Ethiopian TVET-System

Furniture Making L-II

Based on Sept. 2012G.C. Occupational standard

Module Title: Developing business practice

TTLM Code IND FMK2 M09 TTLM 0919V1

This module includes the following Learning Guides

LG30: Identify business opportunity
LG Code: IND FMK2 M09 0919 LO1-LG-30

LG31: Identify personal business skills
LG Code: IND FMK2 M09 0919 LO2-LG-31

LG32: Plan for establishment of business operation
LG Code: IND FMK2 M09 0919 LO3-LG-32

LG33: Implement establishment plan
LG Code: IND FMK2 M09 0919 LO4-LG-33

LG34: Review implementation process
LG Code: IND FMK2 M09 0919 LO5-LG-34

This learning guide is developed to provide you the necessary information regarding the following **content coverage** and topics:

- 1.1 Business opportunities
  - 1.1.1 Common business opportunities related to wood works
- 1.2 Feasibility Study
- 1.3 Business viability
  - 1.3.1 Market computation
- 1.4 Specialist and Relevant Parties
- 1.5 Current business/market climate and resources available
- 1.6 Impacts of emerging or changing technology
- 1.7 A Business Plan
- 1.8 Returns on investments

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, **upon completion of this Learning Guide, you will be able to**:

- Investigate and identify ***Business opportunities***
- Feasibility study is undertaken to determine likely ***business viability***
- Undertake market research on product or service
- Assistance with feasibility study of ***specialist and relevant parties***
- Evaluate impact of emerging or changing technology including e-commerce, on business operations
- Complete business plan for operation

Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described
3. Read the information written in the information "Sheet 1, Sheet 2, Sheet 3 Sheet 4 Sheet 5 Sheet 6, Sheet 7 and Sheet 8".

1. Accomplish the "Self-check 1-8 questions" **in pages that follow them.4, 7, 12, 15, 19, 22, 35.**

What is a Business Opportunities?

A business opportunity may be defined simply as an attractive investment idea or proposition that provides the possibility of a monetary return for the person taking the risk. Such opportunities are represented by customer requirements and lead to the provision of a product or service which creates or adds value for the buyers or end-users/consumers.

Distinction between ideas and opportunities

- A good idea is not necessarily a good business opportunity. Consider, for example, that over 80% of all new products fail.
- So, what turns an idea into a business opportunity?
- To put it simply in economic terms, Income must exceed Costs to earn a Profit.
- The characteristics of a good business opportunity need to be carefully examined.

Investigating and Identifying Business Opportunities

Seeing, seeking and acting on opportunities is one of the characteristics of successful entrepreneurs. It is also the basis for starting and maintaining successful ventures. It involves not only generating ideas and recognizing opportunities, but also screening and evaluating them to determine the most viable, attractive propositions to be pursued.

Characteristics of a good business opportunity

To be a good business opportunity, it must fulfill, or be capable of meeting, the following criteria:

- **Real demand:** responds to unsatisfied needs or requirements of customers who have the ability to purchase and who are willing to buy
- **Return on investment**, provides acceptable returns or rewards for the risk and effort required
- **Be competitive:** be equal to or better (from the viewpoint of the customer) than other available products or services
- **Meet objectives**: meet the goals and aspirations of the person or organization taking the risk
- **Availability of resources and skills:** the entrepreneur is able to obtain the necessary resources

Business opportunities maybe influenced by:

- expected financial viability
- skills of operator

- amount and types of finance available
- returns expected or required by owners
- likely return on investment
- finance required
- lifestyle issues

Self-Check - 1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is a business opportunities? (3 points)
2. Describe the characteristic of a good business opportunities (4 points)
3. What may influence business opportunities? (3 points)

Note: **Satisfactory rating – above 10 points** **Unsatisfactory – below 10 points**

Answer Sheet

Score = ________

Rating: __________

Name: ____________________________ Date: ________________

Information Sheet - 2	Undertaking Feasibility study and business viability

What is a feasibility study?

A feasibility study looks at the viability of an idea with an emphasis on identifying potential problems and attempts to answer one main question: Will the idea work and should you proceed with it?

In business it is used to support decision making process based on a cost-benefit analysis of the actual business or project viability. It is conducted during the deliberation phase of the business development cycle prior to commencement of a formal business plan.

Feasibility studies address things like where and how the business will operate. They provide in-depth details about the business to determine if and how it can succeed, and serve as a valuable tool for developing a winning business plan.

The information you gather and present in your feasibility study will help you:

- List in detail all the things you need to make the business work;
- Identify logistical and other business-related problems and solutions;
- Develop marketing strategies to convince a bank or investor that your business is worth considering as an investment; and
- Serve as a solid foundation for developing your business plan.

The Main Components of a Feasibility Study

1. Marketing study,
2. Technical study,
3. Organizational and production study
4. Management study,
5. Financial study and

1. Market Feasibility Study describes:

- the industry in which the business operates. Include the size, growth rate, etc.
- demand and supply factors and trends
- target market for the products and clearly state why would customers buy the product
- the level of actual market demand and anticipated future market potential
- direct and indirect competition (as it pertains to the target market only).

- What is unique about the enterprise’s product compared to the competition.
- list all key barriers to entry

Technical Feasibility study describe:

- details how you will deliver a product or service (i.e., materials, labor, transportation, where your business will be located, technology needed, etc.).
- additional or ongoing research and development needs

Organizational and production Feasibility study describes:

- Defines the legal and corporate structure of the business (may also include professional background information about the founders and what skills they can contribute to the business).
- What physical premises are required? Give location, size, condition, and capacity of planned production and warehouse facilities.
- How complex is the manufacturing process? Describe equipment needed and costs.
- Will space be owned or leased? Will renovations be required? At what costs? etc.

Management and personnel Feasibility study describes:

- List the proposed key managers, titles, responsibilities, relevant background, experience, skills, costs
- Sketch personnel requirements: what people will be needed now, in a year, in the long term? What skills and qualifications are required and what financial implication results?

Financial Feasibility study describe:

- projects how much start-up capital is needed and when? What sources will provide the capital?
- balance sheet projections
- income projections
- cash flow projections
- when will the enterprise begin to turn a profit, i.e BEA?
- What is the expected return on investment (ROI)?
- Will the enterprise provide a viable ROI for the entrepreneur (cost benefit analysis)?

Business viability may include:

- opportunities available
- market competition
- timing/ cyclical considerations
- skills available
- resources available

- location and/ or premises available
- risk related to a particular business opportunity, especially
- in regard to Occupational Health and Safety and
- environmental considerations

Self-Check – 2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is a feasibility study? (2 Points)
2. How does the information gathered for feasibility study help the businessman? (3 points)
3. Describe the main components of a feasibility study.(2 points)
4. Describe business viability (3 points)

Note: **Satisfactory rating – above 10 points** **Unsatisfactory - below 10 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________ Date: _______________

Information Sheet – 3	Undertaking Market research

What is a Market?

The market for a business is all the people within a specific geographical area who need a specific product or service and are willing and able to buy it. Every business sells some type of product or service to people. Potential customers can be described as:

1. People who need or want the product or service.
2. People who are able to buy the product or service.
3. People who are willing to buy the product or service

The Five Ws &H of the Market

The "Five Ws &H" (who, what, when, where and why and How) are a framework around which entrepreneurs can gather data about a potential market to better understand and predict buyer behavior..

No.	Questions	Factors	Sources of information required
1	Who are my customers?	• Education • Population • Family structure • Economic • Housing	• Numbers, growth, decline, movements(in & out), age(average, trends), marital status(numbers, trends) • Number of schools(all levels), education levels(average, trends) • Numbers, composition, trends • Individual income levels, ownership(land, homes, autos, capital) • Age, ownership patterns, rental units numbers, trends.
2	What do they want?	Product or Service	• Market surveys (formal) • Informal Observations
3	When do they buy?	Timings	• Daily • At pay day • Special events
4	Where do they buy?	Location	• Open markets • Commercial centers • How to go there(transportation • Suitable site(personal factors • Community interest

5	Why do they buy?	Effective demand	• Purchasing power of population • Purchasing habits and trends • To replace used goods • To get latest technology/mode
6	How do they buy?	Term of buying	• On cash • On credit

Market research

Market research is a research that is carried out to gather necessary information about the marketing environment. The above information (the 5W&H) guides the market researcher what type of information needed to collect. A small market research program, based on a questionnaire given to present customers and/or prospective customers, can disclose problems and areas of dissatisfaction that can be easily remedied, or new products or services that could be offered successfully.

Market research should also identify trends that may affect sales and profitability levels. Population shifts, legal developments and the local economic situation should be monitored to enable early identification of problems and opportunities. Competitor activity also should be monitored; competitors may be entering or leaving the market. For example, it is very useful to know what your competitors' strategies are (i.e. how do they compete?).

Conducting a Market research

You may have an excellent product or service to offer to the public. One key to success or failure in business is determining whether there are enough customers willing to buy your product or service on a regular basis. The price of the product or service must give you an adequate profit margin to allow you to survive, make a profit and further develop the business.

Before committing your resources to the business, you should measure whether there is a sufficiently large unsatisfied market. The following questions need to be answered to determine what your competitors are doing in your proposed area of business.

- Is the market growing at a rate that allows another new business to enter?
- In a declining market, how will you capture business from your competitors?
- How do your products or services differ from those of your competitors?
- Have you identified a market segment that needs servicing?

Steps in Conducting a Market Research

The process of conducting a market research involves the following steps.

1. Define market survey objectives and specify what information is required.
2. Work out details of the market survey, such as:
    - sources for obtaining information,
    - time and cost of conducting the study,
    - methodology to be used in gathering information,
    - development of a plan of action.
3. Select sample samples and decide what contacts and visits should be made.
4. Prepare questionnaires and plan for survey interviews.
5. Collect and analyze data.
6. Prepare a report of findings.

For new entrepreneurs, a major problem in conducting market research is not knowing specific sources and contacts for obtaining information.

Information Sources

The information sources can be divided into:

1. **Primary Data Sources**: information which originates as a result of contacts with those who are directly involved in the relevant activity. For a furniture survey, for example, information obtained from furniture manufacturers or wholesalers would be primary data sources.
2. **Secondary Data Sources:** data which already exists and may be used in the investigation. This information may not have been collected for a specific purpose. It may be obtained from trade/manufacturer's associations or published data.

Self-Check - 3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is a market? (1 point)
2. What should entrepreneurs know about potential customers? (3 points)
3. Where can customer information be obtained? (2 points)
4. What is market research? (2 points)
5. List the steps used to conduct market research.(2 points)

***Note:* Satisfactory rating – 10 points** **Unsatisfactory - below 10 points**

Answer Sheet

Score = ________
Rating: _________

Name: _________________________ Date: _______________

Information Sheet - 4	Seeking Assistance for feasibility study

Feasibility study

As mentioned in content two defined as an analysis of the viability of an idea. The feasibility study focuses on helping answer the essential question of "should we proceed with the proposed project idea?" All activities of the study are directed toward helping answer this question. Seeking answers to questions beyond our capacity is natural. specialists and relevant parties such as:

- Chamber of commerce
- Financial planners and financial institution representatives, business planning specialists and marketing specialists
- accountants
- lawyers and providers of legal advice
- government agencies
- industry/trade associations
- online gateways
- business brokers/business consultants can help us to prepare effective feasibility study in areas of their qualifications when we seek their assistance.

Self-Check - 4	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. explain feasibility study (2 points)
2. list some of the specialists and relevant parties who can assistance the preparation of feasibility study..(3 points)

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________ Date: ______________

Information Sheet - 5	Evaluating Impact of emerging or changing technology

Technology

The words "technology" or "manufacturing technique" mean a sum of patented and unpainted knowledge, know – how, experience and skills needed for the transformation of raw materials into the product.

Nowadays technological innovations are affecting efficiency and effectiveness of business operation. In small businesses, simple technological innovations help to improve product quality and product design, reducing production costs, etc. Entrepreneurs should aware of new technologies by attending trade exhibitions, contacting small business development agencies, and internets as well as neighboring countries to gain ideas regarding technologies which would be appropriate to their local conditions.

As we know, technology is constantly changing the demands of consumers. Firms should realize that new technological developments such as the internet and cell phones increase the exchange of information and may have an effect on the operations of their business. Assessing the impact of emerging technology, including e-commerce, on businesses is very essential for their success and failure. **E-commerce/electronic commerce/** is the activity of buying or selling of products on online services or over the Internet. Modern electronic commerce typically uses the World Wide Web for at least one part of the transaction's life cycle although it may also use other technologies such as e-mail.

Through planning and forecasting, it may be possible to predict some technological changes that might affect sales of current products and the potential for developing new products. Purchasing new technologies, such as a computer, implies a long-term commitment of resources, which most small businesses do not have. Because of day-to-day operational problems, entrepreneurs have little time to do long-range planning, even though new technologies may have a great impact on their businesses in the future.

Smaller firms must develop products and markets where they have a chance to succeed and be competitive. Because of shortage of capital resources, entrepreneurs must be able to react quickly to changes in the market and be concerned with the future needs of their customers.

