

**Entrepreneurship Skills in Adult
Education
AEU 07318**

**Institute of Adult Education
Adult and Continuing Education Studies Department
Bachelor of Adult and Continuing Education – Through ODL**

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About this module

This module has been produced by the **Error! No text of specified style in document.** All modules are structured in the same way, as outlined below:

How this module is structured?

Module overview:

The module overview gives you a general introduction to the module. Information contained in the module overview will help you determine:

- If the module is suitable for you.
- What you already need to know.
- What you can expect from the module.
- How much time you will need to invest to complete the module.

The overview also provides guidance on:

- Study skills.
- Where to get help.
- Module assignments and assessments.
- Activity icons.
- Units.

We strongly recommend that you read the overview *carefully* before starting your learning.

Module content:

The module is broken down into units. Each unit comprises:

- An introduction to the unit content.
- Unit objectives

- Unit outcomes.
- New terminology.
- Core content of the unit with a variety of learning activities.
- A unit summary.
- Assignments and/or assessments, as applicable.

Resources:

For those interested in learning more on this subject, we provide you with a list of additional resources at the end of this module; these may be books, articles or web sites.

Your comments:

When reading this module, we would appreciate it if you would make a few comments to give us your feedback on any aspect of this module. Your feedback might include comments on:

- Module content and structure.
- Module reading materials and resources.
- Module assignments.
- Module assessments.
- Module duration.
- Module support (assigned tutors, technical help, and others).

Your constructive feedback will help us to improve and enhance this module.

Module overview

Welcome to this module

Dear learner, as prospective an adult education facilitator/expert, you will learn entrepreneurship education. The module will enable you to gain knowledge and skills on entrepreneurship education which are vital in performing entrepreneurship activities in adult education field. This module is organized into three units. The first unit contains basics of entrepreneurship. In unit you will learn how to use business techniques to establish adult education centres. In unit three we shall discuss on how to use financial skills to identify reliable sources of funds to establish adult education centres. I hope you will enjoy the module. Welcome!

General Competency



After completing this module, you should be able to gain knowledge, analytical skills and understanding of entrepreneurship. It enables you understand and use various business techniques to establish adult education centres. This module will enable you to fulfill your duties and responsibilities as a learner and future adult education facilitator.

Study Skills

Essentially, you will be taking control of your learning environment. As a result, you will need to consider performance issues related to time management, goal setting, stress management, etc. Perhaps you will also need to acquaint yourself in areas such as essay planning, coping with exams and using the web as a learning resource.

Your most significant considerations will be *time* and *space* i.e. the time you dedicate to your learning and the environment in which you engage in that learning.

Need help?



Dear learner, in the course of your study, you may need help in various issues such as the location and how to get support from resource centres, clarification of various issues pertaining to your study materials i.e., modules, and so on. If this happens, you are advised to ask for the help from your centre coordinator or facilitator. You can also visit the website of the Institute of Adult Education, which is www.iae.ac.tz; or, call No. +255 22 2150838 and ask for help.

Module Assessment











After each unit, you will be required to attempt one unit assignment. This is not meant for submission, rather, for reflection on what you have learned in the whole module. You will also do tests and assignments for submission as guided by your module facilitator. Finally, you will sit for semester examinations to accomplish your assessment.

Icons Used in this Module

While working through this module, you will notice the frequent use of margin icons. these icons serve to “signpost” a particular piece of text, a new task or change in activity. they have been included to help you to find your way around the module.

A complete icon set is shown below. We suggest that you

			
Reflection	Assessment	Assignment	Help
			
Learning Outcomes	Module Outcome	Help	Reflection

familiarize yourself with them and their meaning before starting your study.

Unit 1

Demonstrate Knowledge of Entrepreneurship Concept

Introduction

Dear learner, the concepts of entrepreneurship are not new until the 19th-century entrepreneur was regarded as the person taking risks, facing uncertainties, and establishing Enterprises. However, since the very beginning of the 20th century, the entrepreneur was being accepted as an innovator also. **Thus**, the concepts of entrepreneurs have been changing with time and place. From the modern perspective, entrepreneurship includes the establishment of the enterprise, management control, direction, along with bringing novelty introduction, making various new improvements and making product changes, etc. In short, the different concepts of entrepreneurship are as follows: Bearing Concept, Innovative Concept, Managerial Skill Concept, Creative and Leadership Concept, High Achievement Capacity Concept, Professional Concept, Organisation and Coordination Concept, Business Oriented Concept, Result Oriented Concept, and Personality, Identity or Role Transformation Process Concept. Welcome!

Learning Outcomes



Upon completion of this unit, you will be able to:

- Define the concept of entrepreneurship and entrepreneur;
- Explain the characteristics of an entrepreneur; and
- Explain the importance of entrepreneurship in day-to-day activities.

Entrepreneurship Concept

Entrepreneurship

Entrepreneurship may be defined as the process by which individuals pursue opportunities without regard for resources they currently owned or control or as the pursuit of opportunity beyond the resources currently controlled. Other scholars defined it as the art of turning an idea into a business. Entrepreneurship requires skills and a mind-set to advocate for a better community with creativity, innovation and

leadership to be successful. The most general response you will normally hear is that entrepreneurship is about business and especially about buying and selling products or providing a service. Generally, entrepreneurship can be defined as the ability to identify business opportunities, which can be transformed into successful businesses through creative and innovative processes. Successful entrepreneurship requires that you put effort into deciding what you would like to do and the accompanying plan of the process. Many success stories are based on brilliant ideas that were original and creative.

In the entrepreneurship context, an opportunity is a proposed venture to sell a product or service for which customers are willing to pay more than the required investments and operating costs. The entrepreneurs form hypotheses about the ways they can deliver value to customers and perform structured tests to validate their ideas. Generally, the context of entrepreneurship lies in entrepreneurial behaviour, which identifies opportunities and puts useful ideas into operational practices. The behaviour of an entrepreneur's task can be accomplished by either a person or group of people and typically require creativity, drive and willingness to take risks. For example, an individual who thinks a new business has different outlook or flavour compared to other existing businesses, optimistically assuming for more profits however, the reverse might be true.

In this discussion, we shall concentrate and focus on individuals who create a new business, but this focus does not mean that ongoing businesses or firms are not possessing entrepreneurial identity. In essence, they are proactive, innovative and risk-taking. For example, Bakhresa's soft drinks, fruits and other production units operate elsewhere in Tanzania, East, and Central Africa possessing an entrepreneurial identity.

Characteristics of the Entrepreneur

Entrepreneur

The discussion of the characteristics of an entrepreneur should rest on who is an entrepreneur before his or her characteristics. The word entrepreneur derives from the French words "entre" meaning *between* and "prendre" meaning *to take*. The word was originally used to describe people who *take on the risk* between buyers and sellers or who undertake a risk such as starting a new venture. There is no single definition of what an entrepreneur actually is, but the term usually refers to someone who, among other things, spearheads a venture, makes decisions on how to proceed, secures the capital needed to make the venture a reality, and should use almost all of the associated risk. Sometimes investors and entrepreneurs are interchangeably used,

however, they differ from one another. An investor creates something new while an entrepreneur assembles and then integrates all the resources needed (money, the people, the business model, the strategy, and the risk-bearing ability (to transform the invention into a viable business. There is a fine line between being a small business (SB) owner and an entrepreneur—the roles actually have a lot in common—but there are distinct differences that set them apart. Small businesses usually deal with known and established products and services, while entrepreneurial ventures focus on new, innovative offerings. Because of this, small business owners tend to deal with known risks and entrepreneurs face unknown risks. Considering the conventional and neo-classical economic theories, the entrepreneur can be interpreted in different views based on the contributions of various economic writers on the role of the entrepreneur as summarized in Table 1.

Table 1: The distinguished roles of entrepreneur

Writer	The key role of the entrepreneur	Additional insights
1803 – J. B. Say	The organizer of factors of production	Capitalists for economic change
1725 – Richard Cantillon	The organizer of factors of production	A catalyst for economic change
Kirzner	Ability to spot opportunities	An entrepreneur’s key ability is creative alertness
1934 – Joseph Schumpeter	Innovator	Entrepreneur as “Hero” figure
Knight	Risk taker	Profit is a reward for risk-taking
Casson	Organizer of resources	The key influence of the environment
Shackle	Creativity	Uncertainty creates opportunities for profit

Source: David Deakins and Mark Freel 2003

Brockhaus (1980) defined an entrepreneur as a major owner and

manager of a business venture not employed elsewhere. The widely used definition of the entrepreneur is based on an individual who independently owns and actively manages a small business (Carland et al. 1984). The other definitions of entrepreneurs have focused on founders of new ventures (for example, Ahmed, 1985; Begley and Boyd, 1987; Gatner, 1985) or owners of small businesses (for example, Masters and Meler, 1988; Schwer and Yucelt 1984).

Characteristics of an Entrepreneur

Creativity: Creativity gives birth to something new out-of-the-box ideas. Without creativity, there is no innovation possible. Entrepreneurs usually have the ability to pin down many ideas and act on them. Not necessarily, every idea might be a success. However, the experience obtained is gold. Creativity helps in coming up with new solutions for the problems at hand and allows one to think of solutions that are out of the box. It also gives an entrepreneur the ability to devise new products for similar markets to the ones he is currently playing in or come up with better ways of doing things. Entrepreneurs are not satisfied with the status quo. They think outside the box and look for opportunities to come up with new solutions.

Risk-taking: A risk-taking ability is essential for an entrepreneur. Without the will to explore the unknown, one cannot discover something unique. In addition, this uniqueness might make all the difference. Risk-taking involves many things. Using unorthodox methods is also a risk. Investing in ideas, nobody else believes in but you is a risk too. Entrepreneurs have a differentiated approach toward risks. Good entrepreneurs are always ready to invest their time and money. Nevertheless, they always have a backup for every risk they take.

For exploring the unknown, one must be bestowed with a trump card; a good entrepreneur has one, always. In addition, evaluation of the risk to be undertaken is also essential. Without knowing the consequences, a good entrepreneur would not risk it all.

Innovation: Many ascribe to the idea that innovation goes hand-in-hand with entrepreneurship. This is often true—some of the most successful start-ups have taken existing products or services and drastically improved them to meet the changing needs of the market. Innovation is a characteristic some, but not all, entrepreneurs possess. Fortunately, it is a type of strategic mind-set that can be cultivated. Precisely, by developing your strategic thinking skills, you can be well equipped to spot innovative opportunities and position your venture

for success.

Passion: Your work should be your passion. Therefore, when you work, you enjoy and love what you do and is extremely dedicated to the businesses he/she creates, and stay highly motivated. Passion acts as a driving force, with which, you are motivated to strive for better. Entrepreneurs have a passion for what they do. Whether it is a brand new invention, an improvement on an existing product, or a revolutionary service, they believe that their offering is game-changing and they know why. They also know how to convey this passion to others. You need to be dedicated to your plan and keep moving forward — even if you are not receiving an immediate paycheck. You must be proactive with what you do and how you do it. It also allows you the ability to put in those extra hours in the office, which can or may make a difference. At the beginning of every entrepreneurial venture or any venture, there are hurdles but your passion ensures that you are able to overcome these roadblocks and forge ahead towards your goal. You are not answerable to anyone else as an entrepreneur.

Leadership: Essentially an entrepreneur is a leader. K.L.Sharma a psychologist, maintains that entrepreneurs are men who exhibit qualities of leadership in solving problems he has to lead his team to achieve his goals. He must build a team of motivated persons and provide them a conducive environment for their growth. He must have all the qualities of a good leader. However, economists, social thinkers as well as psychologists are not unanimous as to how many traits a successful leader should possess. There is a general agreement that he should have initiative, high energy level, self-confidence, skills to develop good human relations, and motivation skills coupled with creativity and a keen desire to solve problems.

Planning: Perhaps, this is the most important of all steps required to run a business. Planning is the essence of managing, regardless of business, size cannot be a successful one unless it has been planned properly. Good planning allows you to **concentrate on your goals** and avoid becoming easily distracted by other possibilities. An entrepreneur has to plan what has to be produced, and how it has to be produced. From where the raw materials and machines are to be procured? Where the plant has to be located and how do the goods have to be marketed? All these have to be planned. Without planning, everything would be a loose string as they say, “If you fail to plan,

you plan to fail. "Planning is strategizing the whole business venture ahead of time. Entrepreneurship sums up all the resources at hand and enables an entrepreneur to come up with a structure and a thought process for how to reach the goal. The next step involves how to make optimum use of these resources, to weave the cloth of success. Facing a situation or a crisis with a plan is always better. It provides guidelines with minimum or no damage incurred to a business. Unplanned action will result in hurdles, chaos, and confusion. Planning is essential for managerial control as well. Comparisons of planned performance and actual performance will reveal the shortcomings so that remedial action may be taken. Concisely, planning is one of the most important **characteristics of an entrepreneur.**

Optimistic About all Possibilities: To be entrepreneurial by nature is to be optimistic. People with the entrepreneurial spirit do not spend time thinking about what they cannot do, but instead ask themselves, "Why can't I?" they have a **positive outlook** on circumstances. The present problems they face do not trouble them. Instead, they are optimistic about the future and believe that everything will be favourable as time goes on; they never dwell on the past or the negative. When starting up, the odds of success are strongly against you, so you really need people who are optimistic more than ever. Look for candidates that get excited by the idea of aggressive challenges and big goals. They are the ones who will push the boundaries of what was once thought impossible. Have time to conceptualize the event in the picture underneath performed by the optimistic person struggling to achieve her destiny despite all possibilities.



Diagram 01: Extra Characteristics for Entrepreneurs

Knowledge: Knowledge is the key to success. An entrepreneur should possess complete knowledge of his niche or industry. For only with knowledge can a difficulty be solved or a crisis tackled. It enables him or her to keep track of the developments and the constantly changing requirements of the market that he is in. May it is a new trend in the market or an advancement in technology or even a new advertiser's entry, an entrepreneur should keep himself abreast of it. Knowledge is the guiding force when it come s leaving the competition behind. New bits and pieces of information may just prove as useful as a newly devised strategy. He should know what his strengths & weaknesses are so that they can be worked on and can result in a healthier organization. A good entrepreneur will always try to increase his knowledge, which is why he is always a learner. The better an entrepreneur knows his playground, the easier he can play in it.

Social Skills: A skillset is an arsenal with which an entrepreneur makes his business work. Social Skills are also needed to be a good entrepreneur. Overall, these make up the qualities required an entrepreneur to function. Social Skills involve the following:

- Relationship Building
- Hiring and Talent Sourcing

- Team Strategy Formulation and many more.

Empathy: Perhaps the least discussed value in the world today is empathy or having high emotional intelligence. Empathy is the understanding of what goes on in someone's mind. This a skill that is worth a mention. A good entrepreneur should know the strengths and weaknesses of every employee who works under him or her. You must understand that it is the people who make the business tick! You have to deploy empathy towards your people. Unhappy employees are not determined and as an entrepreneur, it is up to you to create a working environment where people are happy to come. To look after their well-being, an entrepreneur should try to understand the situation of employees. What can be a motivational factor? How can I make my employees want to give their best? All this is understood through empathy. Keeping a workplace light and happy is essential. For without empathy, an entrepreneur cannot reach the hearts of employees or the success he desires. Empathy is one of the most important aspect of an entrepreneur to touch the hearts of employees.

Persuasive: To be successful in business, you have to know the business. If you integrate yourself into the personal feelings of the employee and know how to get people to listen to you, you could be a successful entrepreneur. Specifically, when first starting out, entrepreneurs need to gain buy-in from those around them on their big idea. If it is an out-of-the-box idea, which it usually is, many people will be skeptical before giving their support or investing any money. That is why entrepreneurs need to use their persuasiveness to sell themselves and their ideas.

Vision: Entrepreneurs have the vision. They see a big picture they wish to accomplish, which fuels their efforts and pushes them to do more. Moreover, vision is what defines the culture and identity of an organization. Not only does it keep entrepreneurs energized, but also it allows them to motivate others and keep them working towards the company's success. To improve your entrepreneurship vision, you can implement a daily action plan. Prioritizing your tasks can keep you from feeling overwhelmed and help you stick to your vision. Also, listen to or read uplifting content to fortify your mind and stay focused on your purpose. The best entrepreneurs have a vision as to what they want to achieve, how they can accomplish their objectives, and whom they need on their side to reach their goals. Their vision acts like a compass that points them in the direction of opportunities that perhaps no one else has found. They also have the ability to translate their vision in a way that staff and investors can understand. Through networking opportunities, entrepreneurs can find people they want to align with.

Confidence: Without confidence or self-belief, entrepreneurs cannot possibly succeed. They have to be confident both in themselves and in

the products or services they sell. If they believe in themselves, they will have the ability to stay the course regardless of difficulties or discouragement they get. They also have the stomach to take risks — after all, they believe that they will succeed.

The Importance of Entrepreneurship in Day-to-Day Activities

Entrepreneurship is important for a number of reasons, from promoting social change to driving innovation. Entrepreneurs are frequently thought of as national assets to be cultivated, motivated, and remunerated to the greatest possible extent. In fact, some of the most developed nations such as the United States are world leaders due to their forward-thinking innovation, research, and entrepreneurial individuals. Great entrepreneurs have the ability to change the way we live and work, on local and national bases. If successful, their innovations may *improve standards of living*, and in addition to *creating wealth with entrepreneurial ventures*, they *create jobs* and contribute to a *growing economy*. The importance of entrepreneurship is not to be understated. These contributions through entrepreneurial innovations can further be explained in detail as follows:

Entrepreneurship Spur Economic Growth

Entrepreneurship is important, as it has the ability to improve standards of living and create wealth, not only for the entrepreneurs but also for related business enterprises created which generate employment opportunities for others. Too much entrepreneurship (i.e., high self-employment) can be detrimental to economic development. In fact, the improvement in per capita income and gross domestic product (GDP) as a result of entrepreneurship plays vital importance in economic development. New products and services created by entrepreneurs can produce a cascading effect, where they stimulate related businesses or sectors that need to support the new venture, furthering economic development. For example, a few information technology companies made up the IT industry in India during the 1990s helped India's economic development. The industry quickly expanded and many other sectors benefited from it.

Businesses in associated industries—such as call centre operations, network maintenance companies and hardware providers—flourished. Education and training institutes nurtured a new class of IT workers who were offered better, high-paying jobs. Similarly, future development efforts in other countries require robust logistics support, capital investments and a qualified workforce. From the highly qualified programmer to the construction worker, hence entrepreneurship benefits a large part of the economy. In the U.S.

alone, small businesses created 1.6 million net jobs in 2019. The entrepreneurs also help drive change with innovation, where new and improved products enable new markets to be developed.

