THE BUSINESS ENVIRONMENT
ACKNOWLEDGEMENTS

This course forms part of the Bachelor’s Degree in Business and Entrepreneurship (BBE) developed through the Virtual University for Small States of the Commonwealth. Many thanks to the team of people who worked on this programme:

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COURSE OVERVIEW

INTRODUCTION

A business Environment course will prepare future entrepreneurs to plan, launch and grow a business venture within the context of their local and national social, political, legal cultural and economic environment. It will ensure that future entrepreneurs consider the labour environment and retail environment they are entering. They will be able to assess the impact of these different environments on the potential to succeed in their new business venture. We will look at the micro-environment as well as the macro-environment of a business and in particular the variables that influence the activities of a business.

COURSE GOALS

Upon completion of this course, future entrepreneurs should be able to:

1. Examine how different factors and trends in the external environment are likely to impact upon a proposed business venture
2. Conduct a business analysis of the local and national environment.
3. Employ business models and tools to evaluate changes in an organization’s business environment.
4. Present a business environmental analysis and recommendations to reduce the risk of the identified issues.
5. Describe what business operations encompass.
6. Explain the structure, process and function of business management.
7. Explore the role of marketing in business.
8. Explore the role of financial management and accounting in a business environment.
10. Explain the legal structure of a typical business.
11. Explore how to operate a business in an ethical manner.

COURSE STRUCTURE

The course is divided into five units:

Unit 1: Introduction to a Business Environment
Unit 2: Analyzing a Business Environment
Unit 3: Business Operations and Management
Unit 4: Fundamentals of Marketing

Unit 5: Business Ethics

Each unit is further broken down into related topics. Each unit and many topics include self-reflection questions to ponder, activities to complete and formal assignments to complete and send to your instructor.

The units contain a number of references that learners are encouraged to review. This may require that you have access to a computer with Internet connection to download the reference. Each unit should take between two and three weeks to complete.

ASSIGNMENTS AND PROJECTS

A series of activities and assignments guide you through concepts in this course and ask you to demonstrate that you can apply the concepts to support the creation of your business idea and business model. A summary of this work is included at the beginning of each unit. The major assignment in this course is found in Unit Three, where you will undertake market research for a business model that you developed in the Introduction to Entrepreneurship course. Your institution / tutor will help you through this material and will also assign additional projects.

JOURNALING REQUIREMENTS

To capture the output from the reflective questions and activities you are asked to keep a personal journal. At the end of the course the personal journal will be submitted to your instructor for feedback and grading.

ASSESSMENT PROJECTS

Assessment takes the form of responding to activities, as well as written assignments and examinations as determined from time-time by the institution. In cases where coursework assignments, fieldwork projects, and examinations are used in combination, a percentage rating for each component will be communicated to you at the appropriate time.

TIME REQUIRED

This course is worth 16 credits, or a credit value assigned by your institution. Each credit is equivalent to 10 notional hours. You are, therefore advised to spend not less than 160 hours of study on the course. This notional time includes:

- going over activities embedded in the study material;
- peer group interaction (where necessary);
- face-to-face tutorials (where necessary);
- working on tutor-marked assignments; and
- preparation time for and sitting examinations (where that is a requirement.)
COURSE SCHEDULE

A course schedule with due dates and additional readings will be supplied to you by your institution.
STUDENT SUPPORT

ACADEMIC SUPPORT

<Insert the following information if relevant>

- How to contract a tutor/facilitator (Phone number, email, office hours, etc.).
- Background information about the tutor/facilitator if he/she does not change regularly. Alternatively provide a separate letter with the package describing your tutor/facilitator’s background.
- Description of any resources that they may need to procure to complete the course (e.g. lab kits, etc.).
- How to access the library (either in person, by email or online).

HOW TO SUBMIT ASSIGNMENTS

<If the course requires that assignments be regularly graded, then insert a description of how and where to submit assignments. Also explain how the learners will receive feedback.>

TECHNICAL SUPPORT

<If the students must access content online or use email to submit assignments, then a technical support section is required. You need to include how to complete basic tasks and a phone number that they can call if they are having difficulty getting online>. 
UNIT ONE – INTRODUCTION TO THE BUSINESS ENVIRONMENT

UNIT INTRODUCTION
Welcome to the first unit in this course. Understanding a business environment is critically important for an entrepreneur. Having a solid understanding of environment and how businesses operate is essential for an entrepreneur to be successful and turn a good idea into a brilliantly executed and sustainable business. In this unit, we will discuss the nature of business including the most common types of business models. We will consider questions of business ownership and business operation functions later in the unit. Upon completion of this unit you will have an understanding of the importance of various industries, how they are organized and operate, and will understand the factors to consider when selecting a business model.

UNIT OBJECTIVES
Upon completion of this unit you should be able to:

1. Define nature of a business.
2. Describe different forms of business ownership and their advantages and disadvantages.
3. Describe basic business operations functions and outline their importance.

ASSIGNMENTS AND ACTIVITIES
There are a number of learning activities and assignments throughout this unit. The major assignment for this unit is a case study related that will help you to learn how to select any appropriate business model. As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.
TOPIC 1.1 – THE NATURE OF BUSINESS

TOPIC INTRODUCTION
Before trying to understand the complex world of business, it is important to have a sense of the variety of types of businesses that exist in the world and the kind of needs that they meet as a part of local and global economies. This topic will introduce you to primary, secondary, and tertiary industries and their importance in the world of commerce. You will also learn about the roles that service and goods producing industries play in the economy and consider how micro, small, and medium-sized enterprises contribute to local, regional and global economies.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

1. Define primary, secondary, and tertiary industries.
2. Identify and give examples goods and services industries.
3. Explain the importance of various industry types and their contribution to local and global economies.
4. Explain the contributions of micro, small, and medium-sized enterprises to the economy.

Let’s begin by defining some terms that will help you to understand the nature of business and a business environment.

DEFINITIONS
What is a Primary Industry?

In our daily lives, we come in contact with many products that are the result of primary industry activity. These include the plants that we grow and the food we eat. One way to define primary industry is “the industrial sector of an economy characterized by the extraction and collection of natural resources, such as copper ad timber as well as by activities such as farming and fishing”. A company in a primary industry can also be involved in turning natural resources into products.

Figure 1: A natural resource
Let’s now look at examples of natural resources that could be available to you in your surroundings.

**Examples of Primary Industries**

- Farming (e.g. grain, cattle, dairy)
- Plantations
- Forestry
- Mining
- Fishing

Another way of describing primary industries is to say that they are involved in the growing, harvesting, extracting and processing of natural resources which form the basis of the products we use in our everyday lives.

Primary industries also create the basic materials for use in other industries, such as growing and harvesting wheat that can then be turned into the bread which we eat on a daily basis.

**WHY ARE PRIMARY INDUSTRIES IMPORTANT?**

Primary industry is vital to other business as they create building blocks for secondary and tertiary businesses to survive. If there are no primary industries to produce products to meet our basic needs then we will have to consider importing these products. If that happens it will be very expensive and this might impact on our local economy and may result in high unemployment as well. It is important to know that either directly or indirectly, everyone is linked to primary industries.

In summary, primary industries are vital to a business environment as they are the beginning point of economic activity. In addition, primary products affect our daily lives. Primary industries provide the resource base for the development of secondary industries.

Figure 2: An example of a primary industry
WHAT IS A SECONDARY INDUSTRY?
Secondary industries include companies and organizations that create finished, usable products. Product creation involves design, development, and production of finished goods. This sector generally takes the outputs of the primary sector and manufactures finished goods. These goods are then either exported or provided for sale to domestic consumers. Many of these industries consume large quantities of energy and require factories and machinery to convert the raw materials into goods and products.

Let’s now look at some examples of secondary industries found in our environment.

<table>
<thead>
<tr>
<th>Examples of Secondary Industries</th>
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<tr>
<td>• Automobile manufacturing</td>
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<td>• Food processing (e.g. canned fruit production)</td>
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<tr>
<td>• Engineering industries (e.g. steel production)</td>
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</tbody>
</table>

Why Are Secondary Industries Important?
As we have learnt from our previous topic, the final product is not produced until the secondary industry. It is therefore vital to have the secondary industry in the economy. To satisfy the needs and wants of the consumers, the secondary industries exist for that reason. It also relieves the primary sector from having to take in too much load if they are asked to extract and process products at the same time.

Another important factor to have secondary industry is that this is the connecting point between the primary industry and the tertiary industry. After products are produced, businesses need to get them to their customers through suppliers or tertiary industry businesses.

Secondary industries are important in our economy because they play an important role in the process of producing consumer products. They are often referred to as goods-
producing industries. It is important that you know the distinction between the two industries and their functions in the economy in order to understand a business environment that you are entering into as an entrepreneur.

**Activity – Definitions**

Think of a secondary industry product that you are familiar with in your community or country. Outline the steps that this product goes through from raw materials through to a finished product.

Write your answers in your personal journal.

Let’s go on to the last definition in this section of the course, tertiary industries.

**WHAT IS A TERTIARY INDUSTRY?**

Businesses and organizations in the tertiary sector of the economy provide the services to the consumers. The range of services provided is so large that this sector is generally divided into categories in order to take into account the wide range of businesses. Some of these categories are finance, education, health care, legal, banking, and retail sales.

The tertiary sector includes provision of services for other businesses (business to business or B to B) as well as consumers (business to consumer or B to C). These services may include transportation, distribution and the sale of goods from the producer to the consumer through wholesaling, and retailing. The goods may be transformed in the process of providing the service, as it happens in the restaurant industry. Tertiary industries are also referred to as service industries.

**Examples of Tertiary Industries**

- Hospitality and tourism (e.g. hotels, restaurants, eco-tourism)
- Banking
- Financial services (e.g. accounting, investment)
- Technology services (e.g. internet access)
- Insurance (e.g. car, home, life)
INDUSTRY SIZE
In many countries, the majority of businesses are small to medium sized enterprises often with fewer than 50 employees. In fact most entrepreneurs start their business with less than five people and then grow their companies as a business environment warrants. These businesses are often referred to as micro enterprises. In many countries (particularly those in the developing world), these micro businesses represent a significant portion of the local economy.

Self-Reflection Questions

Think of small and medium-sized businesses that you are familiar with in your local community. What kind of services do they provide? How successful do they appear to be?

Write your answers in your personal journal.

TOPIC SUMMARY
In this topic you have learned the definitions of primary, secondary and tertiary industries and about their importance in the local and global goods and services economies. You have also learned about the contributions of micro, small, and medium-sized enterprises to local and global economies.

Now let’s move on and consider the issues related to choosing an appropriate business model for a new enterprise.
TOPIC 1.2 – CHOOSING A BUSINESS OWNERSHIP MODEL

TOPIC INTRODUCTION
Prospective entrepreneurs are well advised to research the types of business structure that suit the kind of entity they intend to establish. Entrepreneurs should clearly understand the economic and market conditions of the environment within which they want to establish a business.

After considering these issues, it is important to understand the types of business ownership structures that are available within the country or jurisdiction as well as the legal requirements applicable to business operations.

This topic will explain the factors considered by entrepreneurs when establishing a suitable business ownership model.

One of the first decisions an entrepreneur faces when starting a new business venture is selecting an appropriate form of ownership. In most cases entrepreneurs do not give much attention to choosing a proper form of ownership, instead they prefer a choice that is most commonly used by other entrepreneurs without due regard to their capabilities. Such preferences may lead to business failures in the long term. Changing from one form of business that is already running to another is possible but may not be cost effective and tends to be very difficult to convert. That is why it is important for an entrepreneur to make informed decisions right from the beginning. The right approach for the entrepreneur is to take his/her time and learn more about the various forms of business ownerships. A choice of the appropriate form of business ownership can then be made at this stage.

TOPIC OBJECTIVE
Upon completion of this topic you will be able to:

1. Describe the factors that need to be considered when choosing a business ownership model.

FACTORS TO CONSIDER WHEN CHOOSING A BUSINESS OWNERSHIP MODEL
There are a number of considerations that an entrepreneur should consider before making a decision on a business model for a new venture. These are:

- **Legal requirements** for establishing a business and complying with regulations e.g. tax requirements.
- The **expected ability** of the enterprise to exist independently of its owners.
- **Liability exposure** of the owners of the enterprise for the debts, and their share of the profits. Entrepreneurs must decide the extent to which they are willing to assume personal responsibility for their businesses’ obligation
- The **continuity** of the enterprise, including the extent of direct control.

- The **start-up capital requirements** as each kind differ in the ability to raise start-up capital

- **Business goals.** How big and profitable the entity will be. This will influence the form of ownership chosen

- **Management succession plan.** Business owners must look ahead to the time when they pass on a business to the next generation

- **Cost of formation.** Some are more expensive than others, a point to be considered

**TOPIC SUMMARY**

You have now completed this topic on factors to consider when choosing a business ownership model. Before you move on to the next topic, take a moment to reflect on what you have learned by answering the following questions.

**Self-Reflection Questions**

*Now that you understand some of the considerations business owners must review before making a final decision on the choice of a business entity, state other factors that you think are also important to consider when choosing a business type in your vicinity and why?*

*Write your answers in your personal journal.*

Now, let’s move on to the next topic in this course on forms of business ownership.
TOPIC 1.3 – FORMS OF BUSINESS OWNERSHIP

TOPIC INTRODUCTION
Every entrepreneur will face decisions about the form of business ownership that their new company should take. This is an important decision and one that needs to take into consideration future growth of the business. In this topic you will learn about three common business ownership models and the advantages and disadvantages of each.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe the key differences between different business ownership models.
2. Determine which business ownership model best suits your business idea.

AN OVERVIEW OF LEGAL BUSINESS STRUCTURES
(Proprietorships, Incorporated Companies, Partnerships)

Since most entrepreneurs begin their business careers by starting a small business let’s consider some of the most common forms of small business ownership. These are:

- Sole proprietorships
- Partnerships
- Privately-held Corporations

This section of the course will provide you with an understanding of the advantages and disadvantages of each of these forms of small business ownership. You should also note that in some countries, there are multiple forms of incorporations (e.g. close corporations). These will not be discussed here.
**The Sole Proprietorship**

Let’s first define what is meant by a sole proprietorship. It is a business company that is owned and managed by one person and has no partners or co-owners. The owner can hire people to work for the company. The sole owner provides all of the capital (i.e. money and other assets) to run the company, makes all company decisions alone, manages the enterprise, and accepts total responsibility for the profits and debts.

There are a number of other factors associated with a sole proprietorship. For example, the lifetime of the enterprise is linked to that of the owner and there is no difference between private and business property. This often has tax implications. Also, if the enterprise fails and there are debts, creditors can pursue the owner’s personal assets.

At the same time, if the owner of a sole proprietorship business decides to discontinue operations, a business can be terminated quickly. The owner will still be personally liable for all the outstanding debts that a business cannot pay.

<table>
<thead>
<tr>
<th>Table 1: Advantages and Disadvantages of a Sole Proprietorship</th>
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<tr>
<td><strong>Advantages</strong></td>
</tr>
<tr>
<td>From a legal point of view it is easy to start and to close down a sole proprietorship.</td>
</tr>
<tr>
<td>All income belongs to the owner.</td>
</tr>
<tr>
<td>The functioning of the enterprise is simple and can be easily adapted to changing circumstances.</td>
</tr>
<tr>
<td>Being your own boss: sole proprietors always think working for a company is not so appealing than when one runs one’s business. Making mistakes in your business becomes your responsibility but so are your successes!</td>
</tr>
<tr>
<td>No special taxes paid as taxes are based on personal tax rate.</td>
</tr>
<tr>
<td>There are no special legal restrictions as it is the least regulated form of ownership.</td>
</tr>
<tr>
<td>Once all expenses are paid what remain as profit after tax belongs to the owner.</td>
</tr>
</tbody>
</table>
The future of the enterprise is limited not only in terms of its establishment, but also in terms of expansion. A sole proprietorship can develop to a level where it exceeds the owner’s capital means. If more capital is to be secured, then the form of the enterprise may have to be changed.

**PARTNERSHIPS**

A partnership is formed when a group of people agree to combine their capital, labour, know-how and experience with the aim of making a profit. At least two and not more than 20 people conclude an agreement preferably drawn up by an attorney and should contain names of the partners, name and nature of the enterprise, and establishes the contribution, salaries of the partners, division of profits and other aspects of the partnership.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunities of obtaining capital are usually favourable and each partner can contribute to the capital of the enterprise.</td>
<td>It is not always easy to find suitable partners. Partners are jointly liable for the debt incurred by the other partners.</td>
</tr>
<tr>
<td>The legal requirements, such as a partnership agreement, can be dealt with easily.</td>
<td>Each partner is a principal and an agent of the enterprise and can commit his partners by his actions, for an example, by accumulating debts.</td>
</tr>
<tr>
<td>Pools management techniques, judgment and special characteristics of a number of people</td>
<td>The partnership is dissolved if there is any change in its composition thus the life expectancy of the partnership is uncertain.</td>
</tr>
<tr>
<td>Partners are taxed in their personal capacity, profits are shared and taxed separately</td>
<td>It is sometimes difficult for a partner to withdraw from an agreement.</td>
</tr>
</tbody>
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**PRIVATELY-HELD CORPORATION (PRIVATE COMPANY)**

There are several differences between a private company and a business ownership structures discussed previously in this part of the course. Technically a company is a legal person in its own right. It has a ‘life’ independent of its shareholders. There are various kinds of companies, like the private company, the public company, and the company limited by guarantee (such a company does not issue shares and is not profit-orientated). In general, a private company is the most suitable type for a small businessperson. In many countries, a private company is limited to a maximum number of shareholders (e.g. 50),
must be registered with the Registrar of Companies and is identified by the words ‘(Proprietary) Limited’, ‘(Pty) Ltd’, or Limited Liability Company (LLC) after its name.