Characteristics of Appropriate Technologies

When the entrepreneur wants to use new technology he should know how to select appropriate technology. Here are some characteristics that help to select appropriate technology. The technology to be selected should be:

1. **SIMPLE**: it must be simple to operate. The user of such technology must be able to apply it without encountering problems.
2. **EFFECTIVENESS**: is judged by how well it fits in with the objectives of the user.
3. **AVAILABILITY**: Some technology may be appropriate for certain purposes but not available locally. Information technology, for example, may be the most appropriate for certain tasks, but it may not be readily available locally.
4. **FLEXIBILITY**: Appropriate technology must be flexible enough to adapt to changing times in the future.
5. **DURABLE**: Technology that is durable requires less maintenance and repairs.
6. **EFFICIENT**: Technology should be efficient in its utilization of local resources.
7. **COST EFFECTIVE**: The cost of technology should be justified by the benefits achieved. The overall benefits should be greater than the cost of the technology.

Besides, the selection of technology should be based on a detailed consideration and evaluation of technological alternatives and the selection of the most suitable alternative in relation to the project or investment strategy chosen and to socio – economic and ecological condition.

How to evaluate Appropriateness of Technology:

Appropriate technology refers to the methods of production, which are suitable to heal economic, social and cultural conditions. Technology should be evaluated in terms of:

- Whether the technology utilizes local raw materials
- Whether the technology utilized local man power
- Whether the goods and services produced cater the basic needs
- Whether the technology protects ecological balance
- Whether the technology is harmonious with social and cultural conditions

What may be appropriate in industrialized economies with high labour costs may not necessarily be the optimum for low – wage developing countries, with severe constraints on infrastructure and availability of inputs.

Self-Check – 5	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is technology? Define in your own words. (2 Points)
2. How will the new technology affect operation of the business? (3 points)
3. How will competitors react to the new technology? (3 points)
4. What are the characteristics of appropriate technology? (5 points)
5. How do you evaluate the appropriateness of new technology to your business?(2 points)

Note: **Satisfactory rating – above 15 points   Unsatisfactory - below 15 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________   Date: _______________

Assessing Business Opportunities

Ideas and opportunities need to be screened and assessed for viability once they have been identified. This is not an easy task, and yet at the same time, the assessment of business opportunities is extremely important. This assessment can make the difference between success and failure, between making a fortune and losing everything. While the assessment exercise does not guarantee success, it certainly helps in minimizing the risks and reduces the odds for failure. Identifying and assessing business opportunities involves, in essence, determining risks and rewards/returns reflecting the following factors discussed below.

Assessing Business Opportunities

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Identifying and assessing business opportunities involves determining risks and rewards/returns reflecting the following factors discussed below.

Industry and market

The key question to be answered is whether there is a market for the idea. A market in this context consists of customers – potential or actual – who have needs and wants, and who have the ability to purchase your intended product or service. There is also a need to consider whether what the customer wants can be provided at the right price, in the right place, and in a timely manner.

Another important consideration is the size of the market, number of competitors and the growth rate of the market. The ideal situation is a market that is large and growing, where getting even a small market share can represent a significant and increasing volume of sales.

For this assessment exercise, the entrepreneur needs to gather information. There are several sources of published information (also called secondary information), including libraries, chambers of commerce, investment promotion centers, government ministries, universities, foreign embassies, the Internet, newspapers, and so on.

In addition to the above, there is often the need to collect information at the source (also called primary research) by interviewing key people, such as customers and suppliers. In that case, you will need to conduct survey research.

Length of the ‘window of opportunity'

Opportunities are said to have a ‘window of opportunity.’ That is, they do exist, but they do not remain open forever. Markets grow at different rates over time, and as a market gets bigger and more well-established, conditions for success are not as favorable. Timing is therefore important. The issue then is to determine the length of time the window will be open, and whether the opportunity can be created or seized before the window closes.

Personal goals and competencies of the entrepreneur

An important question for anyone venturing into business is whether they want to undertake that particular venture. Personal motivation is an essential attribute of a successful entrepreneur.

A related question is whether the potential entrepreneur has the necessary competencies (including the knowledge, skills and abilities) for the requirements of the business. Many small business owners/managers have entered into business based on the strengths of their own skills and ability.

When the above aspects are combined, the issue then becomes one of whether there is a good fit between the requirements of the business and what the entrepreneur wants or desires. This is important, not only for success, but also for the entrepreneur’s happiness. As the saying goes, “Success is getting what you want; happiness is wanting what you get.”

Management team

In many ventures, particularly those involving a large amount of capital, high risk, sophisticated markets and high competition, the management team is usually the most important dimension in determining the success of a business. The experience and skills that the team possess in relation to the same or a similar industry often determine success or failure of a new business. This explains why venture capitalists, or those people who provide finance for businesses, put so much emphasis on the management factor. Investors often say that they would rather have good management with an average idea/product/service than a brilliant idea/product/service with bad management.

Competition

To be attractive, an opportunity must have a unique competitive advantage. For example, a business may have a competitive advantage by lowering costs in terms of production and marketing. Or better, a business may offer better quality. In addition, the availability of entry barriers – which could take the form of high amounts of capital required, protection such as patents or regulatory requirements, contractual advantage such as exclusive rights to a market or with a supplier – can make the crucial difference between a 'go' and a 'no go' investment decision.

Capital, Technology and Other Resource requirements

The availability and access to capital, technology and other resources such as skills determine the extent to which certain opportunities can be pursued. As a general rule, the more difficult the resource requirements are to obtain, the more attractive the proposition, provided of course that there is a market for the idea/product/ service. To give an example, while marketing a breakthrough product based on a patented technology is no guarantee of success, it certainly creates a formidable competitive advantage.

Business environment

The environment within which the business will operate has a great influence on the attractiveness of any opportunity. By business environment, we are referring not only to the physical environment, which is important and increasingly so, but also the political, economic, geographical, legal and regulatory contexts. Political instability, for example, renders business opportunities unattractive in many countries, especially for those ventures requiring high investment with a long payback period. Similarly, inflation and exchange rate fluctuations, or a weak judiciary system, are not a good environment to start a business, even if the potential returns are high. The lack of infrastructure and services (such as roads, electricity, water supply, telecommunications, transportation, and even schools and hospitals) also affect the attractiveness of an opportunity in a given environment.

Business Plan

The process of examining the factors discussed above is often the initial step in developing a business plan. Investors and lenders may require these issues to be considered and set out in the form of a business plan.

Self-Check - 6	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Discuss the factors used to Identify and assess business opportunities (3 points)
2. Explain the following saying in your own words “Success is getting what you want; happiness is wanting what you get.” (2 points)

***Note:* Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ________

Rating: _________

Name: ___________________________ Date: ________________

Short Answer Questions

Distinguish the factors that involved in assessing business opportunities. Put a tick (√) mark or (X) behind each factor

A good business opportunity should take into account:

_____ Industry and market, real demand for a product or service

_____ Length of the ‘window of opportunity’

_____ Personal goals and competencies of the entrepreneur

_____ Management team (human resources)

_____ Competition

_____ Capital, technology and other resource requirements

_____ Business environment (political, economic, legal, government regulations etc.)

Information Sheet - 7	Completing Business plan for operation

The Structure of a Business Plan

When developing any business plan it is necessary to be convinced that planning is a key aspect in the business development process. Planning assists businessmen or women to articulate both their long-term and short-term goals for the proposed new business.

Specifically a business plan does the following:

- Increases the probabilities of business success.
- Clearly defines the activities for the successful operation of the business.
- Identifies all the resources available to the business and how they will be combined to obtain maximum benefits.
- Identifies standards of performance for each segment of business operations which can be compared with actual performances. This serves as a control mechanism to keep the business operations on course.

Personal background: The first item in a plan should be a written description of the applicant's personal background, including name, address, e-mail, phone number, education, family status, sex, age and physical status.

Business experience: The entrepreneur's ability to produce the product and capture the market needs to be stated. With this in mind, personal background motivations and experience are in the end most important criteria for judging the viability of a business.

Business structure and description: For a business in the formative phase a statement of the adequacy of its ownership, legal form and capitalization structure and a description of the production process are necessary.

The market competition: In this section the following should be provided: the size of the market, its growth potential and the estimated share of the business in the market; current and potential new competition; opportunities for expanding to other locations.

Production or selling process for products or services: Providing detailed technical specifications may be unnecessary. A description of the products and/or services of the business should provide a reasonable idea of what the company sells. The most important item in this section is a description of why the applicant's product or service is better than that of its competitors.

Financial status: The capital required to start the business needs to be indicated, together with assets and liabilities, showing the proportion contributed by the owner. Anyone starting a business must have some amount of cash equity. The higher the proportion of personal cash and assets committed to the business, the less likely the borrower will be ready and willing to give up the task. If you have to borrow money or get credit from a financing source, there are three types of documents that could substantiate your financial status or reputation: a personal bank statement and banker's reference letter, personal tax returns and business reference letters.

A personal statement of financial status lists all personal assets at their current market value and obligations owed to family and non-family creditors.

Tax returns for previous years may not be available, but if you have them they can be used to show how much income you have been earning.

Reference letters from professionals, suppliers, practicing business entrepreneurs, etc. are used by a potential entrepreneur as proof of good reputation and reliability.

The financial part of the plan describes how the loan will be used in the business and how it will be repaid. It also becomes a commitment that the business will be operated with a view to attaining certain results. Lastly, it serves as a documented promise to repay the loan on schedule.

Lay out of a Business Plan

1) Cover page
2) Table of contents
3) Executive summary
4) Information about the owner or promoter of the business
5) Description of the business idea and market
6) Marketing plan
7) Legal form
8) Start-up capital and resources
9) Organization and staff
10) Business operation and costs
11) Financial plan
12) Appendices

Self-Check – 7	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

Business Plan Questions

1. What is a business plan?
2. Why write a business plan?
3. When is a business plan written?
4. Which are the types of business plans?
5. Who writes the business plan?
6. How is a business plan written?
7. What is done with a business plan?
8. What does a business plan look like?
9. What is contained in a business plan?

***Note:* Satisfactory rating - 5 points Unsatisfactory - below 5 points**

Answer Sheet

Score = ________
Rating: _________

Answers for Business Plan Questions

1) **What Is a Business Plan?**
   A. A document which spells out the goals and objective of a business and clearly outlines how and when they will be achieved.
   B. A structured guideline to achieve a business goal.
   C. A road map to owning and operating a business.
   D. A proposal that describes a business opportunity for financing agencies or investors.
   E. A detailed action program outlining every conceivable aspect of the proposed business venture.

2) **Why Write a Business Plan?**
   A business plan is written to assist in:
   - Keeping you focused on your goals and strategies
   - Obtaining financing from outside sources
   - Guiding the opening of a business
   - Guiding the managing of a business
   - Communicating clearly with interested parties
   - Showing your business has chances of success
   - Showing you have the ability to manage the business

- Showing there is a good market for your product or service
- Comparing how the actual business performance differs from the forecasted performance

3) When Is a Business Plan Written?

- When thinking of going into business
- Before starting the business
- When updating the business is required
- When new information is obtained
- When new experiences are gained

4) Which Are the Types of Business Plans?

- For retail businesses
- For wholesale businesses
- For service businesses
- For manufacturing businesses
- For any other type of business
- For the financier
- For the owner/manager

5) Who Writes the Business Plan?

- Each prospective business owner/manager writes a business plan for the business he/she wants to start
- An advice/support agency, or a professional figure such as an accountant, may assist in writing certain areas of the business plan for it to look professional
- A computer program providing a model that can be modified to suit your business can also be utilized. The internet can also provide examples

6) How Is a Business Plan Written?

- By identifying all the questions that might be asked relating to the business
- By determining what further information needs to be gathered to answer all the questions
- By obtaining all the necessary information
- By comparing various alternatives
- By making a decision on each question

7) What Is Done With a Business Plan?

- The owner refers to it often to see whether actions and plans are consistent
- He/she takes it to the bank when discussing funding
- He/she discusses other sections of it with the relevant interest group

8) What Does a Business Plan Look Like?

- It is typed and put in a nice folder
- The appearance of the business plan is expected to be good
- There should be an index
- There should be a summary
- Each copy should be numbered
- You should sign it to show who is submitting it
- The length of the business plan will depend on the nature of the business

What is Contained in a Business Plan?

- Customers
- Competitors
- Suppliers
- Financiers
- Employees
- Products
- Locations
- Equipment

Executive Summary

Name of business ____

Legal form____
Contact address____
Tel. ______________________E-mail_________________________
Fax._____________________
Type of business

☐ Manufacturer ☐ Service provider ☐ Retailer ☐ Wholesaler

Brief description of the business idea

Products or services____-
____
____
____

Customers / target group

____
____
____
____

Owner(s)

(Name, Address, Qualification, Function in the business, relevant experience)

1.____

2.____

3.____

4.____

Business Idea and Market

Description of the business idea

(e.g. identified needs (market gap), who are the customers, type of products or services to satisfy the needs, how to reach the customers, etc.)

____
____
____
____

MARKETING PLAN

Description of the market

(e.g. geographical area, town, type of customers, size of total market, description of competitors, market share for the new business, etc.)

____
____
____
____

Marketing Plan Product

Detailed description of the product or product range or service

Product/service type

____
____
____

What is special about the product/ the unique characteristics of the product?

____
____
____
____

Specification of the product (e.g. size, color, quality, Packaging etc)

____
____
____
____

After sales service

____
____
____

Marketing Plan Price

How much are customers willing to pay?

- Highest _____
- Average ____
- Lowest _____

How much are competitors' price?

- Highest _____
- Average ____

- Lowest ______

How much is your price?

- Highest ______
- Average _____
- Lowest ______

What are the reasons for setting your price?