Entrepreneurship Add to National Income

Entrepreneurial ventures help generate new wealth creation or generations. Existing businesses may remain confined to existing markets and may hit a limit in terms of income. New and improved products, services, or technologies from entrepreneurs enable new markets to be developed and new wealth to be created. Additionally, increased employment and higher earnings contribute to better national income in the form of higher tax revenue and higher government spending. The revenue collected can be used to invest in other struggling sectors and human capital by the government. Although it may make a few existing players redundant, the government can soften the blow by redirecting surplus wealth to retrain workers.

Entrepreneurship Create Social Change

Through offering unique goods and services, entrepreneurship breaks away from tradition and reduce dependence on obsolete systems and technologies. This can result in an improved quality of life, improved morale, and greater economic freedom. For example, the water supply in water-scarce areas will, at times, force people to stop working and go around to collect water. This has influenced their business, productivity, and income. However, with soft technology in water projects, an innovative and automatic pump powered by smart sensors fills people's water containers automatically, ensuring more people in villages have improved access to clean and safe drinking water. This type of innovation ensures people are able to focus on their jobs without worrying about a necessity like water. More time to be devoted to working translates to economic growth. For a more contemporary example, smartphones and apps have revolutionized work and play across the globe. Smartphones are not exclusive to wealthy countries or people, as more than 5 billion people have mobile devices around the world. The growth of the smartphone market continues technological entrepreneurship can have a profound, long-lasting impact on the world. Moreover, the globalization of technology means entrepreneurs in developing countries have access to the same tools as their counterparts in developed countries. They also have the advantage of a lower cost of living so a young entrepreneur from a developing country can compete with a multimillion-dollar existing product from a developed country.

Entrepreneurship Instigates Community Development

Entrepreneurs regularly nurture ventures by other like-minded

individuals. They also invest in community projects and provide financial support to local charities. This enables further development beyond their own ventures. Some famous entrepreneurs, such as Bill Gates, have used their money to finance good causes, from education to public health. The qualities that make one an entrepreneur can be the same qualities that help motivate entrepreneurs to pay it forward through philanthropy, in future life. Entrepreneurship inspires other people in the community toward economic health through the team created by an entrepreneur in the new undertakings. It often provides the opportunity for the employees to have a first-hand experience to engage in an entrepreneurial venture. The existing venture provides a number of entrepreneurial opportunities through forwarding and backward linkages to the employees, even to become entrepreneurs themselves. Generally, this process helps inform a chain reaction of entrepreneurial activity which contributes to the health of the economy.

Provides Diversity in the Firms

Entrepreneurial activity often results in the creation of varieties of firm products and services provided in the area where the firms are situated. These firms operate in diverse activities and services. The observed firm diversity fosters economic development and growth rather than homogeneity. Jacobs (1969) indicated that it is the exchange of complementary knowledge across diverse firms and economic agents that yield an important return on new economic knowledge.

Provide Market Efficiency

Efficiency means resources are distributed in an optimal manner to maximize the satisfaction of the people from those resources. An economic system can only attain the state if there is an existence of competition between different suppliers. In case, the suppliers are not using the prevailing competition in place they tend to demand profit in excess of what the market would allow and reduce the overall efficiency of the system.

Economic Independence

Entrepreneurship is very important for a country's self-reliance, such that entrepreneurs create industries that manufacture indigenous substitutes thereby minimizing the dependence on imports. In addition, the extra goods produced are exported outside countries' borders for foreign exchange. The import substitution and export

promotion result in more economic independence for the country and increase the country's wealth and development.

Combine Economic Factors

All the products purchased and sold in the economy are the combination of three economic factors (The raw materials, nature offers up, the physical and mental labour people provide, and capital-(money)). The new value is created by superimposing the three factors together in a way satisfy human needs.

Risk Acceptance

Risk is a potential variation in terms of future outcomes. The community does not know exactly what the future will bring about. The lack of knowledge creates uncertainty, no matter how they can plan, there is always a possibility of adverse deviation from what is expected or hoped for it. In this case, the primary function of the entrepreneur is to accept risk on behalf of the community.

Is All Entrepreneurship Good?

Are there any drawbacks to cultivating entrepreneurs and entrepreneurship? Is there a limit to the number of entrepreneurs a society can hold? From the findings of some scholars, it was revealed that employees at young firms receive lower earnings as compared to employees at older firms. Italy may provide an example of a place where high levels of self-employment have proved to be inefficient for economic development. Research has shown that Italy has experienced large negative impacts on the growth of its economy because of self-employment. There may be truth in the chief saying, "Too many chefs and not enough cooks spoil the soup."

The Role of Government

Regulation plays a crucial role in nurturing entrepreneurship. Unregulated entrepreneurship may lead to unwanted social outcomes, including unfair market practices, pervasive corruption, and criminal activity.

Unit Reflection



If you want to progress as an entrepreneur, you must be someone with passion, overcome your own limit, and think big. For that, through this module, we invite you to reflect on and plan your steps well before starting new entrepreneurship.

Unit Assignment



Dear learner, attempt the following questions:

1. Entrepreneurship concept can be defined depending on the author's point of view, basing those author's views define your understanding of the concept.
2. Choose the correct answer in the following questions
 - (i). Entrepreneurship is defined as
 - a) The art of turning an idea into a business
 - b) The process by which individuals pursue opportunities without regard for resources they currently owned or control.
 - c) The ability to identify business opportunities, which can be transformed into successful businesses through creative and innovative processes
 - d) Something about business and especially buying and selling products or providing a service.
 - (ii). Entrepreneurship to be successful one it requires
 - a) Skills and mind-set to advocate for a better community with creativity
 - b) innovation and leadership
 - c) Some elements in (a) and (b)
 - d) Both (a) and (b)
3. What do you understand by the term opportunity in the context of entrepreneurship?
4. What are the requirement for one to be a successful in entrepreneurship?
5. Who is an entrepreneur?
6. Chose the correct answer in the following:
 - (i). The word entrepreneur derives from the French words "entre" and "prendre" meaning
 - a) "Between" and "to take" respectively
 - b) "To take" and "between" respectively
 - c) The word describes people who *take on the risk* between buyers and sellers.

- (ii). There is no single definition of what an entrepreneur actually is, but the term usually refers to:
 - a) Someone who, among other things, spearheads a venture, makes decisions on how to proceed
 - b) Secures the capital needed to make the venture a reality
 - c) Should use almost all of the associated risk.
 - d) All answers are correct
- 7. Distinguish between Entrepreneur from “Investor”
- 8. Distinguish between Entrepreneur from “Small business (SB) owner”

Considering the conventional and neo-classical economic theories, the entrepreneur can be interpreted in different views based on the contributions of various economic writers on the role of the entrepreneur. What do the following witters defined entrepreneur.

 - i) Cantillon
 - ii) Kirzner
 - iii) Knight
 - iv) Casson
 - v) Shackle
- 9. Explain the five Characteristics of an entrepreneur.
- 10. Explain the importance of entrepreneurship in day-to-day activities.
- 11. Based on the characteristics of an entrepreneur, justify whether you are an entrepreneur or not.

Unit 2

Use Entrepreneurship Skills to Carry Out Micro, Small and Medium Enterprises (SMEs) Activities

Introduction

Dear learner, the study findings by Omolara (2018) indicated that entrepreneurial skills have a significant influence on the growth of SMEs in Nigeria and the UK. However, creative thinking, Problem solving and communication skills are critical for increase sales and competitive advantage. SMEs are accepted as a fundamental part of the economy of individual countries and, as such, the underpinnings of the world economy. Therefore, skills are the knowledge demonstrated through actions or a unique performance in certain situations. Therefore, skills are attained and developed through training (Zehra, 2016). Nevertheless, reaching maintainable business growth is a task that requires special skills (Perks and Smith, 2006). With the above scenario, it is most likely that for a business to succeed more depends on a business owner if could have sufficient entrepreneurial skills. These skills provide benefits for start-ups and it is as useful throughout the lifecycle of a business. Entrepreneurship is the creation of a new firm that uses novelty to enter an existing or new market while building healthy completion against the existing business (Stefanovic, Rankovic & Prokic, 2011; Ebiringa, 2011). Likewise, Stevenson (1993) implies that entrepreneurship generates growth, wealth, and well-being by calculated risk.

Learning Outcomes



Upon completion of this unit, you will be able to:

- Define SMEs (MSMEs);
- Describe types of SMEs;
- Explain procedures to establish SMEs; and
- Explain challenges in carrying out SMEs activities.

Micro, Small and Medium Enterprises

Micro, small and medium enterprises (SMEs) all over the world are known to play a major role in socioeconomic development. This is apparently the case in Tanzania, where SMEs contribute significantly to employment creation, income generation, and stimulation of growth in both urban and rural areas. The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes abbreviated as MSMEs. The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Although, the term SMEs may be defined in accordance with some important leading variables. Generally, the term Small and Micro enterprises (SMEs) have no common definition, which cut across the industry, country, and worldwide. The existence of these definitions depends on the nature of the country's development level and source reporting SMEs' statistics. The most common criteria or yardsticks at the international level used to define SMEs include number of employees, total net assets, annual turnover sales, and total investment levels. These definitions are basically from the quantitative perspective of small businesses.

However, among all mentioned criteria, the best criteria used to define the SMEs used the number of employees simply because it is not affected by inflation to monetary values of investment or sales turnover. The rest of the quantitative criteria are difficult or costly to obtain due to unreliable data and lack of records (Siropolis, 1997), which are common in Small and Micro Enterprises. In the context of Tanzania, micro-enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro-enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use the capital investment from Tshs.200 million to Tshs.800 million. This is illustrated in the table below:

Table 02: Categories of SMEs in Tanzania

Category	Employees	Capital investment in machinery (Tshs)
Microenterprise	1 - 4	Up to 5 million
Small enterprise	5 - 49	Above 5 million to 200 Million
Medium enterprise	50 - 99	Above 200 million to 800 million
Large enterprise	100+	Above 800 million

Types of Micro, Small and Medium enterprises

Micro, small and Medium enterprises (SMEs) are not a homogenous group, but different among subcategories. Small enterprises (SEs) Micro- enterprises (MIEs) and Medium enterprises (MEs) these categories or classifications can be distinguished obviously from one another by reference to their different characteristics in many aspects, such as formality or ways of doing business, market orientation, social-economic profiles of the owners/producers, nature of workers employed, adopted organization and management system, degree of mechanization (nature of production process), sources of main raw materials and capital, location, external relationships, and degree of women's involvement as entrepreneurs (Table 03).

In Asian developing countries, for instance, the micro, small and medium enterprises (MSMEs) have made significant contributions over the years measured in terms of their shares especially in: (a) number of enterprises; (b) employment generation; (c) production and value-added; (d) aggregate output or gross domestic product (GDP); (e) number of enterprises set up by women entrepreneurs; and (f) regional dispersal of industry. Moreover, Ten Francophone African countries in their workshop conducted in Ouagadougou in 1997 developed definitions for Micro, Small and Medium-sized Enterprises as summarized in Table 3.

Table 3. Classification of Micro, Small, and Medium Enterprises (SMEs) – Enterprise Typologies (Ten Francophone African countries)

Aspect	IGA	MIEs	SEs	MEs
Entrepreneur	-Main purpose is to acquire subsistence income or complementary income, No special competence, Self-employment	-Acquisition of income through specialized activities -Elementary technical competences -Self-employment	- Entrepreneurial spirit, need a certain level of expertise. Owner/manager family apprentices & salary staff.	- Entrepreneurial spirit A certain level of expertise, - owner/manager -Sometimes family/apprentices
Activity	Service or retail trade, Complementary income, Temporary or seasonally	- Main activity very small, some seasonal activities.	- Well-defined activity, on full time bases.	Specialised activity sometimes diversified, Exercised as usual professional.
Number of employees	1	1-3	3-5	10 - 50
Turnover	<500,000 Fr	<500,000,000Fr	500,000,000Fr	500 Mil – 2 Bil Fr
Regulatory environment	- No legal status - Sometimes pays trade taxes	Not well-defined legal status, but often pays taxes	Rudimentary legislations, often registered (individual enterprise), pays taxes, Loan Beneficiaries	Registered member of chamber of commerce, sometimes incorporated as company.

Entry barriers	- Virtually no barriers to enter, No fixed premises (road side, home or Market), No seed for capital investment (require little starting fund.	Elementary technologies, Elementary production (little equipment), Sometimes without permanent location Need some working Capital (stocks, raw materials.	Elementary technologies, investment & light equipment (Need for electricity, fixed premises, capital required (equipment and working capital etc.)	Technical complexity in production, relative adapted production means, special site, significant capital (office rent, raw materials, rent, equipment, training & sometimes significant working capital.
Development Potentials	-Very low or non-existent, Majority are women.	Low or horizontally diversification. Reproduction, logic Rather than growth logic.	Beginning of capital accumulation, sometimes with growth potential, but mainly	-Capital accumulation & growth potentials reproduction logic (Family enterprise)

IGA: Income Generating Activity Source: Francophone African countries workshop, Ouagadougou (1997)

Different Types of MSMEs

Based on Sandee and Wingel (2002) who examined the level of development of MSME in Indonesia, by focusing on MSME clusters in the manufacturing industry, they classified manufacturing MSMEs clusters in Indonesia into four types according to their level of development (including the level of entrepreneurship), each with its own characteristics (Table 5). The first type is called “artisanal”. The level of cluster development measured by the following scale: one (the lowest), two, three and four (the highest), then the level of cluster development of artisanal is in the category one. Altenburg and Mayer-Stamer (1999) also refer to such clusters as “survival” clusters of MIEs, as this type of cluster displays many characteristics of MIEs with level of productivity and wages being much lower than that of SEs and MEs. In these clusters the degree of inter-firm cooperation and specialization is very low, reflecting the lack of specialists in the local labor force as well as a fragile social fabric. The second type is called “active” clusters, which are developed rapidly in terms of skill improvement, technological upgrading and successful penetration of domestic and export markets. The active clusters may still be artisanal in character, which still face quality-related problems and their markets are mainly local or domestic. Typical examples of these

clusters are such as roof tiles clusters, metal-casting clusters, shuttlecock clusters, shoe clusters, and brass handicrafts. In these clusters, some enterprises start to influence the development trajectory of the clusters, and some enterprises produce for export through middlemen or traders or trading houses from outside the clusters.

The third type is called “dynamic” clusters as they are characterized by, among others, expanding exports. Examples of the third type are textile weaving clusters, furniture cluster, wig and hair accessories cluster, and handicraft cluster. Many producers in these clusters have developed extensive trade networks not only domestic, but also overseas. Internal heterogeneity within clusters in terms of size, technology, and served market is more pronounced. Inter-firm specialization and cooperation among firms inside clusters are well developed. One of the most striking features of this type (and also to a certain extent in the “active” clusters) may be the decisive role of leading/pioneering firms, usually larger and faster growing firms, to manage a large and differentiated set of relationships with firms and institutions within and outside clusters. Some leading firms have utilized cutting edge technologies in production (Supratikno, 2002a,b). The fourth type is called the ‘advanced’ clusters, and in this type of clusters all enterprises are mostly MEs. The key characteristics of these clusters are that many of the enterprises are export-oriented and they have strong inter-firm specialization (see further Table 5), providing employment for over 90 percent of the country’s workforce, mostly women and the youth. therefore, are likely to play an important role in helping to develop the skills particularly entrepreneurs. However, many MIEs are established by poor households or individuals who cannot find better job opportunities elsewhere, either as their primary or secondary (supplementary) source of income. The important sectors for MSMEs are found in agriculture, trade, hotel and restaurants. In the manufacturing sector, MSMEs are traditionally not so strong as compared to LEs. This structure of MSMEs by sector is, however, not an Indonesian unique. It is a key feature of this category of enterprises in developing countries, especially in countries where the level of industrialization is relatively low.

Table 4. Different Types of MSMEs Clusters in the Developing world

Types	Level of development	Characteristics
“Artisinal”	1	-Mainly MIEs; -low productivity and wage; -stagnated (no market expansion; no accumulation of investment; no increase in production; no improvements in production methods, management, and organization; and no innovation); -local market (low-income consumers) oriented; -used primitive or obsolete tools and equipment; -many producers are illiterate and passive in marketing (producers have no idea about their market); -the role of middlemen/traders is dominant (producers are fully dependent on middlemen or trader for marketing); -very low degree of inter-firm cooperation and specialization (no vertical co- operations among enterprises); -no external networks with supporting organizations.
“Active”	2	-Used higher skilled workers and better technology; -supplied national and export markets; -active in marketing; the degree of internal as well as external networks is high.
“Dynamic”	3	<p>- trade networks overseas are extensive; - internal heterogeneity within clusters in terms of size of enterprises, technology, and served market is more pronounced; - leading/pioneering firms played a decisive role Continuation.</p> <p>- The degree of inter-firm specialization and cooperation is high; -business networks between enterprises with suppliers of raw materials, components, equipment and other inputs, providers of business services, traders, distributors, and banks are well developed; - cooperation with local, regional or even national government, as well as with specialized training and research institutions such as universities is good; -many firms are export- oriented (mainly through trading houses or exporting companies)</p>

Procedures to Establish SMEs

SMEs have different management and organizational requirement at different stages depending on their classifications. SMEs move from relatively unstructured organizations at start-ups led by owner-manager to more structures that are formal as the firm keeps on growing. Based on the Tanzanian context, the establishment of the Income Generating Activity (IGA), virtually there are no legal procedures for its establishment. The one who wishes to establish such SMEs has no barrier restricting to starting it since there are no fixed premises required. The kind of such SMEs can be found alongside the road, home, or Market. In fact, it requires very little starting fund as a seed for capital investment.

However, Micro- enterprises (MIEs) they are not well defined in terms of legal status for their establishment, though often pay taxes to local authorities. Anybody can be able to establish it without prior information from the government's authority since it requires elementary technologies, elementary production of which requires little equipment. Sometimes, such kinds of SMEs have no permanent locations. In addition, the MEs need some working capital for stock and raw materials.

Small Enterprises (SEs) should undergo some rudimentary legislation and be virtually registered as an individual enterprise. The SEs required elementary technologies, investments, and light types of equipment using electricity. They have fixed premises, capital required for equipment, and working capital for rent, raw materials, etc.) The SEs are loan beneficiaries from financial institutions. These kinds of SMEs require observing legislation such as paying service levy and collecting value-added tax (VAT) on sales. The establishment of such SMEs requires applying for licenses, through local authorities (Municipals and councils) and securing a Tax Identification Number from Tanzania Revenue Authority (TRA). It is a free-of-charge document (certificate) for new businesses making it convenient for them to commence their business operations. Sometimes need to apply for a certificate from the Tanzania Bureau of Standards (TBS) for the quality of the manufactured products in case of manufactured SEs.

The Medium Enterprises (MEs) Technical complexity in production, relative adapted production means, special site, significant working capital for office rent, equipment, training, etc. The kind of SMEs requires applying all documents required in SEs establishment procedures in addition to the registration with the Business Registrations and Licensing Agency (BRELA). The MEs are

sometimes incorporated as companies; it should be registered as a member of the chamber of commerce and other affiliated sectors.