Since most entrepreneurs will either begin with or migrate to a private company structure over time, let’s take a look at the advantages and disadvantages this kind of business ownership model.

**Table 3: Advantages and Disadvantages of a Private Company**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company is a legal person in its own right therefore exists independently from its shareholders. This status overcomes some of the disadvantages of a sole proprietorship and a partnership.</td>
<td>A private company must meet various extra costs, such as founding costs, annual subscriptions and the cost of issuing shares.</td>
</tr>
<tr>
<td>A company’s shareholders have limited liability for the debts incurred by the company.</td>
<td>There are extensive prescriptions for establishing and managing the company.</td>
</tr>
<tr>
<td>Shares and therefore ownership can be transferred.</td>
<td>Owing to the compulsory publication of its statements, constitution, etc., the company’s business is known to everyone, including its competitors.</td>
</tr>
<tr>
<td>The private company is free of many formalities required of a public company.</td>
<td></td>
</tr>
<tr>
<td>The company and its members are taxed separately</td>
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</tbody>
</table>

**TOPIC SUMMARY**

You have now completed this topic on the legal forms of business ownership. You should now be able to describe the common legal forms of business ownership generally used by small businesses, their advantages and disadvantages. In addition you now have a better understanding of a business ownership factors to be considered by entrepreneurs before setting up a business. Before you move on to the next topic, take a moment to reflect on what you have learned by answering the following questions.

**Self-Reflection Questions**

Does the concept of limited liability apply to a sole proprietorship? Why or why not?

Forming a corporation is more complex than forming a partnership. Why do you think that is the case? Explain and support your answer with examples. Why would investors tend to favour a new business led by management team over one owned and managed by a lone entrepreneur? Is this justified?

Write your answers in your personal journal.
TOPIC 1.4 – THE BUSINESS TEAM

TOPIC INTRODUCTION
As has been stated previously in this course, entrepreneur’s typically run small to medium sized businesses. In many cases, they must ‘wear several hats’. That is to say, they must be able to address many of the operational and managerial functions that are required to make a business run successfully. In this topic you will briefly be introduced to a range of business operations functions. In large companies, these functions are typically addressed by significant numbers of individuals often with highly specialized training. Leaders of small businesses need to find ways to deal with all of the operational requirements of a business with a small compliment of staff in most cases.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe a range of operational functions of a business.
2. Describe how each of these operational functions contributes to the overall success of a business.

AN OVERVIEW OF BUSINESS OPERATIONS
Before providing an overview of the various business operations functions and roles that an entrepreneur must consider when setting up a business, let’s discuss why business operations are important to a business’s success.

Every business is in business to make money or generate revenue from assets (i.e. the products and services that a business provides to its customers). In any company a number of business operations roles contribute to securing revenue which will increase the value of a business’s assets and presumably a business’s profitability.

So what are these roles and how would an entrepreneur address them in a small or medium sized company? In this section of the course we will begin by describing the following eight operations roles or functions:

- Production
- Research and development
- Finance and administration
- Marketing
- Sales
- Customer service and support
- Human resources
Since this course, like a number of other courses in this program are intended to introduce you to the language of business, it is important that we briefly introduce these terms now. A number of these operations roles will be described in more detail in Unit 3 of this course. For now, let’s review briefly what each of these business operations functions is about.

**Production**

Many small businesses begin with an idea to produce a product that an entrepreneur thinks will appeal to a certain segment of the population. Physical production of the product for sale is an important part of getting the product to market. For a physical product this role ensures that supplies needed to make the product are readily available for the production process, ensures that the production process operates smoothly and efficiently, and checks the product at various points in the production process for flaws to ensure the quality of the finished product.

**Research and Development**

Although most entrepreneurs will not operate companies that engage in sophisticated research and development operations it is important that you understand the role that R & D plays in defining and refining a product.

Research and development (R&D) is most often associated with the invention of new products. While this is very important, the development of existing products is of equal importance. Consumers often change their preferences or want new features. This is particularly true for technology-based products and services.

Product research and development is needed to come up with new ideas that will address the future needs of customers and to encourage new customers to try a company’s goods and services. The following diagram illustrates the flow of an R & D operation within a company.

![Figure 4: Example of a manufacturing production process](image)

![Figure 5: The R & D Process](image)
As shown in the diagram, prototype development involves two processes: market research and the design of a prototype. A prototype is a sample or model that is used to test a concept. Market research is intended to inform the design of the prototype so that when the product is released to the market it is clearly aligned with what consumers are saying they want and need.

Following the design of a prototype it is necessary to produce a small number of the product during what is called a pre-production phase. These prototype products are then taken to a segment of the market and tested with potential consumers.

After feedback is gained from consumers, the prototype is refined and if the product was well received in the market, the final version can be manufactured and sold. Customer orders can then be fulfilled.

Finance and Administration

Effective financial management is a key to business success. Although, most small businesses will not have an internal finance and administration group to draw on they are well advised to seek out the assistance of a professional accounting firm to provide assistance and support.

Sound financial planning and management has a number of important impacts on the overall operation of a business.

- **It is the key to operational success**
  Regardless of the size of a business it is important to make a range of operational decisions based on financial information. Taking this approach will enable an entrepreneur to ensure that scarce resources are being allocated where they are needed. The performance of a business must be measured by its financial results. The degree to which it is profitable can only be known by applying financial management principles.

- **Assists in the coordination of various functional activities**
  Effective financial administration allows a business to coordinate operational functions and determine where resources are most needed. It allows the business to have its day to day needs met. This is critically important to all of the other business functions in a company including production, R & D, sales, marketing and customer service.
• **Provides a focal point for decision-making**
  Decisions in business are most often taken in light of profitability. Effective financial administration will provide a business owner (an entrepreneur) with statistical information in the form of financial statements and reports that can be used to evaluate current performance and inform decisions that impact the goals of the business.

**Marketing**
Financial success also depends on marketing ability. Finance, operations, accounting, and other business functions will not really matter if there is not sufficient demand for a company’s products and services.

Large companies have positions specifically designated to provide marketing leadership. As a small business owner you may not have the luxury of having a marketing division or even a single individual responsible for this function but you will need to find ways to ensure that potential customers know about your products and services.

Marketing is tricky, however, and it can be the Achilles’ heel many companies. Marketing managers must make major decisions such as:

- what features to design into a new product
- what prices to offer customers
- where to sell products
- how much to spend on advertising or sales

Companies at greatest risk are those that fail to carefully monitor their customers and competitors and to continuously improve their offerings. They take a short term, sales driven view of their business and ultimately, they fail to satisfy their shareholders, their employees, their suppliers, and their partners.

**Sales**

The sales operations of a business helps to generate the revenue that will allow you to pay your employees, cover operating expenses, buy more inventory, market new products and attract more investors. Forecasting sales is an important part of the financial planning function of a business. Sales forecasts are attempts to predict future sales performance based on past and current performance.

With an accurate sales forecast in hand, you can plan for the future. Most businesses have what are called ‘sales cycles’. This means that throughout the course of a year they experience more sales in one quarter than another. For example, a company may see a pattern of sales such as the following:
This type of sales cycle means that if you are selling 30% of your products in April and you have to increase your manufacturing capacity early in the year to ensure that you can fulfill orders in April.

Sales forecasts are also an important part of starting a new business. Almost all new businesses need loans or start-up capital to purchase everything necessary supplies and equipment and to hire staff.

To obtain the necessary capital (i.e. money) from a funding source just as a bank it will be necessary to build a business plan. You will learn about how to do that in another course in this program but for now let’s consider the importance of a good sales forecast as a part of a business plan.

If your business is a start-up or new business you won’t have any sales history to rely on so you will have to do some research about related businesses that operate in the same geographical market with a similar customer base. Your business ideas will need to be expressed as numbers -- losses, profits and sales forecasts that the bank (or other lending or investment institution can easily understand).

As your business grows, sales forecasts continue to be an important measurement of your company’s health. When attracting new investors to a private company, sales forecasts can be used to predict the potential return on investment.

The overall effect of accurate sales forecasting is a business that runs more efficiently, saving money on excess inventory, increasing profit and serving its customers better.

**Customer Service and Support**

A primary reason for companies to provide excellent customer service and support is that it will help them retain existing customers and attract new ones.

Retaining customers produces many positive benefits for a business in addition to revenue and potential profits. Here are some of the benefits of providing excellent customer service:
• Improved staff morale and motivation. When customers are happy staff are happy and more productive. It is easier to retain staff and not have to incur the costs of training new staff.

• Positive customer experiences also result in fewer instances where customers feel the need to take legal action to settle disputes.

• Without a constant barrage of complaints, the business and its staff can focus on being proactive in areas that will help to stimulate growth, innovation, and the development of the company.

• Positive customer experiences also result in positive word-of-mouth business and the potential to reach new customers.

One of the main factors in keeping a customer - even if the situation appears irretrievable - often comes down to a simple apology or update - just by keeping someone informed and avoiding upset - and compare this with the huge costs of acquiring a new customer.

The costs of gaining a customer (R & D, Production, Marketing, Sales) can be 10 to 100 times greater than retaining a customer through providing a positive customer experience.

Many businesses seem to be unaware of the importance of providing great customer service and support. Instead they focus their attention on other aspects of the business and neglect the only thing that really matters to the customer, namely the quality of customer service.

One of the most important elements in providing excellent customer service is communication. Customers like to be treated with respect and want to be able to communicate with a person who understands their needs and is responsive to their requests.

Providing excellent customer service requires thoughtful design and planning. Staff providing this function must be able to be empowered to provide feedback and suggestions for the on-going improvement of customer service since they are the ones on the front lines and are the `voice` of the customer.
Improving customer service (especially empowering and listening to customer service staff) offers many organizations a bigger return on investment than any other business initiative.

**Human Resources**

The final business operations function that we will consider in this topic is role of human resource management.

Among a number of other functions, human resource managers are responsible for managing labour relations. Having strong relationships with the work force is critical for a business since it will help a business achieve its objectives.

Beyond managing labour relations, a human resource manager performs a number of other functions. These functions will be described in more detail in Unit 3 later in this course. For now, we will just mention the following tasks that HR managers typically undertake in a business. HR managers will:

- Assist other managers and advise them on the interpretation of human resource management policy.
- Diagnose organizational efficiency by focusing on productivity, absenteeism, grievances and the morale of employees.
- Propose and implement uniform personnel policy and procedures for the business.
- Assist other managers in the recruitment and appointment of staff.
- Take necessary steps to train the employees to higher level of competence so that they can make a greater contribution towards achieving the objectives of a business.
- Ensure that the working conditions as well as employment conditions are such that the employees wish to remain in the service of the organization.

**TOPIC SUMMARY**

You have now completed the topic on the functions and roles of the business team. You should be able to describe the importance of each of the following business operations:

- Production
- Research and development
- Finance and administration
- Marketing
- Sales
- Customer service and support
- Human resources

Now let’s conclude this topic by considering a case study in small business entrepreneurship from Africa.
CASE STUDY: SMALL BUSINESS ENTREPRENEURSHIP

The case study on the next page is based on articles that appeared on the Microloan Foundation website (http://www.microloanfoundation.org.uk/Home). The case study describes the experience of entrepreneurs in Malawi who saw a need and started their own small businesses. Read the description of two small business entrepreneurs in Malawi on the next page and answer the questions that follow.
BUSINESS ENTREPRENEURS IN MALAWI

BACKGROUND RESEARCH

Many businesses start ups fail because of inadequate market research. Overcrowded sectors, insufficient customer awareness, wrong location - the list of potential pitfalls is almost endless. In Malawi however the situation is very simple.

There is not a great deal of choice available, because of course there would be no market for hi-tech wizardry in a village with no electricity, nor branded consumer goods for people who have never seen a television. So there is no temptation to come up with a revolutionary new concept, product or service and then try to find a market for it.

People need food, and people need clothes, and to a limited extent people need things like fishing lines and firewood. Agnes Mwaremware lives in a village located 5 km down a deeply rutted dirt track. To get to the main road villagers had to walk this distance and then travel to the nearest trading centre crammed into the back of a heavily overcrowded pickup truck. One or two of her neighbors had invested in the ultimate convenience, an exceedingly elderly bicycle, but found themselves at a loss when the chain broke, or the brakes failed, or (as often as not) the whole thing fell apart. Agnes spotted her niche and now runs a stall supplying bicycle spares to her community. This is not the sort of market research that would move mountains, but it is nevertheless based on sound analysis and common sense. It is not surprising therefore that her business is doing well.

LEGAL POSITION

How often do would-be entrepreneurs come up with a terrific idea only to have it fail because they cannot negotiate change of use for a premises, permission for alterations or construction, or they fail to observe the necessary rules of environmental health and local planning requirements? In Malawi, no one would dream of setting up a business before first consulting the local chief or village head man. True, this may be a matter of common courtesy rather than a legal requirement, but understanding the permissions that a business needs to trade is an important piece of the start-up framework.

The same principles, although more complex and extensive (health and safety, equal rights, to name just two examples) apply in the developed world.
LOCATION AND ROUTE TO MARKET

The choice of where to trade in Malawi is again governed by simple rules. It has to be somewhere that people can get to. It has to be somewhere that needs the product or service. And (importantly) it has to be somewhere from which the trader can easily obtain his or her raw materials or commodities. Often the simplest choice turns out to be best. Adija Msw for example borrowed £15 and started selling tomatoes on a makeshift table outside her mud hut. Her home is several kilometers from the nearest trading centre and in the middle of a well populated village settlement. She knew that she would have a ready market because her villagers often complained about having to walk into town to buy their supplies. Adija is Malawi’s answer to the corner shop and the profits from her business support a family of 12 dependents. She now sells fish and firewood as well.

In the age of e-commerce and sophisticated distribution models, identifying a location and route to market is just as crucial for business start-ups in the developed world.

SMALL IS BEAUTIFUL!

As the example from Adija's business shows, it is not always either necessary or desirable to over-invest in fixed assets at the start of a business undertaking. Adija has had to expand her operation to accommodate the firewood but she has taken the simplest route again - she stacks it neatly on the ground.

'Quality' is often defined (quite rightly) as 'fitness for purpose'. The lessons from Third World business start-ups are valuable ones for the developed world too - find common-sense solutions to business start-up and growth challenges. Unnecessary overheads will result in higher prices for your customers, so keep solutions simple and practical.

As well as providing an inspirational lesson in team-working, the team approach to Malawi business start ups demonstrates the value of effectiveness of working in a team towards a collective aim, even though each individual team member has her own particular activity and focus.

This is rather like the collective sense of teamwork and mutual support that individual departments should aspire to in modern corporations and organizations. Individual different responsibilities brought together with a collective vision and commitment. It's powerful stuff.

By distilling the components of successful start ups from these third world examples down to their lowest common denominators we can learn some simple and valuable lessons that transfer easily to the modern western world. The scale may be different, the technology may be more advanced, but the principles are the same.
Case Study Questions

What do you think are the most important lessons learned by the entrepreneurs in this case study?

How would you apply these lessons to your small business idea?

Write your responses in your personal journal.
UNIT ONE SUMMARY

In this unit you have gained an understanding of the business environment, how a business operates and the key business operations functions that need to be addressed by entrepreneurs if they are to run a successful business. You have also considered the various forms of business ownership models and their advantages and disadvantages.

NEXT STEPS

In the next unit, you will have the opportunity to consider the importance of gaining an understanding of an industry before launching a new business venture. You will also learn about the factors that affect the micro and macro business environments and the importance of market intelligence.

REFERENCES


UNIT TWO – ANALYZING A BUSINESS ENVIRONMENT

UNIT INTRODUCTION

Entrepreneurs starting a business “need to do their homework”. What this means is that they need to understand the industry that they will try to launch their company in and understand the market conditions and circumstances that affect that industry. This unit provides an overview of the issues related to both industry and market considerations for new entrepreneurs.

Any business environment is affected by a number of factors. These factors can be described as either micro or internal factors and macro or external environmental factors. In this unit, both the internal and the external factors that influence a business will be discussed.

The first two topics of this unit are intended to provide you with some definitions of common business terms and an understanding of the importance of the use of business analysis tools. The last two topics provide a more in-depth presentation of selected analysis tools.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Demonstrate an understanding of the importance of industry and market intelligence prior to starting a business.
2. List the factors affecting the micro environment of a business and describe their importance.
3. List the factors affecting the macro environment of a business and describe their importance.
4. Explain why it is important for a business to respond to the changing business environment in order to stay in business.

ASSIGNMENTS AND ACTIVITIES

There are a number of learning activities and assignments throughout this unit. The major assignment for this unit involves a business environment analysis for a business idea that you created as a part of the first course in this certificate program. This exercise is intended to provide you with a practical approach to understanding the issues that a small business faces. As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.
The Business Environment

TOPIC 2.1 – THE IMPORTANCE OF INDUSTRY ANALYSIS

TOPIC INTRODUCTION

Industry analysis is a tool that helps a business to understand its position relative to other businesses that produce similar products or services. In order to effectively plan a business operation, it is necessary to have good understanding of the industry forces that will affect a business. This understanding enables small business owners to focus their often limited resources on the development on products and services that will distinguish them from other businesses in the marketplace.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Define what is meant by industry analysis.
2. Describe the importance of undertaking an industry analysis prior to entering into a market with a new business venture.

DEFINING INDUSTRY ANALYSIS

Every business owner is looking for a competitive advantage when they launch a new business venture. This advantage can be achieved by starting with an industry analysis.