____
____
____

Product/service	Type(1)	Type(2)
		Highest ; Average; Lowest
	Highest ; Average; Lowest	Highest ; Average; Lowest
	Highest ; Average; Lowest	Highest ; Average; Lowest
Margin for discount?	No Yes(______ %)	No Yes(____%)

Marketing Plan Place

Location of the business

Description of the planned location for the business

____
____
____
____
____

Reason for choosing this location

____
____
____
____

Reaching the customers by selling to

☐ Individuals ☐ Retailers ☐ Wholesalers ☐ Others

Reason for choosing this way of distribution

____
____
____

Marketing Plan Promotion

Description of the planned actions to inform customers about the opening of the new business (e.g. printed information, brochures, posters, newspaper articles, radio advertisements, opening ceremony, etc. Also make inquiries about the costs for the different types of promotion)

Legal Form

The legal form of the business will be:-

□ Sole proprietorship □ partnership □ limited company □ Corporation

Reason for choosing this legal form

Start-Up Capital

Estimation of start-up capital		Amount
INVESTMENT		
Land		
Building		
Equipment		
Total Investment		

WORKING CAPITAL		
_____ months of staff costs		
_____ months of operational costs		
Total working capital		
TOTAL START-UP CAPITAL		

List fixed assets needed and their cost

No.	Item	Quantity	Amount
1			
2			
3			
4			
5			
Total			

List of raw materials needed

No	Raw materials needed per month	DIMENSION	QUANTITY	UNIT COST	TOTAL COST
1					
2					
3					
4					
Total cost					

Sources of Start-Up Capital

Sources of funding

Type	Source	Conditions (duration/interest)	Amount
Equity capital	☐ Own savings ☐ Partner		
Loan 1	☐ Family ☐ Friends ☐ Money lender		
Loan 2	☐ Credit cooperative ☐ Government scheme ☐ Bank loan		
TOTAL FUNDING			

Information about funding sources

Loan 1

Name and address of creditor or credit institution

____
____
____

Credit agreement ☐ under discussion ☐ finalized

☐ Money available on (date) _________

Loan 2

Name and address of creditor or credit institution

____
____
____

Credit agreement ☐ under discussion ☐ finalized

☐ Money available on (date) _________

Debt Service

Repayment Period	1 Amount	2 Amount	3 Amount	4 Amount	5 Amount	6 Amount
Loan 1						
Installment/principal						
Interest						
Loan 2						
Installment/ principal						
Interest						
Debt service Sum of Installments						

Organization and Staff

Staff costs

Position	Qualifications	Salary Per month	Social security	Total staff cost
1. ___________	____________	__________	_________	______
2. ___________	____________	__________	_________	______
3. ___________	____________	__________	_________	______

4. ___________ ____________ __________ _________ _______
5. ___________ ____________ __________ _________ _______

Organization of business premises

(Sketch of planned shop, office or workshop)

Business Operation and Costs

Monthly Sales Plan

All products, product range or services

Month		1	2	3	4	5	6	7	8	9	10	11	12
Product 1	Price												
	Quantity												
	Turnover												
Product 2	Price												
	Quantity												
	Turnover												
All products	Turnover												

Monthly Operational Cost Plan

Planning is based on the monthly sales plan

Month		1	2	3	4	5	6	7	8	9	10	11	12
Product 1	Quantity												
Materia	All costs												

ls													
Product 2	Quantity												
Materials	All costs												
Materials	Total costs												
+ Staff	Total costs												
+ Others	Total costs												
Operation	Total costs												
+ Capital cost	Interest												
	Depreciation												
=	Grand Total costs												

Cash Flow Plan

Monthly Cash Flow Plan

Month	Pre operation	1	2	3	4	5	6	7	8	9	10	11	12
Cash beginning of the month													
+ Equity													
+ Loans													
+ Sales													
+ Any other													
I: Total cash in													
+ Investment													
+ Operational cost													
+ Interest													
+ Any other													
II: Total cash out													
I – II													

Cash at the end of the month													

Profit Margin

Monthly Estimation of Net Profit

Month		1	2	3	4	5	6	7	8	9	10	11	12
Product 1	Quantity												
	Turnover												
Product 2	Quantity												
	Turnover												
I. Total Sales													
- Operation	Total costs												
II. Total Costs													
I – II Profit (before tax)													
- Income tax	______%												
Net profit (after tax)													

Opening Balance

Opening Balance of My Business (Date)

Assets	Value	Liabilities	Value
Fixed Assets		Equity	
Land		Long-Term Liabilities	
Building		Mortgage	
Equipments		Loans	
Others		Others	
Total Fixed Assets		Total Long-Term Liabilities	
Current Assets		Current Liabilities	
		Accounts payable	
Cash and bank		Taxes payable	
Accounts receivable		Others payable	
Inventory		Total Current Liabilities	
Total Current			
Total Assets		Total Liabilities and Net Worth	

Information Sheet - 8	Return on investment

Return on investment is a ratio between net profit (over a period) and cost of investment (resulting from an investment of some resource at a point in time). A high ROI means the investments gains compare favorably to its cost. As performance measure ROI is used to evaluate the efficiency of an investment or to compare the efficiencies of several different investments.

$$\text{Rate of return} = \frac{\text{Amount received - Amount invested}}{\text{Amount invested}} \times 100$$

Price per unit= Cost per unit + profit (25% of unit cost)

$$\text{Unit cost} = \frac{\text{Total fixed cost + Total variable cost}}{\text{Quantity}}$$

Self-Check - 6	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Explain what is Return on investment (2 points)

Note: **Satisfactory rating – 2 points** **Unsatisfactory - below 2 points**

Answer Sheet

Score = ________

Rating: _________

Name: ___________________________ Date: ________________

Short Answer Questions

Distinguish the factors that involved in assessing business opportunities. Put a tick (√) mark or (X) behind each factor

This learning guide is developed to provide you the necessary information regarding the following **content coverage** and topics:

1. Identifying financial and business skills
2. Assessing and matching ***Personal skills/attributes)***
3. Identifying and assessing ***Business risks***

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, **upon completion of this Learning Guide, you will be able to**:

- Identify and taken Financial and business skills available into account when business opportunities are research.
- Assessed and match ***Personal skills/attributes*** against those perceive as necessary for a particular business opportunity
- Identify and assess ***Business risks*** are according to resources available and personal preferences

Learning Instructions:

4. Read the specific objectives of this Learning Guide.
5. Follow the instructions described below.
6. Read the information written in the information “Sheet 1, Sheet 2, and Sheet 3”.
7. Accomplish the “Self-check 1, Self-check t 2, and Self-check 3” **in page -4, 7, and 4 respectively**.

Information Sheet - 1	Identifying financial and business skills

Developing a small business into a successful enterprise, demands more than passion. Unfortunately, facts speak for themselves. Over half of new businesses fail mainly because the entrepreneur is unable to translate their passion/desire into practical business skills. Success demands more than hard work, resilience, and expertise in your field. In order to succeed, you need to understand and to become proficient in a set of fundamental business skills.

Running a small business requires that you become a jack-of-all-trades. It is important to know early on which skills that you have and those that you will have to learn or delegate to others. When it comes to the skills that you lack, you can learn these skills over a period of time by yourself, you can hire employees who are strong in specific areas, or you can engage the help of a professional business advisor.

Available financial and business skills needs to be carefully identified taking into account business opportunities encountered.

Financial and business skills refer to:

- **Financial management** - Being able to effectively manage your finances is critical. You will need to be able to forecast your cash flow and sales, as well as, monitor your profit and loss. Having sound financial management skills will help you to run your business profitably and protect your financial investment.
- **Marketing, sales and customer service -** It is important to be able to promote your products or services effectively. Providing good customer service and having a marketing strategy in place will help you to generate sales.
- **Communication and negotiation** - You will need to communicate and negotiate with your suppliers, potential investors, customers and employees. Having effective written and verbal communication skills will help you to build good working relationships. Every communication should reflect the image you are trying to project.
- **Leadership** - If you employ people, leadership will be a key skill. You must be able to motivate your staff in order to get the best out of them and improve productivity. Allocate time to mentor and coach your employees.

- **Project management and planning** - Knowing how to effectively manage your resources, including time, money and staff will help you to achieve your goals.

- **Delegation and time management** - Managing your time effectively may mean delegating responsibility to someone else in the business or outsourcing. Identifying who you can delegate tasks to, allows you to concentrate on those tasks that generate revenue.

- **Problem solving -** However much you plan, you will encounter problems in your business. This means you need to be able to make good decisions, sometimes under pressure.

- **Networking** - Building good relationships through networking will help you to grow your business and give you the support you'll need.

Self-Check – 1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Explain financial and business skills.(8 points)
2. Are these skills inherited or acquired through training? (2 points)

Note: **Satisfactory rating - 3 points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ________

Rating: ________

Name: ____________________________ Date: ________________

Personal Entrepreneurial skills or attributes

Starting a business is exciting and will probably be one of the biggest decisions of your life. When entrepreneurs decide to get into business, personal skills/attributes are assessed and matched against those perceived as necessary for a particular business opportunity together with human and physical resources.

Human and physical resources may include:

- software and hardware
- office premises
- communications equipment
- specialist services through outsourcing, contracting and consultancy
- staff
- vehicles

Successful entrepreneurship needs three competencies. These may be defined as:

- a body of knowledge
- a set of skills
- a cluster of traits.

A. Knowledge has been defined as a set or body of information stored, which may be recalled at an appropriate time. Knowledge in the context of business may be manifested by information on, or familiarity with aspects such as:

- a business opportunity
- customers
- production processes
- business management
- sources of assistance
- the market
- competitors
- technical matters

Knowledge of business or entrepreneurship, however, is not enough for success in setting up and operating a business – in the same way as, for example, reading or learning about flying, driving or swimming will not on its own enable you to fly a plane, drive a car or swim in a pool.

B. Skill has been defined as the ability to apply knowledge and can be acquired or developed through practice, e.g. flying, driving or swimming. In the context of business, it is possible to distinguish between skills of a technical and managerial nature. Some examples are listed below:

Technical or specialist skills	**Managerial skills**
• Engineering	• Marketing (including selling)
• Computing	• Financial management
• Carpentry	• Organization
• Mechanics	• Planning
• Catering	• Leadership

Knowledge and **skills** are relatively easy to acquire or develop. However, traits take time to develop and are not easily changed or acquired.

C. Traits have been defined as the aggregate of peculiar qualities or characteristics which constitutes personal individuality. Ina cross-cultural study of India, Malawi and Ecuador, 14 personal entrepreneurial characteristics (PECs) that appear to depict the behaviour of successful entrepreneurs were identified.

14 Personal entrepreneurial characteristics (PECs) are:

1. Takes initiative
2. Is persistent
3. Is concerned for high quality
4. Is oriented to efficiency
5. Solves problems in original ways
6. Takes calculated risks
7. Is persuasive
8. Sees and acts on opportunities
9. Personally seeks information
10. Is committed to fulfilling contracts
11. Plans systematically
12. Demonstrates self-confidence
13. Is assertive
14. Uses influential strategies

Self-Check - 2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

It is more likely than not that a person who does not have all 3 competencies in his/her business will encounter difficulties in operating the venture successfully. What would happen if a person had?

1. Knowledge and skills only? (3 points)
2. Knowledge and traits only? (3 points)
3. Skills and traits only? (3 points)
4. What do human and physical resources include? (2 points)
5. What are the three competencies required by successful entrepreneurs? (2 points)
6. What are the fourteen PECs? List down them. (2 points)

Note: **Satisfactory rating – 16 points** **Unsatisfactory - below 16 points**

Answer Sheet

Score = ________

Rating: _________

Name: _____________________________ Date: _________________

Answers to the above Questions

1. **Knowledge and skills only?**

An individual with only knowledge and skills is unlikely to survive for long, even if he/she manages to start at all. For example, without the traits, he/she might exhibit little persistence when faced with major obstacles; or the person may neither see nor act on opportunities; or he/she might simply be unwilling to take the calculated risk of venturing into business in the first place.

2. **Knowledge and traits only?**

A person with only knowledge and personal traits might find nothing of value to which these might be applied, without technical skills. Or they may find that they are too dependent on outsiders and, therefore, possibly too vulnerable. The solution might be to find a partner or employ people with the requisite skills.

3. Skills and traits only?

A potential entrepreneur with skills and entrepreneurial traits, but lacking in knowledge, might be able to start a business. In a competitive environment, however, the lack of knowledge or familiarity with, for example, customers, or the market (including trends) could lead to failure. Information is essential for any business to succeed.

4. Human and physical resources may include:

- software and hardware
- office premises
- communications equipment
- specialist services through outsourcing, contracting and consultancy
- staff
- vehicles

5. The three competencies required by successful entrepreneurship are:

- a body of knowledge
- a set of skills
- a cluster of traits.

6. **The fourteen Personal Entrepreneurial Characteristics are**

1. Takes initiative
2. Is persistent
3. Is concerned for high quality
4. Is oriented to efficiency
5. Solves problems in original ways
6. Takes calculated risks
7. Is persuasive
8. Sees and acts on opportunities
9. Personally seeks information
10. Is committed to fulfilling contracts
11. Plans systematically
12. Demonstrates self-confidence
13. Is assertive
14. Uses influential strategies

Calculated Risk-Taking

Most entrepreneurs take calculated and moderate risks. Entrepreneurs avoid low-risk situations because there is lack of challenge, but they also avoid high-risk situations because they want to succeed. They set high goals and enjoy the excitement of a challenge, but they do not gamble. Hence, low-risk situations and high-risk situations are avoided because these risks do no satisfy the entrepreneur. In short, the entrepreneur likes a difficult but achievable challenge.