Explain Challenges in Carrying Out SMEs Activities

SMEs, important as they are to the economy, however, it has been facing a number of challenges despite the on-going reform programs elsewhere in the county and world over. This is due to a number of factors, one of which is a persistent culture that has not recognized the value of entrepreneurial initiative in improving the lives of the people. Other factors include complex, bureaucratic and costly legal, regulatory and administrative environment where SMEs are at a greater disadvantage than their counterparts that are larger. The government reforms to deregulate and liberalize the economy has decreased the interface of SMEs with the government agencies. The undue compliance requirement aimed to expand the tax base result in excessive paperwork has discouraged the SMEs operators, specifically SEs and MEs. The SMEs (MIEs and some SEs) are enjoying the individual presumptive tax assessment in compliance with section 80 of income tax Act 2004 (record keeping) for those business whose sales turnover does not exceed Tsh 4,000,000 (USD 1,719.69) annually (are not liable for any tax) as per exchange rate 2,326 - courted on 26th October 2022. However, there is still a chain of tax burdens on SMEs (Some SEs and MEs) such as 10% withholding tax (for those who are ranting), Business licensing fees, displayed board charges, service levy charges and many more depends on the sector in which the SMEs operates. Therefore, SMEs are more venerable to challenges than opportunities in Tanzania

The high cost of compliance to regulations may discourage potential entrepreneurs from formally setting up their businesses, while driving some existing enterprises out of business and those working for them into unemployment. Also the insufficient competition and inadequate information on the credit markets of Tanzania, banks are discouraged and not willing to lend to SMEs.

SMEs always operate on a small capita base, this feature of the SMEs disfavour its growth through facing hardship to expand in terms of assets or sales turnover or augment the quality of products and services. In the prevailing situation where financing is limited to the SMEs, the sustainability becomes a point for debate. We may think off the commercial banks' attitudes on landing insignificantly facilities to the SMEs despite the government emphasis on the banking sectors to expand their services to the SMEs. As SMEs are deemed as difficult customers presently very few credit financial institutions, feel comfortable dealing with SMEs. Based on this scenario, SMEs in Tanzania are deal with issues, which hinder their

access to credit finance, including but not limited to high interest rate attached on loan, collateral as a prime security. Legislation and regulation on collateral exclude movable assets as mortgages, thereby putting smaller businesses that own more of these assets into a disadvantaged position vis-à-vis their larger business counterparts. Another hindering factor is lack of awareness among SMEs, absence of credit enhancement and conducive procedures, absence of suitable banking products aligned to SMEs needs.

SMEs have lower demand for business development services such as training, counselling, advising and consultancy due to cost considerations and lack of knowledge about the benefits of external services in improving competitiveness. The effective competitiveness advantages of the Micro, Small and Medium Enterprises revolve around many factors and challenges existing in the business environment. Generally there is no business firms grows in competitive vacuum, as business grows and takes market share away from rivals firms there will be a certain amount of retaliation that takes place. This is very important aspect of competition that a business owner need to be aware of and plan for competitive retaliation normally increases as business grow bigger and become a larger threat to the rivals.

Apart from the rivals, the population to be served also increased and their tastes do vary drastically and that bring in the question of ability of the business to supply them adequately and meet their demand. The need to satisfy the customers' demands it requires the understanding of the consumer's behaviour, quality of the products or services produced and the clear strategies of which all need to increase the capital.

The price stability can shake the level of demand of a product or services in case the rivals in the market lower the price. This type of scenario places a new firm in difficult predicament and exemplify why it is important to start a business by selling a differentiated product or services to clearly defined target market.

The quality control aspect in the business is very important for the prosperity of the business. However, it is the one of the most difficult challenges that business encounter in its process of growing. The business owner need to maintain and improve high levels of quality and customer services. As the firms grows it handles more services, requests and contends with an increasing number of prospects, customers, venders and other stakeholders. If the business cannot build its infrastructures faster enough to accommodate the increasing activities, the quality and customer services will usually suffer and its

impacts will be observed on the drastic downfall of the business.

Absence of networking and collaboration in fact when SMEs start their structures seldom planned and organized. However, SMEs need to build strong networking with Government, educational institutes and large firms besides strengthening with other homogeneous SMEs collaboration. Tanzania is still lagging behind in this track as compared to the developing world like United States of America, United Kingdom, Japan, Korea, Malaysia, Thailand and few African countries like South Africa and Nigeria. Most of the SMEs in Tanzania are working in isolation without considering the benefit of synergetic effects and potential leverage of horizontal cooperation. There is no clear government policy on SMEs collaborations and consortia building for research and development (R&D), International trade etc.

Based on this, individual SMEs acknowledge the gathering resources to enjoy high business profits and expand their business. SMEs are not also not honoured any effort to enhance their R&D through educational institutes collaboration. SMEs in Tanzania, as far as most of African countries is not part and parcel of the value chain and depending to the middleman for their sales and orders such that loose large share of profit which is being gobbled up by the third part and they just receive the residual. The prevailing SMEs position in Tanzania can be enhanced through supporting the vendors by connecting them in value chain through building collaborations with downstream industry. Moreover, there is a need to create linkages with educational institutes to provide R&D support to SMEs.

Lacking skilled workers, associated to the four “M” it matters a lot for any business, these are Men, Machine, Money and Materials. SMEs need all of the four M to smoothly running of a business as much as any larger business. The skilled labour refers to the quality of the human resource, encompasses the quality of trainer, curricula and on job training facilities etc. Despite the various initiatives taken by the government, there is still lacking skilled workers in SMEs. Generally, there is a need to identify and fill gaps by undertaking detailed skilled mapping in Tanzania within the SMEs.

Mismanagement of raw materials is one of the challenges facing SMEs in carrying out its activities. The SMEs cannot buy raw materials in bulk. They also do not have the business expertise to go for forwarding transactions and failure trading for hedging against international price fluctuations. There are common practices to export raw materials, which is used by the local industry. Neither the private sector nor government have any policy to maintain strategic management reserve in raw materials, otherwise to be imported at short notice. Ultimately, SMEs face with price fluctuations as well as shortages in the international markets.

Unit Reflection



I hope you have successfully learnt from this unit. Before proceeding to the next unit, assess yourself by answering the following reflective questions.

- Assume you are walking with your daughter and in the course of walking your daughter noticed various forms of business that she could not understand clearly. You as a father or mother, who attended entrepreneurship and adult education course, specifically on the forms of business ownership and their roles in adult education, how will you make your daughter understand their operations and their roles in establish and running adult education?

Unit Assignment

Attempt the following questions:

1. Based on the entrepreneurship knowledge scope and Tanzania Small and Medium Enterprise development policy of 2003 to explain critically the SMEs establishment procedures (procedures to establish SMEs)
2. Define the term SMEs
3. The SMEs nomenclature sometimes abbreviated as MSMEs is used to mean
 - a) Micro and medium enterprises
 - b) Macro, small and medium enterprises
 - c) Micro, small and medium enterprises
4. Justify why there is no universally accepted definition of SME.
5. What are the most common criteria or yardsticks at the international level used to define SMEs?
6. The best criteria used to define the SMEs
 - a) The number of employees
 - b) Types of the product and services
 - c) Size of the SMEs

7. The reason for the best criteria to define the SMEs:
 - a) It is not affected by inflation to monetary values of investment.
 - b) It is not affected by sales turnover.
 - c) Both a & b are correct answers, since the rest of the quantitative criteria are difficult or costly to obtain due to unreliable data and lack of records.
8. Based on Enterprise typologies (Ten Francophone African countries) describe the SMEs Classification.
9. Describe the main characteristics of MIEs, SEs, and MEs in the Developed world like Indonesia.
10. Based on Sandee and Wingel (2002) focusing on MSME clusters in the manufacturing industry, classify the manufacturing MSMEs clusters into four types.
11. Based on Sandee and Wingel (2002) describe the following manufacturing clusters
 - i) “Artisinal”
 - ii) “Active”
 - iii) “Dynamic”
 - iv) “Advanced”
12. Based on Altenburg and Mayer-Stamer (1999) what do you understand by “survival” clusters of MIEs?
13. Explain the procedures for establishing the SMEs (Small and Medium enterprises)
14. Briefly state the functions of the following organs.
 - i) The Business Registrations and Licensing Agency (BRELA)
 - ii) Tanzania Revenue Authority (TRA)
 - iii) Tanzania Bureau of Standards (TBS)
15. Explain at least ten challenges in carrying out SMEs activities in Tanzania.
16. In five points, describe how can you solve the challenges that faced the young entrepreneurs in carrying out SMEs in Tanzania? (Give clear examples).
17. Briefly explain the four M and its impact in SMEs development

Unit 3

Apply a Legal Framework to Carry Out Business

Introduction

Dear learner, Business Law is one of the critical courses for the entrepreneur. Without exception, every business enterprise, at one point or another finds itself dealing **with legal issues**. The law itself is a broad field, and it is difficult to discuss it exhaustively. The most exceptional thing about Business Law is that it is inclusive of other branches of law such as *Labour law*, and *employment law*. Our discussion will, therefore, take these into account. However, at the centre of *Business Law*, there are *laws of contract*, the *law of sale*, the *law of lease*, and the *law of agency*. These are discussed in some depth, and at every turn, the entrepreneur is expected to infuse personal experience and typical business practical examples into the discussion and activities. The primary aim of going through the course is to prepare future entrepreneurs to operate their businesses within the local and legal framework of their respective countries. You are welcome

Learning Outcomes



Upon completion of this unit, you will be able to:

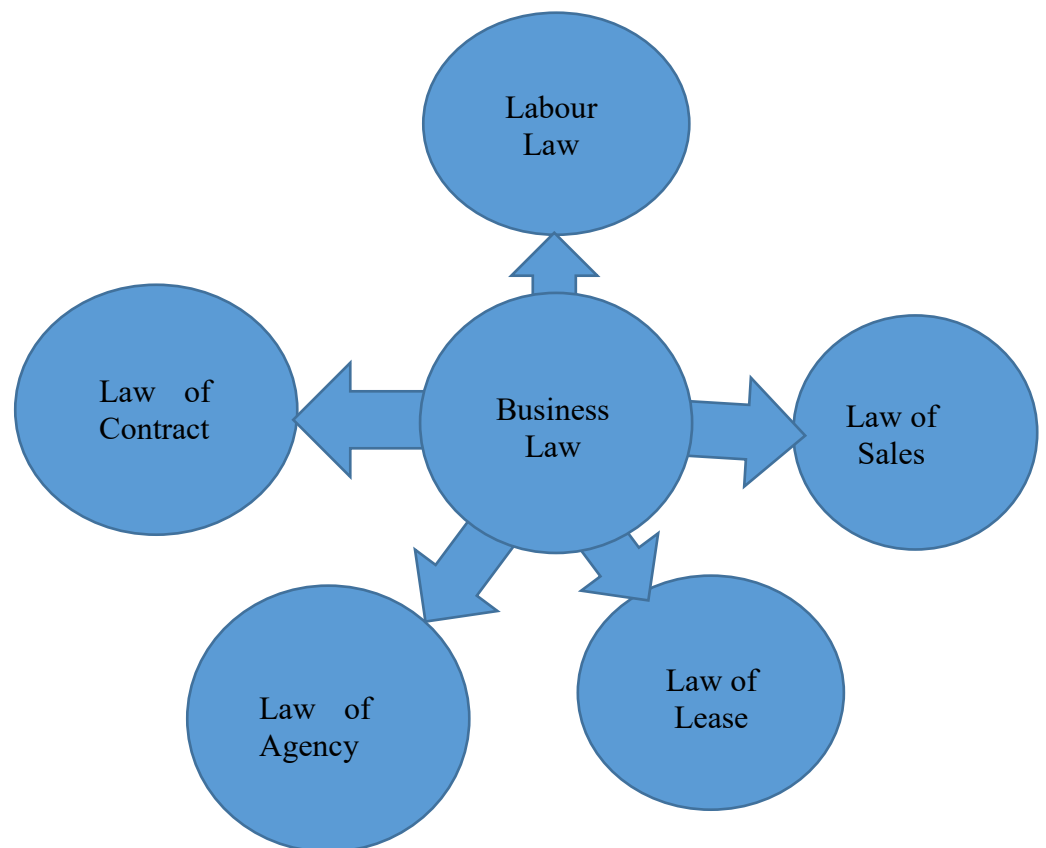
- Describe business legal issues;
- Identify categories of business legal documents;
- Describe intellectual property rights in carrying out business; and
- Establish business as a legal entity in accordance with local and National guidelines.

The Legal Status of an Enterprise

An enterprise, for example, a company or firm is considered by law to be a separate legal entity. The rule is that once a company is properly incorporated, it must be treated like any other independent person with its own rights, obligations, or liabilities appropriate to itself. The consequences of the enterprise's legal status are as follows:

- (i) The company is capable of owning property separately from its members.
- (ii) The company can sue and be sued in its own name because of its legal status.
- (iii) The enterprise has perpetual succession unless it is a sole proprietorship. This means its existence is not affected by the death or resignation of individual shareholders.
- (iv) Because the company has its own rights and liabilities, separate from those of members when it is being wound up, this does not affect the estate of members.

Based on the foregoing discussions, it is obviously clear that being an entity, a business is bound by business law in its various manifestations. For example, these aspects of law constitute business law, *employment law*, *Labour law*, the *law of contract*, *law of sale*, *law of lease*, *law of agency*, and so forth. This can be illustrated diagrammatically thus:



The diagram confirms the multi-faceted nature of business law, which means it, is an area of entrepreneurship that is critical, but at the same time cannot be discussed exhaustively. To that extent, only certain themes are selected. Further, as an entity with legal status, an enterprise is bound by ethics just as it is bound by legal rules. Business ethics is an important aspect.

Ethics and Business Law

In some countries, businesspersons are considered crooks. This attitude needs to be corrected apart from sticking to legal rules and demonstrating ethical morals. Business ethics is the behaviour that a business adheres to in its daily dealings with the world. The ethics of a particular business can be diverse. They apply not only to how the 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, but 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 the SMEs (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. Put simply, Ethics are considered the moral standards by which people judge behaviour. 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 different people you have to respond to, including but not limited to customers, shareholders and clients. Determining what to do when an ethical dilemma arises among these different interest groups 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, and Human subject protection.

An understanding of Business Law remains incomplete without a basic awareness of *Labour law* and *employment law* issues that impact entrepreneurship. The basic elements of Labour law in-so-far as they are linked with Business law. An aspect of *Labour law* that should be of particular interest to the entrepreneur is *Child Labour*.

Intellectual and Copyright Law

Introduction

In any business, either big or small, the owner or an entrepreneur create new ways of conducting and improving products or services. In case of writing business, such as books and articles, music note and models the authors create and share knowledge with public. Logically the invented ideas belongs to owner of that idea and they should be protected from piracy, meaning a stealing of somebody idea(s). The ideas are commonly known as intellectual property (IP), and they are intangible as opposed to real property, which is concrete and more easily defined. The protection of ideas is commonly inferred to copyright. Probably, one may need to know why intellectual and copyright law. As an entrepreneur, a sound knowledge about your rights and the rights of others to protect what is yours or theirs is foundational. After completing this Sub-title of this unit, the learner should be able to: Define copyright and intellectual property; explain intellectual property and copyright law; make a clear distinction of what is and what is not copyrighted; and discuss franchising as it links with intellectual property and copyright law. The contents of the sub-title include defining intellectual property, copyright law, what is copyrighted? What is not copyrighted?

Intellectual Property

Intellectual Property is an intangible form of property, the result of the creation of the brain or the mind, which is then manifested or interpreted in a form that has a physical existence and possesses exclusive property rights. Examples include images, symbols, names, designs, industrial processes and business methods used in commerce; inventions; artistic, literary and musical works; and software. Law protects the intellectual property. This is the area of law that deals with and oversees the creation of intellectual property patents, copyrights, trademarks and trade secret laws; the protection of intellectual property rights; and the legal pursuit of those who infringe

on another's rights to his/her intellectual property. It overlaps with several other areas of law, such as patent law, copyright law, contract law, tort law, trademark law and litigation not forgetting environmental law. Both statute and common law play a part in intellectual property law. Trade secrets are established through common law and to protect them, one must utilize the legal options provided by contract law and tort law. Statute creates and governs trademarks, patents and copyrights, which represent ownership of an original idea for a limited period. Copyright law may protect such artistic and creative works as paintings, music, books, photographs, movies and software. Trade secrets, patents and trademarks laws are most often utilized by businesses because of the commercial value of the protected property. More specifically, intellectual property laws grant rights to their creators as the sole beneficiaries of any monetary compensation that derives from their work, and to prevent it from being copied or infringed upon by others. How frequently do you think about intellectual property and your enterprise?

Class Discussion Activity

Look at some of the businesses or micro, small and medium enterprise in your community.

- (i). What evidence is there of infringement of intellectual property?
- (ii). What do you think the relevant ministry of your government should do to curb this business malpractice? Record your responses.

In many African countries, traders tape music onto CDs and sell them in the streets without license. This would be a clear instance of infringement. As for what your government ministry should do, relative to the evidence in your situation that is personal. Make suggestions and share with colleagues.

Intellectual property law is divided into two different categories, copyright law and industrial properties.

Copyright Law

The copyright law deals primarily with all things artistic. Paintings, books, music, movies, and even software are covered under copyright law. Copyright laws can protect artists from their work being modified or duplicated in some way or, conversely, encourage its common use depending on the kind of copyright it enjoys and the intentions of the

artist. Copyright laws exist to give creators some kind of work exclusive rights pertaining to that work, such as the rights of publication, adaptation, and distribution. There is a variety of different copyrights available, and creators can do anything from allowing their work to be freely distributed in the public domain, to completely disallowing their work to be adapted in any way. The latter applies to open education resources. Punishment for copyright infringement is typically a civil matter and not a criminal one. Copyright laws, like all intellectual property laws are quite necessary, but have recently become the subject of heavy criticism due to innovations like the Internet. On the Web, copyright laws are extremely difficult to enforce within such a massive and relatively anonymous medium, making copyright infringement very easy. This is in fact a major issue within copyright law today, as artists are forced to adopt the prevailing attitude that a more liberal stance should be taken towards more relaxed copyright law, chiefly brought upon by the prevalence of works now widely disseminated on the Internet. As technology makes it easier and easier to break copyright laws, the debate will likely continue to evolve, and the future of copyright law will remain uncertain. The concept of copyright, therefore, is vitally important in that it can protect irreplaceable intellectual property from being stolen. Despite the ubiquity of the copyright symbol, though, the legal concept of copyright unfortunately defies easy understanding.

What Can be Copyrighted?