Basically, industry analysis is a market strategy tool that helps businesses to determine how they want to enter a particular market. Industry analysis typically will involve looking at factors such as:

- The underlying economic conditions that are in place at the time including supply and demand
- Competitors that are in the same market space
- Future conditions
- Government regulations

"Many small business owners and executives consider themselves at worst victims, and at best observers of what goes on in their industry. They sometimes fail to perceive that understanding your industry directly impacts your ability to succeed. Understanding your industry and anticipating its future trends and directions gives you the knowledge you need to react and control your portion of that industry. However, your analysis of this is significant only in a relative sense. Since both you and your competitors are in the same industry, the key is in finding the differing abilities between you and the competition in dealing with the industry forces that impact you. If you can identify abilities you have that are superior to competitors, you can use that ability to establish a competitive advantage."

By looking at these factors in a systematic way a business (even a small business) can determine a strategic course of action.

Let`s now take a look at each of the factors outlined above in a bit more detail.

**Economic Factors**

There are a number of economic factors that can impact a business. If the business is providing a product its ability to produce and supply the product to its customers can be affected by the availability of raw materials and the cost of these materials which in most cases will be variable depending upon market conditions. For example if fuel is required to manufacture plastic, and the price of fuel jumps due to global market demand, the profit margin of businesses will be affected.

**Competitors**

A useful industry analysis will always include information about a business`s competitors. This includes knowing how many there are, how big they are, and which geographic markets they are focusing on.

**Future Conditions**

An important part of any industry analysis is gaining an understanding of where the industry is in the business cycle. In other words, it is important to know if the market is an emerging market, a market that is in a steady state, or one that is in decline. This knowledge will help a prospective business to determine whether or not it should enter the market or move on to the next business idea.

**Government Regulations**

Government regulations and taxation can have an enormous impact on the viability of a new business enterprise. Taxes and fees add cost to business and reduce profits. Having a good understanding of government regulations prior to entering a market is an essential piece of business intelligence.

**TOPIC SUMMARY**

You have now completed this short topic on the importance of industry analysis. You should have a better understanding of what industry analysis is and why it is important for small business entrepreneurs to consider a number of factors that affect the industry sector that they wish to enter.

Now, take a moment to consider the following question before moving on to the next topic.
Self-Reflection Question

In relation to your business idea, what industry factors are the ones that will have the greatest impact? Why do you think that is the case?

Write your answer in your personal journal.
TOPIC 2.2 – AN OVERVIEW OF MARKET ANALYSIS

TOPIC INTRODUCTION
In this topic, you are going to learn about market analysis and why it is important for small business entrepreneurs to understand and incorporate it in their business practice.

The goal of a market analysis is to determine the attractiveness of a market and to understand the opportunities and potential barriers to market entry. These factors are considered in relation to a company’s strengths and weaknesses.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe the dimensions of a market analysis.
2. Describe why it is important for a small business to undertake a market analysis prior to entering a market with a new business idea.

DESCRIBING MARKET ANALYSIS
What is it? Why is it Important?

There are a number of ways to describe market analysis. The dimensions that are usually considered in a market analysis are:

- Market size (current and future)
- Market growth rate
- Market profitability
- Industry cost structure
- Distribution channels
- Market trends
- Key success factors
Let’s now consider each of these and why it is important for small businesses to understand the value of collecting this type of data prior to market entry. It is also important to recognize that most companies rely on re-existing sources of data that are readily available. They don’t ‘re-invent the wheel’ and incur costs as a result. There is a significant amount of data available at no cost or minimal cost that you can tap into.

**MARKET SIZE**
Having a thorough understanding of market size is an important consideration for any business owner.

Simply put, market size is the number of buyers and sellers in a particular market. Estimating these numbers can be tricky and you will need to consider the number of buyers that you can reach. You will also have to consider whether it is more important to be a big player in a small market or a small player in a big market. Most often when seeking capital investment (or venture capital), being in a big market makes a difference.

**Market Growth Rate**
Market growth rate is the annual increase in product sales within a given market. Consider the following news release related to the global cell phone market.
Predicting the growth of the market will help you to plan for expansion (in a growing market) or contraction (in a declining market). It will also assist you in determining how to approach the market and take advantage of your business’s unique products and services.

**MARKET PROFITABILITY**

Market profitability is the really a measure of the attractiveness of a particular market to buyers or consumers. You may think that you have the most interesting and attractive product but if buyers are attracted to it you are not likely to have a successful or profitable business.

**Industry Cost Structure**

Profitability is also influenced by the cost structure of an industry. A cost structure refers to the categories of expenditures that a business incurs in the normal course of its business. For example, computer industry has costs related to manufacturing and shipping. These costs may change over time and result in an industry becoming more or less profitable.

Understanding an industry’s cost structure will enable a business to make decisions that are to its competitive advantage. It may, for example, be able to manufacture and distribute a product at a below industry average cost and thereby gain a competitive advantage.

**DISTRIBUTION CHANNELS**

An effective market analysis will also help you to consider the impact of distribution channels on your business. Analyzing distribution channels to determine how directly they reach customers is an important part of determining how you want your business to behave in relation to its competitors. It is also important to look for new trends and emerging channels. Where at one time the typical channel may have been via postal delivery, today it may be through the Internet. Understanding which channels consumers are opting for to receive a service or product can provide a business with a competitive advantage.
**Market Trends**
Market analysis will also help you in collecting data about market trends and how your competitors are responding to these trends. Some of these trends may relate to consumer behaviour and preference and other might relate to innovation leading to new products and new markets.

**Key or Critical Success Factors**
It is also important to understand what the key or critical success factors are for market entry and growth of a business. Critical success factors are typically those things that must go well for the business to succeed. For example, if your business is the manufacture and sale of wooden doors, a steady and affordable supply of high quality wood is likely a critical success factor for your business. This will ensure both your current operational needs and future success.

**Topic Summary**
You have now completed this short topic on the importance of market analysis. You should have a better understanding of what market analysis is and why it is important for small businesses as they enter new markets.

Now, take a moment to consider the following question before moving on to the next topic.

*S elf‐Reflection Question*

After considering all of the market analysis dimensions in relation to your business idea, what do you think are the key success factors for your new venture?

*Write your answer in your personal journal.*
TOPIC 2.3 – MACRO BUSINESS ENVIRONMENT ANALYSIS TOOLS

TOPIC INTRODUCTION
A business environment is constantly changing and it is important for a company to understand those changes and determine their impact. In this topic we will discuss the factors that influence the macro-environment of a business. When we talk about the macro-environment of a business, we are looking at the external environmental factors that have an impact on a business. These factors are forces beyond the control of a business but when variables in these factors change a business will be indirectly affected. It is therefore very important that they business constantly become aware of these changes so that they can act and react in a way that a business will survive. These factors influence the internal functions of a business and thus forces a business at some stage its objectives and its strategy for way forward. They are Political, Economical, Social, Technological, Environmental and Legal factors also known as PESTEL. Let’s now discuss these factors in more detail.

TOPIC OBJECTIVES
Upon completion of this lesson you should be able to:

1. Discuss for all the factors affecting the macro-environment of a business
2. Give real examples of the affect of these factors to the dealings of a business.
3. Explain the importance why entrepreneurs should be aware of changes to the environment

PESTEL ANALYSIS
In this section of the course you will be introduced to the macro business factors that are collectively known by the acronym PESTEL. As an entrepreneur it is important that you have a good understanding of the Political, Economical, Social, Technological, Environmental and Legal factors that will impact your business. The following Venn diagram illustrates that each of the factors will touch your business in some way. Knowing how they will impact your business is an important part of the job of an entrepreneur.
The next section of this topic describes each of the PESTEL factors in detail.

**POLITICAL FACTORS**
Politics believe it or not is a big influence in the way we run our businesses. That is when government changes policies and regulations it is likely that businesses will be affected as a result. When government puts in place or change policies that will affect things like education for the workforce, general health policies as well as the qualities of infrastructure, the economy will have some drawbacks which directly or indirectly will affect businesses.

**Examples – Change in Government Infrastructure Policy**

*Switching the side of the road that vehicles drive on in Samoa affected rental businesses and other transportation businesses who were importing left-hand cars. E.g. Toyota, Hyundai.*

*The Samoan government decided to close the nightclubs early for safety reasons due to the road switch. This affected the income of the club owners as it dramatically their business. A lot have considered opening their doors early to the public to make break-even. For some club owners it was just too much to handle and they ended up going out of business.*

Figure 10: PESTEL Factors Affecting a Business
A few government policies changes have reflected on some businesses that were in operation for many years. As a result, they have had to change their objectives to meet the needs of their customers. Let us have a look at a classic example of a government policy change.

**Awareness of Political Policy Changes**

The above example is an indication of what can happen to a business if they do not know how to react to such changes. Because the moves are out of the control of the entrepreneur, the only way they can stay in business is to re-consider its strategies to be able to continue operations.

**Self-Reflection Questions**

*Think about the political situation in your home and then recall any significant policy changes that you know affected a business. What was the policy about and what were the impacts on businesses? If you were to change that policy, how would you do it differently? (Discuss this in a paragraph or two)*

*Write your answers in your personal journal.*

**Economic Factors**

Let us now look at our next topic. Economic factors are all the variables in the economy that influence businesses if they were to change dramatically. They include interest rate, taxation, economic growth, exchange rate as well as global factors that trickle down to our economies.

**Examples**

- Higher interest discouraging people to invest and/or to borrow leaving the banks uncertain.
- Strong currency means exporting will be difficult due to the increase of price due to terms of foreign currency.
- Inflation forces business to raise the salary for employees and people will demand for more money.

**Inflation**

Inflation has increased a lot in recent years. This has reflected in the continuous rising of the prices in all the goods and services. This was not only affected by continuous natural disasters that affected some parts of the world but also the recent global recession which impacted on the stock market and the trickle-down effect to every other nation. Businesses
have had to react instantaneously to compact the full effect of the crisis by drastically increasing the prices of goods and services to continue.

**Taxation**

Whether it is income tax or value added taxes on goods and services, any changes in taxation will very likely result in a change in revenue for a business. Businesses will be forced to increase their prices if the tax on goods and services will increase. In return, they will charge more for their goods and services to make up for all the money going to the Ministry of Revenue or Department of Revenue.

**Interest Rates**

In most countries central and reserve banks control or have influence over significant parts of the economy. This is their way of keeping commercial banks (i.e. private banks) from increasing interest rates thus making it difficult for people to borrow money. With the recent global recession, a lot of commercial banks were affected globally. Therefore, it was important for the Central or Reserve banks to control the interest rates the bank will charge or the public in general will be struggling to pay back the loan. For the banking industries, it meant their customers were afraid to borrow because they may not be able to pay back all the money.

Now let’s think about some of the impacts of these factors on your local economy.

**Self Reflection Questions**

In addition to increases in energy costs (e.g. oil), inflation and other factors, interest rates have dramatically increased in some parts of the world as a result of the recent global recession. What has the impact of this increase in interest rates been on your local economy? How do you think an increase in interest rates would affect an entrepreneur who is starting up a business? How important it is for the entrepreneur to understand the impact of interest rates?

Write your answers in your personal journal.

It is time to turn to some of the social factors in a business environment that can also have an impact on entrepreneurs.
SOCIAL FACTORS

One major impact on the environment of business is the social factor. Social factors are changes in the way consumers behave. The problems mostly occur when there is an ageing population or people migrating and also the way consumers, household and communities behave. When consumers change preferences, a business will also need to change the way their products are made in order to make money.

Businesses tend to set up in a more populated area because that is where the money is. When there is a change in buying habits of customers, a business will need to reconsider their strategy if they want to stay competitive. Consumer products change all the time because people change their preferences all the time. To continue satisfying consumers, a business needs to research into how the consumers behave.

Before going on, take a moment to think about the following questions:

**Self Reflection Questions**

*Identify a problem that you are currently facing with regards to the social aspect of a business environment.*

*Think of the location that you are hoping to set up your business, consider whether you will have any problems with social factors in your business environment.*

*Explain how you would address these problems if you are faced with them.*

*Write your answers in your personal journal.*
TECHNOLOGICAL FACTORS
The evolution of technology has changed the way businesses operate. If a business is not connected to technological innovations, it will find itself being left behind from the race.

Today, technology is needed everywhere and it makes things so much easier for businesses. New products are put through the market every year as innovative products are created for a niche in a market. Computers and the World Wide Web have enabled a lot of things for businesses. Example, marketing, selling and distributing to name a few are now down over the internet from the comfort of your home or office.

Examples
- Video conferencing (e.g. use of Skype) replaces face to face meetings
- Online stores enable direct to consumer purchases thereby eliminating the need for a retail store
- CD music business declines due to increase in downloaded music off of the internet

Self Reflection Questions
Identify any other business activities that technology can enable with ease. Would businesses be much easier without technology? Think of how technology will help you set up your business and make your business idea become a reality.

Write your answers in your personal journal.

ENVIRONMENTAL FACTORS
We have already discussed four factors that influence the external environment of a business. We will now look at what we know as environmental factors. This includes things like the weather, climate change, impact on temperature and other environmental factors.

A lot of natural disasters has taken place everywhere in the world lately. Certain parts of the world are vulnerable to certain natural disasters that might take place in their countries. For instance, the pacific is vulnerable to earthquake and tsunami simply because they are surrounded by the ocean. The African nations normally have problems with draught and of course the ozone layer being damaged by too much

Examples
- There is a campaign to reduce the consumption of plastic as a way of helping to save planet.
- Activists are campaigning to save the rain forest in Amazon Brazil.
pollution in the air. With these disasters happening everywhere, business needs to be aware of use strategies wisely so that they can be environmentally responsible.

A lot of businesses have become environmentally friendly by producing bio-degradable products as part of duty to protect the environment. With a widely awareness by consumers for more environmentally products, businesses are changing their mind sets by making sure they do their bit in saving the planet.

**Self Reflection Question**

*What will be the environmental impacts of your business idea?*

*Write your answer in your personal journal.*

**LEGAL FACTORS**

The last factor in the micro-environment is the legal factors that affect business indirectly. Legal factors are normally those variables within the legal environment which a business operates in. For instance, when business regulations change in a country, businesses will have to adjust to those changes.

For example, in many countries consumer laws have changed over the years in ways that give the consumer the right to sue any business if they are practicing unethically.

Another example is the employment of people with disabilities. Many governments also encourage the employment of people with disabilities and prohibit discrimination in hiring practices.

**TOPIC SUMMARY**

The macro-environment of a business consists of all the variables outside of a business. These are the factors that do not directly relate to a business but indirectly the changes in these factors will indirectly affect the way a business will operate. These factors are Political, Economic, Social, Technological, Environmental and Legal. Any changes to any of these variables will likely cause a business to change its strategies if they are to succeed.

Now let’s take a moment and reflect on what we have learned.

**Self-Reflection Question**

*After learning about all the factors that affect the external environment of a business, consider a business that you want to start and research a quick analysis of the environment of your business and write a short report on all the factors affecting your business.*

*Write your answer in your personal journal.*
Now that we have gone through the macro-environment we are ready to learn about the micro-environment of a business. This is sometimes also referred to as the internal environment of a business.
**TOPIC 2.4 – THE MICRO BUSINESS ENVIRONMENT**

**TOPIC INTRODUCTION**

In this topic, we will discuss the variables that affect the internal environment of a business. With the internal factors, a business can control these stakeholders because they deal with them on a daily basis. When there are changes to these factors a business will affect directly so they need to act and react efficiently if they are to stay on top of their business. You will be introduced to two new tools that will help you to undertake an analysis of the micro business environment. These tools are Porter’s Five Forces which will help you to analyze market structure and Porter’s Value Chain which is an analysis of value-added activities to a product or service.

Let’s now take a look at the objectives for this topic.

**TOPIC OBJECTIVES**

Upon completion of this lesson you should be able to:

1. Identify internal factors affecting a business (e.g. Customers, Suppliers, Distributors, and Competitors).
2. Discuss the importance for a business to stay focused on changes in the micro business environment.

**INTERNAL FACTORS AFFECTING A BUSINESS**

**Customers**

A business cannot survive without customers. Without them a business cannot be profitable. Sales managers have to determine in advance what the needs and wants of the customers so that they can provide these needs and wants. Focusing on satisfying the customer should be a major business priority. Businesses need to collect information so that they understand their customers’ needs and wants and are in a better position to satisfy them.

Methods of gathering information for a business include questionnaires, surveys, etc. Nowadays the internet has enabled not only the customer to search for the availability of what they are looking for but also gives a business more accurate information on what they customer is after. With that in mind, a business usually provides a variety of choices for the customers to consider.
Suppliers

A business needs suppliers to supply their products because not all the time they can produce their own products. What a business needs to make sure is to put control on the suppliers to make sure that quality products are being supplied. It must have a bargaining power with the suppliers and making sure they keep a good working relationship with the suppliers. It is important to keep that good working relationship.

Examples

In 2000 Ford’s image was damaged when tyres on its Explorer vehicles started exploding. These tyres were produced by Bridgestone and the supplier ended up recalling over 6.5 million tyres.

In 2007 Sony batteries in several Dell laptops caught fire which caused a terrible public relations issue for the computer manufacturer and led to over 4 million laptop batteries being recalled.

Source: © Oxford University Press, 2007

The above are examples of what can happen if a business is too reliant on a single supplier doing a good job.

Self Reflection Questions

Think of ways you could monitor your suppliers to make sure that they will always provide the best products possible.

Give local examples that you are familiar with of suppliers not honouring an agreement by not providing quality products.

Write your answers in your personal journal.