Defining a Risk Situation

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

Risk-takers make decisions in conditions of uncertainty, and they balance potential success against potential loss. Choosing a risky alternative depends on:

a. how attractive the alternative is,
b. the extent to which the risk taker is prepared to accept the potential loss,
c. the relative probabilities of success and failure, and
d. the degree to which one's own efforts increase the likelihood of success and decrease the likelihood of failure.

For example, you have a secure job, earning a good salary, with promotion probably every two years. You may have the opportunity to buy a firm whose future is uncertain, but the owner's earnings are 50% more than you are currently earning as an employee. The firm may continue to be very successful, or it may fail in one or two years. Your choice is between staying in a secure position with moderate, predictable financial and career rewards, or taking a risk and possibly achieving very high financial and career rewards.

Most people would not think of taking such a risk, regardless of the probabilities of success. They would prefer to stay in a secure position. Others are impatient, dissatisfied with their present position, and looking for the "magic pot of gold" to make them rich. These people tend to be influenced by the size of the potential reward offered. They pay little regard to the probability of success, and do not give much thought to the degree of effort required on their part. Attracted by hopes of high returns with little effort, they become gamblers.

Assessing Risk Situations

The entrepreneur's assessment of the situation is very different from that of both the above types of people, although the entrepreneur shares certain characteristics with them. The essential difference is that entrepreneurs will systematically and thoroughly assess the likelihood of the firm's success and the extent to which their efforts could influence this likelihood. They study the market situation, explore profitability in alternative lines of business, products, machinery and processes, finances, and make comparisons before making their final decision. They like to influence the outcome through their own efforts and then having a sense of accomplishment. Planning may be considered an indicator of the calculated risk taking behavior of entrepreneurs. Planning safeguards against possible difficulties that can be anticipated. If entrepreneurs are able to influence whether or not the firm is successful, they would be very likely to purchase the firm as proposed in the above example.

Entrepreneurs are willing to accept personal responsibility for the consequences of their decisions, regardless of whether these consequences are favorable or unfavorable. Other people may find it difficult to accept personal responsibility for decisions which may lead to failure, and they often attribute events in their lives to luck or to forces beyond their control, such as competition or government interference. These people reject risk situations because they believe that they cannot influence the outcome.

Most entrepreneurial traits are interrelated. Risk-taking behavior is related to:

- **Creativity and innovation**, and it is an essential part of turning ideas into reality.
- **Self-confidence:** the more confidence you have in your own abilities, the more able you will be in affecting the outcome of your decisions and the greater your willingness will be to take risks.

Another factor is the entrepreneurial excitement regarding uncertainty, and the drive and enthusiasm to ensure that the consequences are successful.

Types of Risk-Takers

The type of risk-taker you are depends to some degree on the extent to which you are influenced by other people, your past experiences, your present situation and your expectations for the future. Within a business, there is a need to have risk-takers of various types.

At the worker level, you need people who are low risk-takers so that they can do the routine things and bring organizational stability.

At the middle management level, there is more room for risk-taking. A middle manager should have some freedom to be innovative and make minor modifications in procedures and functions. These persons may be considered risk-takers, but their impact on the total organization should be minimal. Entrepreneurs at the top of organizational structures have the capacity to formulate and implement creative ideas. To be successful in business, entrepreneurs must take risks to turn their ideas into reality.

Entrepreneurs are goal-oriented and confident enough of accepting risks to make their ideas work. However, they are also practical enough to realize their limitations and will restrict their activities to “what is possible”.

Highly creative and innovative entrepreneurs are moderately high risk-takers, willing to accept change, try various alternatives and develop innovations for products and services in new areas of business. These highly innovative entrepreneurs are usually business leaders. They have ideas and are able to find the right combinations of people and other resources to implement their ideas.

Authority and Responsibility

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

Delegating authority and responsibility to others involves certain risks. It may have positive or negative effects, and entrepreneurs will have to live with the results. To obtain maximum benefits, employees must have a certain degree of power and freedom to carry out their duties and responsibilities. Entrepreneurs need help from other people; however they probably don’t have time to monitor their work closely.

Risk-taking is especially important in delegating authority and responsibility to staff and allowing others to share power. This is a characteristic of growth-oriented entrepreneurs. The more responsibility that can be delegated successfully, the more time entrepreneurs will have to deal with those activities which have the greatest impact on the organization’s future success.

Implementing Changes

In any activity, entrepreneurs must first determine whether or not a risk is involved. In a risk situation, the entrepreneur's power, position or authority may be challenged. When something is wrong in the business, entrepreneurs should be able to appraise the situation realistically and try to solve the problem. Entrepreneurs must be able to take the necessary corrective action. When a risk situation is apparent, the decision whether to risk or not becomes very important. When entrepreneurs decide to risk, they should follow a definite plan for initiating action. Alternative plans may also be devised in case the first plan does not succeed. These alternatives allow for flexibility in case the conditions of the risk change.

Once a plan of action is devised, it must be activated. It is only when the plan is initiated that entrepreneurs can really know and understand the risks that are involved. At first, little feedback may be received regarding the decision. This lack of feedback may create doubts. It is during the early stages after the decision has been implemented that entrepreneurs must be fully committed to their decision until the problem has been solved. Once they are convinced that a certain course of action will solve the problem, specific actions will help to determine the outcome. Promoting the decision and gaining the support of others will help to make the decision succeed.

Summary

The risk-taking ability of entrepreneurs is enhanced by:

- their willingness to use their abilities to the fullest extent to move the odds in their favor;
- their capacity to assess the risk situation realistically and their ability to alter the odds;
- looking at the risk situation in terms of established goals, and
- Comprehensive planning and proper implementation.

The act of risk-taking is an essential part of being an entrepreneur. Entrepreneurs usually set high goals for themselves, and then use all their abilities and talents to achieve these goals. The higher the goals, the greater the risks involved. Innovation in business, which results in higher quality goods and services, is the result of action by entrepreneurs, who are willing to accept great challenges and take calculated risks.

Procedures for Analyzing a Risk Situation

Although risk-taking is a style of behavior, calculated risk-taking is a skill that can be improved. Here are suggested procedures for analyzing a risk situation.

Procedures for Analyzing Risk Situation

1. Assess the Risk
2. Determine Goals and Objectives
3. Clarify Alternatives
4. Gather Information/Weigh Alternatives
5. Minimize Risks
6. Plan and Implement the Best Alternative

1. Assess the risk

The first step is to establish whether or not a risk is involved. Is there a potential loss involved in choosing one particular alternative? For example, you may be faced with the need for increased production to meet increased demand. Your choices are to:

- stay with the current level of demand;
- purchase more equipment to meet the demand;
- lease more equipment to meet the demand; or
- Sub-contract production to smaller manufacturers.

If the business has a good cash flow, strong cash reserves or good credit facilities, and if demand is certain to grow in the foreseeable future, there is little risk involved in deciding on any of the alternatives, although the first alternative would cause the opportunity for profit growth to be ignored. However, continued demand may not be assured. For example, a product or service may become obsolete because of competitive innovations; more companies may enter the field; or the market may be nearing saturation. Furthermore, the business may not be able to afford investing the amount required without a guaranteed return on it. In this situation, there is clearly a risk involved in deciding whether to expand production. However, there are clearly different degrees of risk and corresponding degrees of potential return (success) for the different alternatives. How can you assess the alternatives?

2. Determine goals and objectives

The next step would be to consider the company's policies and objectives. A company objective might be to achieve slow growth, or steady growth, or no growth, or growth in other product areas.

Is the risk involved consistent with objectives? If it is, the decision-making process continues, and a detailed assessment of the alternatives is undertaken.

3. Clarify the alternatives

Given that some degree of risk-taking (i.e. a decision to expand production) is consistent with the company's objectives, the next step is to survey the various alternatives. These alternatives should be specified in sufficient detail so that the costs involved can be assessed objectively. Most costs will be financial costs, but personal, social and physical costs should be included when appropriate. For example, will an alternative require excessive personal effort? Will failure lead to a loss in social prestige? The financial and other costs for each of the viable alternatives should be specified.

4. Gather information and weigh the alternatives

The next stage is one of intensive information-gathering so that a realistic assessment of the odds can be made for each alternative. Market estimates should be made for demand under various predicted conditions. The likelihood of competitive reactions should be assessed and the effects of these reactions calculated. Various consequences should be followed through to their logical conclusions:

- If demand nears saturation point, can product modification stimulate increased demand in new markets?
- Are new markets available if competitive activity decreases current market share?
- Can the machinery be easily modified to handle other products?
- Are suppliers and subcontractors likely to increase their charges if demand grows?

The likely return to the company for each alternative should be assessed on the basis of market information, forecasts of future demand, assessments of competitive reactions, and various other predictions including the behavior of those involved in the situation, such as finance companies or equipment manufacturers.

5. Minimize risks

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

- a clear awareness of the entrepreneur's abilities and the company's capacities;

- some creativity in determining how the odds may be changed (increased in the entrepreneur's favor);
- the ability to plan strategy and tactics to effect the change; and
- the drive, energy and enthusiasm to implement the strategy.

6. Plan and implement the best alternative

Once an alternative is selected, a plan is then drawn up for its implementation. This would include a timetable, a clear definition of the goal, a set of contingency plans for possible outcomes and a feedback process so that necessary changes can be implemented quickly.

Be a Calculated Risk-Taker

- In business, as in life, there is clearly no way of avoiding risk-taking.
- When you take risks, you discover your own abilities and you will become better able to control your own future. You will become more self-assured.
- You will have a more positive outlook towards risk taking because you will have faith in your own abilities.
- You will accept risks as challenges that require your best efforts to achieve goals.

Business risks may be affected by and may include but are not restricted to

- occupational health and safety and environmental considerations
- relevant legislative requirements
- security of investment
- market competition
- security of premises/ location
- supply and demand
- resources available

Self-Check – 3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

Questions

1. On what situations choosing a risky alternative depends?(3 points)
2. What abilities enhanced entrepreneurs to take risks?(3 points)
3. Explain the procedures used to analyze a risk situation(4 points)

***Note:* Satisfactory rating - 10 points** **Unsatisfactory - below 10 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________ Date: _______________

Answers to the above Questions

Answer for question 1.

- how attractive the alternative is,
- the extent to which the risk taker is prepared to accept the potential loss,
- the relative probabilities of success and failure, and
- the degree to which one's own efforts increase the likelihood of success and decrease the likelihood of failure.

Answer for question 2.

- their willingness to use their abilities to the fullest extent to move the odds in their favor;
- their capacity to assess the risk situation realistically and their ability to alter the odds;
- looking at the risk situation in terms of established goals, and
- comprehensive planning and proper implementation.

Answer for question 3.

1) Assess the Risk
2) Determine Goals and Objectives
3) Clarify Alternatives
4) Gather Information/Weigh Alternatives
5) Minimize Risks
6) Plan and Implement the Best Alternative

Instruction Sheet	LG32: Plan for establishment of business operation

This learning guide is developed to provide you the necessary information regarding the following **content coverage** and topics:

1. Determining and documenting Business structure
2. Developing and documenting Procedures to guide operations
3. Securing Financial backing for business operation
4. Identifying and complying Business legal and regulatory requirements
5. Determining **human and physical resources**
6. Developing and implementing Recruitment strategies

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, **upon completion of this Learning Guide, you will be able to**:

- Business structure and operations are determined and documented
- Procedures are developed and documented to guide operations
- Financial backing is secured for business operation
- Business legal and regulatory requirements are identified and complied
- Human and physical resources required to commence business operation are determined
- Recruitment strategies are developed and implemented

Learning Instructions:

8. Read the specific objectives of this Learning Guide.
9. Follow the instructions described below.
10. Read the information written in the information "Sheet 1, Sheet 2, Sheet 3 Sheet 4 Sheet 5 and Sheet 6".
11. Accomplish the "Self-check 1, Self-check t 2, Self-check 3, Self-check , Self-check 5 and Self-check 6" **in page -7, 10, 15,17,19 and 22** respectively.

Business structure and operations

In order to intelligently select the legal structure of your business, you must be knowledgeable about the alternatives from which you may choose. A business venture can be structured in several ways; however, the law classifies businesses so that most fall into one of four legal forms. They are:

- **Sole Proprietorship**
- **Partnership**
- **Corporation /Private Limited Company/**
- **Cooperative**

Each business structure you are about to examine has its advantages and disadvantages. There is no good or bad structure. The optimum choice depends solely on your personal situation.

i. Number of owners

A. The sole proprietorship has only one owner.

B. A partnership has two or more co-owners.

C. A limited company is an association of stockholders or owners chartered by the government. It has the authority to transact business in same manner as one person.

D. A cooperative is a group of people operating a business through a jointly owned and democratically run organization.

ii. **The legal costs and procedures for starting business**

A. **Sole proprietorship.** The only requirements are to determine (a) if a license is required for the particular business, (b) if a tax or license fee must be paid. Because of the limited restrictions, the sole proprietorship is the easiest business to start and the initial costs are usually low.