For the matter of understanding, let have a look at the United States of America, regarding copyright and intellectual property gives further insight into this aspect of business practice. Read what follows in conjunction with the website www.copyright.gov/laws/. In the US, the Copyright Act of 1976 granted expanded legal powers to creators of original works in the areas of literature, music, cinema and architecture. Original works gain copyright protection at the moment of their creation, though content creators can still register works with the Copyright Office to gain additional statutory protection. Copyright law has an impact on *all* businesses because the US Copyright Office's definition of "original work" extends well beyond music recordings and book manuscripts. Copyright laws protect almost everything on your website; original marketing communications, blogs, photographs, articles and even podcasts enjoy protection. In the Internet age, every business produces some sort of content, and that original work cannot be used, copied or sold by other parties. Similarly, your business cannot use the original work of others (such as blog entries, logo designs, online photos and movie clips) unless you obtain their express permission. In addition to your Web content, computer programmes are protected by copyright. If you design a programme for your own business use, it is copyrighted; employees, partners and the public are not allowed to copy it without your permission.

Additionally, anything that an employee creates for you on company time is your property. It is a best practice to specify this in the contracts of any employees who will be producing intellectual property for you; otherwise, it may be more difficult to litigate against someone who reuses that intellectual property in their own business. What implications does this have on a business? Respond to this activity in order to express your views.

Class Discussion Activity

In what way can an employee who work for you create for your company intellectual property and then re-uses that property in his/her own business? Examples will differ from one business situation to another. For example, somebody writes a module for a distance education college and is remunerated for it. That module is legally intellectual property of the college. However, should the employee/writer decide to sell the same to a different education provider without express permission to do so from the employer, the person is in violation of copyright law, and can be litigated against?

What is not Copyrighted?

Copyright law excludes just as much as it covers. For example, it does not protect the name of your business, your marketing slogans or product names. This kind of intellectual property is protected through the US Patent and Trademark Office. In case of Tanzania, the BRELA is responsible for such protection. According to the US Copyright Office, copyright also fails to protect "ideas, concepts, systems, or methods of doing something." Finally, copyright laws do not cover products. According to the US Patent and Trademark Office, "a description of a machine could be copyrighted, but this

Intellectual Property and the Small Business

After completing this Sub-title of this unit, the learner should be able to describe intellectual property and the micro, small and medium enterprises operations, Industrial properties, understand the things to bear in mind and define the franchising. Having clarified the key concepts, it is needful to reflect on some thoughts about the small business and the laws discussed above. For a small business, paying attention to intellectual property - including considerations of copyright, patents and trademarks - is of the utmost importance. If you infringe on another's intellectual property rights, you can be sued in a civil court or found guilty of a felony. This kind of risk can sink a small business, which typically lacks the legal resources and war chest

of a larger company. Meanwhile, if you fail to be vigilant about protecting your own intellectual property, you can give up advantages to your competitors. As an entrepreneur, you need to be clear about patents and trademarks. What are they, in the first instance?

Industrial Properties

The second category of intellectual property law is called industrial properties, which deals with work created for commercial purposes. A design for a new piece of technology, for instance, is commonly protected by *patent* and/or *trademark*, and will give the creator the right to protect the invention from being unlawfully used by others, and to license it so that others may use it under certain terms and conditions. Like copyright law, the point of industrial properties law is to provide a financial incentive for the creation of intellectual property and simultaneously, protect the creator from having his or her invention duplicated without consent.

In http://www.copyrightservice.co.uk/copyright/intellectual_property a trade mark is a name, word, slogan, design, symbol or other unique device that identifies a product or organisation. Trademarks are registered at a national or territory level with an appointed government body, for instance BRELA in the Tanzania context, and may take anywhere to be processed. Registering in countries such as the US, the UK, or Japan, will protect your mark in that country only, but within the European Union, there now exists a Community Trade Mark (CTM), which covers the mark in all EU countries. Registered trademarks may be identified by the abbreviation 'TM', or the ® symbol. (It is illegal to use the ® symbol or state that the trademark is registered until the trademark has in fact been registered). In the US, there is also a differentiation between marks used for products or services, with a classification called service-marks used for services, though they in fact receive the same legal protection as trademarks. Patents, on the other hand, apply to industrial processes and inventions, and protect against the unauthorized implementation of the invention. Patents are grants made by national governments that give the creator of an invention an exclusive right to use, sell or manufacture the invention. Like trademarks, patents are registered at a national or territory level with an appointed government body. Patents typically take two to three years to be granted.

Important Aspects in Intellectual Property Right

Copyright: There is nothing you need to do now to copyright your original work. Since 1978, the mere act of creating it makes it yours. However, you should occasionally comb the Web and perform other kinds of diligence to ensure that your copyrights are not being violated. If you find what you suspect is a violation, consult an attorney.

Trademark: You have probably spent a lot of time thinking about your name, marketing slogans, product titles, and the like. Trademark everything that you do not want to lose to another company.

Patent: As far as the courts are concerned, what you do not patent does not belong to you; therefore, pay close attention to patent law and file on behalf of any invention unique to your business. This can be an extremely important investment, as it can prevent even the largest of companies from using your intellectual property (without paying you, of course), and it builds credibility for you and your business.

Franchising

Another business concept closely linked with trademarks, patents, and ultimately, with intellectual and copyright law is *franchising*. **Franchising** is the practice of using another firm's successful **business model**. The word 'franchise' is of Anglo-French derivation - from *franc* - meaning free, and is used both as a noun and as a (transitive) verb. For the franchisor, the franchise is an alternative to building '**chain stores**' to distribute goods that avoids the investments and liability of a chain. The franchisor's success depends on the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee does because he or she has a direct stake in the business he or she has a direct stake in the business. Thirty three countries, including the United States, China, and Australia, have laws that explicitly regulate franchising, with the majority of all other countries having laws which have a direct or indirect impact on franchising. Mid-sized franchises like restaurants, gasoline stations and trucking stations involve substantial investment and require all the attention of a businessperson. There are also large franchises like hotels, spas, or hospitals. Two important payments are made to a franchisor:

- A **royalty** for the trademark, and
- Reimbursement for the training and advisory services given to the franchisee.

These two fees may be combined in a single 'management' fee. A fee for "disclosure" is separate and is always a "front-end fee". A franchise usually lasts for a fixed period (broken down into shorter periods, which each require renewal), and serves a specific territory or geographical area surrounding its location. One franchisee may manage several such locations. Agreements typically last from five to thirty years, with premature cancellations or terminations of most contracts bearing serious consequences for franchisees. A franchise is merely a temporary business investment involving renting or leasing

an opportunity, not the purchase of a business for the purpose of ownership. It is classified as a wasting asset due to the finite term of the license. Although franchisor revenues and profit may be listed in a [franchise disclosure document](#) (FDD), no laws require an estimate of franchisee profitability, which depends on how intensively the franchisee 'works' the franchise. Therefore, franchisor fees are typically based on 'gross revenue from sales' and not on profits realized. Various tangibles and intangibles such as national or international [advertising](#), [training](#) and other support services are commonly made available by the franchisor. Franchise brokers help franchisors find appropriate franchisees. There are also main 'master franchisors', who obtain the rights to sub-franchise in a territory. Therefore, when operating your business as a franchisee, the need to be aware of what is involved or what the legal basics are should be necessary. You do not want to be caught up in legal wrangles, which you can easily avoid if you possess the right knowledge. We shall sum up our discussion with an activity.

Contract of Service

The simplest definition of a contract of service is that it is an agreement between two parties. The agreement is in terms of which one-person works for another and is paid for that. It is the basis of any employment relationship. Other writers, define this relationship, as a contract between two persons, the employer (the entrepreneur, in this case) and the employee, for the letting and hiring of the latter's services for reward. The employer is able to supervise and control the employee's work. As Basson *et al.* (2000) rightly put it, the employment contract is the starting point of the entire Labour law rules.

Principles Guiding the Law of Contract of Service

In the eyes of the law, there are certain principles or guidelines that make a given contract valid, and these are:

- There must be agreement between the parties. Such agreement is also known as *consensus*.
- The parties must have legal capacity to enter into agreements, and this varies from one country to another. In other countries, a person seeking employment must be over the age of eighteen, be mentally sound and sober. Contracts entered into by persons below the stipulated age are void even if their guardians assist them.
- The contract must be legal, and not in contravention of any law.
- The contract must not be contrary to good morals.

- No formalities are required, and it may be oral or put in writing.

You are requested as an entrepreneur to conduct some reading research in order to respond to these questions. **The Employment Act of your country will give you valuable information.** A possible reason why those who are under age should not enter into a contract is that **unscrupulous employers could easily exploit them.** Finally, a contract is said to be contrary to good morals **when the nature of employment turns out to be contrary to original intentions.** As an example, a hotel owner who enters into a contract with a good looking young woman to be the receptionist, but later pushes her into immoral acts in order to attract customers, is in violation of good morals.

Law of contract

There are several laws of contracts. In this section, the types of contracts will be discussed. In addition, related terms, will be explained as a way of affording the entrepreneur the opportunity to apply them in practice, for instance:

- Mistake
- Misrepresentation
- Remedies
- Capacity to contract
- Interpretation of terms
- Termination of contracts
- Breach of contract

A contract is defined as being an agreement, between two or more parties within their contractual capacities, which are possible of performance, and is enforceable by law. The most important features of the definition include the following:

- It is an agreement;
- should be between two or more parties; within their contractual capacities;
- Possible of performance; and
- the agreement should be enforceable by law.

The Definition Contains the Essential Elements of a Valid Contract.

Agreement

This term is otherwise known as *consensus*. It means to express willingness. To establish whether there is agreement, the transaction is ordinarily analyzed into offer and acceptance. The person who makes an offer is the **offeror** and the one who accepts is the **offeree**. Oral agreement is as binding as a written one.

Offer

Generally an offer is defined as presenting an idea or concept for approval, rejection or consideration. The implication of a serious offer is that the **Offeror** is showing willingness to enter into contract with the offeree. The offer must meet all the requirements of a valid contract, that is, it must show that the maker has a serious intention to be contractually bound merely by the other party. An offer must define all the terms on which an agreement is sought, and must be specific. With an invitation, one party is seeking offers from another, retaining the right to either accept it or not. An offer may be made to a specific person or to the public in general. Anyone complying with the terms of the offer can accept it.

Acceptance

In the context of a business enterprise, a contract cannot come into existence unless the offer is accepted. The offer must be accepted by the party to whom the offer is made. This is known as privity of contract. Parties are free to choose their contractual partners.

An acceptance must be clear and unconditional. If the offeree gives own terms other than those given by the offeror then this does not constitute acceptance but a **counter offer**. The counter offer is open for either acceptance or rejection by the original offeror. In which case their roles have been reversed, the initial offeror now becomes the offeree and likewise the offeree becomes the offeror. When the offeror stipulates a mode of acceptance, then only the mode would be recognized for valid acceptance. Any other method would not be considered as valid acceptance. Acceptance may be by conduct. However, the offeror cannot dictate that he would take the offeree's silence as acceptance. When one is silent, one does not necessarily accept or agree. Also for acceptance to be valid, the offeree must have knowledge of the offer. Otherwise the offeree would not intend to accept anything. A contract can come into being either tacitly or expressly. Tacit acceptance means that the offeree may not have verbally consented to the terms of the contract, but by his actions

implied agreement to enter into contract. Express consent is the verbal or written approval of the contract.

Types of Contracts

There are different types of contracts as presented below:

Void and Voidable Contract

Void Contract

A void contract is not a contract at all. It is referred to as a legal nullity. In actual fact it is a misnomer to talk of a void contract. As per our definition of a contract and the key features, we established that a contract must be enforceable by law. For example, A and B may agree to rob a bank and thus enter into contract, however the essence of the contract in itself is not enforceable by law. If A fails to perform as per agreement, B cannot bring A to law. Contracts may be void due to the following:

- ✓ Illegality
- ✓ Lack of contractual capacity
- ✓ Initial impossibility/subsequent impossibility
- ✓ Mistake

Voidable Contract

A voidable contract is one, which is valid per se, but due to some issue, the innocent party may at his option decide to withdraw from it. A contract may be voidable due to the following:

Lack of contractual capacity e.g. a minor may withdraw from his unassisted contract. A trustee may avoid contracts entered into by the insolvent, which have the effect of detrimentally affecting the estate.

- ✓ Duress
- ✓ Undue influence
- ✓ Misrepresentation

Duress/Metus(Fear)

An innocent party may withdraw from a contract, which he was induced to enter due to fear or threat of harm or injury.

Characteristics/features of duress include the following:

- ✓ The threat must be made by the other contracting party.
- ✓ It must be a threat of harm or injury to the innocent party, his immediate family or property.
- ✓ The fear must be reasonably held (not fear of the unknown). It

is not sufficient for the other party to plead that the innocent party is easily intimidated.

- ✓ The contracting party must not have threatened what he is entitled to. For example, if I threaten to do what I am legally entitled to, there is no duress.

In the case **Shepstone v Shepstone** a husband threatened to sue for custody of children where the ex-wife was cohabitating with a married man. The court held that there was no duress. The husband was legally entitled to the claim: The duress must have caused the innocent party to conclude the contract. The innocent party must take steps to withdraw from the contract as soon as the source of fear is removed.

Undue Influence

This is not based on fear at all. It is based on the fact that the conduct of the other party is improper and unfair. That one party because of his dominant position or relation prevailed on the will of another to enter into a contract against his will. In essence, one party by virtue of his position influences the other's decision with regards to entering into contract. Undue influence occurs mainly where the parties have a special relationship e.g. doctor and patient, lawyer and client, guardian and minor, pastor and member of church. However, the special relationship is not a legal requirement. The existence of a special relationship makes it easier to prove its abuse to make the will of the other party pliable. Consensus is thus defective, making the contract voidable. The victim would not have concluded the contract on his own free will. A good example is the important case of an old and ailing farmer who donated to his doctor his three farms because of undue influence. The innocent party is allowed to withdraw from the contract.

Mistake

When a party enters into a contract and gets the thinner end of the bargain, he may say, "I was mistaken in entering into the contract". The law does not concern itself with such a mistake. Courts do not make contracts for the parties. A mistake occurs when there is some misapprehension or misunderstanding as to some material fact. This would mean that the parties have not achieved an agreement. It must be noted that a mistake of law has no effect on the contract because ignorance of the law is no defence or excuse. Mistakes have different categories:

Unilateral/One Sided Mistake

Only one party makes a mistake, while the other is aware of the obligations. The law will not allow the unmistaken party to take

advantage of the mistake i.e. snatching at a mistake. The mistake must be fundamental to make the contract void. All mistakes must be reasonable or just for the contract to be avoided. If the mistake is unreasonable, then the law would not excuse it. This would be affected by the *Quasi mutual assent* rule. This rule states that where a party, by his/her words or conduct leads another (as a reasonable person) to believe that he was assenting to the terms proposed by him/her, and that party upon that belief enters into the contract with him/her, the person thus conducting oneself would be equally bound as if he/she had intended to agree with the other party's terms. Here is an example to illustrate the point raised above.

John purchases a painting purported by the proprietor of the shop to be an authentic Picasso. However, on appraisal by his art-critic friend it is established that it is indeed an imitation and of far less value than the consideration paid. The shop owner does not know he is selling a fake, and neither does John.

Common Mistake

Both parties make the same mistake; e.g. in a contract of sale both parties believe that the goods being paid for are in existence whereas they have been destroyed. In this case, the contract is void.

Mutual Mistake

In this type of a mistake, the parties have negotiated at cross-purposes. The offer made is not the one accepted; e.g. A intends to sell his Mini car to B but B thinks the offer relates to the Pajero also owned by A. There is no meeting of the minds. The contract is therefore void. The mistake must be material. Material mistake would be a mistake, for instance, on the identity of the subject matter or its content and not mistake on the motive or reason for contracting.

Misrepresentation

A representation is a statement of fact made during the negotiation stage, which later becomes one of the reasons that induces the other party to enter into the contract. It becomes a misrepresentation if the facts are false. A statement of opinion, even if false does not amount to a misrepresentation. Everyone is entitled to his opinion. However, if one states that one holds a certain opinion whereas one does not, this will be a misrepresentation of his state of mind. The party can avoid the contract.

The requirements for misrepresentation are as follows:

- ✓ It must be false
- ✓ It must be made by the other contracting party
- ✓ It must be made before or at the time the contract was entered into
- ✓ The statement must be material and
- ✓ The innocent party must have been contracted on the faith or basis of the statement. When a true statement subsequently becomes untrue, silence may amount to misrepresentation if the maker is aware of the changed position. There is now a duty to speak.

Types of Misrepresentation

There are different types of misrepresentation that the entrepreneur should be familiar with in order to avoid their consequence in the future. The following types can be closely studied and relate them to the business that you run.

Fraudulent Misrepresentation

This type has the following defining characteristics. It involves a false statement made with full knowledge of its falsity. Back to our example of John and the painting above. Had the storeowner sold the painting with the full knowledge of its authenticity, this would be considered fraudulent misrepresentation.

- ✓ It may involve making reckless statements without caring about their truth. Recklessness amounts to fraud but negligence does not.
- ✓ It also involves making a statement when in doubt about its truth but nonetheless closing one's eyes to all avenues of the truth. This is fraudulent diligence in ignorance.

Negligent Misrepresentation

A statement must be made negligently. He who makes it intends to induce the contract. He fails to take steps, which a reasonable man would have taken in the circumstances. The maker must

owe the other party a duty of care. He must know that reliance is placed on his skill and expertise, and that if statements were not true, the other party would suffer loss. Let us consider our example about the painting again. Now, let us assume that the shop owner was indeed a connoisseur of art, and sold the painting without verifying whether it was authentic. He is held in contempt both of law and of the contract.

Innocent Misrepresentation

The statement is made innocently without the intention to mislead.

Remedies

A party that suffers a loss because of a breach of contract by another party may be able to obtain redress/remedies. The contract is voidable in all instances, thus the innocent party has a choice whether to uphold or rescind the contract. This calls into play the issue of remedies. If one party breaches the terms of a contract, the other may suffer a loss. Where this occurs, there are various remedies, which the party suffering from the other's breach can use. A breach of contract is caused by a failure to perform a duty specified by the contract. The contract's terms can be divided into conditions and warranties. These can be expressly stated or implied within the contract. A **condition** is something fundamental to the contract. Breaching a condition will allow the other party to the contract to terminate it by 'repudiating' it and to claim damages. Breaching a warranty will only allow a damages claim and does not bring the contract to an end. Monetary damages for breach of contract are intended to be **compensatory** – i.e. to put the injured party in the position he reasonably expected to be in when the contract was created.

Delictual Remedies

Damages are available for fraudulent and negligent misrepresentation. There are no delictual damages for innocent misrepresentation. Damages are/may be available whether the victim upholds or rescinds the contract. The innocent party must be put in the same position (as far as possible) in which they would have been had the misrepresentation not happened. Damages here are not contractual but are based on delict. The innocent party must be put back to the position before the misrepresentation, not in the position he would have been had the contract been properly performed, which is the basis of contractual damages.

