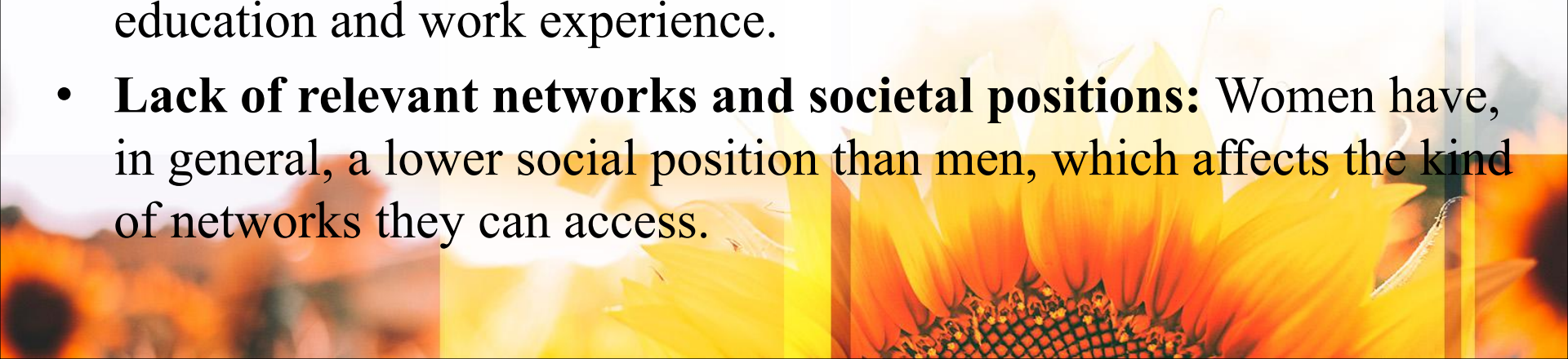


- In order to ensure better support from various levels, it is necessary to identify the motivational factors which influence women to become entrepreneurs.
- Women entrepreneurs play an important role in the entrepreneurial economy, both in their ability to create jobs for themselves as well as for others.
- Despite this, in most countries women still represent a minority of those that start new firms, are self employed or are small business owner managers.
- And hence, there is a need for more women entrepreneurs that are expected to create more viable enterprises.
- Achieving this objective is not a simple task rather there is a need for immense effort to work against the specific obstacles that women faces in order to give them access to same opportunities as men.

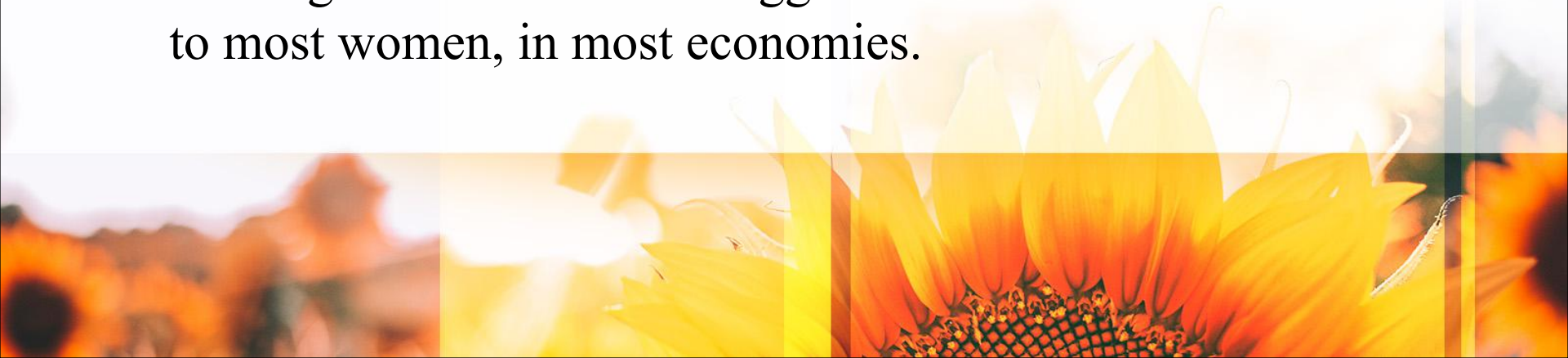


# Barriers on women to become entrepreneurs

- **Lack of appropriated women role models in entrepreneurship:**
  - ✚ Role models are persons that by their attitudes, behaviors and actions establish the desirability and credibility as choice (in this case becoming an *entrepreneur*) for an individual.
- **Lack of previous experience:** The ability to discover and exploit opportunities to create a new business depends largely on previous education and work experience.
- **Lack of relevant networks and societal positions:** Women have, in general, a lower social position than men, which affects the kind of networks they can access.



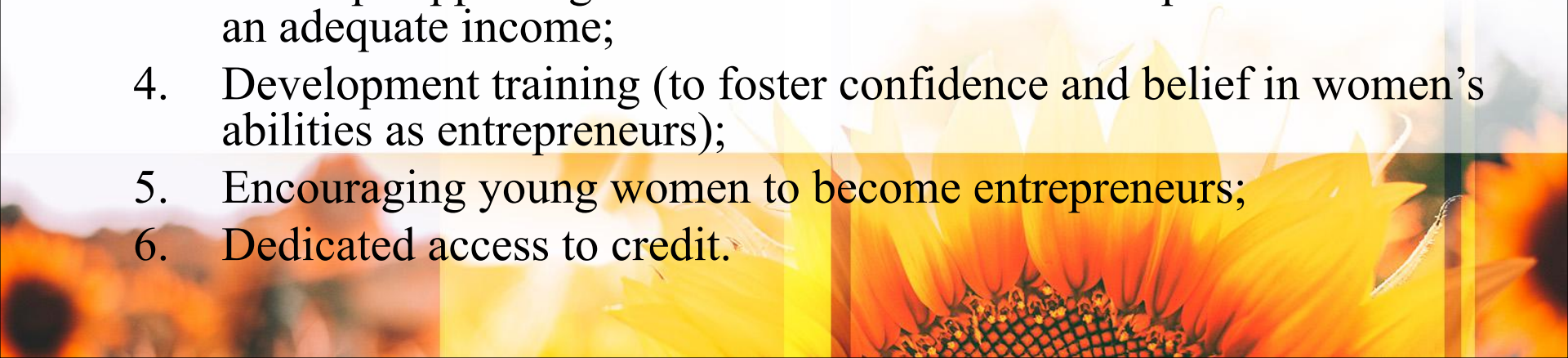
- **Lack of wealth:** Women's position in society has led to a lack of financial assets and relevant knowledge assets.
- **Competing demands on time:** Because of domestic responsibilities, women do not have enough free time to develop either their entrepreneurial skills to become entrepreneurs or to develop an existing business.
  - ❖ Findings of some studies suggest that lack of time is one barrier to most women, in most economies.





# Measures to be Taken to Improve The Role of Women as Entrepreneurs

- Accordingly, to promote entrepreneurship amongst women, the following measures (success factors) are indicated.
  1. Presence of female mentors, trainers and advisers, to provide role models;
  2. Group-based and individual measures, to give women a chance to network;
  3. Start-up supporting measures on sectors that can provide women an adequate income;
  4. Development training (to foster confidence and belief in women's abilities as entrepreneurs);
  5. Encouraging young women to become entrepreneurs;
  6. Dedicated access to credit.





Thank You!!!