B. **Partnership**. The cost of organizing a partnership is usually low. In addition to any necessary license, it is recommended that a partnership agreement, called the Articles of Partnership, be prepared in writing by a competent attorney. The Articles of Partnership should contain at least the following provisions:

- division of profit or loss
- compensation to each partner

- distribution of assets in the event of dissolution
- duration of the partnership
- duties of each partner

C. **Limited company**. It is more difficult to form a limited company than the other two types of business given above, and it is usually more costly. This kind of business is usually in the best position to obtain additional capital. In addition to pledging corporate assets as collateral, a limited company may sell additional stock in the company to raise funds.

D. **Cooperative**. The cost of registering a cooperative is low. A written cooperative agreement is required and must be filed with the appropriate government authorities.

iii. When starting a new business

1) All forms of legal ownership should be discussed with a competent attorney before any decision regarding the form to select is made. The attorney will need to know as much about the business and its owner(s) as possible, including the personal financial position(s) of the owner(s), so that sound recommendation can be made.

iv. Involvement of Liability

1) **Sole proprietorship** - A sole proprietor is personally liable for all the debts of the business. If necessary, this liability includes all of the proprietor's personal property and assets.
2) **Partnership -** Each member of a general partnership is fully liable for all the debts owed by the business regardless of their personal investment in the business, and this liability includes all personal property and assets. Each partner is also responsible and liable for the acts of the other partners with regard to business obligations.
3) **Limited company -** The stockholders, or owners, of a corporation are liable only for the amount corresponding to their investment. While stockholders may lose the money they have invested in the business, they cannot be forced to pay off company debts with additional money from their personal funds.
4) **Cooperative** - Each member of the cooperative is fully liable for the debts of the cooperative.

v. Continuity of the business

1) **Sole proprietorship**. The business is terminated upon the death or incapacity of the owner.

2) **Partnership**. The partnership is terminated upon the death, incapacity or withdrawal of any one of the partners, unless the remaining business partners buy the deceased, incapacitated or withdrawn partner's interest.
3) **Limited company**. This kind of company has a separate and continuous life of its own, and does not dissolve if a stockholder dies or the stock is sold to another person.
4) **Cooperative**. The cooperative has a life of its own.

vi. How does the legal structure affect management of the business

1) **Sole proprietorship.** The sole proprietor may operate the business in any way he or she likes, as long as the law is not broken. When all management decisions are made by one person, it can be a disadvantage.
2) **Partnership.** In a general partnership, each partner typically has an equal role in management with the various duties divided among them. Their combined abilities and knowledge may give the partnership an advantage over the sole proprietorship regarding management. The division of management duties may, however, lead to disagreements.
3) **Limited company**. Legal procedures must be followed strictly according to company law. The officials of the limited company must file a special document, called the Articles of Incorporation, with the government, pay initial taxes and filing fees, and hold official meetings to deal with specific details of operation and organization.
4) **Cooperative.** The management of a cooperative is elected by the members of the cooperative.

vii. Taxations

1) **Sole proprietorship.** Personal income tax must be paid on all business profits.
2) **Partnership**. Personal income tax must be paid by all partners on their individual share of the business profits.
3) **Limited company.** It is taxed twice. First there is tax on the amount of the business profits. Then the owners are also taxed on any dividends they may receive.
4) **Cooperative.** Depending on government regulations, taxes may be paid by the cooperative.

Advantages and Disadvantages of Different Forms of Ownership

Ownership FORM	Advantages	Disadvantages
1. **Sole Proprietorship**	▪ Low costs to start ▪ Minimum regulations ▪ Direct control of business ▪ Low working capital requirements ▪ Tax advantages ▪ Owner receives all profits	▪ Unlimited liability ▪ Lack of continuity ▪ Difficulty in raising capital ▪ 4. Responsible for all decisions
2. Partnership	▪ Easy to form ▪ Low costs to start ▪ Added capital sources ▪ Shared management ▪ Possible tax advantages	▪ Unlimited liability ▪ Lack of continuity ▪ Shared authority ▪ Difficulty in raising additional capital ▪ Difficulty in finding suitable partners
3. Limited Company (PLC)	▪ Limited liability ▪ Management can specialize ▪ Transferable ownership ▪ Continuous existence ▪ Legal entity ▪ Potential tax advantages ▪ Easier to raise capital	▪ Closely regulated ▪ Most expensive form to organize ▪ Charter restrictions ▪ Extensive record keeping required ▪ Double taxation (company and stockholders)
4. Cooperative	▪ Means to empower poor ▪ Joint self-help ▪ Organizational structure helps all members ▪ Shared risk-taking ▪ Easier to raise capital ▪ Combines individual skills	▪ Hard to keep qualified members ▪ Members contributing to cooperative unequal ▪ Shared authority ▪ Gender issues

Self-Check – 1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1) How many owners are there in a sole proprietorship, a partnership, a limited company and a cooperative? (4 points)
2) What are the legal costs and procedures for starting all four types of business ownership? (4 points)
3) What liability is involved in the four types of business ownership? (2 points)
4) How does the legal ownership affect the continuity of the business? (2 points)
5) How does the legal structure affect management of the business? (2 points)
6) How will the legal structure affect taxes? (1 points)

Note: **Satisfactory rating - 15 points** **Unsatisfactory - below 15 points**

Answer Sheet

Score = ________
Rating: _________

Name: ___________________________ Date: ________________

Procedures to guide operations

Before developing a standard operating procedures manual, it is important to understand the difference between a policy, core process, and procedure.

POLICY: The set of basic principles and associated guidelines, formulated and enforced by the leadership of an organization, to direct and limit its actions in pursuit of long-term goals.

CORE PROCESS: Sequence of interdependent and linked procedures, which at every stage consume one or more resources (employee time, energy, machines, money) to convert inputs into outputs. These outputs then serve as inputs for the next stage until a known goal or end result is reached.

PROCEDURE: A fixed, step-by-step sequence of activities or course of action (with definite start and end points) that must be followed in the same order to correctly perform a task.

Once you have established the legal structure for your business, you need to think about the physical operations of the business. Business operations include the location of your business and the processes, resources, and other tools you will need to transform inputs (raw materials, labor, and capital) into outputs (goods or services).

To maximize your outputs for profitability, you must organize your inputs. While some businesses have unique physical operational needs, there are basic areas for all business owners to consider. The operational decisions you make can improve the efficiency (and profit line) of your end product. There is no one right design for a business's physical operations; it depends on the product (good or service) and the production process. As a business owner, it is essential to make certain that all operations function well and integrate with one another effectively.

The following eight steps are provided to you as a guiding sample operating procedure manual:

Step1. Create an outline of all of the standard operating procedures you want to include. The outline will acts as your guide to ensure you do not leave any of the tasks out as you start.

Step2. Write an introduction that speaks directly to the people who will use the guide. Include a brief description of what the guide includes, what readers can expect to gain by using the guide and the best way to use the guide (i.e., read it from beginning to end or use it as a reference to look up procedures as the need arises).

Step3. List the first task. To complete an entire guide, you need to start with one task at a time: begin with the first standard operating procedure on your outline. Outline the steps involved in completing the task, then go back and write out the details for each step. Make sure each step is clear and concise, but provide enough detail that anyone can follow the instructions.

Step4. Give the standard operating procedure to someone else to read. Have an employee or someone you know read through and follows the instructions. They can provide valuable feedback if there are steps they could not complete or did not understand.

Step5. Refine the standard operating procedure based on the feedback. You may need to rewrite, edit or add to the instructions, usually a combination of all three.

Step6. Write the next standard operating procedure, repeating Steps 3 to 5 for each.

Step7. Compile all of the standard operating procedures into a binder or bound guide or electronic file/manual. Include a cover sheet with the name of the guide, a table of contents, the introduction and the standard operating procedures in the order of the table of contents.

Step8. Make copies and distribute to employees. Encourage regular feedback, and update when necessary.

Self-Check - 2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Explain the eight guide procedures in your own words. (5 points)
2. Explain the words Policy, Core Processes, and Procedures. (3 points)

Note: **Satisfactory rating – 7 points** **Unsatisfactory - below 7 points**

Answer Sheet

Score = ________
Rating: _________

Name: ______________________________ Date: _________________

Sources of Business Financing

Many prospective entrepreneurs have promising business ideas and plans. However, the capital necessary to initiate their plans may not be readily available. As a result, many prospective small enterprises never become operational. The small business owner will have to invest a certain amount of personal money to start a business.

However, with sound preparation and planning, financing can be obtained from other sources. The two primary sources of financing to establish a business may be

(a) The owner's equity or

(b) Borrowing from lending institutions.

1. **Equity financing -** The main source of equity financing for most entrepreneurs is their personal savings. Financial experts say that one-half of the money needed to start a small business should come from the owner. This means future owners must work and save to have enough money to start a business.
   - Another popular source of equity financing is money from other sources such as family, friends, venture capitalists, or another business that is generating surpluses.
   - Equity financing can also be obtained by selling part of the business to one or more partners.
2. **Borrow from lending institutions -** When equity sources are not enough, the entrepreneur has the option of borrowing from other sources. Lenders will usually lend money for starting a business to people they know and trust. Lenders are careful not to lend money if the risk is too great.
3. **Considerations in applying for a business loan -** Different lending institutions have different procedures which have to be followed by the loan applicant. While lending institutions want to help potential borrowers, these institutions have to be assured that repayment of the loan will take place as agreed by the borrower. It is necessary to understand the following factors that are taken into consideration when a banker is appraising a loan application.
   - **Type of loan:** short-term (up to one year) or long-term (longer than one year).
   - **Purpose of the loan**: it is essential to determine that the applicant will not invest the money in a business venture which is illegal, not favored by government policy, or is viewed unfavorably by the local community.
   - **Credit worthiness and integrity of the borrower**. Can the borrower be trusted?

- **Capability:** the business profile of the applicant becomes an indicator of the entrepreneur's capability to operate the project with professional expertise and effectiveness. Capability helps the lender to understand whether the borrower will be able to utilize the loan for the intended purpose.
- **Repayment period:** this is a very important requirement for both the borrower and the lender. The lender needs to know whether the offer of the borrower to repay is realistic. The lender can ascertain this through statistical and financial projections and advise the applicant regarding a realistic repayment period as well as other details such as the amount of monthly installments.
- **Security:** security or collateral for the loan must be acceptable to the lender. Even if all other conditions are fulfilled, the lender may not grant the loan if security conditions and terms required by the bank are not satisfied.
- **Guarantors:** some lenders call for security both in the form of property and tangible assets and guarantees from friends.
- **Business plan:** this is the major instrument used by any lending institution to decide whether a loan applicant deserves a loan. A business plan discloses whether the intended business is viable or not.

There are several sources of money available to entrepreneurs. Frequently, the key decision is to determine which source of money is most appropriate for their current needs. Selection of the right source of financing for their needs can have a pronounced effect on the future of their business.

4. **Criteria for evaluating loan sources -** To determine the best source for raising capital needed in a particular situation, the following five questions should be considered.
    - **Cost** - What are the benefits of a loan in relation to its costs?
    - **Risk -** Which loan source exposes the business to the lowest degree of risk?
    - **Flexibility -** Will conditions imposed by a loan source reduce flexibility in seeking additional capital, or in using capital generated through operations according to the owner's best judgment?
    - **Control** - Could the owner's control of the business be adversely affected? Could the loss of control prevent the entrepreneur from making operating decisions that are in the best interests of the business?
    - **Availability -** Which financial sources are available to the business?

Weighing Evaluation Factors - Every capital source being considered should be evaluated in terms of **cost, risk, Flexibility, control and availability**.

Which of these sources are most important? Which are least important? The answers will depend upon the particular situation. In many cases, availability may be all-important. In other situations, cost may be the deciding factor. A decision can only be made by the prudent judgment of the owner after assembling and analyzing all relevant facts.

5. **Lending officer's concerns** - Often a bank lending officer refuses or "declines" a loan request. Foremost in the lender's mind is the question: "Can the firm pay back this loan?" The lender may refuse the loan because the owner hastily and haphazardly prepared the loan application under pressure. As a result, the lending officer detects an air of instability and lack of planning in the owner's description of his or her business affairs. When an entrepreneur's request for a loan is turned down, the loan applicant should accept the refusal gracefully, and eliminate weaknesses before applying for a loan in the future.