Capacity to Contract

It is important to establish who the parties to the contract are. This is important because some parties have no contractual capacity at all while the ability of others to enter into contract is limited. Capacity to contract refers to the legal competence to enter into contract for instance children. The following examples are of persons whose capacity to contract is prohibited under law of contract:

Minors

The legal age of majority in Tanzania is 18 years. A child under the age of 7 years has no capacity to act at all. He is unable to form an intention to enter into a binding legal obligation. Those above the age of 7 years must as a general rule have the assistance of a guardian when entering into contracts. The guardian must give assistance when the contract is being entered into or he must ratify after its conclusion. When the guardian says the minor can do as he wishes this is not assistance. The High Court is the upper guardian of all minors. Contracts concluded without the guardian's assistance are **voidable** at the minor's instance. The minor may withdraw from the contract without incurring any obligations unless he has been unjustly enriched. His estate cannot be benefited at another's expense. If the minor continues to use the subject matter after attaining majority he will be taken to have ratified the transaction and he cannot withdraw. The minor cannot keep the subject matter of the contract when he withdraws from it, unless he has used it in a manner which shows whims of minority i.e. giving it away as a gift without any legal obligation to do so. When a minor is bound by unassisted acts

- ✓ When he is married, he cannot revert to minority even after divorce.
- ✓ When he is tacitly emancipated for all acts he is independent for all purposes e.g. he has healthy finances, or stays alone.
- ✓ Partial emancipation applies only to do those acts related to his trade e.g. a cobbler would be allowed to purchase glue.
- ✓ When a guardian ratifies previously unassisted contract.

The law wants to balance two interests. Firstly, to protect minors from their minority and secondly, to ensure that innocent third parties should not suffer due to the conduct of others.

Mental Capacity/Insanity

Every person is presumed sane until declared insane by a competent court. This is a requirement of the Mental Health Act. When a person is insane, he/she has no capacity to conclude contracts. If he/she does, there would be no right of obligations arising out of these. Such contracts are void. To establish whether the contract entered into by an otherwise insane person is void, two questions have to be asked:

- Was the person so mentally deficient that he did not know that he/she was entering into a contract at all? If the answer is yes then the contract is void, as the person did not have intention to contract. But even if the answer is no, the second question still has to be asked:

- Was he so mentally deficient that although he knew that he was entering into a contract, he did not appreciate the nature and consequence of the transaction? If the answer is yes then the contract is also void.

For example: *A may, due to mental deficiency, know that he is entering into a contract but he may believe that it is one of a sale when it is one of marriage!* During lucid times, an otherwise insane person can enter into valid contracts

Intoxicated Persons

Alcohol or drugs may affect a person's intention to be contractually bound. Sometimes the effect of alcohol or drugs on a human mind is similar to that of insanity. The same questions as on insanity have to be asked. However, it is the person who alleges that alcohol or drugs prevented him from forming an intention that has to prove this fact.

Insolvent Persons

This is governed by the provisions of the Insolvency Act. An insolvent is one who has been so declared by the Court. This may either be because the person has voluntarily surrendered his/her estate for the benefit of creditors or his/her creditor(s) have successfully had that person's estate compulsorily sequestrated. The creditors would have discovered that the debtor has committed an act which is stated in the statute to consist of an act of insolvency. They then apply to the court for the debtor to be declared as an insolvent. The insolvent may not dispose any of his/her assets so as to detrimentally affect his/her estate without the consent of the trustee appointed to act on behalf of creditors. One can however, enter into ordinary contracts to sustain one's life; e.g. contracts of employment.

Prodigals

This is similar to a son who recklessly and extravagantly spent his assets. He has to be declared a prodigal and a curator appointed to manage his affairs. Somebody must prove why that person should be declared a prodigal because the courts are not keen to interfere in personal affairs.

Artificial Persons

These are bodies, which are given legal personality by the law. For example companies, parastatals and the state. These have to act through duly appointed agents. However, they are granted legal personality and can sue and be sued in their own name so they can enter into contracts just like natural persons. This is as far as it is

competent for the artificial person to enter into such contract. For example, a company cannot enter into a marriage contract! In most contract disputes, parties disagree on what the terms of the contract are. In the course of negotiations, various statements may be made, some oral and others in writing. Not all statements so made are terms. A term is a statement, which has effect as part of the contract. It obliges the party to act in a particular manner. A term defines the party's rights and obligations. Terms must be distinguished from statements, which are merely preliminary to negotiations. For example, those statements made before the conclusion of the contract are merely to lure customers. They are regarded as sales talk or mere puffs, and not legally important. A statement such as "This bicycle is the strongest in Africa" is not part of the terms of contract. Statements of opinion are also not actionable as everyone is entitled to their opinion.

The following are some of the types of terms.

- ✓ Express terms - These are precise and certain as stated by the parties.
- ✓ Implied terms - Not expressed but the court may imply these from the following:
 - Conduct of the parties.
 - Because the court believes that, the parties would have agreed to these terms if they had put their minds to them.
 - For business efficiency.
 - On the basis of custom or trade usage.
 - Our discussion so far has centred on contract capacity, and to relate this to the business world, work on this activity.

Conditions

These form a particular category of terms, which determine whether a contract comes into being or is terminated. They are of two types:

- ✓ Suspensive Condition/Condition Precedent - the flow of obligations is suspended until the condition is fulfilled. In the meantime, there is merely a contractual relationship.
- ✓ Resolutive Condition/Condition Subsequent - the materialisation of the condition terminates the contract. The contract becomes operative there and then until the happening of the uncertain future event.

Elements of the Contract

In addition to the above guidelines, the following essential elements must be included in the contract of employment.

Specified Work - This refers to the point that the work, which the employee is expected to do must be clear, and agreed to by both

parties. The employee, in addition to his work will be responsible for related, unspecified tasks provided that they are within his/her expertise and are lawful. It is important to note that demoting or changing the employee's work duties or tasks in a manner that reduces his/her status, may constitute breach of employment contract.

Remuneration - The parties must agree on the remuneration to be paid to the employee in consideration of the services rendered. The amount of this remuneration is subject to minimum wage legislation, and to collective bargaining agreements. Before reading on, explain these two terms to your colleagues who are doing this course: *breach of contract*, and *minimum wage legislation*.

Breach of Contract

Where a party does not perform the contract properly, this amounts to breach. Both the debtor and the creditor may breach the contract. Breach may be due to the following:

- ✓ Doing what one promised not to do. This is positive malperformance.
- ✓ Stipulating that one no longer wants to perform as agreed. This is Repudiation.
- ✓ Showing clearly that one will not perform when time for performance is up. This is anticipatory breach. Late performance when time for performance is given and important.
- ✓ However, where no time for performance is given, then the creditor should give notice so as to make time important and therefore put the debtor *in*
- ✓ Mora/delayed performance.

Remedies for Breach

What does the innocent party do when his contract has been breached? Where one party breaches the contract, the other is entitled to contractual remedies:

Specific performance - this means to achieve what the parties initially intended or a substantially similar result. This remedy would not be granted if it is impossible to accomplish, or if to demand this would cause undue hardship on the defaulting party, or where there is performance of a personal nature, demanding skill or expertise of the defaulting party.

- i) **Cancellation of the Contract** - If the breach is serious, the innocent party can regard the contract as cancelled and raise breach as a defence if sued on it.

- ii) **Damages** - the object of awarding a sum of money to the innocent party is to compensate him/her for loss arising from breach. It is important that the innocent party whose contract is breached must not just sulk, but do his best to minimise his loss. In contract, one is not awarded damages for hurt feelings or disappointment. The loss or damages must not be remote. It must result from the normal course of the breach.
- iii) **Interdict** - this is obtainable before breach. To prevent the other party from breaching the contract one applies to court for an order.

Types of Terms of Contracts

Normally, there are four types of terms of contracts. These include the following:

- **Fixed Term** - this contract is entered into for a specified period, and automatically terminates on the expiry of the agreed period. However, the parties can extend it if they so wish. Either party can terminate such a contract before the expiry of the agreed period for any good cause.
- **Probation** - in this contract, employees are hired for a fixed trial period during which their performance is assessed. If their work is substandard, the contract of employment is not renewed after probation.
- **Casual** - casual employees are those who are employed on temporary basis when work is available. In Tanzania, they are usually workers who are hired on a daily basis, mostly by manufacturing industries or local authorities to carry out menial tasks such as packaging, loading, or grass cutting. Contracts of this nature are usually oral.
- **Indefinite Term** - such contracts do not specify a duration period and endure until terminated by either party. The activity below requires you to reflect on the foregoing types of contracts.

Recruitment and contracting arrangements

Regarding the business, Law the question of Employment is very significant for the entrepreneur's prosperity. Entrepreneurs are advised that establishing a successful recruitment process can have a major impact on your business. Similarly, once you have decided to hire someone, setting out the terms of your agreement with them in a clear written contract helps reduce the risk of any disputes arising later. Most importantly, it is essential to specify the type of working arrangement for which a person is hired. A number of working arrangements can apply when employers engage workers. It is

important to understand the different arrangements as they can affect the terms and conditions of employment. Several arrangements are summarised below.

Full Time Permanent

Full time permanent employees work a number of hours per week, stipulated in the statutes for the given industry on a regular, on-going basis. They are eligible for such entitlements as paid annual, bereavement, parental, sick and carer's leave, and public holidays. In developed countries, but not yet in Botswana, male full-time employees are entitled to paternity leave.

Part Time Permanent

Part time permanent employees work on a regular, on-going basis but work fewer hours than full time employees. Part time employees may work a set number of hours on specific days. They get the same entitlements as full-time permanent employees, but on a pro-rata basis according to the hours worked.

Casual

A casual is an employee who may be hired on an hourly, daily or weekly basis and there are a variety of employment arrangements covering casual employment. Generally, casual employment is categorised by a short term or irregular period of employment. There is no guarantee of ongoing work and no requirement for the employee to be available for work. Industrial instruments may require an employer to notify the employee of their engagement as a casual, and limit the duration a person can be employed as a casual. Casual employees are not entitled to annual, sick or carer's leave or any public holidays.

Fixed Term

Fixed term employees are employed to do a job for an agreed length of time. Many employers hire fixed term employees to do work on a specific project or to fill in for employees who may be on leave. Fixed term employees are eligible for entitlements such as paid annual, bereavement, sick and carer's leave, and public holidays in relation to the term of their contract of employment.

Commission

Persons whose services are remunerated wholly by commission or percentage reward are not classified as employees for the purposes of the *Minimum Conditions of Employment Act* of Botswana. People in this category may be paid on a 'commission only' basis which means they only receive money when they sell or achieve a specific target. A

person can also be appointed on a 'commission and retainer' basis. In this situation, the person may be classified as an employee and may be eligible for entitlements under relevant legislation and/or an industrial instrument.

Piece Work

Persons whose services are remunerated wholly at piece rates are not classified as employees for the purposes of the *Minimum Conditions of Employment Act*. Being paid a piece rate means the person receives a set amount for completing a specific task that can be counted or measured. For example, payment based on a number of boxes of fruit packed or tonnage of timber cut. A person may be classified as an employee and may be eligible for entitlements under relevant legislation and/or an industrial instrument.

Independent Contractor

Independent or 'sub' contractors are not employees. The difference between a contractor and an employee can be complex. Independent contractors differ from employees primarily because they will generally run their own business, control the way they work, supply their own tools and be paid upon completion of a job.

Apprentice

Apprentices are employed on an agreement that provides for a fixed term, employment-based training programme. The apprenticeship agreement may be between two to five years and depends on how long it takes to become a qualified tradesperson. An apprenticeship combines on-the-job experience with off-site training.

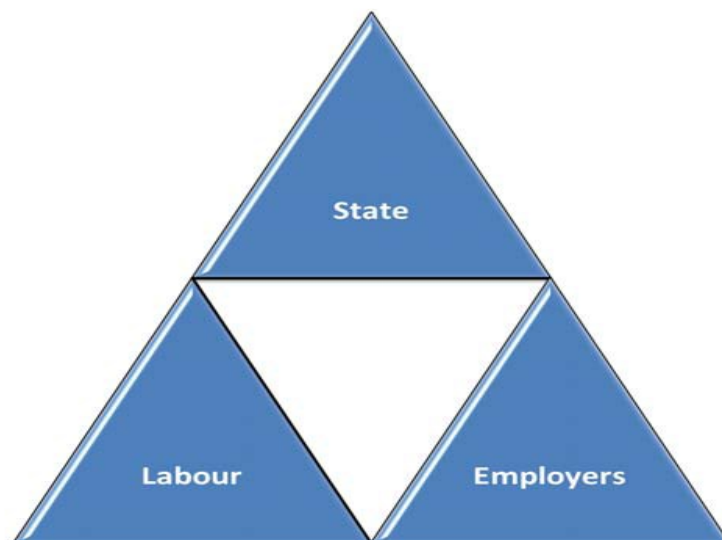
Probation

Probation is a set period of time that may be used by employers to make sure employees can do the work they were employed to perform. A probationary period can range from one to six months, depending upon the work and the industry. Work done during a probationary period is paid, and employees are eligible for entitlements to leave and public holidays. Probation does not apply to casual employment. Now, work on this activity, and ensure that by the end of it you have clearer understanding of the different types of arrangements.

Labour Law

The Labour law is discussed vis-à-vis business law. As an example, it is necessary to have a shared understanding of what a trade union is. In nearly every enterprise, the issue of trade unions is often a cause of misunderstanding between the employer and those employed in the business. The usual cause is the lack of understanding about the legal

status of trade unions, a clear understanding of which would go a long way towards a harmonious working relationship in the organization. We then take up discussion of Labour relations statute in-so-far as it influences collective agreements and sources of Labour relations. This is followed by a discussion of three closely related issues, namely, international Labour standards, custom/practice, and common law. From the point of view of an entrepreneur interested in *business law*, it is important to have a clearer definition of *Labour law* and how it relates to business law. Starting with the word **Law** itself, it refers to a system of legal rules that govern conduct, define the consequences of actions, and are enforced by the state. The nature of the legal rule is that it regulates a relationship between parties. On the other hand, **Labour Law** is a body of legal rules, which regulates relationships between employers and employees, employers and Trade Unions, employers' organizations and Trade Unions, and also concerned with relationships between the State, employees, trade Unions and employers' organizations. The Parties involved are:



The Act of Parliament regulates the Labour laws of a country. In Tanzania, we have the chapters and Acts, which can be referred to when discussing Labour Relations issues. It is important to have a thorough knowledge of these acts in order to run your enterprise satisfactorily. There are four basic ideas about Labour relations that the entrepreneur should be familiar with. We refer to these ideas as theories. Sonia (2001) spells out such theories clearly as *unitary theory*, *Marxist theory*, *Pluralistic theory*, and *Systems theory*.

What is a Trade Union?

Trade unionism is an idea to do with industrial democracy and worker participation in the management activities of an organization as a way of facilitating harmonious Labour relations (Cole, 1981). Trade unionism arose as a result of the notion that freedom was not extended to those in factories. It was argued that the workplace should not be regarded solely as an economic entity governed by the laws of the market, rather it is seen as a reflection of the wider society. In a democracy, workers should have some say and voice in how that small society – the hospital, the police station, the school, the local council, the department of transport, or the small business is run. The right of workers to participate in the workplace is equated to the right of citizens to participate in government. We shall, therefore, define a trade union as:

An organization formed to represent and advance the interests of workers from a specific economic sector. Subscription to the trade union is voluntary, in line with the freedom of association. Shadur (1994) agrees with this definition that is also echoed in ILO Convention Number 144 (1976). A trade union has some functions including:

- i) Engaging in collective bargaining on behalf of its members with their counterpart, the employer or other trade unions.
- ii) Educating members in relation to Labour relations, Labour laws, and other relevant subjects.
- iii) Organizing and coordinating collective job action either planned or embarked on by the members.
- iv) Representing members who are involved in Labour disputes before a Labour officer or Labour court.

Within a country, there is what is known as the Federation of Trade Unions. Individual trade unions are affiliated with this umbrella worker organization. Trade unions, e.g. the trade union of your employees, voluntarily affiliate with such a confederation. Trade unions are known by different names in a particular country. For example in South Africa, you will have heard of the Congress of South African Trade Unions (COSATU), while in Zimbabwe they have the Zimbabwe Congress of Trade Unions (ZCTU). In Tanzania, we have the Trade Union Congress of Tanzania (TUCTA). It covers only mainland Tanzania, in island, they have the Zanzibar Trade Union Congress responsible for Zanzibar¹

¹ https://en.wikipedia.org/wiki/trade_union_in_Tanzania#cite-LO/FTF-2

The Trade Union Act No.10 made trade unions independent of the government. This move was mostly supported by the unions, although some aspects of it were criticized, especially the extent of the powers of the Registrar of Trade Union. The act allows any twenty workers to create a trade union and any two unions to create a national centre. The Registrar, which is responsible for administering the provisions of the act may, however, cancel or refuse the registration of a union. The act does not apply to Zanzibar and Pemba. These islands have a similar law, which allows unions to be formed and registered with the Registrar of Trade Unions in Zanzibar. In general, the restrictions on the labour movement on the island are much stricter than on the mainland. For example, workers are legally prohibited from striking²

When a person starts work, someone who represents a trade union, the Shop Steward, may ask if they want to join the trade union. If the worker decides to join the trade union, they will pay an annual subscription (a yearly fee). Part of this subscription will go towards employing union officials. These officials will represent the views of the union to the employees in a bid to achieve their aims. So what benefits does the employee receive in exchange for paying their subscription? It varies from union to union, but generally includes these benefits:

- ✓ Strength in numbers.
- ✓ Improved conditions of employment, for example, rates of pay, holidays and hours of work.
- ✓ Improvement of the work environment, for example, health, noise, and safety.
- ✓ Improved benefits for those who may not be working because they are sick, retired, or have been retrenched.
- ✓ Improved job satisfaction by encouraging training.
- ✓ Advice and financial support if a member thinks that they have been unfairly dismissed or made redundant, have received unfair treatment, or have been asked by the entrepreneur to do something that is not part of their job.
- ✓ Benefits that have been negotiated or provided for union members such as discounts in certain shops, and provision of sporting facilities or clubs.

² https://en.wikipedia.org/wiki/trade_union_in_Tanzania #cite_note-7

Sources of Labour Relations

The following, eight sources of Labour relations are some of the basic sources, help sharing a common understanding of labour relations.

Contract of Employment

This is an agreement between two parties in terms of which one party (the employee) places Labour potential at the disposal, and under control of the other party (the employer) in exchange for some form of remuneration.

Collective Agreements

These include agreements entered into at the level of bargaining council and agreements struck between employer and trade union at organizational and shop floor level e.g., recognition agreements.

Judicial (Court) Precedent

This comes from the English law, and means that courts take into account their previous judgments in similar cases, because they are bound to the approach followed in the past.

Legislation

Legislation is a law laid down by the organ of the state, which has the power to do so. Business laws are embodied in writing and are known as statutes or acts.