Distributors

The distributors are another factor that a business needs to control. Sometimes, products do not get to its final destination or somewhere along the way it gets damaged or they deliver it to another location. Of course these things happen which is why it is important for a business to have control of their distributors or their reputation will be tarnished by not delivering the products. The distributors will determine the final price and how the product is displayed for the customer. If a business’s product goes through a retailer, it is the retailer who determines how the product is displayed on the shelves as well as the final price of the product that needs to be sold to the customers.
When dealing with distributors sometimes it is difficult to have control over them so some suggestions on how a business can control its distributors is not to stick with one distributor because sometimes when you rely on someone too much they will tend to do whatever they are pleased. It would be a benefit to a business to contract two distributors so that they can be in competition with each other and thus provide a good service for a business. Another advantage of this strategy is that you can gain competitive advantage by using changing distribution channels. Big businesses like banks, hotels, insurance companies, rental companies and others have enjoyed many opportunities created by the Internet.

Self Reflection Question
What are the benefits of controlling your distribution channels?

Write your answer in your personal journal.

Competitors

The last factor of the internal environment that we will look at is the degree of competition. Some people would say that competitors are part of the external environment because a business cannot control its competitors. However, businesses need to understand their competitors approach if they are to gain sufficient market share to remain competitive. If a business is the only one in the market then it is a monopoly thus setting its own price and own way of doing business. The disadvantage of monopoly for customers is that it might be too expensive for the consumers to buy depending on the industry and a business.

Now, let’s move on to consider one of the ways to analyze the competitive structure of an industry.

PORTER’S FIVE FORCES ANALYSIS OF MARKET STRUCTURE

Over the past 30 years the most frequently used model for analyzing the structure of industries is the one proposed by Michael Porter in his 1980 book entitled: Competitive Strategy: Techniques for Analyzing Industries and Competitors.

Porter's model outlines how competition between and among businesses within an industry depends upon five forces:

- ease of market entry;
- the power of suppliers;
- the power of buyers;
- the availability of substitutes; and
- competitors.
In the next section of this topic, you will learn about each of five forces that Porter described in his book.

**Figure 11: Porter’s Five Forces**

### Ease of Entry

Ease of entry refers to how easy or difficult it is for a new business to begin competing in the industry. The ease of entry into an industry is important because it determines the likelihood that a company will face new competitors. In industries that are easy to enter, sources of competitive advantage tend to wane quickly. On the other hand, in industries that are difficult to enter, sources of competitive advantage last longer, and businesses also tend to benefit from having a constant set of competitors.

The ease of entry into an industry depends upon two factors: the reaction of existing competitors to new entrants; and the barriers to market entry that prevail in the industry. Existing competitors are most likely to react strongly against new entrants when there is a history of such behavior, when the competitors have invested substantial resources in the industry, and when the industry is characterized by slow growth. Some of the major barriers to market entry include economies of scale, high capital requirements, switching costs for the customer, limited access to the channels of distribution, a high degree of product differentiation, and restrictive government policies.

The likelihood of entering a market will be higher if:

- The entry costs are low e.g. if little investment is required in marketing or equipment.
• There are no major advantages to businesses that have been operating in the industry already in terms of their experience and understanding of how the market works (this is known as the "learning effect").

• Government policy makes entry relatively easy; for example low taxes, incentives by way of grant programs.

• Consumers switch brands easily – little brand loyalty.

• Existing businesses do not have control of supply.

Power of Suppliers

Suppliers can gain bargaining power within an industry through a number of different situations. For example, suppliers gain power when an industry relies on just a few suppliers, when there are no substitutes available for the suppliers' product, when there are switching costs associated with changing suppliers, when each purchaser accounts for just a small portion of the suppliers' business, and when suppliers have the resources to move forward in the chain of distribution and take on the role of their customers. Supplier power can affect the relationship between a small business and its customers by influencing the quality and price of the final product. "All of these factors combined will affect your ability to compete," Cook noted. "They will impact your ability to use your supplier relationship to establish competitive advantages with your customers."

Suppliers will be more powerful if:

• There are relatively few of them (so the buyer has few alternatives).

• Switching to another supplier is difficult and/or expensive.

• The supplier can threaten to buy the existing businesses so is in a strong negotiating position.

Power of Buyers

The reverse situation occurs when bargaining power rests in the hands of buyers. Powerful buyers can exert pressure on small businesses by demanding lower prices, higher quality, or additional services, or by playing competitors off one another. The power of buyers tends to increase when single customers account for large volumes of a business's product, when substitutes are available for the product, when the costs associated with switching suppliers are low, and when buyers possess the resources to move backward in the chain of distribution.

In summary, buyer power will be higher if:

• There are a few, big buyers so each one is very important to a business.
• Buyers can easily switch to other providers so the provider needs to provide a high quality service at a good price.
• Buyers are in position to take over a business. If they have the resources to buy the provider this threat can lead to a better service because they have real negotiating power.

Availability of Substitutes

"All businesses in an industry are competing, in a broad sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices businesses in the industry can profitably charge," Porter explained. Product substitution occurs when a small business's customer comes to believe that a similar product can perform the same function at a better price. Substitution can be subtle—for example, insurance agents have gradually moved into the investment field formerly controlled by financial planners—or sudden—for example, compact disc technology has taken the place of vinyl record albums. The main defense available against substitution is product differentiation. By forming a deep understanding of the customer, some companies are able to create demand specifically for their products.

Competitors

"The battle you wage against competitors is one of the strongest industry forces with which you contend," according to Cook. Competitive battles can take the form of price wars, advertising campaigns, new product introductions, or expanded service offerings—all of which can reduce the profitability of businesses within an industry. The intensity of competition tends to increase when an industry is characterized by a number of well-balanced competitors, a slow rate of industry growth, high fixed costs, or a lack of differentiation between products. Another factor increasing the intensity of competition is high exit barriers—including specialized assets, emotional ties, government or social restrictions, strategic inter-relationships with other business units, labor agreements, or other fixed costs—which make competitors stay and fight even when they find the industry unprofitable.

Rivalry among competitors will be greater if:

• there are a large number of similar sized businesses (rather than a few dominant businesses) all competing with each other for customers;
• the costs of leaving the industry are high e.g. because of high levels of investment. This means that existing businesses will fight hard to survive because they cannot easily transfer their resources elsewhere;
the level of capacity utilization. If there are high levels of capacity being underutilized the existing businesses will be very competitive to try and win sales to boost their own demand;

- the market is shrinking so businesses are fighting for their share of falling sales; and

- there is little brand loyalty so customers are likely to switch easily between products.

The implication of Porter’s analysis for entrepreneurs is that they should examine these five factors before choosing an industry to move into. They should also consider ways of addressing the five factors to make them more favourable for the market entry of their new business venture.

Porter is also known for a later work in which he proposed an approach to analyzing the value chain in an industry. In the next section of this topic we will consider value chain analysis as a way of determining the impact that a business’s internal organization has on its competitiveness within an industry.

**PORTER’S VALUE CHAIN ANALYSIS**

Michael Porter published the Value Chain Analysis in 1985 as a response to criticism that his Five Forces framework lacked an implementation methodology that bridged the gap between internal capabilities and opportunities in the competitive landscape. This framework focused on industry attractiveness as a determinant of the profit potential of all companies within that particular industry. However, significant differences in performance exist between companies operating within the same industry that can be explained either by the company’s participation in a successful strategic group or by a business’s specific competitive advantages.

Value Chain Analysis helps identify a business’s core competencies and determine those activities that drive competitive advantage. The cost structure of an organisation can be subdivided into separate processes or functions assuming that the cost drivers for each of these activities behave differently. Porter’s strength was to condense this activity based cost analysis into a generic template consisting of five primary activities and four support activities. The nine activity groups are:
Primary activities:
- *inbound logistics*: materials handling, warehousing, inventory control, transportation;
- *operations*: machine operating, assembly, packaging, testing and maintenance;
- *outbound logistics*: order processing, warehousing, transportation and distribution;
- *marketing and sales*: advertising, promotion, selling, pricing, channel management; and
- *service*: installation, servicing, spare part management.

Support activities:
- *business infrastructure*: general management, planning, finance, legal, investor relations;
- *human resource management*: recruitment, education, promotion, reward systems;
- *technology development*: research & development, IT, product and process development;
- *procurement*: purchasing raw materials, lease properties, supplier contract negotiations;

By subdividing an organisation into its key processes or functions, Porter was able to link classical accounting to strategic capabilities by using value as a core concept, i.e. the ways a business can best position itself against its competitors given its relative cost structure, how the composition of the value chain allows a business to compete on price, or how this composition allows a business to differentiate its products to specific customer segments.

The following table outlines some of the ‘pros’ and ‘cons’ of using Porter’s Value Chain Analysis.

<table>
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<tr>
<th>PROS</th>
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<td>Porter emphasized the importance of (re)grouping functions into activities to produce, market, deliver and support products, to think about relationships between activities and to link the value chain to the understanding of an organization’s competitive position.</td>
<td>The quantitative analysis is time consuming since it often requires recalibrating the accounting system to allocate costs to individual activities. Porter provided qualitative guidance for a quantitative exercise.</td>
</tr>
<tr>
<td>Porter emphasized the importance of (re)grouping functions into activities to produce, market, deliver and support products, to think about relationships between activities and to link the value chain to the understanding of an organization’s competitive position.</td>
<td>His analysis began with identifying the relevant activities that lead to competitive differences and are significant enough to influence the organization’s overall cost base.</td>
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<tr>
<td>PROS</td>
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<td>The value chain made clear that an organization is multifaceted and that its underlying activities need to be analyzed to understand its overall competitive position. An organization’s strengths and weaknesses can only be identified in relation to the profiles of its direct competitors. Competitive advantage is derived from an integrated set of decisions on these key activities.</td>
<td>The Value Chain Analysis should be accompanied with a customer segmentation analysis to mix the internal and external view. A feature or product provides a business with a differentiating competitive advantage only if customers are willing to pay for it. Customer value chains need to be analyzed to determine where value is created.</td>
</tr>
<tr>
<td>The Value Chain model was intended as a quantitative analysis. It can also be used as a quick scan to describe the strengths and weaknesses of an organization in qualitative terms.</td>
<td>The Value Chain is used to analyse a business's position in relation to its direct competitors with the assumption that rivalry drives profitability. This excludes other assumptions such as customer bonding.</td>
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**TOPIC SUMMARY**

You have now completed the last topic in this unit. In this topic, you learned about factors that affect the internal and external environments of a business. You were also introduced to some tools that can help you to analyze an industry and its structure and help you understand the market structure for the industry you wish to enter with your new venture.

Now it is time to work on a business environment analysis for the small business that you are thinking about starting.
ASSIGNMENT 1: BUSINESS ENVIRONMENT ANALYSIS

After learning about all the factors that affect the external and internal business environment, consider a business that you want to start and research and write a brief report using Porter’s market structure and value chain tools. Your report should be no more than 6 pages in length and should touch on each of the factors that will influence your business. You must support your analysis with data and information from reliable sources. Clearly indicate which sources you have used in a section at the end of your report. You may wish to use the template in Appendix 1 to help you organize your thoughts.

Write your report in your personal journal.
UNIT SUMMARY

In this unit you have gained an understanding of the business environment, how a business operates and the key business operations functions that need to be addressed by entrepreneurs if they are to run a successful business. You have also considered the various forms of business ownership models and their advantages and disadvantages.

NEXT STEPS

In the next unit, you will have the opportunity to consider the importance of gaining an understanding of an industry before launching a new business venture. You will also learn about the factors that affect the micro and macro business environments and the importance of market intelligence.

REFERENCES


UNIT THREE – BUSINESS OPERATIONS AND MANAGEMENT

UNIT INTRODUCTION

Welcome to the third unit in this course. As you learned in the last unit understanding a business environment is critically important for an entrepreneur. Having a solid understanding of how businesses operate is also essential for an entrepreneur to be successful and turn a good idea into a brilliantly executed and sustainable business.

In this unit, we will consider the role that management plays in a business and the other operational roles that an entrepreneur needs to consider when establishing a business.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Describe the role of management in terms of the operation of a business.
2. Discuss the principles associated with the effective organization of a business.
3. Describe basic business operations functions (including management operations, human resources, and finance and accounting) and outline their importance.

ASSIGNMENTS AND ACTIVITIES

There are a number of learning activities and self-reflection assignments throughout this unit. The major assignment for this unit is related to business operations and management and decisions that you will have to make as a small business entrepreneur. This assignment will help you to learn how to make effective decisions about your business operation. As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.
TOPIC 3.1 – THE ROLE OF MANAGEMENT

TOPIC INTRODUCTION
A business like all other organizations consists of people and resources and some objectives that have to be met. People have to be organized in ways that help the business to achieve its objectives.

Organizations do not achieve their objectives automatically without resources and the most important resource is often people with technical know-how. Management’s role is to organize all of the resources at its disposal. According to Cronje, et al (1998:90) without management no action which is purposeful can be achieved. Without effective management and leadership an organization is like a rudderless ship with people doing as they please, setting their own objectives and ultimately leading to the failure of the organization.

One of the common causes of business failure is poor management. So it should be appreciated that no matter how big or small an organization is, its success depends entirely on the quality of its management. Cronje, et al (1998:90) listed the following reasons as the ones which make management indispensable to any business organization:

- Management is necessary to direct the organization towards its objectives.
- Management is necessary to set and keep the operations of the organization on the balance.
- Management is necessary to keep the organization in equilibrium its environment.
- Management is necessary to reach the goals of the organization because it maintains the organization’s equilibrium with and helps it to attain its goals synergistically and at the highest possible level of productivity.

TOPIC OBJECTIVES
Upon completion of this lesson you will be able to:

1. To define management.
2. List the functions of management.
3. Show the levels of management.
4. Categorize the leadership styles.
MANAGEMENT DEFINITION

You have likely heard or used the word management in one way or another. It seems that there are as many definitions of the word management as there are authors.

Mescon and Rachman (1982:123) define management as the process of coordination resources to meet an objective while Cronje, et al (1998:91) define management as a process of activities that are carried out to enable an organization to accomplish its goals and objectives by employing human and material resources for that purpose.

A simple definition of management is that it is the process whereby human, financial, physical and informational resources are employed for the attainment of the objectives of a business.

It should be understood that the manager has four basic things in an organization being: to decide what has to be done; to decide how this should be done; orders that it shall be done and lastly, checks that the orders have been carried out.

The terms that are used in management to define these tasks are planning, organizing, leading/directing and control.

FUNCTIONS OF MANAGEMENT

As we have seen that the tasks of the manager are planning, organizing, directing and controlling. These are considered the four functions of management. Now let us look briefly at each of the functions of management.

Planning Function

Planning is the most important management function because all the others depend on it. Planning is the act of establishing the objectives for an organization and determining the best ways to accomplish them. The act of planning means looking ahead. This can be either for the short term or the longer term.

So, planning is the activity of management that determines the mission and goals of the organization even the ways in which the goals are to be attained as well as the resources that are needed for the task. It includes the determining the future position of the organization and guidelines or plans on how that position is to be reached.

Organization Function

After managers have established business plans they are now faced with a task of making sure that they accomplish all their goals with the resources they have. The most important resource a company has is its employees. It is important to determine how the activities of employees can be organized so that a company’s business goals can be achieved.
Therefore, organizing is the process of arranging resources especially people to carry out organizational plans. Organizing is very challenging in an organization as it normally leads to constant change.

**Directing/ leading Function**

After organization has taken place, then the managers plan the tasks their employees are supposed to do. Even if managers set up logical plans, all things will not happen the way they want or have in mind unless they opt for the third function of directing.

Directing is the complex management function with the aim of getting people to work effectively and willingly. It consists of different but related processes being: motivating and leading. The former is the process of giving employees a reason to do the job and to put forth their best performance while the latter is the process of showing employees how to do the job.

**Controlling Function**

This is the very crucial function that managers are faced with as it is manly is a source of confusion as it suggests some sort of restriction. In management controlling is not restrictive process. It is a process of ensuring that organizational objectives are actually being attained and correcting deviations if they are not.

As a manager one should always compare where they are with where they should be and take make corrections where needed during his/her controlling process/function. He/she will determine where they are by getting the reports from co-workers, subordinates, superiors and even outside sources. As for determining where they should be, he/she will refer to the plans and goals of a business. If damage control should be done then they should re-plan, re-organize or re-direct.

Now let’s take a moment to reflect on the dimensions of management within an organization.

**Self Reflection Questions**

*After reading this section of the course, how would you define the term management? What does effective management of a business imply for you?*

*What managerial functions are the most important to consider when operating a small enterprise?*

*Write your answers in your personal journal.*
LEVELS OF MANAGEMENT

In organized group the managerial staffs normally consists of three levels of management, namely, top, middle and lower management.

Top management (Strategic)

These comprise of a small group of executives who control a business and who have the final say on all business activities. For example, we have the board of directors, the partners, the managing director or the chief executive.

All in all, this top management has the most power and the most responsibility. They are responsible for the organization as a whole and for determining its mission and goals. They are concerned with long term planning.

Middle management (Tactical)

Middle managers are primarily responsible for executing the policies, plans and strategies set by top management. Normally they are responsible for medium to long term planning and organizing within their own functional areas. They have somewhat less power and responsibility as compared to top management.

Lower management (Operational)

They are responsible for smaller segments of organization and their power and responsibility is limited to a narrow segment of the organization. Thus the marketing department might consist of the product manager, promotions manager or the sales manager for some areas. Lower management also includes supervisors and foreman. Their duties involve day-to-day activities and tasks of a certain section.

MANAGERIAL SKILLS

Even though management is found in each and every level and in all functions of the organization, the personal skills needed to do the job differ very significantly.

Thus the skills and abilities needed by top managers to carry out their duties day in and day out differ from the ones needed by lower management. Now we will look at the three main skills that are identified as prerequisite for sound management as discussed by Cronje, (1998:98).
Conceptual skills

This is known as mental capacity to view the organization and its parts in a holistic manner.

Interpersonal skills

This has to do with the ability to work with other people. Due to the fact that about 60% of the time the manager spends dealing with the people so, it is quite imperative that he/she should be able to communicate and motivate the groups as well as individuals in one way or the other.