Sources of business financing

Types of Financing	Advantages	Disadvantages
i. Equity Financing		
1) Using Personal savings	**a)** All of the profit kept. **b)** Reduces amount of debt. **c)** Risk of loss provides motivation to succeed. **d)** Shows good faith to any potential lenders	**a)** Chance of loss. **b)** May force personal sacrifices **c)** Loss of return from use of savings in other investments
2) Involving friends and family	**a)** Brings in more cash. **b)** May be possible to borrow more. **c)** Financial risks shared	**a)** Part of profits given up. **b)** Part of the ownership given up
3) Forming partnership	**a)** Easy source of cash. **b)** Less pressure and restrictions. **c)** Informal arrangements.	**a)** Risk of destroying personal relations **b)** May encourage unwanted involvement in business
4) Forming a Limited Company	**a)** Larger amount of cash raised **b)** Financial risks shared. **c)** Legal liability reduced. **d)** Tax savings	**a)** Part of profits given up. **b)** Share of control and ownership given up
5) Forming cooperatives	**a)** Poor people are able to combine financial resources. **b)** Financial risks shared	**a)** Profits shared. **b)** Financial decision-making shared.
6) Working with financial institutions	**a)** Set up to help small businesses. **b)** Provides loans	**a)** Favors expanding Businesses
ii. DEBT FINANCING		
All forms of borrowing	**a)** Relatively easy to obtain. **b)** Control and ownership of the	**a)** High interest costs. **b)** Risk that future profits will

	business maintained. **c)** Can be repaid at more advantageous time. **d)** May save money. **e)** Costs may be tax deductible. **f)** Inflation allows repayment with cheaper money	not cover repayment. **c)** Easy to abuse and overuse. **d)** Financial and confidential information must be **e)** Lender may impose limitations or restrictions on borrower

Borrowing from lending institutions considerations in applying for business loan

- ❖ Type of loan
- ❖ Purpose of loan
- ❖ Credit worthiness and integrity
- ❖ Capability
- ❖ Repayment period
- ❖ Security
- ❖ Guarantors
- ❖ Business plan

Criteria for evaluating loan sources

- ❖ Cost
- ❖ Risk
- ❖ Flexibility
- ❖ Control
- ❖ Availability
- ❖ Weighing evaluation criteria

Self-Check – 3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are sources of business financing? Explain advantages and disadvantages of each source. (4 points)
2. What are the criteria for evaluating loan sources? Explain them. (3 points)
3. What do lending institutions consider for when applying for business loan? (3 points)

***Note:* Satisfactory rating – above 10 points   Unsatisfactory - below 10 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________   Date: _______________

Information Sheet - 4	Identifying and complying Business legal and regulatory requirements

Business legal and regulatory requirements

No matter the industry or company size, all businesses must adhere to certain laws and regulations as part of operations.

Regulatory compliance, in fact, deals with a set of guidelines that the law requires organizations to follow. It might involve, for example, observing rules set forth by the Occupational Safety and Health Requirements (OHSR) to ensure a safe work environment for employees. Or it could mean following the guidelines of the Equal Employment Opportunity to ensure discrimination-free hiring practices or industry and government regulations and policies, etc.

Legal Environment of Business

Depending on the type of business you manage, there could be many regulations and legal obligations you must comply with in order to operate the company. Businesses can be impacted by statutes in different disciplines, such as tax laws, material handling laws, employment laws etc. Most businesses either have attorneys on staff or retain firms to handle issues surrounding the law. As a manager, however, you may be required to know some basic legal requirements.

Whether you are establishing a business organization, protecting proprietary information, or managing employees, certain business laws affect all companies. Identifying relevant laws & regulations and complaining with them safeguards businesses from unnecessary influences. The following areas cover businesses in most industries:

- tax laws;
- environmental protection laws;
- consumer protection laws;
- employment and labor laws;
- antitrust/fair competition laws;
- commercial laws;
- license and permitting laws;
- contract laws;
- intellectual property laws;
- financial regulation la

Self-Check – 4	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Define the legal and regulatory requirements of businesses in your own words by giving relevant examples. (5 points)

Note: **Satisfactory rating – 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________ Date: _______________

Short Answer Questions

Information Sheet - 5	Determining human and physical resources

Human and Physical Resources

Human and Physical resources are resources required to commence business operations. They may include the followings: software and hardware, office premises, communications equipment, specialist services through outsourcing, contracting and consultancy, staff, vehicles, etc.

To reach at a conclusion, first, identify where you are and where you want to be. Next, determine what you need to do to accomplish them. Then you're ready to start thinking about the resources required to get there. You'll need to create a financial model. This will be your road map, and an important part of your **business plan**. Create a bottom-up detailed budget with spending plans by department. Ground your forecasting with facts to arrive at realistic projections. To do this, calculate potential revenue by multiplying the number of potential sales per product by average sale value. Look at your current situation and capabilities and see where you can reasonably expect to go from here.

Human resources are often the greatest startup expense category (recruiting, benefits, taxes, etc). Figure out who you need to build your company, then calculate projected salaries and wages (think about whether you'll hire employees or outsource. From a cost perspective, it's best to outsource whatever services you can). Don't forget to include costs for essential professional services, such as accounting or legal. And estimate marketing expenses (include advertising, promotion, publicity and/or sales costs.) too. Your company won't be very successful if nobody's heard of it!

To determine other physical resource requirements, think through and calculate operational - day-to-day costs, e.g; premises, office supplies, inventory, equipment. Internet service, go to market costs; **physical** - what facilities or office space do you need? And **technology -** what technology will you be using, how much will it cost?

After you accomplished this task you would now realistically determine your business human and physical resources requirements.

Self-Check – 5	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

5. Assuming a small restaurant in your training area, please try to estimate resources requirements for its operation (in terms of human and physical resources). (8 points)
6. Explain physical resource (2 points)

Note: **Satisfactory rating – 10 points** **Unsatisfactory - below 10 points**

Answer Sheet

Score = ________

Rating: _________

Name: _____________________________ Date: _________________

Information Sheet - 6	Developing and implementing Recruitment strategies

Recruitment strategies

A recruiting strategy is formal plan of action involving an organization's attempts to successfully identify, recruit, and hire high-quality candidates for the purpose of filling its open positions. However, this plan extends to and involves any search consultants or recruiting agencies that the organization enlists in its attempts to hire.

Recruitment is defined as a process to discover the sources of manpower to meet the requirement of the staffing schedule and to employ effective measures for attracting that manpower to adequate numbers to facilitate effective selection of an efficient work force.

Strategy - can be defined as the *determination of basic long term goals and objectives* of an enterprise and the *adoption of courses of action* and the *allocation of resources* for carrying out these goals. Developing and implementing recruitment strategy is important step that a business must perform in order to get the right employees which fit to the job requirements. In conformity with the organization policy, recruitment strategy should be developed and implemented.

Employee selection decisions play a very important role in the implementation of strategies. Employees should be selected based upon how well they fit the new organizational role and the culture, as well as for their knowledge, skills, and abilities. A thorough employee selection system will help managers achieve lower cost, higher quality, and improved patient service strategies to improve organizational performance. Strategies for improving productivity and service quality while lowering costs are affected directly by the quantity and quality of employees recruited.

Methods or sources of recruitment

- Internal recruitment
- External recruitment

I. **Internal Recruitment:** Internal sources refer to the present working force of a company. In the event of a vacancy, someone already on the payroll is upgraded, transferred, promoted, or sometimes demoted. Internal recruitment involves generating active, voluntary participation of current employees.

II. External Recruitment: External recruitment means the sources through which the personnel management seeks suitable candidates from outside the concern.

Advantages of internal recruitment

Advantages

- It builds morale.
- It encourages competent individuals who are ambitious.
- It creates good industrial relations.
- It is less costly than going outside to recruit, etc.

Disadvantages of internal recruitment

- It discourages the new blood from entering an organization.
- As promotion is based on seniority, the danger is that really capable hands may not be chosen.

Advantages of external recruitment

- External sources provide the requisite type of personnel for an organization, having skill, training, and education up to the required standard.
- Persons are recruited from a large market, the best selection can be made without any distinctions backgrounds, sex or color.
- This source proves economical because potential employees do not need extra training for their jobs.

Disadvantages of external recruitment

- It leads to loss of time due to adjustment;
- A phenomena called "brain drain" takes place, especially when experienced persons are "raided" or "hunted" by sister concerns.
- It destroys the incentive of present employees to strive for promotions.
- No information is available about the individual's ability to fit with the rest of the organization.

Self-Check – 6	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What does recruitment imply? (2 points)
2. Define strategy (2 points)
3. What are sources of recruitment? (2 points)
4. Mention the advantages and disadvantages of each method.(4 points)

Note: **Satisfactory rating - 10 points** **Unsatisfactory - below 10 points**

Answer Sheet

Score = _________

Rating: _________

Name: _____________________________ Date: _________________

This learning guide is developed to provide you the necessary information regarding the following **content coverage** and topics:

1. Undertaking Marketing of business operation
2. Obtaining Physical and human resources for implementing
3. Establishing ***Operational unit*** to support and coordinate business operation
4. Developing and implementing Monitoring process
5. Maintaining ***Legal documents***
6. Negotiating and securing Contractual procurement rights
7. Identifying Options for leasing/ownership

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, **upon completion of this Learning Guide, you will be able to**:

- Bu Marketing of business operation is undertaken
- Physical and human resources are obtained to implement business operation
- Operational unit is established to support and coordinate business operation
- Monitoring process is developed and implemented for managing operation
- Legal documents are carefully maintained and relevant records are kept and updated to ensure validity and accessibility
- Contractual procurement rights for goods and services including contracts with relevant people, negotiated and secured as required in accordance with the business plan
- Options for leasing/ownership of business premises identified and contractual arrangements are completed in accordance with the business plan

Learning Instructions:

12. Read the specific objectives of this Learning Guide.
13. Follow the instructions described below.
14. Read the information written in the information "Sheet 1, Sheet 2, Sheet 3 Sheet 4 Sheet 5 Sheet 6 and Sheet 7".
15. Accomplish the "Self-check 1, Self-check t 2, Self-check 3 Self-check 4 Self-check
16. 5 Self-check 6 and Self-check 7" **in page -6, 10, 15,19,23 and 26** respectively.

Marketing of Business Operation

Market research is a key part of developing your market strategy. It is about collecting information that provides an insight into your customers thinking, buying patterns, and location. In addition, market research can also assist you to undertake an initial sales forecast, monitor market trends and keep an eye on what your competition is doing.

Marketing of business operations requires communication

When selling, you communicate to prospective clients/customers something about yourself and the product or service you are selling. This process can be viewed as a series of steps, and each step involves a higher level of communication.

Step 1: approach the prospective customer and introduce yourself and your company

Step 2: specify your reason for approaching the prospective customer

Step 3: show or describe the product/service you are selling

Step 4: demonstrate how the product/service will benefit the prospective customer

Step 5: negotiate terms and conditions of the sale

Step 6: ask the prospective customer to make a decision regarding the purchase of the product/service.

Step 7: once customers do start to buy your product or service, develop strategies to help you to keep your customers. One research study has indicated that it costs 10 times as much to attract a new customer than it does to keep an old customer.

Like effective communication, selling is a two-way process. Selling is more of an art than a skill. You have to be good at asking questions and being an active listener to understand customer needs and interests. You have to adapt your message and communication style to the personality and buying motives of the prospective customer. Through effective communication, you build a relationship with the customer based on trust and confidence; this forms the foundation for the present sale transaction and for future sales as well.

Successful selling depends on the entrepreneur's ability to:

- Attract the buyer's attention.
- Determine customers' needs, wants, problems and goals.
- Show how the product or service will satisfy those needs.
- Work out the problems that prevent customers from buying.
- Ask for the customers' business.

The success of a business depends on the art of selling. If entrepreneurs take advantage of the opportunity to serve people, to satisfy their needs and to solve their problems, there will be satisfied customers. Satisfied customers continue doing business with an entrepreneur and recommend the products and services to others.

No matter what type of business, the entrepreneur must focus not only on producing the product or service, but on selling the product or service as well. Entrepreneurs are salespersons in the sense that they are always selling their products/services to the public. They must maintain their sales image wherever they go and whatever they do in the community.

Characteristics of Successful Salespersons

- Results Oriented
- Highly Motivated
- Self-Confident
- Professional Appearance
- Honest
- Dependable
- Knowledge of Products
- Good Listener
- Enthusiastic
- Pleasing Personality
- Communicator
- Sociable
- Courteous

Self-Check – 1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Describe Characteristics of Successful Salespersons
2. Successful selling depends on the entrepreneur's ability. What are these ability?

Note: **Satisfactory rating - 3 points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ________
Rating: _________

Name: _________________________ Date: _______________

Information Sheet - 2	Obtaining Physical and human resources for implementing

Physical Resources

Whether a small home business or a retail operation with multiple locations, every organization must have the appropriate physical resources to survive. This includes a proper workspace, working telephone line, machinery, equipment, materials and stock, adequate information systems and effective marketing materials. As such, it is important for an entrepreneur to realistically assess his needs before making any purchases.

Human Resources:

The success of an organization is heavily reliant on the talent and strength of its employees. The hiring of experienced professionals with track records of excellence within their area of expertise ensures that the mission and goals of the company will be carried out efficiently and with competence. Strong team members can be recruited using a variety of methods.

In order to obtain the required physical and human resources the entrepreneur engages in purchasing and hiring activities.

i. The Hiring process

Hiring a new employee is as important to the entrepreneur as it is to the person hired. It can either be the beginning of a mutually rewarding relationship, or the beginning of a long series of mistakes.

Two of the major influences on high employee turnover are the recruiting and selection procedures used. The way entrepreneurs advertise a position, handle applications, conduct interviews, and select and introduce a new worker to a job are all elements in the effort to cut down on employee turnover.

1. Sources of Potential Employees

- Within the business
- Want ads
- Employment agencies
- Educational institutions
- Former employees
- Current employees

3. Selection Procedures

- Application form
- Interview

- Checking of references
- Testing applicant's skills

After the employees undergone through the above processes, the next process is the implementation stage which requires orientation process about the job assignment.

Orientation process

As a general rule, on their first day new employees should be shown around the business. The new employee should be introduced to the rest of the employees, given an overall view of the entire operation, and shown exactly how their jobs fit into the total operation of the business. Such small gestures take little effort and will probably save both time and money in the long run.

Remember, it is important to start the new employee off on the right foot. Proper orientation will help a great deal in getting a more productive, long-term employee.