International Labour Standards

These are standards contained in the conventions and recommendations of the ILO because a country, e.g., Tanzania is a member and signatory of this organization and conventions.

Custom / Practices

This is also known as trade usage and is an important source of law where it can be proved. It is unwritten law. To attain the status of custom, practice, or trade usage, an act or manner of doing things must prove to be:

- ✓ Well known
- ✓ Have been constantly practiced by a particular employment sector over a considerable period of time
- ✓ Legal
- ✓ Not contrary to good or acceptable moral standards
- ✓ Reasonable

Common Law

Common law refers to all legal rules not found in legislation. This is usually found in a section of the country's constitution. Common law is resorted to when there are no applicable legislative provisions

governing a particular situation. Where there is a conflict between legislation and common law, the legislative provisions are to be followed.

The Constitution of a Country

The constitution includes the decisions of the courts regarding the interpretation of the constitution, as well as legal comparison with constitutions of other legal systems.

Child labour

Child Labour is said to constitute 10% of the total Labour force internationally. India has over 44 million child laborers while Indonesia has over 2.7 million working children. In Africa Nigeria has the highest number of child laborers with over 12 million being engaged in formal employment. Child Labour is a global phenomenon, and is not confined to developing countries alone. Millions of European children work in estates and industries. In the United States the majority of children among immigrant communities work on farms. Conceptions of the role of children in the developed world, together with definitions of childhood based on age are different from those held in the developing world. In the subsistence economies of the developing world and throughout history, children have contributed their Labour to the family livelihood in so far as they have been able to. In the developed world child work is viewed differently, prohibited by legislation, and in turn, is vigorously enforced. In many developing countries, of which small states of the Commonwealth are a part, many businesses employ children. This is critical especially when we talk of modern-day slavery. The question is what law is there to regulate malpractices of child Labour? Think about your country and the businesses that employ children.

Child Labour Versus Child Work

Children are expected as part of their socialization both at home and at school to work. This therefore makes it necessary to distinguish between child Labour and child work. The former is considered bad while the latter is accepted as part of constructive socialization. Child Labour is work that impairs the health and development of children, particularly when it interferes with the schooling of the child. In practice, light work after school or legitimate apprenticeship opportunities are not usually called child Labour. However, a problem arises when household or domestic work involves long hours and can deprive children of education and particularly in agriculture where family work can expose children to chemicals and other hazards.

Some of the major characteristics of child Labour are:

- ✓ Children working at a very tender age. In developing countries, it is common to find children as young as seven years old working, and working long hours especially on farms.
- ✓ Children working long hours, sometimes up to 16 hours a day.
- ✓ Children working under physical, social and psychological strain, for example, working in mines or heavy industries.
- ✓ Children working in unhealthy and dangerous situations, for example, vending on the streets.
- ✓ Children working for meagre wages.
- ✓ Children bearing too much responsibility e.g. they often take charge of siblings who may be younger than themselves.
- ✓ Children working in circumstances where they are subject to intimidation. This destroys their self-confidence.

Reasons for Child Labour Occurrence

The one urgent question that begs an urgent answer is that what are some of the causes for child Labour within an economic environment?

- Children work primarily because their families are poor. When survival of the family is at stake everyone is expected to work to contribute to the family's resources.
- School is unavailable, inaccessible or just too expensive and children have to work instead.
- The AIDS pandemic is wiping out the most economically active age group and this leaves children to depend for themselves and to look after terminally ill AIDS patients or the aged members of the family.

The International Labour (ILO) Convention 138

Convention 138 is a consolidation of principles that have been gradually established in various earlier instruments and applies to all sectors of economic activity, irrespective of whether or not children are engaged in wage employment. The convention obliges ratifying states to:

- Fix a minimum wage for admission into employment.
- Pursue a national policy and programme designed to ensure the effective control of child Labour. Such policies should cover the following aspects:
 - Protection of children who are working, through providing them with health services, feeding programmes and non-formal education as a long-term objective for the eradication of child labour. The immediate priority should be to remove children from the most hazardous workplaces.

- Unveiling the most hideous forms of child Labour in small enterprises and exploitation of destitute children by rich relatives.
- Raise progressively the minimum age of employment or work to a level consistent with the fullest physical and mental development of children or young persons.

The convention was not intended to be a static instrument prescribing fixed minimum standard, but a dynamic tool aimed at encouraging the progressive improvement of standards in the control of child Labour. The following are some of the article's contributory to business law and business practices.

Article 1 of the convention deals with the Minimum Age of Admission to Employment (1973), encourages states both to develop policies for abolishing child Labour and to progressively raise the minimum ages when children can legally begin to work.

Article 2 goes beyond the general requirements by stating that the age should be less than the age when compulsory school ends, and in any event should not be less than 15 years. This article, however, concedes that states whose economies are not sufficiently developed are allowed to set the age at 14 years. This should only be transitional because where the minimum age is less than 15 years, as a matter of urgency, all states are supposed to raise the minimum age to 16 years in all economic areas.

ILO Convention 182 – Worst Forms of Child Labour Convention

Convention 182 compliments Convention 138 by focusing on the most intolerable forms of child Labour. This Convention's emphasis is on the fact that child Labour, national policies, and action plans should give priority to abolishing the worst and intolerable forms of child Labour. It applies to all children under the age of 18 and obliges the member states to suppress immediately all forms of child Labour including:

- All forms of slavery or practices similar to slavery.
- The sale and trafficking of children.
- Forced compulsory Labour including debt bondage and serfdom.
- The use of children for prostitution.
- The production of pornography or performance of pornographic material.
- The production of or trafficking of drugs or other illegal activities.

- The engagement of children in any type of work, which by its nature or the circumstances in which it is carried out, is likely to jeopardize their health, safety and morals.

All the same, the convention completely prohibits any form of work by children under 12 or 13 years of age. Furthermore, the protection of girls is expressly spelt out in this convention, especially in hideous forms of employment in private. The convention also seeks to provide strict enforcement of adequate criminal procedures. It encourages member states to assist each other by means of international judicial and technical assistance to combat the intolerable forms of child Labour. It further encourages the adoption of programmes of action, within the framework of time bound development plans and perspectives.

Case Study

The Law in Tanzania prohibits the employment of illegal immigrants. Mr Babuseya is a senior police officer, and has a cattle post and land where he grows sorghum and maize at mpanda. A family has fled political instability taking place in a neighbouring country. The family has three children aged five, nine, and eleven years respectively. Mr. Babuseya offers husband and wife the job to work in the fields, and for the nine-year and eleven-year-old to herd cattle. The nearest school is fifteen kilometres away, and in any case even if the school were a stone's throw away, the children would not be able to attend as their stay in the country is illegal. It also happens that at this time of the year, there is a menace from warthogs (wild pigs), which ravage the maize crop. To ensure there is some harvest, father, mother and children remain awake for nights on end to scare away the warthogs.

Questions

- (i) Which aspects of the Labour law are being violated in this situation?
- (ii) What are your views on the part played by Mr. Babuseya in this particular situation?
- (iii) In what ways is this a difficult situation?
- (iv) What would you advise should be done?
- (v) What is the distinction between child Labour and child work?
- (vi) Look around your business environment. What are the causes of child Labour, if any?
- (vii) Find out whether your country is a member of the ILO. If it is, to what extent does your government apply Convention 138 and Convention 182 to guide business law with regard to child Labour.

Unit Assignment



1. What criteria make an enterprise considered by law to be a separate legal entity?
2. Mention the four consequences of the enterprise's legal status.
3. Outline the constituents of business law as a critical area of entrepreneurship in Tanzania.
4. What do you understand by business law?
5. What do you understand by business ethics or corporate ethics?
6. Ethical issues broadly cover the rights and duties of the SMEs (companies) and
 - a) employees, suppliers, customers,
 - b) Neighbours, and its fiduciary responsibility to its shareholders
 - c) Both (a) and (b)
7. What do you understand by intellectual property?
8. What is the copyright?
9. What is the copyright law deals with?
10. The punishment for copyright infringement falls under
 - a) Civil case
 - b) Criminal case
 - c) Not a typical case
11. Explain how difficult it is to enforce copyright laws as far as the development of Website is concerned.
12. Which of the following are excluded in the copyright law protection
 - a) The name of business, Marketing slogans or Product names
 - b) The business idea or Product names
 - c) The name of business, Marketing slogans or Product names
13. Explain the effects of small business owner (entrepreneur) failure to protecting his/her own intellectual property.

14. What do you understand by industrial properties?
15. Registered trademarks may be identified by the abbreviation
 - a) “KTN”, or @ symbol
 - b) ‘TM’, or the ® symbol
16. @’or the ® symbol
17. Distinguish between patents and Trademark.
18. What do you understand by Franchising?
19. Explain how does the franchisor's success depends on the success of the franchisees.
20. Explain the distinction between a voidable contract made under undue influence and duress.
21. Support with typical examples from your business enterprise.
22. Write a brief case study to illustrate misrepresentation.
23. What are the implications of the principles guiding the Law of Contract of Service to the entrepreneur? Express your views in the following:
 - a) What is the age limit for one to enter an employment contract in Tanzania?
 - b) Why do you think Labour law prohibits contracts entered into by persons below the stipulated age?
 - c) What do you understand by the statement that a contract must not be contrary to good morals?
24. The issue of minors and the law of contract is quite topical in economies experiencing poverty. Cite five examples you are familiar with from the business world.
25. Explain the meaning of variation of terms and conditions.
26. Identify one type of contract you normally use in your enterprise and explain what challenges you often face when implementing it.
27. With reference to your type of business venture, what instances of breach of contract do you commonly experience? Explain how you deal with them.
28. Why is your employee not allowed to do jobs for someone else by law?
29. Describe some examples from your business of counter offers that you have experienced.
30. Make a distinction between offeror and offeree within a business context.
31. (a) What are the different types of contracts?

- (b) In what ways could misrepresentation lead to the breach of contract?
- (c) Bear your responses in mind as you proceed with our discussion below.
32. The entrepreneur and the employee are expected to be familiar with examples of the different types of contracts as well as the challenges posed by each in terms of Labour relations. Suggest typical examples of each type and the challenges associated with it from the work environment in Tanzania.
33. The entrepreneur should be closely familiar with terms used in business and how they relate with intellectual property and copyright law. In your own words, explain what each of the following terms mean.
- Intellectual property
 - Copyright
 - Trade mark
34. (a) List any two arrangements you were not sure of before reading this module.
- (b) What implications do the two arrangements have for employment arrangements in your business if you have one or your family have one?
- (c) Which of the arrangements discussed in this module do you normally use when recruiting employees in Tanzania?
- (d) What challenges do you face or do friends in Tanzania face when using those arrangements?
- Note: As far as the Tanzania Business Law, there is no right or wrong answer here. All depends on the type of enterprise you run. The important point to note is that a clear awareness of what each arrangement entails, goes a long way in reducing labour relations problems with workers.**
35. There are cases when some employees argue that the so-called benefits for joining a trade union are experienced by the few who hold positions in the trade union. To what extent does this reflect what you are familiar with in your business enterprise or any organization?
36. As an entrepreneur, are you aware of the Labour law Acts that affect your business operations?
37. Why do you think it is necessary for the entrepreneur to be familiar with the sources of Labour relations?

38. As an entrepreneur, you should be able to possess a fair knowledge of business law regarding child Labour.
 - a) What is your understanding of child Labour?
 - b) What law do you follow in your enterprise if you have one to regulate employment of children?
 - c) How familiar are you with The International Labour Organization's rules about engagement of child Labour?
39. Basing on any three characteristics of child labour and with reference to the situation in the country, suggest an example, suggest in what ways you consider your example an instance of child labour.
40. To what extent do the articles in ILO – Convention 138, influence recruitment policy in your country and in your enterprise?
41. To what extent are the three aspects and the articles in ILO – Convention 138 observed in your country when it comes to child Labour?
42. (a) Among the seven worst forms of child Labour described in convention 182, which ones are common to your country, and which ones are not?
(b) What do you understand by slavery in this modern age?

Unit 4

Demonstrate Knowledge of E-business

Dear learner, Traditional marketing tactics are covered in eBusiness courses, as well as new age ideas like Digital Marketing, Social Media Marketing, and Email Marketing. The courses' major goal is to set up and introduce tools, measurements, and techniques in a typical firm to help it become more digitally sound. e-business encompasses the nuances of establishing an online business and intricacies of its operations as well as other features corresponding to the building a stronger online presence, handling competitors, facilitating global reach, amongst others. E-business is a phrase that encompasses both e-commerce and e-business. E-business is the electronic execution of management tasks such as planning, organizing, marketing, and production. As a prominent discipline and field of study in the digital age, eBusiness offers a wide range of career opportunities in different sectors ranging from business and management, IT, Marketing, Logistics and Supply Chain Management, amongst others. Some of the popular job prospects in the field of eBusiness.

Learning Outcomes



Upon completion of this unit, you should be able to:

- Define e-business;
- Explain features of e-business; and
- Describe importance / relevance of e-business.

Description of E-business

Preview- E-business

It is important that small businesses understand the nature of e-business and how it can facilitate operations as well as growth—if growth is desired. It has been said on other occasions, and it will continue to be said, that not all small businesses look for growth, choosing instead to happily remain small. For the small businesses

that do want to grow, however, e-business can help them do it through the internet and online technologies to create operational efficiencies, thereby increasing customer value. Some small businesses rely on the Internet to grow and survive. Many small businesses also look to e-commerce for their own business needs, such as computers and office technology, capital equipment and supplies, office furnishings, inventory for online sale, or other business-related goods.

E-business Defined

Electronic business (e-business) refers to the administration of conducting any business using internet, extranet (refers to connections that combine an organization's private network with partners, suppliers, or other outside agencies), web (*Web* is the common name for the World Wide *Web*, a subset of the *Internet* consisting of the pages that can be accessed by a *Web* browser) and intranet (the term refers to the type of private connections that are authorized only to persons who work within a particular organization) or some combination thereof . In other words, it is system that provides businesses with a platform to connect with customers, business partners, employees, and suppliers via the Internet, extranets, and intranets. This would include buying and selling of goods or services using commercial transactions conducted electronically along with providing customer or technical support with the help of the internet. In fact, it is the method of utilizing digital information and advanced communication technologies to streamline different business processes – from the initial to implementation phase. This would include buying and selling of goods or services using commercial transactions conducted electronically along with providing customer or technical support with the help of the internet.

E-business includes a lot of business processes or a much wider range of businesses processes including online (electronic) order processing, CRM (Customer Relationship Management), supply chain management, enterprise resource planning (ERP), content management and many more. E-business is by far different from e-commerce which confined just on a simple act of buying and selling services or goods online. E-commerce is a part of e-business, the two are not synonymous terms. Electronic business is a broader term that encompasses other common terms such as e-commerce and e-tailing. E-business processes, therefore, can help companies to operate more

effectively and efficiently. This shift on e-business has also been facilitated by improved security measures for online transactions.

The Key Differences Between E-Commerce and E-Business

- E-Business is not limited to just buying and selling products or services. Whereas E-Commerce is the name of buying and selling products/services with the help of the internet.
- E-Commerce is a main part of E-Business.
- There is no need for an E-Business to have a physical presence. If the company has physical offices along with their online business activities, then it can be referred to as E-Commerce.
- E-Commerce supports any kind of business transaction related to money, but E-Business includes monetary and allied activities.
- E-Commerce needs the internet to be able to communicate with their online customers from all over the world. E-Business can use the internet, intranet and extranet to be able to connect with the parties.

Features of E-Business

To fully understand the concept of e-business, you must first grasp the link between e-business and the net economy and know who the typical market participants are in the industry. Understanding the key features of e-business venture reveals the benefits and provides guidance for such an endeavor. Some of the features of e- Business are as follows:

- It is easy to set up

Since there is zero amount of expenditure in setting and maintaining the infrastructures, sellers can save a large amount of money. Contrarily they can spend more money on the products, services, strategies, and promotion of their goods. Just like you could increase the ranking of your website by checking out something like [keywords rank checker](#), ensuring the promotional side of running your business is up to date, this increase of marketing of services will take their e-commerce website business to a new level of fame and awareness. It has become very easy to process the information about a customer and

to pass it to the destined department to use it in the future. This not only has become easy but also has become quite inexpensive to do so.

- There are no geographical boundaries

It offers you a large platform to reach consumers belonging from different geographical ranges. For consumers, it is highly beneficial as they can purchase their choice of products from any region in the world. E-business provides an [opportunity](#) to businessmen to cater to the customers seamlessly without being limited by cultural and national boundaries.

- Much cheaper than traditional business

provide you with complete detailed information about the products along with their pictures. However, it helps you get the idea of your product from its looks to credibility and usability

- There are flexible business hours

You can approach a website at any time of the day. You cannot do this while shopping from the physical markets. People who get rarely any.

- Marketing strategies cost less

Due to automated processes, there is a very low reduction in the costs. Also, consumers can save a large amount of money while doing e-commerce shopping. Along with discounts and offers it also helps them to save the extra expense of traveling, electricity, the cost of collecting information has reduced drastically etc.

- E- business receive subsidies from the government.
- There are a few security and integrity issues.
- There is no personal touch.

Users start shopping just like purchasing from a physical market. Buyer and seller don't meet, it is very conveniently while sitting at one place you can easily shop, buy and sell products.

- Delivery of products takes time.
- There is a transaction risk.
- Anyone can buy anything from anywhere at any time.

Consumers choose and buy any product or service they want without moving from their places. Another key feature of an e-business is its versatility. While conventional businesses require an office or store, e-businesses can be run without this added expense. In fact, many e-businesses are home-based. This makes it easy for entrepreneurs to

work from home at much lower cost than traditional businesses. However, this also means that e-businesses are much more focused, competing only with similar businesses in their niche. Access is always a useful feature, one that an e-business greatly benefits from. By focusing so heavily online, the organization is always open and selling its products or services. In short, customers do not have to worry about operating hours. Similarly, it is easy for e-business owners to quickly interact with and receive feedback from clients through online questionnaires or surveys at anywhere.

- The transaction risk is higher than traditional business.
- Personalization.

The one feature of e - businesses which sets it apart from the physical businesses is its ability to provide personalized services to each customer. With the help of the technology and browsing and past purchases history of a customer, businesses can recommend personalized products and offer to an [individual](#). The same platform will contain different offers and recommendations for different people. The services and products can be changed according to the customer's preference.

Importance of E-business

- Transparency

In e-business, markets, price, transactions and cost become more and more transparent. This transparency led to more efficient markets. Cost transparency refers to ability of customer to determine that actual cost from manufacturer to the distributor to the retailer to the consumer, the connection between each party is increasingly distant. The need to maintain control and visibility across the whole supply chain – also known as e-commerce transparency is more of priority now than ever before, especially in the world where ingredients, manufacturers and consumer live on different continents. the market is increasingly pushing for greater transparency. consumers are more likely to be drawn to business that are honest and open, while distributors and retailers prefer brands with good reputations and manufacturer want to establish stable ethical supply chains. Nevertheless, visibility in the B2B2C ecosystem is more than just

market appeal. It is ability to control the products life cycle from manufacturer to the end consumer and even every step in between.