Technical skills

This is the ability to use the knowledge or technique of a particular discipline to attain ends. That is knowledge of accountancy or engineering or economics or agriculture may be taken as an example of technical skills needed to execute the managerial duties. A manager at the lower level in particular should have enough of the technical skills as he/she has to supervise the very activities done by the technicians.

On the other hand Mescon and Rachman (1982:133-136) classified managerial skills as falling into the following three areas: technical skills, human skills, and conceptual skills.

Technical skills

A person who is able to operate a machine, prepare a financial statement, program a computer or even pass a football has a technical skill. He/she is able to perform the mechanics of a particular job. So, the managers that are supposed to possess the technical skills are the supervisors as they are closest to the actual work.

Human skills

They are the ones needed or required in order to understand other people and to interact with them effectively. This skill is needed especially when directing so that things can be done. Another important ability under human skills is ability to communicate by the manager. This is to transfer information.

Conceptual skills

Good managers have a mix of technical, human, and conceptual skills. Conceptual skills include the ability to understand the relationship of parts to the whole. Managers should be able to imagine the long range effects that their plans may have not only on their employees but also on other company operations.
LEADERSHIP STYLES
As we have seen one of the functions of the manager is directing or leading, now we have to take a look at various leadership styles we have so that in the end you can decide to use one of them depending on what you want to achieve. When you want to get the results you have to use any of the following three categories of leadership styles:

- Autocratic (authoritarian)
- Democratic or participative
- Laissez-faire
- Bureaucratic (delegative)

Autocratic Leadership
It emphasizes the straightforward use of authority. An autocratic leader issues orders to the subordinates and relies on the power of the organization to enforce them. Normally the autocratic leader’s attitude is “I believe in getting things done. I can’t waste time on meetings. Someone has to call the shots around here, and I think it should be me.”

Oates (http:www.leadership-expert.co.uk/leadership-styles) has the following advantages and disadvantages of autocratic style.

The advantages of the autocratic leadership style
Despite having many critics, the autocratic leadership styles offer many advantages to managers who use them. These include:

- **Reduced stress due to increased control.** As the manager is the one with full control over everything he/she will be stress free after he/she has forced whatever he/she wanted to be done has been done.
• A more productive group ‘while the leader is watching’. The workers will work harder with more speed and as such production will also increase due to autocratic leadership which has no care on motivation of employees.

• **Improved logistics of operations.** Having one leader with heavy involvement in many areas makes it more likely that problems are spotted in advance and deadlines met. This makes autocratic leadership ideal for one-off projects with tight deadlines, or complicated work environments where efficient cooperation is a key to success.

• **Faster decision making.** Due to the fact that an autocrat leader has no one to consult, he/ she makes decisions very quickly and even the management team has to respond quickly also to the changing business environment.

The disadvantages of the autocratic leadership style

• **Lack of skill development.** As the workers are always subjected to force, they normally do not come up with whatever they call theirs in a business because they are afraid that if they make mistakes they will be in for a high jump. So, they will not develop their skills and experience.

• **Manager perceived as having poor leadership skills.** While the autocratic style has merits when used in certain environments, autocratic leadership style is easy yet unpopular. Managers with poor leadership skills with often revert to this style by default.

• **Increased workload for the manager.** By taking on as much responsibility and involvement as possible, an autocratic leader naturally works at their full capacity, which can lead to long term stress and health problems and could damage working relationships with colleagues.

• **People dislike being ordered around.** They also dislike being shown very little trust and faith. As a result, the autocratic leadership style can result in an unmotivated workforce. This results in the paradox that autocratic leadership styles are a good solution for unmotivated workers, but in many cases, it is the leadership style alone that does not motivate them in the first place.

• **Teams become dependent upon their leader.** After becoming conditioned to receive orders and act upon them perfectly, workers lose initiative and the confidence to make decisions on their own. This results in teams of workers who become useless at running operations if they do not have contact with their leader. This is the result of a lack of time dedicated to leadership development on the employees’ part.
Democratic or Participatory Leadership

This one emphasizes group participation in decision making. The democratic leader uses authority given to him by a group and as such encourages a free flow of communication within the group.

The advantages of the democratic leadership style

Oates citing from some of the advantages and disadvantages of democratic leadership as follows:

- **Positive work environment.** Workers are encouraged to show their talents as well as their knowledge to the benefit of the business. Workers enjoy what they are doing.

- **Successful initiatives.** The workers are free to consult who ever can be helpful even amongst themselves and enjoy the feedback they get. So the decisions made by them are highly regarded as important and if anything could go wrong they proudly make those in charge aware instead of hiding them as is the case in autocrat.

- **Creative thinking.** Workers are encouraged to be as creative as possible in helping to solve business problems and propose innovative new products and services.

- **Reduction of friction and office politics.** By allowing subordinates to use their ideas and even more importantly – gain credit for them, you are neatly reducing the amount of tension employees generate with their manager. When autocratic leaders refuse to listen to their workers, or blatantly ignore their ideas, they are effectively asking for people to talk behind their back and attempt to undermine or supersede them.

- **Reduced employee turnover.** When employees feel empowered through leadership development, a company will experience lower rates of employee turnover which has numerous benefits. A company that invests in leadership development for its employees is investing in their future, and this is appreciated by a large majority of the workforce.

The disadvantages of the democratic leadership style

- **Lengthy and ‘boring’ decision making.** Seeking consultation over every decision can lead to a process so slow that it can cause opportunities to be missed, or hazards avoided too late.

- **Danger of pseudo participation.** Many managers simply pretend to follow a democratic leadership style simply to score a point in the eyes of their subordinates. Employees are quick to realise when their ideas aren’t actually valued, and that the manager is merely following procedure in asking for suggestions, but never actually implementing them. In other words, they’re simply exerting autocratic leadership in disguise.
Laissez- faire Leadership

Laissez- faire (meaning ‘let it be’) style of leadership leaves the group entirely on its own and the leader acts as a consultant only. This kind of leadership is found mainly in organizations where not a lot of creativity is required and the group is left to explore all avenues in their area so that in the end the organization benefits.

Bureaucratic Leadership

Bureaucracies are ‘rules driven’ organizations. As such, there is not a lot of room for an individual worker to use their own judgement. While bureaucracies work well in some circumstances, in general they do not serve customers well. However, some elements of policy and control that are characteristic of bureaucracies can be useful in small business.

The advantages of a bureaucratic leadership style

- **Increased safety.** In dangerous workplaces where procedures save lives, a bureaucratic management style can help enforce health and safety rules.
- **Quality work.** Some tasks, such as completing professional work or medical examinations, need to be done in a careful fashion to be done correctly. Laziness can result in poor work, and hence one solution is to enforce the rules via the bureaucratic leadership style.
- **Ultimate control.** An environment whereby employees are basically motivated to follow rules in order to be promoted and succeed results in the tightest control management can ever assume over a company. This control can be used to cut costs or improve productivity.

The disadvantages of the bureaucratic leadership style

- **Dehumanises a business.** Bureaucratic leadership tends to remove as much potential for ‘human error’ out of the picture as possible. Unfortunately this also has the effect of removing all the enjoyment and reward that comes from deciding how to do a task and accomplishing it.
- **Lack of self-fulfilment.** The bureaucratic way of working hampers employees’ efforts to become successful and independent, because the system becomes too constraining.
- **‘Position power’ obsession.** After working in an environment that reinforces the idea that authority is created by rules which in turn support senior positions. Employees become attached to the idea that simply being in a job position creates authority. This can lead to intense office politics, arrogant leaders and little incentive to perform well once an employee has landed a top job.
- **Lack of creativity.** It goes without saying that a rule-based culture hinders creativity and encourages workers to simply perform puppet-like work rather than think
independently. This may result in a lack of growth in a business due to employees simply not thinking out of the box or looking for new areas to develop.

- **Poor communication.** A common feature of a bureaucratic system is a complicated network of communication lines. Barriers to communication can hinder the success of any company. For example, the board may be charging ahead with a doomed product simply because their shop floors workers cannot pass on the message that customer are giving very negative feedback.

**TOPIC SUMMARY**

You have now completed this topic on management and leadership styles. You should understand the importance of the management function and have a basic understanding of four common leadership styles.

Now, let’s reflect on what you have learned.

**Self-Reflection Question**

*In the small business that you intend to start, which management functions do you think are the most important? Which skills do you possess to manage and lead a company? Which management style are you likely to adopt and why? Would you choose one leadership style over another or choose a combination of styles?*

*Write your answers in your personal journal.*
**TOPIC 3.2 – ORGANIZING A BUSINESS**

**TOPIC INTRODUCTION**
In this topic you will learn in some detail about how to organize a business. This involves creating structures among work units which will result in a business meeting its goals. Structures also imply establishing lines of responsibility and authority.

**TOPIC OBJECTIVES**
Upon completion of this topic you will be able to:

1. Define the terms organizing and organization structure
2. Differentiate between formal and informal structures
3. Learn the new developments in organization structure.

**ORGANIZING AS A MANAGEMENT FUNCTION**
Let’s first consider the definition of some terms.

**Organizing**
This is the process of arranging people and other resources to work together to accomplish a goal.

**Organizing structure**
This is the system of tasks, workflows, reporting relationships, and communication channels that link together diverse individuals and groups.

As can be seen in the following diagram, leading is at the centre or core of managerial activity followed by planning and then organizing.

While leadership and planning are core management functions that need to be addressed by any small business, it is also critically important that entrepreneurs select organization structures that will produce results and ensure profitability.
**FORMAL AND INFORMAL ORGANIZATION STRUCTURES**

In most organizations there is a ‘formal’ organization structure which is regarded as the ‘official’ description of the organization. This often takes the form of an organization chart.

An organization chart is a diagram describing reporting relationships and the formal arrangement of work positions within an organization. An organization chart identifies the following aspects of formal structure:

- The division of work into work units (sales, marketing, administration, finance, etc.) and major sub-units
- Supervisory relationships (who reports to who)
- Communication channels (lines of authority)
- Levels of management

At the same time, organizations typically have an informal organization that while unofficial is in many cases what makes the organization work. Informal networks, communication, and working relationships among staff are a part of an organization’s day to day reality.

There are both advantages and disadvantages to informal structures operating within a company. Some of the potential advantages of informal structures are that they:

- Help people accomplish the work more quickly and efficiently.
- Overcome limits of formal structure (they work around the bureaucracy)
- Help the company gain access to interpersonal networks that can help the business succeed.
- Promote informal learning.

Some of the potential disadvantages of informal structures are that they:

- May work against best the interests of the organization (undermine the organization)
• Are susceptible to rumour mongering.
• May carry inaccurate information.
• May breed resistance to change.
• May divert work efforts from important objectives.
• May make outsiders feel alienated.

**Organization Structures for Small Businesses**
Small business organizational structures are generally ‘flat’. This means that there are a small number of layers between the head of the company (Chief Executive Officer) and front line workers. A small business is usually more owner-manager intensive, and responsibilities centre on key individuals who perform leadership functions in a business.

**What is a Flat Organizational Structure?**
A flat organizational structure has few levels of management between executives and employees. The rationale behind such organizations is to make employees more productive by giving them greater input in the decision-making process. The organizational structure is best suited to small companies and enterprises.

**Features**
Flat organizational structures have fewer levels of management between top executives and workers. Hospitals use this organizational structure because doctors are well-trained employees that need to make quick decisions due to the nature of their work.

**Function**
These organizations are designed to reduce bureaucracy and make employees more productive by encouraging employee involvement to make decisions and resolve problems. Communication flows more freely and easily between managers and employees allowing for more rapid responses.

**Benefits**
There is greater communication between management and employees. Flat organizational structures also eliminate middle management allowing for quicker decision-making. Organizations using this structure can save money by eliminating middle management positions.

**Disadvantages**
This organizational structure is best suited only to small organizations where decision making can be decentralized. Another potential problem is that an employee may be simultaneously reporting to two or three bosses.
Many small businesses use this organizational structure. For example, restaurants and other hospitality industry businesses run their organizations with a flat organization structure since it helps to ensure a more responsive approach to customer service.

**VERTICAL ORGANIZATIONAL STRUCTURE**

An organizational structure defines the company’s chain of command and work-flow diagrams. Some form of structure is important for the smooth functioning of an organization.

**Features**

The shape of a vertical organizational structure is very similar to a pyramid. The top management is positioned on the top; below them are the functional managers and the

**Function**

A vertical structure type gels well with large companies. Authority and decision making powers are centralized. All the strategic functions are departmentalized.

**Significance**

As the scale of operations grows, the size of the organization also grows. It becomes impossible to maintain one supreme line of command. The vertical organizational structure helps when delegating and relegating work and making decisions.

**Benefits**

With this structure, the responsibilities and authority of every person in the organization is clear. There is no ambiguity on who everyone reports to.

**Limitation**

Often, a number of unrequited middlemen creep into the system. The organization ends up paying unnecessary salaries. The response times often get prolonged, as every task has to pass through a number of channels for approval.

**TOPIC SUMMARY**

We have seen that management is indispensable component of the organization without which the goals and objectives of a business would not be achieved as the resources cannot be properly used. We have also defined management basing ourselves on the two authors and decided to use this one which defines management as the process whereby human, financial, physical and informational resources are employed for the attainment of the objectives of a business. Management process depends on the four main elements being planning, organizing, leading/directing and controlling.
Management has three main levels namely top, middle and lower level and in each of the three levels there are certain skills that are needed. We looked at various leadership styles which the manager can opt to use depending on the circumstances. Lastly we discussed organizational structures used in small businesses.

Now, let’s consider some questions about what you have learned in this topic.

**Self Reflection Questions**

*Discuss the styles of leadership and in each give three advantages and three disadvantages of each?*

*As a future leader which leadership style do you think you will adopt and why?*

*As you grow your small business what kind of an organization structure do you intend to adopt?*

*Write your answers in your personal journal.*

You have completed this topic on organization structure so let’s move on to the third topic in this unit which provides a more detailed discussion of production and operations management within a business.
TOPIC 3.3 – PRODUCTION AND OPERATIONS MANAGEMENT

TOPIC INTRODUCTION
In this topic you are going to learn about the principles associated with managing an operation which produces a product.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe the importance of the production and operations function within a small business.
2. Describe the principles of quality management and discuss how these can be applied within a small business.
3. Describe the principles associated with supply chain management.

THE PRODUCTION AND OPERATIONS MANAGEMENT FUNCTION
Production and Operations Management (POM) is about the transforming raw materials into a finished product that, when distributed, meet the needs of customers.

POM incorporates many tasks that are interdependent, but which can be grouped under five main headings:

- Product – the item that is sold to customers
- Plant – the production facility
- Processes – the way that the product is manufactured
- Program – the timeframe for delivery of the product to the customer
- People – the workers who are engaged in producing the product

Let’s briefly describe each of these functions and their roles within the production and operations management function.

Product

Business must ensure that they sell products that meet customer needs and wants. The role of Production and Operations Management is to ensure that the business actually makes the required products in accordance with a plan.

There are several things to consider when producing a product. For example, the product must be able to meet standards in the following areas: performance, aesthetics (it must look good), quality, reliability, cost, and timely delivery.

Plant

As noted above, the plant is the facility where the product is manufactured. Depending on the product that is being manufactured and the type of business, the production facility required will vary greatly in size. When planning a production facility, management will
need to consider the following factors: future demand (i.e. how much product to produce to meet customer needs), the design and layout of the production facility, the type of equipment to use, the cost of maintenance, health and safety considerations for workers, and environmental issues including the disposal of waste products.

**Processes**

There are many different ways of producing a product. Management must choose the best process, or series of processes. In doing so, management will consider how a given process is able to produce the desired number of products within a specified timeframe, the availability of a skilled labour force, maintenance requirements, safety and overall production cost.

**Program**

The production program concerns timing and scheduling production of the product so that it can be supplied to customers in a timely manner. Management decisions about the production program will be influenced by factors such as customer purchasing patterns, available cash flow, the need for and availability of storage for inventory (and how much inventory to retain on hand), and transportation and distribution.

**People**

Production depends on people whose skills, experience and motivation vary. Key people-related decisions that operations managers will have to consider include compensation (getting the best people often involves paying them more than your competitors), training, working conditions, motivation, and communication. Depending upon the country and the industry within which a business operates it may also have to consider issues related to unionization of workers.

With the description of what is involved in production and operations management, let’s now move on to consider the important of quality management within a business operation.

**WHAT IS QUALITY MANAGEMENT?**

Quality management systems are important to all organizations regardless of their size and whether they are public or private. In this section we will discuss a range of issues related to quality management. This is not intended to be an in depth treatment of the topic but rather an introduction to some of the basic principles and terminology that is used.

Quality management is a relatively new phenomenon in business and can take different forms depending upon the industry. The quality movement was born out of a desire on the part of the Japanese to improve the quality of the goods that they were exporting in an effort to re-build their economy after the Second World War. W. Edwards Deming was brought to Japan in the early 1950’s to provide advice on how to improve the quality of Japanese goods (most notably the quality of their cars) and thereby enhance the country’s competitive position.
The management philosophy and principles that underpin the quality movement relate to breaking down the internal barriers that exist and constantly improve the products and processes that are used to produce them. Statistical information is used to inform management and to guide change and improvement.

Quality management relates to the product that a business produces and sells, to the processes that it uses to produce a product, and to the quality of the customer service (the customer experience) that it provides.

Businesses with a quality management focus have adopted a set of quality management principles. Three of the more commonly implemented principles are:

- **Customer focus** – This principle involves collecting systematic information on current and future customer needs and working to exceed customer expectations. For example, if your business knows that customers generally think that it is acceptable to wait five business days for the delivery of their order and you deliver it to them in three days you have exceeded your customers expectation.