1. Four Basic Rules of Orientation

- Prepare the employee
- Present the work
- Try the employee out under supervision
- Follow-up

2. Six factors in preparing for the orientation of a new employee

- Know the job
- Have a current employee serve as a mentor
- Prepare a simple job breakdown
- Set a training timetable
- Arrange the work area
- Evaluate new employee's work on a daily basis

Employee Considerations

- **Pay Plans** - To employees, wages are an important part of their jobs. They expect their pay to reflect the skills and energy they put into a business. If entrepreneurs want to attract and keep good workers, they must take into consideration the rate paid by other firms for a similar job.

- **Fringe benefits -** Of all fringe benefits, those for sick leave and holidays are the most widely appreciated by employees. Entrepreneurs should have a set policy regarding all fringe benefits.

- **Employee relations -** Good pay and fringe benefits aren't all it takes to make employees happy; job satisfaction means much more to them. Entrepreneurs have a responsibility to provide the best kind of physical surroundings and to make sure that there is always two-way communication with the staff.

- **Working conditions -** The health, comfort and safety of employees, as well as decent working conditions, should be of genuine concern to entrepreneurs. A good environment can do much to encourage efficiency and good attitudes in addition to preventing accidents. The premises should have good ventilation, sufficient heating and cooling, good lighting and proper sanitation, and safety facilities. Having a first-aid kit and a doctor's telephone number are necessities in a health and safety program in any business.

Self-Check -2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Explain human and physical resources
2. Explain employees considerations
3. Explain
    - Sources of potential employees
    - Selection procedures
    - Rules of orientation

Note: **Satisfactory rating - 3 points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ________

Rating: __________

Name: ____________________________ Date: ________________

Information Sheet - 3	Establishing Operational unit to support and coordinate business

Establishing Operational unit

Before you understand what the operations segment or business segment of a company is, you need a thorough understanding of what operations and team operations are in business. Operations are all about management. Management is how business works internally. Operations are meant to promote two main things in a business: effectiveness and efficiency. So when the operations segment of a business is doing its job properly, then the business turns out to be more efficient and effective. When you're manufacturing, retailing, or providing some sort of service to consumers, you need to oversee the management and design of a business behind the scenes. That's where all the magic in the business happens.

Although every business has an operations segment, the way that the operations department in a business is defined pretty much depends on the industry that the business is in, as well as the stage at which it is in its growth. Sometimes, the whole process of improving the operations of your business can be all about thinking strategically about the processes that happen within your business as well as the systems that are in charge of those processes. At other times, operations work in a company can be a little more practical. It can mean being on the ground and taking care of all of the aspects of a project; from the tiny to the enormous.

If you're running a small business, it might not be a good idea to let a single person handle the operations of the business. Instead, operations should be a group affair, being handled by both the employees and the owners of the business. They should all have an intimate understanding of the way the processes and the systems of the business work and the kind of impact they have on everyday tasks in the business

An operating unit is an organization that is used to divide the control of economic resources and operational processes in a business. An operating unit has its own assets and liabilities and its own management structure. People in an operating unit have a duty to maximize the use of scarce resources, improve processes, and account for their performance. The types of operating units include cost centers, business units, departments, and value streams.

Operational unit refers to: office location staffed with required personnel and equipped to service and support business as well as home-based site or other location such as leased or owned property. Organizing and equipping with the necessary resources is essential for effectiveness of the unit to give supportive and coordinative services to the business.

Self-Check - 3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is Operational unit?

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________ Date: _______________

Information Sheet - 4	Developing and Implementing Monitoring Process

What is monitoring?

Monitoring is the systematic collection and analysis of information as a project progresses. In other words, monitoring is an ongoing process which helps us to understand how we are using our resources within the action plan and what we are immediately getting out of it. Monitoring process is aimed at improving the efficiency and effectiveness of a project or organization. It is based on targets set and activities planned during the planning phases of work. It helps to keep the work on track, and can let management know when things are going wrong. If done properly, it is an invaluable tool for good management, and it provides a useful base for evaluation

Monitoring enables you to determine whether the resources you have available are sufficient and are being well used, whether the capacity you have is sufficient and appropriate, and whether you are doing what you planned to do. To monitor the implementation of the action plan we need the set of outspoken monitoring indicators, which will help us to measure the gradual progress of the strategy implementation. Indicators are measurable variables or characteristics or tangible signs that something has been done or that something has been achieved.

Indicators can be both quantitative and qualitative variables. These Indicators should be: *SMART/specific, measurable, achievable, realistic, & time bound/*

Monitoring:

- on-going process
- more or less a routine or continuous/day-to-day/ process
- quite structured
- movement towards the objective or away from it
- focuses on inputs and outputs
- means of checking ongoing progress
- alerts managers to problems
- tool for improvement

Monitoring is a continuous internal management activity to ensure that project/program implementations, and ongoing operation, are on track.

Monitoring involves:

- Establishing indicators of efficiency, effectiveness and impact;
- Setting up systems to collect information relating to these indicators;
- Collecting and recording the information;
- Analyzing the information;
- Using the information to inform day-to-day management.

Monitoring is an internal function in any project or organization.

Monitoring process is developed and implemented for managing operation. Any organization that strives for results requires a robust, continuous and effective monitoring system.

Once there is clear understanding on the monitoring policy, operational context and roles and responsibilities, one can prepare to implement monitoring actions. The first activity in implementing monitoring activities is to ensure that the monitoring and evaluation (M&E) framework is up to date. It should be carefully reviewed and elaborated as necessary.

Scope of Monitoring

Monitoring aims to identify progress towards results precipitate decisions that would increase the likelihood of achieving results enhance accountability and learning. All monitoring efforts should, at a minimum, address the following:

- **Progress towards outcomes -** This entails periodically analyzing the extent to which intended outcomes have actually been achieved or are being achieved.
- **Individual partner contributions to the outcomes through outputs -** These outputs may be generated by programs, projects, policy advice, advocacy and other activities. Their monitoring and evaluation entails analyzing whether or not outputs are in the process of being delivered as planned and whether or not the outputs are contributing to the outcome.
- **Partnership strategy -** This requires the review of current partnership strategies and their functioning as well as formation of new partnerships as needed. This helps to ensure that partners who are concerned with an outcome have a common appreciation of problems and needs, and that they share a coordinated strategy

Self-Check – 4	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1) What is monitoring?

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = _________
Rating: _________

Name: ___________________________ Date: ________________

Information Sheet - 5	Maintaining Legal documents

Maintaining Legal documents

We are often asked about how long specific records should be kept. Discarding records that should be kept poses a wide range of potential tax and legal problems. Keeping reports too long wastes precious space and resources. But how long should the company's files be kept? The answer varies depending on company policies and the type of files. Generally, the files should be kept as long as they serve a useful purpose or until all legal and regulatory requirements are met.

Nowadays, maintaining legal documents includes soft copies and hard copies. In order to meet the legal requirements documents should be kept carefully in such a manner that they can be located easily and quickly when they are required. Documents kept have the nature of either long duration or short duration. Both should be maintained according to their nature based on the organization policy.

Organizations' l**egal documents may include -** partnership agreements, constitution documents, statutory books for companies (Register of Members, Register of Directors and Minute Books), Certificate of Incorporation, Franchise Agreements and financial documentation, appropriate software for financial records; and recordkeeping may also include personnel, financial, taxation, OHS and environmental, etc. documents.

Doing business usually means accruing a lot of records, and without a good filing system, the sheer volume makes it difficult to retrieve specific records later on. Without reliable access to your records, your business can drift or even fail, so to run your business effectively, you need a good filing system. That means designing a smart file organization scheme right from the beginning, for both your paper records and your digital records mentioned above, and then keeping current with your record-keeping regularly thereafter.

Processing Incoming Records

As you generate and receive paperwork in the course of business operations, stay current with your filing, both of electronic and paper records. Process new paperwork so that you create a digital version right away — or, when starting with a digital version, print a paper copy if necessary — and then file the paper copy away and work from the digital copy to save yourself time and trouble. Print updated paper copies of files as you need them. Don't let files and folders pile up on your desktop or on your desk. Store everything in its appropriate location when you aren't actively using it.

Maintaining Digital Files

When it comes to electronic records, during the startup phase, all of your files may fit on one computer—and you may be the lone employee. However, the operation will expand as your business and payroll grow, so you can eventually expect to separate the basic record types onto their own dedicated computers. Simply cut off the "branches" of your record-keeping tree and move the appropriate folders to their own computers. Additionally, you can expect to make tweaks and revisions to your file structure as your business grows require new organizational divisions. Then, as your files and folders become more numerous, you can occasionally archive older records into archival subfolders to reduce clutter in the active folder space. Keep everything where you or an employee can easily access it later.

Maintaining Paper Files

When it comes to paper files, routinely update your file cabinets as necessary so that all records have a logical place to go. Periodically, remove old files that you likely no longer need for business or tax purposes, and archive them at a separate location — either in archival file cabinets onsite, or at a dedicated storage warehouse.

How to handle legal documents

Legal documents are some of the most secure records that a company can have. Not only do they contain extremely secure information on them, but they also contain other people's secure information. How does your practice store your legal documents? If you haven't looked into all of your options just yet, you might want to look into the best way for your office today!

The two most common ways to store your legal documents are **to keep them in paper file** and store them in filing cabinets, and **to store them digitally on your computer**. These are both great ways to keep everything managed, but depending on your office one may work better than the other.

If you store your legal documents on your shelves in paper form there is nothing wrong with that. This is a nice way to keep your records so that you can pull them out and look at them all at once. There is something nice about being able to physically look through your paperwork. This can be a hassle though because you will have to find them each and every time you want to look at a file. When you work with a digital program, you are allowing yourself the freedom of accessing any file, at any time, from anywhere. This can be extremely helpful when managing your legal documents, but you also don't have the freedom of physically pulling your files apart to look at everything at once.

Only you know what your office is looking for, and only you can decide the best way for your practice to manage your legal documents. However, legal documents are carefully maintained and relevant records are kept and updated to ensure validity and accessibility

Figure 1: Filing Cabinet for hard copies

Self-Check - 5	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is Organizations' l**egal document?**

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ________
Rating: _________

Name: _________________________ Date: _______________

Information Sheet - 6	Negotiating and securing Contractual procurement rights

Concepts of Negotiation

Recent studies have led to the emergence of three basic concepts of negotiation:

- **Prevents the "zero sum perception"** which is the "winner takes-it–all" view. By using negotiation as a tool one can produce a "positive sum" situation. In this situation no party comes out exclusively best. Both parties can benefit at the end.
- "**Homes" theorem** implies that items are evaluated differently by different parties. These evaluations can undergo a change by such negotiation devices such as inducement, alternatives and re-organization of ideas. The reorganization of ideas means that the opposing party's views cannot be changed, but the components can be arranged into an agreed decision.
- "**Toughness or softness"** means holding out or giving in. This concept has two aspects which are:
    a) Deciding when to hold, out or give in, depends on the value of the item at stake, and the ability of a party to knock off a bit in order to achieve a compromise
    .
    b) There are valuable moments, meanings and measures and manipulative effects of toughness and softness. When to apply which approach is a test of maturity for a practiced negotiator, and there is a need to be alert.

Essentially, negotiation is a very creative process. Its creative and dynamic nature is what makes it a very potent tool. There is no theory that can encompass and explain the whole process of negotiation but different theories help in stimulating a person to come out better off after negotiation.

Nature of negotiation

a) **Negotiation is symmetrical in process** i.e. both parties are on equal levels in terms of information, facts and approach. Either party can go soft or tough. In this strategy both sides behave as if they were unilaterally available. This could result in a deadlock.

b) **Negotiation is not finite; moves can go in all directions.** This means that there is no determined winning strategy especially when various elements of the situation are not known. Even if known these elements such as positions, stakes, issues etc. are not fixed. Flexibility, tolerance and tenacity are required of you as a leader.

c) **Both participants anticipate and react during the process of negotiation**, This results in double motivations. Different behaviors could be put up in different situations. As an effective negotiator, one must be accommodating. It is a quality that will enhance the chances of success.

Personal attributes/characteristics

A negotiator needs to show the following personal attributes:

a) **Integrity** - A negotiator must be honest as honesty builds mutual trust and cooperation which is crucial in bringing about free and open exchange of ideas.

b) **Empathy** - This is the ability to comprehend i.e. to understand the other party's point of view. This can be used and manipulated toone's advantage in negotiation.

c) **Patience** - This is the calm endurance of the prevailing state of affairs. It makes a person able to accommodate another person's views in negotiation.

d) Other attributes include **self-assurance, self-confidence, ingenuity, stamina and tenacity.**

Negotiation skills

- **Clarity in communication is essential.** Do not babble, or engage in long paragraphs otherwise you lose attention and points.
- **Stick to objectives** and **avoid personalizing situations**.
- **Control your emotions**.
- **Occasionally showing anger** may have an effect but as a general rule never lose your temper.

The Negotiation Process

Negotiations with others may leave you with a heightened sense of humility. It may be the first time that you were ever confronted with the fact that negotiating itself is both a science and an art. You may not have much experience. What can you do to protect yourself? The following are some possibilities:

1) **Hire a lawyer who is a good negotiator**. Have him with you at any significant negotiating meeting.

2) **Learn as much as possible about the man or woman you're facing**. What is his or her background, education, reputation? What kinds of deals has he or she been signing? What are his or her real goals and needs?