- Provide flexibility

E-business interacts with more customers can entail more, can offer an innovative experience through website. It offers a platform for organizations to interact with customers in a creative way and provide flexibility to realize creativity along with infrastructure that decide the scope. The restructuring of the organizational process and functions are much easier and they contribute to better utilization of resources and assets. In this age of information explosion, e-business offers a platform for information utilization and allows building an edge through creative use of information. It comes in various forms such as outsourcing, off shoring and integrating various components. If we take a further look at the emerging service-oriented architectures components. If we will observe that they offer flexibility to every component in the business as service.

- The avenue companies use to sell goods and services via the Internet.
- Companies implement technology to create a competitive advantage in the business environment.
- Electronic business enables companies to become more efficient by lowering costs, (product handling and distribution of goods to wholesalers, retailers, and customers are generally higher in manufacturing than service firms. The cost of information collection, information storage and information analysis are drastically reduced. More importantly it reduces the communication costs.
- Increasing productivity.
- Accomplishing business goals faster.

One of the major driving forces behind implementation of e-business is that it saves time. The saving in time takes place on different fronts. The customer saves time because he/she can perform different transactions at any time and at any place, there is no geographical boundaries and specific time for business. Also, the turnaround time for transactions is reduced to a large extent. Furthermore, the overall connectivity empowers the organization to deliver an efficient service within shortest time possible. Time is also saved in other transactions,

information transfers, and ultimately helping in decision making.

- Responsiveness to customer needs

As long as no need for physical presence, businesses are no longer dependent on physical reach because most of them have expanded through the internet. This has increased the visibility of companies to the consumers. Increased connectivity has enhanced responsiveness manifold. Introduction of new services have changed their management and treatment in the market place. The e-business with end-to-end relationship empowers efficient information flow. This allows customer demands a different level being processed more efficiently.

- Better communications with businesses, and supplier relations and selection can be improved.

The e-business is personalization, such that it allows one to have targeted marketing message and even customers can select their messages of interest. They can keep their transactions listed and merchants can give personalized services as e-business allows very easy information handling.

- Product promotion, advertising, and marketing than manufacturing firms.
- Integrating solution

E- business even helps in managing the chain of networks linking customers, workers, suppliers, distributors and even competitors within integrated or extended supply chain management solution. Supply chain management (SCM) is defined as the management of supply- related function and activities, that is material, information and finance as they move from source to destination, that is from the supplier to manufacturer to whole seller to retailer and finally to consumer. It involves the coordination and integration of parties involved in it and the flows both within and among companies.

E-business Relevance

The rapid changes in telecommunication and computing technologies evidenced in the internet and World Wide Web paved way for new range of business applications, process and structure. [E-business](#) is

essential for existing business organizations and for the new entrants. The organization that do not possess a website are considered to be “*brick and mortar businesses*” and organizations that own a website are considered to be “*click and order businesses*”.

E-business provides cost and transaction efficiency and helps business organization to enjoy economies of scale. Today, online presence along with physical presence is required for business organizations. Companies that have been conservative in the use of computers are rushing to have their presence in the internet world. E-business generates revenues and increases the productivity of the country. Following factors point out the need for e-business.

E-business allows companies to reach more consumers in a much broader economic market. Companies can sell goods and services to national and international markets through the use of a website. Additionally, sales can occur 24 hours in week since many companies do not shut down their website. Companies implement technology to create a competitive advantage in the business environment. Companies also can use e-business to lower some business costs. Acquiring economic resources for producing goods and services is much easier when using business technology. Owners and managers can purchase the cheapest goods available using e-business websites. Marketing and advertising is another business function with significant e-business benefits. Companies can send messages or stream content directly to a consumer’s computer or personal computing device. This allows companies to advertise their products in a real-time format

Factors Emphasizing the Need for E-business

E-Business Helps in Cost Reduction

- E-business enables business firms to **advertise products, receive orders, collect payments and deliver goods at lower cost.**
- E-business is very cost effective as it helps **eliminate the role of the middlemen.**
- **Advertisements on internet enable a better customer to cost ratio.** They enable business organization to spend less by cutting down the cost.
- The total overhead cost required to run e-business is comparably much cheaper than traditional business. **Hosting a website**

reduces the cost incurred on labour, office rent and maintenance.

- Lack of information about product schedules of the buyers results in high inventory build up for the seller. **The speedy flow of information between the buyers and sellers in electronic market helps to eliminate unnecessary inventory cost.**
- E-Business organizations can enter international market at lower cost; the primary benefit of e-business is **global accessibility at marginal cost.**
- Web enables a business organization to **introduce and market a new product without incurring huge investment.**

E-Business Helps in Customer Satisfaction

- E-business allows business organizations to have intimate relationship with customers.
- E-commerce enables the customers to choose and order products according to their specifications.
- E-business allows customers to perform [online shopping](#). The convenience, flexibility and speedy flow of information help the business organizations to provide improved customer service.
- Advertisements placed on internet attract customers from domestic and global market.
- The gains obtained in e-business are passed on to customers through lower prices or as additional features of products or services, this provides customer satisfaction.
- Customer satisfaction helps to increase the customer base.
- E-business enables a business organization to keep the doors open for business, whenever a customer requires it.
- Up-to-date information available on organization's website provides more information to customers, educating them better.

E-Business Helps to acquire Just-In-Time Information

- E-business enables business organizations to have direct links with suppliers, distributors and customers through improved information systems.

- Speedy flow of communication paves way for quick processing of orders.
- The cost incurred on communication in e-business environment is low and allows instantaneous communication between anyone from anywhere from the world.
- E-business enables instant flow of communication regarding goods, services, transmission of orders and the status of delivery. The services of the organization are available 24 hours a day and 365 days a year.
- E-business helps to deliver just in time information and removes communication barriers between employees, customers, suppliers and business associates.

E-Business Helps in Transaction Efficiency

- Business process is automated. Reduction in operational waste and the automation of business process and practices lead to transaction efficiency.
- The time taken to complete business transactions is very less in electronic environment.
- E-business enables business organizations to have direct links with customers and this enables to a business to become more customer-focused.
- E-business helps to streamline the operating processes and enables to integrate the various business activities of an organization.

Ease of Access to Global Market Through E-Business

- Internet provides the basis for global communication. Advertisements placed on internet helps to attract customers from anywhere in the world.
- E-business allows business organizations to enter international markets easily and effectively.
- The information about the organization, products, services, features are available online. The information and price transparency allow business organizations to expand their business globally.

E-commerce and e-business involve the creation of new value chains and business relationship between an organization and its customers

and suppliers, as well as within the organization itself. There are lot of organizational obstacles in developing an e-business strategy. It involves major and potentially disruptive organizational change.

Unit Assignment



Attempt the following questions:

1. Define what do you understand by e-business.
2. Give a clear explanation of the five features of e-business.
3. Describe the importance and relevance of e-business.
4. Differentiate the key Differences between E-Commerce and E-Business.
5. Describe fully on how the e-business helps in Cost reduction.
6. Explain on how the e-Business helps in customer satisfaction.
7. Explain on how the e-business helps to acquire just-in-time information.
8. Explain how the e-business helps in transaction efficiency.

Unit 5

Analyse E-business Strategies

Introduction

Dear learner, an e-business strategy is essential to any organization conducting business over the Internet. It defines both short-term and long-term e-business goals and involves careful and skilled planning. E-Business strategy is not just for Internet Businesses, but outlines the plan of action to achieve the vision and set objectives of an organization and guides the decision-making processes to improve the company's financial stability in a competing market. The equipment and pillars of e-business strategies include acceptance of payments over the Internet, online advertising, on-line trading and auction deals over the Internet. E-business strategies differ for small and medium-sized businesses. Building an e-business requires two main strategies: revenue optimization and online marketing. There are five main revenue sources in e-commerce, and two main ways of driving traffic to your website in order to access those revenue sources. Sales of products or services is the standard source of revenues across all business types.

Learning Outcomes



Dear learner, after completion of this unit you should be able to:

- Define e-business;
- Explain e-business strategies; and
- Explain relevance of e-business.

E-business Strategies

E-business strategies: With the arrival of the Internet facilities and plenty of web development technologies all over the world, e-business is the new talk of businesses in today's world. E-business, like any other emerging field, is changing fast and in the process is changing the way businesses formulate their strategies and conduct their business through realization of those strategies. E-business scores over the traditional sphere of business by adding speed to the business

activities and giving a totally new dimension and definition to businesses worldwide be it whether partnerships, joint ventures or large corporations. It makes transactions quicker in this world of fast pace (Andam, 2003). The intranet, internet, cellular networks and various other forms of digital technology have resulted in formation of a niche value chain among clients, employees, suppliers, stakeholders and traders coordinated and interlinked in the world of web marketing. The equipment and pillars of e-business strategies include acceptance of payments over the Internet, online advertising, on-line trading and auction deals over the Internet. E-business strategies differ for small and medium-sized businesses. Apart from regular sources, e-business strategies can generate revenue made from paid marketing alliances, revenues derived from franchisees and subscriptions and revenue from maintenance of current channel integrity.

E- Business technology provides organizations with a great opportunity to nurture relationships with external and internal parties across its value and supply chains, to realize its competitive advantages. In doing so, however, the solution is not in the application of technology alone, to develop an effective e-Business strategy and for a successful implementation to be realized, existing business interactions must be modelled and scrutinized to trace the interactions that will benefit from this paradigm. The business processes supporting these interactions must be reformulated and designed to effectively perform the procedures behind the interactions. These changes to the business will drive changes to the supporting technology and to the stakeholders that perform the business processes using the technology. The use of Internet has helped and garnered the worldwide development of business that reaches out to a wider consumer base and advertises their products more effectively and efficiently. E business has been added as the latest domain in business and has become a must-have in the highly competitive technology driven open market. E Business Strategy can be summed up as the overall strategies that govern E Businesses through calculated information dissemination or scattering.

Information dissemination has been widely regarded as the strongest attribute of e-business, which uses information technology in a most effective and exhaustive manner. Not only has e-business has come to

play a significant role in the scenario of world trade; there is no business without an accompanying e-business in today's world. E business gives a business the opportunity, the chance to open its base to the global market and become a part of the global business community. The most important feature of e-business is that the helps businesses move on to the international scene at maximum efficiency using minimum cost. E-business has achieved unparalleled levels of success as business models (Business Software Alliance. 2001). For instance: Materials Requirement Planning (MRP), EDI (Electronic Data Interchange) or ERP (Enterprise Resource Planning). The essential features of e-business strategies are Supply Chain management and email marketing. An e-business strategy defines a long-term plan for putting in place the right digital technology for a company to manage its electronic communications with all partners - that's internal through the intranet and externally through to customers, suppliers and other partners. Strategy is an ongoing process of evaluating purpose as well as questioning, verifying and redefining the manner of interaction with the competitive environment. Several strategies have proven successful to drive revenue and promote a company both online and offline. Choosing the best e-business strategy for either an established company or a start-up involves making decisions about where money should come from and how the website can bring in the most traffic.

Strategies Required for an E-business Building

The following are some e-business building strategies required:

Competitive Strategy

Basic strategic orientation of organizations can be described in terms of a typology of defenders, prospectors, analysers, and reactors. Each orientation differs with respect to risk disposition, innovativeness, and operational efficiencies. Strategic orientation such as low cost or differentiation is means of altering the firm's position vis-à-vis competitors and suppliers.

Strategy involves mustering resources and creating capabilities that are difficult to imitate by competitors, resulting in superior rents. Strategic orientation is both an issue of how firms position themselves with respect to competitors and an issue of how firm-specific resources are exploited. For internet-based businesses, four major

dimensions of strategic orientation are particularly pertinent: risk disposition, innovativeness, operational efficiency, and marketing intensity.

Internet Strategy

The time has come to take a clearer view of the Internet. It is necessary to move away from rhetoric — such as Internet industries, e-business strategies, and a new economy — and see the Internet for what it is. It is an enabling technology, a powerful set of tools that can be used, wisely or unwisely, in almost any industry and as part of almost any strategy. Strategy is neither the quest for the universally best way of competing nor an effort to be all things to every customer. It defines a way of competing that delivers unique value in a particular set of uses or for a particular set of customers. To establish and maintain a distinctive strategic positioning, a company needs to follow six fundamental principles.

Distinctive Strategic Positioning Fundamental Principles

In order to establish and maintain a distinctive strategic positioning, a company needs to adhere to the following fundamental principles:

- i) It must start with the *right goal*: superior long-term return on investment. Only by grounding strategy in sustained profitability will real economic value be generated. Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it.
- ii) A company's strategy must enable it to deliver a *value proposition*, or set of benefits, different from those that competitors offer. Strategy needs to be reflected in a *distinctive value configuration*. To establish a sustainable competitive advantage, a company must perform different activities than rivals or perform similar activities in different ways.
- iii) Robust strategies involve *trade-offs*. A company must abandon or forgo some product features, services, or activities in order to be unique at others.
- iv) Strategy defines how all the elements of what a company does *fit* together. A strategy involves making choices throughout the

value configuration that are independent; all a company's activities must be mutually reinforcing.

- v) Strategy involves *continuity* of direction. A company must define a distinctive value proposition that it will stand for, even if that means forgoing certain opportunities.
- vi) The absence of strategy in many pioneering Internet businesses have mislead them to focus on revenues rather than profits, indirect values rather than real value, every conceivable product rather than trade-offs, activities of rivals rather than tailor the value configuration, and rash of partnerships rather than build control. To capitalize on the Internet's strategic potential, executives and entrepreneurs alike will need to develop a strategy that exploits this potential. In some industries, the use of the Internet represents only a modest shift from well-established practices. Virtual activities do not eliminate the need for physical activities, but often amplify their importance. The complementarity between Internet activities and traditional activities arises for a number of reasons. First, introducing Internet applications in one activity often places greater demands on physical activities elsewhere in the value configuration. Second, using the Internet in one activity can have systemic consequences, requiring new or enhanced physical activities that are often unanticipated. Third, most Internet applications have some shortcomings in comparison with conventional methods, such as customers being unable to physically examine products.

Competing on Reach, Affiliation and Richness

Reach means the number of people who participate in the sharing of that information. Communicating rich information has required proximity (people working in the same physical location) or dedicated channels (such as proprietary computer networks, retail stores, or a sales force). The costs or physical constraints of these channels have limited the number of people who can access the information. Conversely, communicating information to a large audience has required compromises in the quality of that information. Technologies have not allowed us to achieve simultaneously as much richness and reach we would like. Two forces drive the fundamental change taking place now. First, the explosion of connectivity has caused information to reach almost anybody. Second, the adoption of common

information standards that allows everybody to communicate with everybody else at essentially zero cost. Future business competition will not only be along the dimensions of reach and range. It will also be concerned with affiliation. The same technological forces that blow up the trade-off between richness and reach also opens a change in interests the business represents.

The Three Dimensions of Competition

a) Competing on reach

Before the emergence of e-commerce, retail stores competed on reach by offering convenient physical locations and broad selections of goods and services at these locations. But the number of physical locations and the product selections had to be limited. Each physical location had its costs, and broader selection of products in these locations was associated with higher costs. Electronic commerce offers a dramatic improvement in reach because the navigation function (catalog) is separated from the physical function (inventory). There is no limit to locations, and there is no limit to selections. Reach is about access and connection. It means how many customers a business can connect with and how many products it can offer to those customers. Reach is the most visible difference between electronic and physical businesses.

b) Competing on affiliation

Before the emergence of e-commerce, suppliers were focused on their products and services. They were concerned with their own interests. Until now, affiliation has not been a serious competitive factor in physical commerce because, in general, no company ever devised a way to make money by taking the consumers' side. However, it is a natural progression, as navigators emerge. Navigators may be software programs, evaluators or search engines. They are not selling anything except, possibly, information. Affiliation is about whose interests the business represents. Affiliation does not mean caring for the customer: any supplier, retailer, or navigator has to do that. It does not refer to any of the helpful, positive-sum activities by which sellers further their own interests by furthering those of their customers. That is simply good business. The test of affiliation is where the consumer's gain is the seller's loss. Informing the consumer of

purchasing alternatives available from other suppliers; explaining why a premium feature is not worth the money; sharing unflattering information on product performance or customer satisfaction: these are the kinds of navigational services that consumers would expect from a navigator serving their interests.

c) Competing on richness

When competing on reach and affiliation, traditional players have to struggle to keep abreast of electronic retailers and pure navigators. But they have natural advantages when it comes to richness. Traditional retailers can exploit their detailed information about customers. Suppliers can use extensive product information to their advantage.

Richness is the depth and detail of information that the business can give the customer, as well as the depth and detail of information it collects about the customer. Electronic businesses have not yet learned to compete seriously on the richness dimension. But richness holds enormous potential for building close relationships with customers in a future dominated by e-commerce. Rich product information encompasses all the obvious categories of technical facts, product background, and troubleshooting advice. Rich consumer information is variously described as database marketing, data mining, or mass customization.

Block, Run and Alliance Strategies

If a firm's business model enables it to gain a competitive advantage, the chances are that its competitors would like to catch up or maybe even leapfrog it. What can a firm do to maintain its competitive advantage? To sustain a competitive advantage, a firm can — depending on its capabilities, environment, and technology in question — pursue some subset of the three generic strategies block, run, and alliance (Afuah & Tucci, 2003):

(i) Block strategy

Is the firm erecting barriers around its product market space? A firm can block in two ways. First, if its capabilities are inimitable and distinctive enough to offer customers unique value, the firm can limit access to them and thereby keep out competitors. That would be the case, for example, when the firm has intellectual property that can be protected and sends signals to potential imitators that it means business in protecting the property. Second, if all firms are equally

capable of performing these activities, incumbents may still prevent entry by signalling that post-entry prices will be low. There are several ways a firm can achieve this. For example, it can establish a reputation for retaliating against anyone who tries to imitate any component of its business model. It can also do so by making heavy, nonreversible investments in relevant assets. For example, if a firm spends billions of dollars installing fibre optics capability for the households in a town, the chances are that it will lower prices if another firm wants to offer high-speed access to the same customers. In general, such signals can prevent profit-motivated potential competitors from entering. Blocking works only as long as a company's capabilities are unique and inimitable or as long as barriers to entry last. But competitors can, for example, circumvent patents and copyrights or challenge them in court until they are overturned. Moreover, the usefulness of such capabilities lasts only until discontinuities such as deregulation/regulation, changing customer preferences and expectations, or radical technological change render them obsolete. The information asymmetry reduction property of the Internet also suggests that blocking is not going to be very effective.