- **Continuous improvement** – This principle involves creating a culture within a business that demands a focus on constantly improvement in products, processes, and customer service. Continuous improvement is based on internal and external (customer) data and is used to inform the improvement process.

- **Leadership** – Businesses with a quality improvement focus have a unity of purpose that comes from the top but relies on everyone having a deep understanding of the company’s quality goals and objectives.

Quality management takes many forms depending upon the industry. In some industries, it takes the form of achieving an ISO (International Organization for Standardization) certification. This is a rigorous and systematic process undertaken by third parties and can take a long time to achieve. It is unlikely that a small business will have either the need or the resources to undertake this type of quality management approach but some of its suppliers and distributors may very well have achieved this quality designation.

Other commonly quality management approaches include TQM (total quality management) which is used broadly in North America and Europe, Six Sigma, which is a statistical process control approach to quality management, and business process re-engineering which focuses on a complete re-building of internal processes within a company.

As mentioned at the beginning of this section, it is important for all business regardless of their size to focus on quality management and continuous improvement. Small business entrepreneurs are well advised to learn about these approaches and apply the principles that best suit their situation.
WHAT IS SUPPLY CHAIN MANAGEMENT?

For businesses that produce products, supply chain management or SCM is an important for improving the process of sourcing raw materials that are required for its manufacturing process. The five basic components of supply chain management are: planning, sourcing, making, delivering, and returning.

Let’s look at each of these and how these components contribute to the SCM process.

Plan

As the label indicates this is the planning phase of the SCM process. In keeping with quality management principles, much of the work in this phase involves determining the metrics or measures that will be used to monitor the supply chain so that it is efficient, cost-effective and results in high quality products that customers will value.

Source

Choosing the right suppliers is critical to the overall success of many businesses. Suppliers that provide inferior raw materials or who cannot be relied on to deliver them on time will create difficulties that for the manufacturing process. Supply chain managers need to be able to manage an inventory of supplies, receive and verify shipments and ensure that raw materials are available for the manufacturing process.

Make

The production, manufacture or ‘making’ of a product is the most intensive part of the supply chain. As such it needs to be scrutinized very carefully to ensure that all aspects of production, testing, packaging and preparation for delivery meet quality standards. Companies measure quality levels, production output and worker productivity at this stage of the supply chain.

Deliver

Delivery of the finished product to the customer is often referred to as logistics. Typical activities for companies at this stage of the supply chain include the receipt of orders from customers, the development of a network of warehouses (where this makes sense given where customers are located), picking transportation modes (e.g. ground, air) to get products to customers, and setting up an invoicing system to receive payments.
Return

For businesses that provide customers with a tangible product, returns from customers are inevitable. Processing returns can also be very problematic but they are an opportunity to learn about customer behaviour and inform the company of issues that may have occurred at various stages in the supply chain.

**TOPIC SUMMARY**

You have now completed this topic on production and operations management. You have learned about the importance of the production and operations function within a small business and the quality and supply chain management principles that are required to run an effective operation and create satisfied customers.

Take a moment to reflect on what you have learned in this section of the course.

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**Self-Reflection Questions**

Think about your small business idea. What quality management principles will you want to incorporate? Why did you choose these principles? What aspects of supply chain management do you intend to implement in your business?

Write your answers in your personal journal.
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Now, let’s move on to the next topic in this course related to human resource management.
TOPIC 3.4 – HUMAN RESOURCE MANAGEMENT

TOPIC INTRODUCTION
In Unit 1, you learned about the human resources role as a part of the business team. In this topic, we will take a more detailed look at the role of HR management.

Normally, a small business owner will have to hire a human resource specialist but it is important for the owner to know what to look for when doing so. In this topic, you will be introduced to the HR functions related to recruitment, selection, placement, and induction of new employees. There are a myriad of other HR functions that relate to legal, regulatory and labour relations that will not be addressed in this topic.

TOPIC OBJECTIVE
Upon completion of this topic you will be able to:

1. Describe the human resource management role as it relates to recruitment, selection, placement, induction and retention of employees.

HR MANAGEMENT FUNCTIONS
If a business is to function smoothly, it must have the necessary human resources. Therefore one of the main tasks of human resource managers is to make sure that a business has the right type as well as number of employees. In order to perform this task HR managers have to perform a number of tasks including:

- Recruitment, selection, and placement
- Placement
- Induction
- Retention

Recruitment and Selection
Successful recruitment of employees relies on establishing a ‘fit’ between the potential employee, the organization, and the job. An individual’s suitability for a job has to be based on more than a ‘gut reaction’ or feeling. It needs to be based on evidence that is gleaned through a number of means.
Systematic planning and preparation will increase the likelihood of hiring the right person. HR managers need to know the job and what is required of someone to perform it well. The costs of recruiting the wrong person can be significant.

There are a number of other factors that can get in the way of hiring the right person. Assumptions about gender, ethnicity or physical ability, can get in the way of making the right hiring decision. In some cases, making assumptions or hiring on the basis of gender or ethnicity may be seen as discriminatory and could be in violation of legislation.

Placement of individuals in jobs matching their abilities is also an important HR function. As a part of the recruitment and selection process it is often necessary to interview and test applicants for the purpose of achieving suitable job placements. This helps to ensure that there is a good fit between the employee’s qualification and skills and the organization’s needs.

**Induction**

After spending a great deal of time and effort on recruiting, selecting, and placing individuals in the right job, it is equally important to ensure that they are engaged in their work and trained to do an effective job. Induction training can take a number of forms and the content will vary from helping new employees to understand the organization’s mission, goals, values and philosophy; personnel practices, health and safety rules, and of course the job they're required to do, with clear methods, timescales and expectations.
Some approaches to consider that supplement face to face induction training are:

- on the job coaching;
- mentoring (assigning a senior employee to provide on-going advice to a new employee);
- reading assignments;
- presentation assignments;
- attending internal briefings and presentations;
- video;
- Internet and e-learning (where this is possible);
- customer and supplier visits;
- attachment to project teams;
- scheduled job-swaps; and
- shadowing another employee to see how they do a specific job and what's involved).

Retention

Employee retention, especially of your best, most desirable employees, is a key challenge in organizations today. Businesses that invest in employee and engagement strategies will ensure customer satisfaction, product sales, satisfied workers, and a deeply embedded organization culture.

There are a number of reasons why employees leave companies. Some of the more common ones are:

- higher salaries (this is the most common reason)
- over-management
- pay increases not based on merit
- favouritism by management toward some employees
- heavy workloads
- lack of a clean working environment

At the same time there are many strategies that a business can use to engage and retain its employees.

Some of the more effective strategies are:

- outlining job expectations on a daily basis
- providing high quality supervision
- enabling employees to freely speak their mind within the company
- utilizing the talent and skills of all employees
• providing fair and equitable treatment of all employees
• providing employees with the tools, time, and training
• creating a non-threatening work environment

**TOPIC SUMMARY**

Human resource managers have work with management to help create working environments where employees want to work and do so over an extended period of time.

Human resource managers play a critical role in managing a company’s more important asset – its employees and the talent and skills that they possess. Among the many responsibilities that HR managers have, one of the most important is the recruitment, selection, placement, induction and retention process.

Now, take a moment to reflect on what you have learned about in this section of the course.

Self-Reflection Questions

*Which human resource management functions do you think are essential to the operation of a small business? Explain why you chose the functions you did.*

*Write your answers in your personal journal.*

It is time to move on to the next topic in the unit on finance and accounting.
TOPIC 3.5 – FINANCE AND ACCOUNTING

TOPIC INTRODUCTION
In this topic, we will begin by taking a look at the definition for accounting and some accounting terms. This introduction is not intended to provide you with a detailed knowledge of accounting principles but it will help you to understand a number of the terms that you will encounter as you begin to build a business as an entrepreneur. As you increase your knowledge of various accounting terms it will allow you to analyze and interpret the accounting records of your business.

TOPIC OBJECTIVES
Upon completion of this topic you should be able to:

1. Define accounting and accounting terms
2. Appreciate the difference between bookkeeping and accounting
3. State the purpose of accounting
4. Identify users of accounting information
5. Distinguish between Financial and Management Accounting

THE FUNDAMENTALS OF ACCOUNTING
What is bookkeeping? Accounting?

Let’s begin this unit by defining two important terms in accounting: bookkeeping and accounting.

Self-Reflection Questions

Before we begin this topic, how would you define accounting? Bookkeeping?

Write your answer in your personal journal.

Now let’s look at how others have defined these terms:

- Bookkeeping is concerned with the recording of business data. “It is the process of recording business transactions and the relations between the transactions. The process of bookkeeping is mainly mechanical and does not require any analysis. Instead of the analyzing, the bookkeeping relies only on the recording of the information”.

- Accounting is concerned with the design, interpretation of data and the preparation of financial reports. “Accounting is also the systematic recording of business transactions but it includes additional reports and further financial analysis of the transactions. Accounting is also the systematic recording of business transactions
but it includes additional reports and further financial analysis of the transactions”.

As you can see, accounting is made up of two elements:

- Recording business transactions or book keeping
- Presenting the information

**DIFFERENCES BETWEEN BOOKKEEPING AND ACCOUNTING**

Now that we have defined both Bookkeeping and Accounting we can now look at the difference between them. Bookkeeping is a part of the accounting process. Besides the recording of the financial transactions Accounting also does the preparation of statements, liabilities of the assets and the various results of the whole business. Basically, accounting is using the bookkeeping information, interprets the data and compiles it into reports and presents it in a form of reports to the management.

We can simple say that Bookkeeping is the recording of monetary transactions of a business where as, Accounting allows a business to record, analyse and retrieve critical financial information that can be used to determine a business financial status and provide reports and insights needed to make sound financial decisions.

**PURPOSE OF ACCOUNTING**

The purpose of accounting is to provide a means of recording, reporting, summarizing and interpreting economic data.

“The primary purpose of accounting is to identify and record all activities that impact the organization financially. All activities, including purchases, sales, the acquisition of capital and interest earned from investments, can be classified in monetary terms and posted to a specified account as an accounting record. These

![The General Ledger Accounting Cycle](image-url)
transactions typically are recorded in ledgers and journals and are part of the process known as the accounting cycle." (ehow 1999-2001)

Users of accounting information

An accounting information system provides data to help decision makers both outside and inside a business. Decision makers outside a business are affected in some way by the performance of a business. Decision makers inside a business are responsible for the performance of a business. For this reason, accounting is divided into two categories: financial accounting for those outside and managerial accounting for those inside.

MANAGEMENT ACCOUNTS

Management accounting refers to the processes and procedures implemented for internal decision making and reporting within an organization. It provides information that is useful in running a business by internal users, usually accomplished through custom designed reports. These are produced as often as a business wants them (usually monthly). They can be prepared using a business’s own internal policies. Internal users, Senior and middle Management use accounting information to run business. Employees utilize accounting information to determine a business’s profitability and profit sharing.

Managerial accounting information should:

- Relate to the part of a business for which the manager is responsible. For example, a production manager wants information on costs of production but not on advertising.
- Involve planning for the future. For instance, a budget would show financial plans for the coming year.
- Meet two tests: the accounting information must be useful (relevant) and must not cost more to gather and process than it is worth.

Managerial accounting generates information that managers can use to make sound decisions. The four major types of internal management decisions are:

- Financial decisions — decides what amounts of capital (funds) are needed to run a business and whether to secure these funds from owners or creditors. In this sense, capital means money used by a business to purchase resources such as machinery and buildings and to pay expenses of conducting a business.

- Resource allocation decisions — decides how the total capital of a business is to be invested, such as the amount to be invested in machinery.

- Production decisions — decides what products are to be produced, by what means, and when.
• **Marketing decisions**—sets selling prices and advertising budgets; determining the location of a business's markets and how to reach them.

**FINANCIAL ACCOUNTS**

Financial Accounting refers to the fundamental guidelines, polices, procedures and regulations mandated by the General Accepted Accounting Principles (GAAP), which was established by the Financial Standards Board (FASB). It provides information designed to satisfy the needs of external users. This reporting is done in the form of financial statements. These accounts are usually produced annually. They are based on historical information and are rarely used internally. Financial accounts are used by external users for several reasons.

The external users of accounting information fall into six groups; each has different interests in a business and wants answers to unique questions. The groups and some of their possible questions are:

• **Owners and prospective owners.** Has a business earned satisfactory income on its total investment? Should an investment be made in this business? Should the present investment be increased, decreased, or retained at the same level? Can a business install costly pollution control equipment and still be profitable?

• **Creditors and lenders.** Should a loan be granted to a business? Will a business be able to pay its debts as they become due?

• **Employees and their unions.** Does a business have the ability to pay increased wages? Is a business financially able to provide long-term employment for its workforce?

• **Customers.** Does a business offer useful products at fair prices? Will a business survive long enough to honour its product warranties?

• **Governmental units.** Is a business, such as a local public utility, charging a fair rate for its services?

• **General public.** Is a business providing useful products and gainful employment for citizens without causing serious environmental problems?

Now it is time to do a short activity. Turn to the next page and complete the activity.
Were you able to complete the diagram above with the correct information? Now that you have distinguished between management and financial accounting and there users lets now look at the different types of account.

**CLASSIFICATION OF ACCOUNTS**

An 'account' is a specific location for recording transactions of a like kind. The dual aspect of treating each transaction is then recorded in an account. An account shows us the 'history' of a particular business transaction.

Accounts can be divided into three categories:

- **Personal Accounts** – these are the accounts of your creditors (accounts payable) and debtors (accounts receivable)
- **Real Accounts** – are your tangible and intangible assets
- **Nominal Accounts** – these are income and expense accounts of your business
Accounts can be further divided into 5 types. The basic types of accounts are:

- **Assets:** items of value that a business owns or has right to. Examples include: cash, real estate, equipment, money or services that others owe you (accounts receivables), and even intangible items such as patents and copyrights.
- **Liabilities:** obligations that are owed to other parties (accounts payables). Examples include: wages payable, taxes due, and borrowed money (also called debt).
- **Equity:** the ownership value of a business. It is the investment by owner in a business.
- **Revenues:** the mechanisms where income enters a business (note that revenue and income is not the same thing—they are used here to describe each other in basic terms only).
- **Expenses:** the costs of doing business. Examples include: salary expense, rent, utilities expense, and interest on borrowed money.

With this background on business finance operations, let’s now consider the role and importance of finance to a small business.
IMPORTANCE OF FINANCE TO A SMALL BUSINESS

While the business operations functions related to accounting and bookkeeping are important on a day to day basis for any company, finance in a small business plays a much larger role.

Business finance refers to money and credit employed in business. It involves acquiring and using funds in an operationally effective and efficient manner. Here are some of the characteristics of business finance that should help you understand its importance to a small business:

- Business finance includes all types of funds used in business.
- Business finance is needed in all types of organisations large or small.
- The relative importance of business finance will vary from one business to another based on its nature and size.
- Business finance involves estimation of funds. It is concerned with raising funds from different sources.

Businesses that want to grow often need to secure financing beyond what they receive in the form of revenue from sales. They may need this additional capital in order to purchase land, lease new facilities, or acquire other fixed assets (e.g. manufacturing equipment, computer technology). They may also need money to help to ‘bridge’ the company during a time when it is growing and day to day operational expenditures exceed revenue from sales.

Businesses have ‘ups and downs’ and unforeseen problems. Money is always required to address these circumstances and to meet the ups and downs of business cycles and unforeseen problems. Small businesses need to ensure that they have a sound financial plan and business financing in place in order to grow.

Now, let’s consider where small businesses might acquire financing.

FUNDING SOURCES

As a small business entrepreneur you may have several reasons for seeking financing. These include:

- Starting a new business
- Expanding your current business
- Financing to address an immediate crisis

Funding Business Start-ups

As you can appreciate, the hardest time to find funding is before you actually have a new business up and running. New businesses often fail within the first two years of operation so potential funders are going to be reluctant to provide funding based solely on a good idea.
To overcome this reluctance, you will need a business plan. Later in this certificate program you will take a course specifically designed to help you build a business plan that supports your business idea.

The business plan you build can be presented to a number of possible funders. Funding options include:

- Venture capital funding
- Bank funding (loans)
- Government grant programs
- Private Equity funding (angels)

Let’s briefly consider each of these funding sources.

**Venture Capital Funding**

For most small businesses this is the least likely source of funding. Venture capitalists usually represent pools of investors and are looking to maximize a return for the individuals they represent. Venture capitalists also typically focus on a narrow segment of an industry and are usually looking for business ventures that will expect initial sales of several million dollars or pounds. If your business is smaller than that, it is unlikely that you will be able to get the attention of a venture capitalist.

**Bank Loans**

Banks will loan small businesses money or provide a line of credit if the business has a track record of sales over a period of time. If you are just starting a business and don’t have a revenue stream to point to, it is unlikely that most banks will provide start-up funding. Getting a bank’s attention requires having your financial house in order. This means providing details about your own investment in the company (cash, property, and in-kind), a complete set of financial records and a detailed business plan.

Depending upon the size of the business venture, it may also be most appropriate to consider a micro-loan program. Many of these programs exist in developing countries around the globe or are available through international organizations.

**Government Grants**

For many small businesses the most logical funding alternative is a government grant program. These take different forms depending upon the country in question and are often targeted at specific industries are sectors.

**Private Equity Funding**

In many cases, bank or government funding is not available and small business entrepreneurs have to rely on what is called private equity investment. In some cases,
these investors are called ‘angels’, particularly if they are known by the entrepreneur. Often, these investors receive shares in the company in addition to a promise of a return on their investment. It is very important to have a legal agreement in place that outlines issues such as voting rights and other matters that would impact the value of the shares that are being offered in exchange for a cash infusion in the company.