3) **Try to list all the issues that will surface in the negotiation.** Then decide which are negotiable and which are non-negotiable for the other side. How far are you prepared to move on your negotiable issues? Remember, a point that may be very important to the other side to win, may be insignificant to you — and vice versa. If you've thought this through in advance, the process of making these tradeoffs when bargaining will be much less agonizing.

4) **Try to maintain an atmosphere of openness.** Occasional jokes help to relieve the tension and make it easier for both sides to concede points that should be conceded. When the going gets really heavy, just call a recess. Tell them you have to talk that one over with your partner. If this isn't possible, suggest sending out for tea, anything to break the momentum of the meeting.

5) **The objective of negotiation is not to beat the other side.** It is to strike a deal that is better for everybody than the initial conditions. Each side should concede points of lesser value to it for points of greater value. Your adversary may not take this view of the matter, but you should enter the process with this attitude, nonetheless.

- **To sum up,** finally negotiation with relevant people helps to secure contractual procurement rights for goods and services by keeping both parties benefits. Businesses negotiate and secure their rights according to their business plan in order to maintain their business processes continuity without disturbance. .
- **Contracts with relevant people may include:** owners, suppliers, employees, landlords, agents, distributors, customers or any person with whom the business has, or seeks to have, a performance-based relationship.

Self-Check - 6	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. List Personal attributes/characteristics?

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________ Date: _______________

Information Sheet - 7	Identifying Options for leasing/ownership of business premises

Ways of Getting into Business

There are many ways of getting into a new business. These are buying, franchising or leasing them.

1) Buying an existing business

If someone has never owned a business, buying and operating an existing business offers many advantages such as established customers and business procedures, trained employees, inventory and premises which are in place and a business which already has a name in the market.

2) Starting a new business

Most people who want to be entrepreneurs think that the best approach is to start their own new business and not to buy one that already exists. This approach gives the potential owner a great deal of satisfaction. It also means taking a relatively high risk compared to buying an established business. Starting a new business means allocating a great deal of time to planning and investigating the potential market for the products or services to be sold by the new business.

3) Becoming a franchisee

Franchising is a system where a franchiser has developed and implemented a business that he offers for replication to a franchisee. The franchisee opens a business by using the business idea of the franchiser against a fee. In return, the franchisee gets training, the marketing concept, the brand name and the product or service. He also has the guarantee that no other franchisee from the same franchiser will have the right to do business in the same area. All these elements are fixed in a franchising contact that is binding for both parties.

Franchising lowers the risk as the product is usually well known in the market. On the other hand it limits entrepreneurial decision-making and shrinks the profit margin as a fee or a percentage of the turnover has to be paid to the franchiser.

If the above options do not work the entrepreneur searches other options which help to acquire the required premises through lease financing from different sources of owners (private entities or government financial institutions).

Lease financing of business premises

Meaning of Lease – it means the legal contract between the user/lessee/ and owner/lessor/ of the business premises. Lessor means a person who, under a lease agreement, provides to a lessee the right to use the premises/capital goods/ in return pay rents to lessor for an agreed period of time. On the contrary, Lessee is a person who, under a lease agreement, obtains business premises from a lessor and has the right to use the business premises and pay rent to the use of premises for an agreed period of time.

Lease financing in the context of Development Bank of Ethiopia shall mean capital goods financing service availed by the bank to Small and Medium Enterprises /SME/ under "hire purchase modality". In the context of development bank of Ethiopia /DBE/ shall mean an enterprise that operates with above 6 employees and has a total capital from birr 500,000 to 7.5 million in the government priority areas.

The purpose of lease financing is to provide financial assistance to the government priority area projects in which SMEs are engaged in support of the country's economic growth and development. The Bank's Lease Financing scheme shall:

- Support structural transformation objective;
- Promote import substitution;
- Create employment opportunity;
- Promote export promotion objective of the country and support foreign exchange earnings; and
- Create access to finance for SMEs particularly the missing middle.

Searching for options to acquire business premises in order to start a business operation is necessary. Selecting the best option out of the available alternative choices protect business not incur into unnecessary costs. After securing the best option appropriate contractual arrangements should be completed in accordance with the business plan.

Self-Check - 7	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

4. Demonstrate ways of getting into new business.
5. Explain Lease financing, lessor and lessee.

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ________

Rating: ________

Name: _________________________ Date: _______________

Instruction Sheet	LG34: Reviewing implementation process

This learning guide is developed to provide you the necessary information regarding the following **content coverage** and topics:

1. Developing review process for implementation
2. Identifying Improvements in business operation
3. Implementing and monitoring improvements

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, **upon completion of this Learning Guide, you will be able to**:

- Review process for implementation of business operation is developed and implemented
- Improvements in business operation and associated management process are identified
- Identified improvements are implemented and monitored for effectiveness

Learning Instructions:

17. Read the specific objectives of this Learning Guide.
18. Follow the instructions described below.
19. Read the information written in the information "Sheet 1, Sheet 2, and Sheet 3".
20. Accomplish the "Self-check 1, Self-check t 2, and Self-check 3" **in page -6, 8, and 10** respectively.

Information Sheet - 1	Developing review process for implementation

Review process

Performance review is formal system of review and evaluation of individual or team task performance. Performance Review is the process of obtaining, analyzing and recording information about the relative worth of an employee. In order to implement performance review process, develop outcome measuring criteria. These criteria help to measure the performance of each employee whether an employee is doing the assignment to fulfill objectives/goals of the organization or not.

The focus of the performance appraisal is measuring and improving the actual performance of the employee and also the future potential of the employee. Performance appraisal is a systematic way of reviewing and assessing the performance of an employee during a given period of time and planning for his/her future. It helps to analyze employee's achievements and evaluate his/her contribution towards the achievements of the overall organizational goals

Objectives of Performance appraisal

- ❖ To review the performance of the employees over a given period of time.
- ❖ To judge the gap between the actual and the desired performance.
- ❖ To help the management in exercising organizational control.
- ❖ Helps to strengthen the relationship and communication between superior-subordinates and management-employees.
- ❖ To diagnose the strengths and weaknesses of the individuals so as to identify the training and development needs of the future.
- ❖ To provide feedback to the employees regarding their past performance.
- ❖ Provide information to assist in the other personal decisions in the organization.
- ❖ Provide clarity of the expectations and responsibilities of the functions to be performed by the employees.
- ❖ To judge the effectiveness of the other human resource functions of the organization such as recruitment, selection, training and development.
- ❖ To reduce the grievances of the employees

Benefits to Employees:

- Provides a chance for employees to ask questions and tell you their sense of what they've accomplished
- Lets employee know his/her strengths and areas that need improvement
- Allows employees to take responsibility for their performance
- Lets employees know what's expected of them; creates mutual understand of job duties

Business Process Review

Processes are those natural business activities that produce value, serve customers and generate income. All organizations have business processes. Establishing business review and carrying out periodically is vital and helps to show how a business is performing against "gold standard" industry benchmarks.

Here are some sample business process review steps:

Step 1: Meet with the Business Process Participants to Plan an Initial Schedule - Select the business process review team from among stakeholders throughout the organization. Meet to determine overall strategy and direction for the project and agree upon a tentative timeline for completion of the 10-step review.

Step 2: Research Relevant Industry Best Practices - Identify relevant industry best practices. Include process flow documents where feasible.

Step 3: Determine Current-State Business Processes - Set up interviews with process subject-matter experts (SMEs) to determine "as-is" processes for sales, marketing and customer service.

Step 4: Document 'As-Is' Processes and Make Best-in-Class Comparisons - Based on the data collected in Step 3, map the 'as-is' process flows. If 'best-in-class' has been determined, compare 'as-is' process flows to industry benchmarks.

Step 5: Collect Feedback on 'As-Is' Process Flows - Send process flows and documentation to process SMEs with a list of ideas that have been culled from the research conducted in Step 2. Request that customer-facing personnel also review this material and provide feedback regarding needed enhancements.

Step 6: Hold Workshop(s) to Review Feedback - Meet with customer-facing personnel to discuss 'ah-ha' insights gathered from the review of 'as-is' processes. Collect and discuss missing process steps; clarify existing steps.

Step 7: Hold a Business Process Improvement Workshop - Set up a workshop with key stakeholders to review 'as-is' process flows and to develop preliminary 'to-be' processes.

Step 8: Draft 'To-Be' Process Flows - Based on the output of the workshop in Step 7, assign process SMEs to develop Level 1 and Level 2 'to-be' process flows.

- Level 1 represents highest-level process steps and notes additional sub-processes that may be required.
- Level 2 process flows provide sub-process details for each key activity/step in Level 1. Leverage best-in-class industry practices wherever possible.

Step 9: Hold a Business Process 'To-Be' Workshop - Set up a workshop to review and enhance 'to-be' process flows. The workshop output is an agreed-on set of 'to-be' process flows and a list of key actions needed to complete documentation.

Step 10: Finalize Process Recommendations - Present 'to-be' processes back to customer-facing personnel as well as process SMEs for final approval. Next, prioritize these new processes for incorporation into the customer strategy initiative based on urgency, potential impact and available resources.

And finally create an action plan to operationalize prioritized 'to-be' processes.

One additional point: invite customers to participate throughout this process review.

Self-Check - 1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. List sample business process review steps?

Note: **Satisfactory rating - 3 points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ________
Rating: _________

Name: _________________________ Date: _______________

Information Sheet - 2	Identifying Improvements in business operation

Improvements in Business Operation

Every new day gives you a chance to move your business forward from your present situation. There will always be things that you can improve and do better in your business.

You can improve your business by increasing your profits, reducing losses, getting more customers, expanding the markets, becoming more visible in the community, going public or a number of other items deemed desirable. The key is to have a vision of what you want to achieve, where you want to go, and what you want the business to become.

Business process improvement helps companies identify which part of their operations to zero in on. Often, it's an area they hadn't considered.

One of the struggles of trying to improve products or services is that people are limited in what they are able to do. Think of a **triangle** where the points are **quality, cost and time**. Businesses struggle with all three elements when focusing on operational improvement.

Process improvement or process redesign is a methodical approach to problem solving. Cost, quality and timeliness issues are just that; common problems that are often simple to fix with a structured approach.

Business process improvement is about identifying what your business needs are and choosing the right area to focus on. Even the best business leaders often need help with this. They may pose a question that they want answered, but through the process, the question ends up changing.

The key to business process improvement is to start by looking at the beginning of the process. The tendency if often to focus on problems at the end of the process, but the solution starts at the beginning. For example, let's say that a machine is running slowly. Start by asking what the machine is used for and what the desired output is. By looking at the source cause of the problem, you can create a better solution. This allows for the innovation and improvement of the entire process flow.

Business process improvement also often involves finding the capacity of things. In other words,

- How much business is able to do with current resources, constraints, and limitations?

- Oftentimes, companies have excess capacity. The key is to find ways to maximize that capacity and capture new business or enter new markets.

Measuring the results of business process improvement is fairly easy. A simple cost benefit analysis will help you determine if the project was successful. How much time or money did you save? How much did quality improve?

A key here is to remember that to measure anything; you need a unit of measure and a standard measurement tool.

Associated management process is also taken into account when identifying Improvements in business operation. Employees and management practices will be evaluated by the assessing team according to the standard policies and guidelines of the company. The effectiveness of the controls in place as well as their appropriateness to the current operating conditions will also be evaluated to get complete picture of business operation performance.

Self-Check - 2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are the important of reviewing process of implementing business operation

Note: **Satisfactory rating - 3 points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ________

Rating: _________

Name: _________________________ Date: _______________

Information Sheet - 3	Implementing and monitoring improvements

A results-oriented improvement plan focuses on improving cost, quality, service or speed. Action steps range from making minor changes that eliminate duplicate steps or other workflow redundancies to redesigning an entire process. An implementation includes analyzing, prioritizing and reassembling tasks and operational steps.

Once the issue is identified in the existing process, it is imperative that the company take steps to improve workplace operations. If a new call or sales protocol is implemented, it needs to be written in as part of the operations manual, and then distributed to employees. On top of the distribution of the written protocol, employers need to train employees consistently and regularly to make the new protocol habitual. Additionally, employers should ask for feedback on new policies and procedures to fine tune them.

Sometimes, improving workflow changes is easier than at other times. If inventory issues exist, managers need to make arrangements with suppliers or find new ones that can handle the demand.

The key to implement and monitor identified improvements of work operations and to develop an excellent performance management model according to the company's objectives is to get constant feedback from your employees and customers for effectiveness.

Figure 1: Effective Business growth

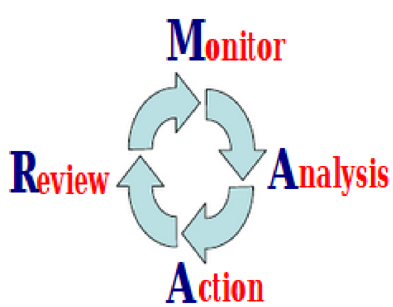

Fig 2. Continuous Improvement Cycle

Self-Check – 3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

2. Mention the effect of neglecting record keeping in business

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ___________

Rating: ____________

List of Reference Materials

1- Development Bank of Ethiopia training notes and Brochures

2- **https://www.quora.com/What-is-the-best-way-to-identify-the-financial-human-and-physical-resource-requirements-for-a-business**

3- KAB (2008), International Labour Office, Geneva International Training Centre of the ILO, Turin (Revised edition)

4- https://smallbusiness.chron.com/operations-segment-company-15269.html