**TOPIC SUMMARY**

In this topic you have learned about the distinctions between management accounting, financial accounting, bookkeeping and the importance of finance to the overall operation of a business. You have also learned about some of the more common avenues for funding the start-up of a small business.

Take a moment to reflect on what you have learned by answering the following questions.

**Self-Reflection Questions**

*Think about a small business that you want to start. What will be the sources of revenue and expenditures for your business? What source of capital would you try to find to support the start-up phase of your business? Write your answers in your personal journal.*
TOPIC 3.6 - INTRODUCTION TO PROJECT MANAGEMENT TOOLS

TOPIC INTRODUCTION
In this topic, we will be looking at two common project management tools and their advantages and disadvantages. This topic is intended to provide you with an introduction to these tools but will not be giving you formal lessons on how to develop and use them since that is outside the scope of this course.

In this topic we will consider two examples of project management approaches. These project management tools are usually available in the form of computer software but both techniques can also be done manually when one understands the principles behind the tools. The two approaches (which are closely related to one another) that we will consider are Critical Path Analysis (CPA) and the Program Evaluation and Review Technique or PERT.

TOPIC OBJECTIVES
Upon completion of this topic you should be able to:

1. Define project management and outline its importance to a small business.
2. Describe the Critical Path Analysis approach and indicate how it can help small businesses manage projects.
3. Describe the Program Evaluation and Review Technique and indicate how it differs from Critical Path Analysis.

CRITICAL PATH ANALYSIS
Small business owners and managers may from time to time start or take on new projects. Particularly if a project is complex a manager will want to use a project management approach. This is a carefully planned and organized effort to successfully complete a project.

Project management includes developing a project plan. This plan will typically include the following elements:

- defining and confirming the project goals and objectives;
- identifying tasks and how goals will be achieved;
- quantifying the resources needed;
- determining budgets and timelines for completion;
- managing the implementation of the project plan;
- operating regular 'controls' to ensure that there is accurate and objective; and
- information on 'performance' relative to the plan.

Projects usually follow major phases or stages including:

- feasibility;
- definition;
• project planning;
• implementation;
• evaluation; and
• support/maintenance.

There are a number of tools that can help manage projects from initial conception until final delivery. Critical Path Analysis (CPA) is one of those tools. It is a powerful approach that helps managers to schedule and manage complex projects. It was developed in the 1950s to control large defence projects, and has been used by large organizations ever since. Even so, small business can take advantage of this technique to plan projects and make sure that the development and implementation of a project remains on track.

The following sample CPA chart show a number of important features of a Critical Path Analysis.

![Critical Path Analysis Chart](image)

**Figure 20: A sample Critical Path Analysis chart**

As you can see from the labels in the chart, this is a manufacturing project that begins with the completion of a product design and carries through to final inspection and testing of the product. Along the way a number of processes take place (e.g. fabrication). The numbers in the circles typically represent the amount of time that has elapsed or the amount of time that a particular process or activity will take. In this example from final design to inspection and testing of the product was a 90 day process. Having considered supply chain management earlier in this course you can likely see where CPA could be a useful tool to analyze a new supplier relationship.

CPA is a planning tool that helps to determine all of the tasks that are needed to complete a project. It enables you to develop a schedule and to determine which resources will be necessary to complete a project. It is also a good way to monitor a project and determine if
it is one time and meeting your goals. Projects that are ‘off-track’ can be addressed quickly by knowing where problems are occurring.

One of the other benefits of CPA is that it can help you determine where you have some ‘slack’. In any project there are places where a delay at one step will not adversely affect the overall outcome of the project. Knowing where this ‘slack’ is can allow you to reallocate resources to other parts of the project.

Like any other management tools, it is possible to become a slave to the implementation of a critical path analysis and lose sight of the goals of the project. However, if implemented well, CPA will allow you to ensure that a project is finished on time, within budget, and at a high quality.

CPA helps business owners answer the question, “how long will this project take?” or “what is the critical path to project success?”

**Program Evaluation and Review Technique**

Another project management approach is called the Program Evaluation and Review Technique or PERT. PERT charts provide a project manager with a graphical representation of a project with details concerning the sequence of events and tasks. Critical Path Analysis is usually incorporated into a PERT chart.

In most cases PERT charts include the following information:
- earliest and latest start dates for each task
- earliest and latest finish dates for each task
- any slack time between task

PERT is useful for entire projects or for just a portion of a project such as one of the key phases.

The chart can be constructed with a variety of attributes, such as earliest and latest start dates for each task, earliest and latest finish dates for each task, and slack time between tasks. A PERT chart can document an entire project or a key phase of a project. The figure below illustrates what a PERT Chart looks like.
So, when should a manager or entrepreneur use PERT? There is no right answer to this question but PERT could be used at the planning phase for a project, as a method for tracking entire projects or at the implementation phase. It is also useful in tracking progress related to quality improvement efforts within a business.

As a project manager or business owner, you will want to know how to use PERT as a tool to support your business. As mentioned earlier, understanding project management tools in detail would involve taking a complete set of courses on project management tools which is beyond the scope of this course.

Here is a brief overview of how to use the tool.

- Identify all of the tasks or project components and document their details
- Identify the first task that must be completed
- Identify any other tasks that can be started simultaneously with the first task
- Identify the next task that must be completed
- Identify any other tasks that can be started simultaneously with task #2
- Continue this process until all of the tasks are sequenced
- Construct the PERT chart – this is can be done manually or with a computer software program designed to do this. Again, courses on PERT will help you learn how to do this.

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**Figure 21: Example of a PERT Chart**

So, when should a manager or entrepreneur use PERT? There is no right answer to this question but PERT could be used at the planning phase for a project, as a method for tracking entire projects or at the implementation phase. It is also useful in tracking progress related to quality improvement efforts within a business.

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- Identify any other tasks that can be started simultaneously with task #2
- Continue this process until all of the tasks are sequenced
- Construct the PERT chart – this is can be done manually or with a computer software program designed to do this. Again, courses on PERT will help you learn how to do this.

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**Figure 1: PERT Chart**

- Numbered rectangles are nodes and represent events or milestones.
- Directed arrows represent dependent tasks that must be completed sequentially.
- Overlapping arrow directions (e.g., 1-2 & 1-3) indicate possibly concurrent tasks.
- Dotted lines indicate dependent tasks that do not require resources.
• Determine the critical path

**TOPIC SUMMARY**

In this topic you have learned about project management tools (CPA and PERT) and why these tools are useful for determining project schedules and resources. Knowledge of potential delays and resourcing issues can help a business owner to keep projects on track and on budget.

Now, take a moment to reflect on what you have learned by answering the following questions.

**Self-Reflection Questions**

*For the small business idea that you are planning on pursuing, do you think that you will find the use of a project management approach valuable? If so, why would you find it useful? If not, why not?*

*Write your answers in your personal journal.*
ASSIGNMENT 2: BUSINESS OPERATIONS AND MANAGEMENT

For the small business you are thinking about starting, you are going to need to describe the organization both from a functional point of view and a structural perspective. In this assignment you will be asked to do both for your small business.

1. Write a description of all of the functions that you will require in your business and indicate why each of them is important to your business.
2. Create an organization chart to represent these functions. (A functional organization chart)
3. Write a description of all of the roles that you will require and indicate why they are important to your business.
4. Create an organization chart to show how all of the organization roles are connected in your business. (An operational organization chart)

Write your answers in your personal journal.
UNIT THREE – SUMMARY

In this unit you have learned about the role of management within a business and how to organize and structure a business. You have also learned about some of the details associated with a number of the important operational units of a business including production and operations management, human resources management, and finance and accounting. In the final topic of the unit you were introduced to project management and two tools that are useful for determining on time and on budget management of projects.

NEXT STEPS

In the next unit, you will have the opportunity to learn about the fundamentals of marketing. You will be introduced to marketing principles and learn about how to price products and services. An important aspect of marketing for all businesses is how they promote themselves to potential customers. Market research will play an important role in determining how your business approaches the market.

REFERENCES


UNIT FOUR – FUNDAMENTALS OF MARKETING

UNIT INTRODUCTION

Welcome to Unit Four. In this unit, you will learn about the fundamentals of marketing by understanding the meaning of marketing as a function and its principles in the economic business environment. The unit will further touch on product development and the pricing concept based on customers’ needs and preferences. The unit will also focus on helping you to understand why promotion and marketing research is important to small businesses and how a small business can benefit from a solid marketing program.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Define marketing and its importance to a business.
2. Explain marketing principles in an entrepreneurial small business environment.
3. Describe product development and pricing strategies.
4. Explain the importance and benefits of promotion and marketing research.

ASSIGNMENTS AND ACTIVITIES

There are a number of learning activities and assignments throughout this unit. The major assignment for this unit is a market research activity that will help you to learn how to design and conduct effective market research. As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.
TOPIC 4.1: MARKETING PRINCIPLES

TOPIC INTRODUCTION
In an age where technology is increasingly a part of daily living for many people, it is vital to understand marketing and its place both locally and globally. Understanding and applying the principles will be beneficial to a small business entrepreneur. This unit focuses on the role of marketing in society and takes into considers the traditional functions of marketing.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe the role and importance of marketing.
2. Explain the evolution of marketing concept.
3. Discuss the steps in the marketing process.

WHAT IS MARKETING?
One way to define marketing is:

*The process of planning and executing the conception, pricing, promotion and distribution of ideas, goods (products), and service to create exchanges (usually monetary) that satisfy individual and organizational goals.*

Some entrepreneurs have become more successful than others because they know what marketing is.

Here is another way to describe marketing:

*Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.*

To further understand what marketing is all about, you might want to ask friends and colleagues what comes to mind when think about marketing. Many people (including business people with years of experience) confuse marketing with sales or advertising.

Marketing means paying careful attention to customers’ needs or preferences and working to satisfy them continuously. Effective marketing means that entrepreneurs will listen to their customers and provide what they need.
Another definition of marketing is:

“The process of studying the wants and needs of others and then satisfying those wants and needs with quality goods and services (products) at competitive prices.”

The Importance of Marketing

Effective marketing can provide a business with a competitive edge by informing the customer about the features and benefits of a product or service. If price is a market differentiator, informing the customer about the price is important. The more effectively marketing is done, the easier it is for a prospective customer to choose your product or service over someone else’s.

Marketing has evolved over the course of time. In the 1950’s, a marketing approach emerged and has dominated marketing thinking ever since. This approach includes:

- A focus on the market – find out what customers want and need and do your best to fulfill their wants and needs
- An emphasis on customer service – this is a way to increase customer satisfaction with a product or service and will result in repeat business if done well
- A focus on profitability – businesses only provide those goods and services that will help bring profit and growth to the company.

Steps in the Marketing Process

To help you learn about marketing, let’s work through an example of how the marketing process works. In this example we will be following the marketing of a fictitious breakfast cereal.

Finding a Need

Imagine that you and your friends want something for breakfast that is fast, nutritious, and good tasting. Some of your friends eat cornflakes but it contains a lot of sugar and may not be a healthy choice. You ask your friends and acquaintances and find that based on a small sample of opinion that there seems to be a large demand for a breakfast cereal that is good tasting, nutritious, high in fibre, and low in sugar. It seems that you have found a “need” in the consumer market that is not currently being met. This is the first step in the marketing process.

Fulfilling the Need

A product is any physical good, service, or idea that satisfies a want or need. For the purposes of this example, you have identified that there is a market need for a multigrain cereal made with an artificial sweetener.
Concept Testing

Concept testing involves developing an accurate description of your product and asking people whether or not the concept (in this case the idea for a new cereal) appeals to them. If it does, you must find a manufacturer that has the equipment and skills to design such a cereal, and begin making prototypes. Prototypes are samples of the product that you take to consumers to test their reactions.

Test Marketing

The process of testing products among potential users is called test marketing. If consumers like your product, you can arrange for its production with a manufacturer or you can produce it yourself. Production is not a part of the marketing process.

Branding

A brand name is a word, letter, or group of words or letters that differentiate the goods and services of a seller from those of competitors. Cereal brand names, for example, include Cheerios®, Team Flakes®, and Raisin Bran®. You name your cereal Super Flakes to emphasize the high fibre content and terrific taste.

Delivery

Once the product is manufactured, you have to choose how to get it to the consumer. You may want to sell it directly to supermarkets or health food stores. You may want to sell it through organizations that specialize in distributing food products. Such organizations are called marketing middlemen because they are in the middle of a series of organizations that distribute goods from producers to consumers.

Product Promotion

The last step in the marketing process is to promote the product to consumers. Promotion consist of the techniques sellers use to get as much markets as possible. These include advertising personal selling, publicity and sales promotion efforts like providing coupons rebates, samples and say “buy two and get one free”.

With this brief introduction to marketing principles, let’s now move on to consider the four ‘Ps’ of marketing.

TOPIC SUMMARY

In this topic you have learned about the importance of marketing to a small business and the steps in the marketing process. This background information will be useful as you move into the next topic which provides a more detailed discussion about the 4 Ps of marketing.
Before you move on to the next topic, take a moment to reflect on what you have learned by answering the following question.

**Self-Reflection Question**

*In your own words and based on your own experience, what would you say marketing is and how would you know that you are taking the right approach to marketing a product or service?*  

*Write your answer in your personal journal.*
TOPIC 4.2: THE FOUR ‘PS’ OF MARKETING

TOPIC INTRODUCTION
In this topic you will learn about the elements that form a part of a typical marketing program and why marketing can bring value to goods and services. You will also learn about how to define a target market for a product and how to segment a market.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

1. Identify the four Ps of the marketing mix.
2. Discuss the traditional functions of marketing.
3. Explain how marketing adds utility to goods and services.
4. Compare the various forms of market segmentation and describe how target markets are selected.

THE MARKETING MIX
A marketing mix is the strategic combination of product decisions and decisions regarding packaging, pricing, distribution, credit, branding, service, complaint handling and other marketing activities.

Management of the marketing process involves four factors:

- Product – creating a product that satisfies a need or want
- Price – setting a price for a product
- Placement – getting a product to a place where consumers will buy it
- Promotion – making consumers aware of the product.

The diagram shows that these four factors are equal in importance as a part of a marketing program.

Taken together, these four factors are also called the marketing mix of a company’s marketing program.

MARKETING UTILITY
The marketing functions aid the movement of goods from producer down to consumer and also allow creation of utility. Let us understand what utility means. Utility refers to the value that marketing adds to goods and services.
Let’s consider five types of marketing utility.

**Form Utility**

This term refers to the conversion of raw materials to a finished product. Form utility is usually considered as a production function rather than a marketing function. Converting maize into flour is an example of utility form in process.

**Time Utility**

This refers to making products available at the time when consumers want them.

**Place Utility**

Place utility refers to locating products at a convenient place within easy reach of customers.

**Possession Utility**

This form of utility refers to enabling the exchange of goods and services between sellers and buyers. An example of enabling easy possession of a good or services is the use of convenient payment methods (e.g. via credit card or cheque). This approach makes it easier for customers to complete a transaction. Anything that accelerates completion of sale transactions is considered part of possession utility, for example credit, delivery, installation, and warranties.

**Information Utility**

This form of utility is concerned with informing consumers about the existence of a product, where to find it, how to use it, and its price. Such information can be provided through advertising, sales packaging and sales people.

**Market Segmentation**

There are two major types of markets - the consumer market and the industrial market. The consumer market consists of all individuals or households who want goods and services for personal consumption or use.

The consumer market consists of billions of people throughout the world. Consumers vary in their tastes, ages, gender and education. These differences become a challenge to the suppliers and marketers as they are expected to provide goods and services based on the changing needs of a diverse population.

The process of dividing the total market into several groups that have similar characteristics is called market segmentation. A single business cannot afford to serve all of these markets. Businesses must decide which on which markets to focus.
There are several ways by which a business can segment the market for marketing purposes. One way is to break the market into submarkets with similar characteristics and provide products or services based on these segments.

The following table lists four common market segments that marketing managers consider when undertaking market research.

<table>
<thead>
<tr>
<th>Type of Segmentation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic</td>
<td>Divides the market into separate geographic areas</td>
</tr>
<tr>
<td>Demographic</td>
<td>Divides the market into groups by age, gender, income and similar categories</td>
</tr>
<tr>
<td>Psychographic</td>
<td>Divides the market by values, attitudes and interests</td>
</tr>
<tr>
<td>Benefit</td>
<td>Divides the market by benefit desired</td>
</tr>
<tr>
<td>Volume</td>
<td>Divides the market into user categories, heavy, medium, light, and non-users</td>
</tr>
</tbody>
</table>

**Selecting a Target Market**

In this section of the course we will take a look at how to select a target market.

**Segment Size**

The size of a market segment selected depends on the size of the business. In many cases, a small business will select a small market segment that has been ignored by larger businesses but large enough to be profitable for the small business. It may also have the advantage of being too small to attract competitors.

You may have seen a number of small individual businesses in your community. Many of these are grocery stores, cafes, or restaurants. The owners cannot compete with large businesses at a national level but can be very competitive locally.

**Ability to Reach the Market**

Businesses must be able to easily reach a target group or segment in order to make a profit. Some small businesses may assume that their product or service will be of interest in India or China, both of which have large populations and emerging middle class consumers. The cost of reaching these markets may be prohibitive.

**The Nature of the Market and Industry**

Earlier in this course we discussed market analysis and tools that can be used to provide a business with information about the nature of a market. For example, it is important for a business to establish which of its competitors are already targeting a market, any potential
new competitors that are emerging, and the buying power of the customers. If there are
too many existing competitors or potential competition, it may be a risk to enter the
market. The same is true if the buying power of the target market is low.

We have also discussed the importance of knowing about the business or industry that you
intend to target. Even though market ‘need’ may exist and a business could be profitable,
businesses wanting to enter a market need to understand the industry characteristic and
dynamics before doing so.

**TOPIC SUMMARY**

In this topic you have learned about the marketing mix and how product, price, place, and
promotion all play a role in determining marketing strategy. You also learned about
marketing utility or how a marketing program can add value to the product or service a
small business offers to consumers. Finally, the importance of market segmentation and
targeting a specific segment of a market was considered.

Now, take a moment to reflect on what you have learned by answering the following
questions.

---

**Self-Reflection Questions**

*Think about the small business that you want to start. For the industry that this
business is in, what are the important market segments to consider? Which part
of the market do you want to target with your business’s products and services?*

*Write your answers in your personal journal.*
TOPIC 4.3: MARKETING RESEARCH

TOPIC INTRODUCTION
Many small businesses fail because their owners have not taken the time to do a thorough job of market research. Without adequate information about customers, competitors, and an understanding of market dynamics such as price and product placement, it is difficult for many small businesses to succeed. In this topic you will learn about market research and why it is important for businesses to conduct market research. As a small business you will also want to know when to conduct this research and what sources of information you should be considering. In Unit 2 in this course you learned about macro and micro business environment analysis and some tools that you could use to undertake this type of research. The information gleaned through using these tools will be helpful as you conduct market research for your business.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

- Describe what market research is and why it is important
- Describe sources of information (primary and secondary) that will be useful when conducting market research for your small business
- Describe some of the basic ways to conduct market research

WHAT IS MARKET RESEARCH?
To be successful in business, it is important to have a great deal of knowledge about your customers and competitors. Market research helps by providing information that will make you aware of how those that you want to sell your product or services to will respond.

Most business owners are conducting market research all of the time. As a part of their day to day work they talk to customers or check out the prices on competitors’ products and services. Formalizing the market research process will yield a significantly greater amount of useful information for a business.

Market research can involve a number of simple activities such as the development of a customer satisfaction questionnaire or reviewing local demographic information. It could, however, also be complex enough to warrant hiring a professional market research firm. This usually only happens when there are large companies and complex markets involved.

Regardless of their size, all businesses can benefit from some form of market research to improve their business decision making.
WHY CONDUCT MARKET RESEARCH?

Businesses are interested in market research as a way to ensure that they learn about what customers want and how they can best present their products and services to them.

In the last topic we learned about the marketing mix and the 4 Ps (Product, Price, Place or Placement, and Promotion. Market research should determine the right ‘mix’ or combination of these factors that will put the business in the best position to reach the target market.

There are a number of important considerations when balancing each of the 4 Ps in a marketing mix. These are briefly outlined in the following diagram:

- **Product**: 
  - Function
  - Appearance
  - Customer service

- **Price**: 
  - Profit margins
  - Competitors' prices
  - Discounts

- **Promotion**: 
  - Advertising
  - Sales promotion
  - Personal selling
  - Branding

- **Placement**: 
  - Location
  - Point of sale
  - Segments targetted

Figure 23: The 4 Ps of Marketing

Business owner experience in an industry can be a very valuable asset. However, it can also act as a ‘blinder’ to making decisions that affect a company’s marketing mix and other business decisions. Today’s rapidly shifting economy, changing demographics, new regulations, and new technologies can have a dynamic impact on a business. In this context, market research can help you to:

- Better understand customer characteristics (e.g. location, age, gender, income level) to enable the creation of effective marketing campaigns.
- Identify opportunities to increase sales and grow your business.
- Recognize and plan for problems in your industry and in the economy at large.
- Monitor the competition in your target market.
- Mitigate risk in your business decisions.
WHEN TO CONDUCT MARKET RESEARCH
Market research is initially a part of the planning phase of a new business and is particularly important for new businesses. While market research is a critical component of a business plan for a new business, it is also important for existing businesses. In many cases, existing businesses need to expand or re-locate. Market research can be used in these instances to support decisions and mitigate risk. Similarly, market research can be used to inform decisions about advertising campaigns, changes in production levels, and the introduction of new products and services.

Information gathered through market research is also useful in the day to day operation of a business. Informed decision making helps a business owner to create a roadmap for future growth.

Let’s now consider how to conduct market research.

HOW TO CONDUCT MARKET RESEARCH
Knowing what you want to achieve with your market research activity is essential to its success. Establishing clear goals that define what you need to know and why is very important.

Generally, there are two types of data sources that can be used: primary and secondary. The sections that follow describe each of these data sources and provide a sample of the types of questions that you will want to ask.

Primary Research
Primary research involves gathering information through your own efforts (or through a professional market research firm). The information that is gathered is based on a specific set of questions and could be gathered through a survey, observation, or experimentation.

Examples of some primary research questions for an existing business are:

- What do my customers’ profiles look like?
- How can I reach my customers?
- What factors influence the buying decisions of my customers? Is it price? Brand?
- What prices do my customers expect for my products and services?
- Who are my competitors, how do they operate and what are their strengths and weaknesses?

Primary research can be very time consuming and costly to undertake, especially if a professional market research firm is hired to do the work. At the same time, the type of information gleaned from this form of research can be highly specific and valuable and will enable a business owner to acquire in-depth knowledge of the market.
Surveys are often used to collect primary research data. These can be conducted through direct mail, over the telephone, over the internet, or in person. They should be short and simple, easy to read, move from general to specific questions, and contain brief and easily understood questions. There is an entire industry dedicated to questionnaire design that can assist and support business owners in the development of valid survey instruments so don’t assume that you can do this entirely on your own. You may need help in designing response scales for example.

In many cases it will be important to offer an incentive for customers to complete a survey. Coupons for future purchases are one way to incent customers.

Now, let’s consider approaches using secondary research.

**Secondary Research**

Rather than going directly to customers for information, secondary research involves using existing documents and information which may take the form of company records (i.e. for competitive analysis looking at annual reports is a useful secondary research source), research studies, books and internet resources (i.e. industry analyses). This approach is less time consuming and less expensive.

Secondary research is less targeted than primary research. It can yield valuable information about macro-economic conditions that can be used to infer market conditions for an existing or start-up business.

Here are some of the types of questions that can be answered using secondary research:

- What are the current economic conditions in my industry? Are conditions changing? If so, how?
- What are the trends in my industry?
- What is the state of the labour market in my industry?
- Are there international markets for the types of products that my business sells? If so where?
- What do customers in my industry look like in terms of their characteristics and where do they live?

There are other sources for secondary market research information that should be considered by a small business that have a track record of sales. These include:

- Sales receipts that can reveal trends in demand for goods and services. A company’s sales history can help determine how to approach a market in the future. Many companies use customer relationship management software tools to track sales and marketing information and campaigns.
- Customer satisfaction information can tell a business where it has issues in customer service and product performance that need to be addressed.

Most countries also have an organization or branch of government that collects official statistics and publishes them. These statistics can be useful in preparing market profiles. In other cases, these types of data may need to be purchased. Often large sets of data come with a significant price tag so it is important to be clear on the value that you will get from this information before purchasing.

Identifying statistics and analysis that can help you with your business decisions can be difficult, and some datasets are expensive to purchase. There are, however, a number of quality statistics and analytical resources available to you, as well as guidance to help you make sense of all the materials available.

The picture below summarizes the common primary and secondary research sources, and research purposes.

![Figure 24: Primary and Secondary Research](image-url)
TOPIC SUMMARY
In this topic you have learned about market research and why it is important. There are many sources of information that you can tap into or gather directly should you choose. Some of these are primary sources of information and others are secondary or come from indirect sources. Both can be useful and both come with different costs that you need to consider carefully when creating a market research plan for your business.

Now, take a moment to reflect on what you have learned by answering the following questions.

Self-Reflection Questions
For the small business venture that you wish to start, what kind of market research information will you use? What kind of information is readily available to you to help understand the market that you are targeting with your business idea?

Write your answer in your personal journal.

It is now time to complete the major assignment for this unit. Go to the next page to read the assignment and answer the questions that are outlined.
ASSIGNMENT 3: MARKET RESEARCH

In this assignment you will be asked to consider how a set of market information could be used to inform business decisions.

1. Flavour – This year citrus flavours in food products have become extremely popular with consumers. Another flavour that has emerged in many products is white tea (not only as a tea itself but in other products including skincare products).
2. Scent – A very popular scent in products this year is vanilla. It is appearing in a range of products from teas to perfumes.
3. Look – Many consumers are drawn to packaging that is simple and clean. This creates challenges for manufacturers when it comes to putting all of the required ingredients labelling on packages.

Your Task:

1. Consider the extent to which the information above would be useful for companies in the following sectors:
   a. Food manufacturers
   b. Soft drink manufacturers
   c. Supermarket retailers
2. Select one of the sectors above and indicate how the market information above would impact their marketing strategies.
3. What other information would companies wish to have before making decisions about their marketing strategy? Explain your answer by providing reasons.

Write your answers in your personal journal.
UNIT FOUR – SUMMARY

In this unit you have learned about the fundamentals of marketing. This unit has served as an introduction to basic marketing principles and the 4 Ps of marketing (product, price, placement, and promotion). You have also learned about the importance of conducting market research and some of the approaches that can be used to gather information that will inform business decisions related to product development, promotion, and advertising.

NEXT STEPS

In the final unit of this course, you will have the opportunity to learn about business ethics, one of the foundations of running a business enterprise. The importance of conducting business with integrity, honesty, sincerity, and fairness cannot be overstated.

REFERENCES


UNIT FIVE – BUSINESS ETHICS

UNIT INTRODUCTION

Welcome to Unit Five, the last unit in this course. In this unit you will learn about business ethics from a legal and moral perspective. This unit is a short and very important one and it is important for you to reflect on how ethical principles apply to business within your local community and country.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Describe the importance of business ethics from a moral and legal perspective.
2. Relate business ethics principles to examples that you see in your local community and country.

ASSIGNMENTS AND ACTIVITIES

There are a small number of learning activities and assignments in this unit. The major assignment for this unit is a case study related to business ethics. As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.
TOPIC 5.1: UNDERSTANDING BUSINESS ETHICS

TOPIC INTRODUCTION
The topic of business ethics was touched on in the first course in this certificate program. In this topic, you will consider business ethics from a legal and moral perspective.

TOPIC OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe the importance of business ethics from a moral and legal perspective.
2. Relate business ethics principles to examples that you see in your local community and country.

ETHICS AND BUSINESS LAW
In some countries, business persons are considered to be crooks. This attitude needs to be corrected by, apart from sticking to legal rules, demonstrating ethical morals. Business ethics can be described as the set of principles that a business demonstrates to its customers and suppliers on a daily basis. The ethical framework of a particular business can be diverse. They apply not only to how a business interacts with the world at large, but also to their one-on-one dealings with a single customer.

Many businesses have gained a bad reputation just by being in business. To some people, businesses are interested in making money, and that is the bottom line. It could be called capitalism in its purest form. Making money is not wrong in itself. It is the manner in which some businesses conduct themselves that brings up the question of ethical behaviour. Thus, Business ethics (also known as corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Ethical issues include the rights and duties between a company and its employees, suppliers, customers and neighbours, and its fiduciary responsibility to its shareholders. Issues concerning relations between different companies include hostile take-overs and
industrial espionage. Related issues include corporate governance; corporate social entrepreneurship; political contributions; and related legal issues. The following diagram shows that these four factors are equal in importance as a part of a marketing program.

Figure 25: A mind map of business ethics

Put simply, ethics are considered the moral standards by which people judge behavior. Ethics are often summed up in what is considered the “golden rule”—do unto others as you would have them do unto you. While this makes sense as a general rule of thumb, it may not be entirely useful when looking to define business ethics.

In business, there are many different people you have to answer to: customers, shareholders and clients. Determining what to do when an ethical dilemma arises among these different interests can be extremely tricky, and as such business ethics are complex and multi-faceted.
The following are some of the factors that affect business ethics:

- Honesty
- Objectivity
- Integrity
- Carefulness
- Openness
- Respect for intellectual property
- Confidentiality
- Responsible publication
- Responsible mentoring
- Respect for colleagues
- Social responsibility
- Non-discrimination
- Competence
- Legality
- Human rights protection

Moral obligations for a business are restricted to what the law requires. The most universal aspects of Western morality have already been described in legal terms. For example, Western democracies have laws against killing, stealing, fraud, harassment, or reckless endangerment. Moral principles beyond what the law requires – or *supra-legal* principles – appear to be optional since philosophers dispute about their validity and society wavers about its acceptance. For any specific issue under consideration, such as determining what counts as responsible marketing or adequate privacy in the workplace, there are opposing positions concerning a business’s supra-legal moral obligations. It is, therefore, unreasonable to expect businesses to perform duties about which there is so much disagreement and which appear to be optional.

**DERIVING BUSINESS ETHICS FROM MORAL OBLIGATIONS**

It can be argued that morality must be introduced as a factor that is external from both the profit motive and the law. This is the approach taken by most philosophers who write on business ethics, and is expressed most clearly in the following from a well known business ethics essay, “Proper ethical behaviour exists on a plane above the law. The law merely specifies the lowest common denominator of acceptable behaviour.”

The most convenient way to explore this approach is to consider the supra-legal moral principles that philosophers commonly offer. Five fairly broad moral principles suggested by philosophers are as follows:

- *Harm principle*: businesses should avoid causing unwarranted harm.
- *Fairness principle*: businesses should be fair in all of their practices.
- **Human rights principle**: businesses should respect human rights.
- **Autonomy principle**: businesses should not infringe on the rationally reflective choices of people.
- **Veracity principle**: businesses should not be deceptive in their practices.

The attraction of these principles is that they appeal to universal moral notions that no one would reasonably reject. But, the problem with these principles is that they are too general. They do not tell us specifically what counts as harm, unfairness, or a violation of human rights.

The following activity requires you to reflect on the principles outlined above.

**Activity:** Closely examine the five moral principles cited above. With reference to ethical considerations in a business environment with which you are familiar, provide examples of each of the principles in entrepreneurial practice.

1. Harm principle
2. Fairness principle
3. Human rights principle
4. Autonomy principle
5. Veracity principle

*Write your answers in your personal journal.*

**TOPIC SUMMARY**

In this brief topic you have learned about business ethics and their relationship to the law and moral obligations that a business has when providing products and services to its customers.

Now, take a moment to answer the following questions.

**Self-Reflection Questions**

What is the difference between a legal rule and a moral rule? In what ways are these differences significant for the entrepreneur?

To what extent does the business environment in your country influence ethical considerations by an entrepreneur?

*Write your answers in your personal journal.*
Now it is time to complete the major assignment for this Unit.

**ASSIGNMENT 4: BUSINESS ETHICS**

This is the last assignment in this course. Consider the following scenario and then answer the questions that follow.

Your company manufactures clothing for a number of the large name brands. These clothes are sold in a number of different markets in Asia, Europe, and North America. To establish your business you sought investment and as a result you have a board of directors to which you are accountable. Your board has recently approved the following mission statement for your company: “Our aim is to become a globally recognized fashion supplier to some of the world’s leading companies by offering the highest standard of service, top quality products and cutting edge style at competitive prices.”

With this as a background, answer the following questions.

1. Write a code of ethics for your company. This code should be comprehensive and include at least 10 items.
2. How does the code that you have written inspire your employees?
3. In your business, what type of culture do you want to create? How will this culture act to ‘institutionalize’ the ethical and moral principles contained in your code of ethics?

Write your answers in your personal journal.
UNIT FIVE – SUMMARY

This has been a very brief introduction to business ethics and the legal and moral principles that all businesses regardless of size need to consider when providing products and services to consumers. You have considered the implications and importance of conducting business with integrity, honesty, sincerity, and fairness.

NEXT STEPS

This is the final unit of this course on the Business Environment. You will be ready to move on to the next course in this program.

REFERENCES


LESSONS LEARNED

Throughout this course, you have been introduced to a number of topics that you need to consider when developing and operating your own business.

Let’s review what you accomplished in each unit of this course. In Unit One, you were introduced to the business environment and the various terms that are used to describe it. This included a discussion of the nature of business (primary, secondary, tertiary, service industries, goods producing industries and micro, small, and medium sized enterprises). In Unit Two, you were introduced to tools that can be used to analyze the business environment including macro and micro business environment analysis tools (PESTEL and Porter’s Five Forces and Value Chain Analysis). Unit Three, provided you with an overview of the basic business operations and management roles found in companies. This discussion included an overview of production and operations management, HR management, finance and accounting, and an introduction to project management tools. Unit Four, you considered the fundamentals of marketing including marketing principles, the 4 Ps of marketing, and the basics of market research. And finally in Unit 5, the legal and moral basis for business ethics were presented and you had the opportunity to create a code of ethics for a company.

APPLICATION OF KNOWLEDGE AND SKILLS

As you have progressed through this course, you have continued to develop a knowledge base that will be useful for you as an entrepreneur. Through the self-reflection exercises, the activities and assignments you have been able to consider and apply the elements that are important in the business environment that you will be entering with your new business venture.

COURSE EVALUATION

<Insert instructions on how to complete and submit a course evaluation. You should include a course evaluation form in the Appendices>
COURSE APPENDICES

Insert separate appendices for the following when appropriate:

- Detailed assignment or activity instructions.
- Feedback pages for self-reflective questions.
- List of resources that the students are required to procure.
- Suggested follow on activities.
- Additional readings or references that are not part of the required readings.
- List of web sites or other resources that may be useful to the course graduate.

Appendix One – PESTEL Analysis Template
APPENDIX ONE – PESTEL ANALYSIS TEMPLATE

Describe the situation being analyzed:

_____________________________________________________________________________________
_____________________________________________________________________________________
_____________________________________________________________________________________
_____________________________________________________________________________________

PESTEL analysis (political, economical, social, technological, and legal) assesses a market, including competitors, from the standpoint of a particular proposition or a business.

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