(ii) Run strategy

Admits that Blockades to entry, no matter how formidable they may appear, are often penetrable, or eventually fall. Sitting behind these blockades only gives competitors time to catch up or leapfrog the innovator. An innovator often has to run. Running means changing some subset of components or linkages of business models or reinventing the whole business model to offer the customer better value. Running can give a firm many first-mover advantages, including the ability to control parts of its own environment. In an age of rapid technological change, the run strategy becomes extremely important because blocking is more difficult. Running sometimes means the cannibalization — eating into existing sales — of one's own products before competitors do.

(iii) Alliance strategy

Enables a firm to do it with others through some kind of strategic teaming-up, joint venture, acquisition, or equity position. Teaming up allows a firm to share in resources that it does not possess and may not

want to acquire or cannot acquire even if it wanted to. Shared resources also facilitate knowledge transfer. Alliance has its disadvantages too. It is not easy for a firm to protect its technology or other aspects of its business that it would like to keep proprietary. In teaming up, a firm also risks becoming too dependent on another firm's resources. Often, running also requires teaming up. Attaining and maintaining a competitive advantage often requires some combination of the three strategies. An important question is, "When is each strategy or combination of strategies appropriate?"

Two Factors Influencing the Choice of Strategy

The two factors influencing the choice of a strategy include the following:

- a) First, the choice depends on what it takes for a firm to build a profitable business model. It depends on what determines profitability in the face of the technology in question. After all, a business model is about how to make money over the long run.
- b) Second, timing is of the essence. The strategy pursued is a function of the stage of evolution of the technology — the Internet in our case. It is also a function of when existing and potential competitors have pursued related strategies or plan to (Afuah & Tucci, 2003).

Value Creation

New value can be created in e-business by the ways in which transactions are enabled. The term value refers to the total value created in e-business transactions regardless of whether it is the firm, the customer, or any other participant in the transaction who appropriates that value. Amit and Zott (2001) identified four major value drivers in e-business: efficiency, complementarities, lock-in, and novelty. Each of these four drivers and the linkages among them enhance the value-creation potential of e-business:

Major Value Drivers in E-business

The following are four major identified value drivers in e-business

(i) Efficiency

Transaction cost theory suggests that transaction efficiency increases when the costs per transaction decrease. Therefore, the greater the transaction efficiency gains that are enabled by a particular e-business,

the lower the costs and hence the more valuable it will be. Efficiency enhancements relative to offline businesses (i.e., those of companies operating in traditional markets), and relative to other online businesses (i.e., those of companies operating in virtual markets), can be realized in a number of ways. One is by reducing information asymmetries between buyers and sellers through the supply of up-to-date and comprehensive information. The speed and facility with which information can be transmitted via the Internet makes this approach convenient and easy. Improved information can also reduce customers' search and bargaining costs. By leveraging the cheap interconnectivity of virtual markets, e-businesses further enhance transaction efficiency by enabling faster and more informed decision-making. Also, they provide for greater selection at lower costs by reducing distribution costs, streamlining inventory management, simplifying transactions (thus reduce the likelihood of mistakes), allowing individual customers to benefit from scale economies through demand aggregation and bulk purchasing, streamlining the supply chain, and speeding up transaction processing and order fulfilment, thereby benefiting both vendors and customers.

(ii) Complementarities

Whenever having a bundle of goods together provides more value than the total value of having each of the goods separately, complementarities are present. For a company, another company is a complementor if customers value the company's product more when they have the other company's product than when they have the company's product alone. The resource-based theory of the firm also highlights the role of complementarities among strategic assets as a source of value creation. E-businesses leverage this potential for value creation by offering bundles of complementary products and services to their customers.

These complementary goods may be vertical complementarities (e.g., after-sales services) or horizontal complementarities (e.g., one-stop shopping, or cameras and films) that are provided by partner firms. They are often directly related to a core transaction enabled by the firm. Furthermore, offline assets can complement online offerings. Customers who buy products over the Internet value the possibility of

getting after-sales services offered through bricks-and-mortar retail outlets, including the convenience of returning or exchanging merchandise. E-businesses may also create value by capitalizing on complementarities among activities such as supply-chain integration, and complementarities among technologies such as linking the imaging technology of one business with the Internet communication technology of another, thereby unleashing hidden value.

(iii) Lock-in

The value-creating potential of an e-business is enhanced by the extent to which customers are motivated to engage in repeat transactions (which tends to increase transaction volume), and by the extent to which strategic partners have incentives to maintain and improve their associations (which may result in both increased willingness to pay of customers and lower opportunity costs for firms). These value-creating attributes of an e-business can be achieved through lock-in. Lock-in prevents the migration of customers and strategic partners to competitors, thus creating value in the aforementioned ways. Lock-in is manifested as switching costs, which has its roots in network theory. It should also be noted that, as the resource-based theory of the firm suggests, a firm's strategic assets, such as its brand name, and buyer-seller trust, both contribute to lock-in. Customer retention can be enhanced in several ways. First, loyalty programs rewarding repeat customers. Second, firms can develop dominant design proprietary standards. Third, firms can establish trustful relationships with customers, for example, by offering them transaction safety and reliability guaranteed by independent and highly credible third parties. Virtual markets also enable e-business firms to create virtual communities that bond participants to a particular e-business.

(iv) Novelty

E-businesses innovate in the ways they do business, that is, in the structuring of transactions. The unique characteristics of virtual markets make the possibilities for innovation seem endless. For example, e-business firms can identify and incorporate valuable new complementary products and services into their bundle of offerings in novel ways. Another dimension of innovation in e-business refers to the appropriate selection of participating parties. For example, firms can direct and intensify traffic to their web site by initiating affiliate programs with third parties, who are compensated for enabling the execution of transactions from their own web sites. Novelty is also

linked to complementariness. The main innovation of some e-businesses resides in their complementary elements, such as the resources and capabilities they combine. There is also an important relationship between novelty and efficiency. Certain efficiency features of e-businesses may be due to novel assets that can be created and exploited in the context of virtual markets.

Launching a Business on the Internet

Launching a business on the Internet requires careful planning, understanding the target customer base, and choosing the right products and services to offer. This first planning step involves strategic questions such as, “Who will buy the product? How familiar are you with the Internet? Are you planning to be a short-termer or a long-termer? Who are your competitors? How good will your product(s) look? How will you present your product offerings? How will you manage and process transactions? How will the product be shipped? How will you handle unexpected change? How will you get and use feedback?” (Awad, 2002).

The next step in launching a business on the Internet is resolving the software and hardware issues, especially with respect to linking to the Internet Service Provider (ISP) that will put the business on the Internet. For a fee, the ISP gives the new firm a software package, user name, password, and access phone number. Equipped with a modem, the firm can then log onto the Internet and browse the World Wide Web, send and receive e-mail, and download software packages or text files. Nearly every ISP today offers what is called virtual hosting or a virtual domain as well. This allows the firm to have its own domain name, such as <http://www.thefirm.com> (Awad, 2002). The firm’s site should capture customers’ attention and retain them long enough to result in a sale. The site should also generate repeat customers. Assuming the buyer has gone through the ordering process, how can the experience end on a good note? The delivery of the product is critical. The system should include a tracking system to let the shopper know when and who received the product. A follow-up e-mail after the order has been filled is a tactful method of thanking the customer and confirming the order (Awad, 2002). Customer service contributes a great deal to creating customer loyalty. In

addition to being enjoyable, the shopping experience should be risk-free for the firm and the firm customer. That means implementing powerful security measures for the Web site and the servers to protect them and the transactions from hackers. Security is concerned with protection of data, software, and hardware against accidental or intentional damage from a defined threat (Awad, 2002). When it comes to security, Web site planners look at three overlapping types of risk: document security, privacy, and overall system security. Document security entails the integrity of the Web site and its information. There must be security features in Web design that ensure no one can corrupt the integrity of the site itself, let alone the information in its content or its layout. Customer privacy has to do with embedding devices in the visitor's hard disk to track site usage. The visitor should be aware of such marketing tactics and should be able to choose whether the merchant is allowed to secure such a link. System security deals with the way the network, the Web server, and the e-business infrastructure prevent unauthorized access and tampering with e-commerce traffic (Awad, 2002).

In launching a business on the Internet, we can define several phases. The business planning and strategizing phase is followed by the hardware, software, security, and setup phase, the design phase, the marketing phase, the fulfilment phase, and finally the maintenance and enhancement phase. Maintenance means keeping a system or a business on course, based on the initial design or plan. Enhancement means implementing upgrades or changes that are designed to improve the system's productivity. The focus in this phase is on managing the e-business. When customer messages pile up unanswered, something is wrong. The source of the pileup could be a poor Web site, a congested communication line, or an understaffed e-merchant (Awad, 2002). Regardless of the reasons or circumstances, the goal of maintenance is to ensure the usability of the Web site. The goal of enhancement is to upgrade the Web site and the business-to-consumer connection to meet the latest standards and customer expectations. The bottom line is customer attraction and retention (Awad, 2002).

Unit Assignment



Answer the following questions:

1. Explain how can e-business strategies used in your business advantage over the rivals?
2. Briefly explain the strategies required for an e-business building.
3. Explain how can you establish and maintain a distinctive strategic positioning as an entrepreneur who own a company by using fundamental principles?
4. Use The three dimensions of competition to explain how can you compete in e-business
5. Depending on the capabilities, environment, and technology of your enterprise, explain what can you do to maintain your competitive advantage in e – business using the three generic strategies?
6. Briefly explain the major Value Drivers in E-business.
7. Explain the two factors influence the choice of strategy in e business.
8. Using a clear planning explain how can you launching a business on the Internet?

Unit 6

Explain the National Efforts to Promote E-business Activities

Introduction

Dear learner, In the recent years the nation has witnessed rapid developments in e-business within nations across the world and contribute significantly toward national economic growth. The tremendous increase of Information and Communication Technologies (ICTs) usage in the business sector has been vital in supporting the growth of the sector and acting as a good source of change. The e-business can be used by national policy makers for promoting e-business, specifically national ICT infrastructure appears to be important for e-business. The national environment (institutional and macro-economic) also appears to be the key enabler for e-business. One of the unquestionable contributions is on the way ICTs support business processes. Evidently, ICTs provide opportunities for coming up with enhanced and innovative ways of expanding markets and improving performance. The government has the role to ensure that it is promoted to reach many people county wide for effective use of the e-business.

Learning Outcomes



After the completion of this unit you should be able to:

- Identify national efforts to promote e-business;
- Describe contribution of national efforts in promoting e-business; and
- Explain challenges in undertaking e-business.

E-business National Promotion Efforts

e-business is not widely used in the Tanzanian market. In the private sector, e-business is growing, but is still in its infancy. Very few private sector companies have established business-to-business websites, secure credentialing is still nascent, and very few buyers have internationally accepted credit cards. However, m-commerce, via

mobile phones, is growing rapidly. In addition, some vendors market their goods on Facebook and WhatsApp groups and deliver to customer's residence or any other location. Payment is either by mobile money or cash on delivery. The arrival of the SEACOM undersea fibre optic cable in July 2009, the completion of Phase I of the national terrestrial fibre backbone in June 2010, and the connection of the Easy submarine cable from South Africa in August 2010 have increased opportunities in this area. The government of Tanzania has introduced reforms and strategies to provide support for diverse initiatives aimed at boosting the usage of these tools in various sectors. The Tanzania government has put in place several alternatives targeting the favourable environment for e-business promotion in the country. The construction of the national fibre optic cable network, named as National ICT Broadband backbone (NICTBB) is a vivid initiative for national effort to promote e-business. For example, the government has since 2003 approved and implemented an ICT Policy framework which was then subjected to amendments in 2016. The policy stipulates that ICTs are a driving force for the realisation of socio-economic growth in all sectors (URT, 2016). Among other things, the National ICT Policy 2016 intends to put in place measures and mechanisms to accelerate broadband penetration and access, strengthen ICT security and standardisation, enhance management and efficient utilisation of spectrum and other scarce ICT resources, promote business process outsourcing industry and enhance efficiency in e-service and business.

Besides the policy, the government's commitment to this cause is evident in its investment of resources in ICT-related projects such as the installation of a broadband infrastructure to improve communication services in the country. Such initiatives are made as part of efforts to accelerate e-business sector among the entrepreneurs for Economic Growth and Poverty Reduction (NSEGPR) and National Development Vision 2025 objectives (URT, 2005). However, despite the government's initiatives and reforms to promote the adoption and application of ICTs in all sectors, slow acceptance and implementation of these tools have been registered across the business firms. The building of Tanzanian national ICT backbone would attract investment and facilitating growth in the use of ICTs services and

other related applications for supporting other sectors of the economy and enhancing the Government's e-government and e-business initiatives. The infrastructure will enhance usage of ICT applications for sustainable socio-economic development including implementation of e-business, e-government, e learning, e-health and much more locally and globally. At present, there are more than 50 ISPs operating in the country including the government initiatives of putting in place the fibre optical connecting the whole country. ICTs in Tanzania have been recognized as an important tool in accelerating poverty reduction, increasing productivity, generating economic growth, creating jobs, and facilitating learning, knowledge sharing and global information flows. Government priorities have been to develop ICTs in a climate favourable to competition. The policy, legal and regulatory framework in Tanzania has been encouraging private sector participation. As a result, there have been improvements in market revenue, teledensity, mobile growth and new products and services such as data services, paging, payphones, etc. The overall mission of ICT policy was to enhance nation-wide economic growth and social progress by encouraging beneficial ICT activities in all sectors through providing and in promoting multi-layered co-operation and knowledge sharing locally as well as globally. The establishment of ICT policy missions was also to facilitate the new licensing procedures for easy market entry, operator opportunity, new applications and ICT services as well as to bridge the digital-divide between rural and urban areas by introducing district licenses supported by rural communications development; and enforcement of efficient utilization of network resources to create more employment. In addition, to facilitate Tanzania to join the group of countries with an integrated infrastructure for ICT in order to develop its economy and close the digital divide between the global information communities. Furthermore, to optimize its contribution to the development of the Tanzanian economy as a whole by ensuring the availability of efficient, reliable, and affordable ICT services throughout the country. The Tanzanian Government has withdrawn import duties from computers and computer-related peripherals. As a result of the withdrawal of duties prices of computer related products have become affordable to general communities. This to some extent has increased the use of computers for a general purpose though effective applications of computers are still underutilized due to

particularly government policy. Furthermore, the government laid down some educational policies for ICT in higher learning institutions as well. The Tanzanian Government has withdrawn import duties from computers and computer-related peripherals. As a result of the withdrawal of duties prices of computer related products have become affordable to general communities. This to some extent has increased the use of computers for a general purpose though effective applications of computers are still underutilized due to particularly government policy.

Contribution of National Efforts in Promoting E-business

In promoting, the e-business the government has contributed in different aspects including being a key enabler for e-commerce platforms to become profitable is the gathering of a sizeable number of buyers and sellers on the platform, in order to dominate the market. Once the platform is established, it is monetised in a few ways:

- i) Providing value-added service, e.g., logistics and fulfilment for the sellers.
- ii) Changing a commission for transactions.
- iii) Charging to optimise product listings for sellers.

As such, a large part of any e-commerce platform's efforts is directed toward attracting more buyers and sellers

To attract buyers, e-commerce platforms ensure a positive buyer experience by

- a) Building a cheap, fast, and reliable logistics service
- b) Growing their assortment through onboarding more merchants;
- c) Ensuring quality of products sold through data analytics and monitoring of buyer feedback and product reviews;
- d) Growing channels for sales beyond the local marketplace, e.g., building global collections (by bringing foreign sellers onto the platform), the introduction of "malls that feature premium products from notable brands; and
- e) Running frequent and regular promotions including flash sales, campaigns and incentives for new-to platform buyers etc.

To encourage more sellers, e-commerce platforms track and grow

certain metrics such as Gross Merchandise Value (GMV), number of monthly and daily active users. They also provide cheap, fast and reliable logistics to merchants. There are also many features on e-commerce platforms' seller centres that enable merchants to sell well, such as data analytic tools and "basket building" tools through which merchants can offer discounts for purchases above a certain amount, or offer free delivery, and so on.

The government has holistic view of the stakeholders acting in the field of electronic business. In a way they can be sensitive to the specific needs of different interest groups, they can be more effective in the application of their strategies and act proactively in a rapid technologically changing environment. The most obvious stakeholder in the electronic business market from our perspective is the government. It has the difficult task of balancing the application of international directives with the consideration of specific national needs. As electronic business or electronic commerce is an international phenomenon it is important to stress the role of international organisations. Their influence is very important especially in setting international standards and global commercial codes, security measures and so on. Governments consider their directives very seriously for existence of harmoniously in the new global environment. Such organisations are for example the Organisation for Economic Co-operation and Development (OECD), the International Chamber of Commerce (ICC), the World Intellectual Property Organisation (WIPO), the International Organisation for Standardisation (ISO), the International Electrotechnical Commission (IEC), the International Telecommunications Union (ITU), and the World Trade Organisation (WTO). Individuals acting as consumers or citizens are very important stakeholders that have to be considered. Special policies like intellectual property protections and privacy issues are essential to build confidence about electronic commerce for them

The Challenges in Undertaking E-business

E-business brings about a lot of changes in the way firms operate. It also throws up challenges that they have to meet in order to reap the benefits of e-business. The rapidly changing business environment has led several companies to adopt e-commerce. The various challenges to the e-businesses include: technological challenges, legal and

regulatory challenges, behavioural and educational challenges, and other miscellaneous challenges. Various issues pertaining to the implementation of new technology include security issues, choice of Internet payment instrument and its inter-operability, inter-operability of technology and technological application, comparative buying capabilities, richness and depth of information available over the Internet, lack of reliable network infrastructure, lack of e-commerce standards, deployment of public key infrastructure to enable identity authentication, technical integration of new technology with existing applications, and high cost of bandwidth. The apt technical infrastructure is costly and needs huge investment. It also needs to be upgraded periodically to stay with changing times. Huge technological cost for a successful venture is a disadvantage of the e-business portal. In the context of Tanzania, despite the effect of government to construct the national backbone broadband to close the digital gap and promote sustainable socio-economic development, the backbone is currently operating at less than 10% of its installed capacity and even lower at its design capacity. Also some studies by WSIS- Prepcom, (2005), highlighted in the study on issues towards utilization of National ICT backbone and found that last mile connectivity is not affordable to majority of Tanzanians. Challenges associated with legal and regulatory framework include the difficulty in regulating and enforcing standards, due to lack of consistent rules and policies; customs and taxation uncertainties; and government intervention. Several cyber laws have been implemented to protect the rights of both seller and buyer. If you are looking to create a website it is important that you go through the local laws as well as cyber laws so that you do not have to face any problems later on. A serious disadvantage of e-commerce portals is that people either take care of local laws or cyber laws and fail to realize that you need to pay attention to both of them if you want to make a success of your business. E-commerce companies aren't growing like it ought to in developing countries because of irregular government policies. Whether we choose to accept it or not, the government has a role to play in the growth and development of electronic commerce, be it in the United States or any part of the world. Double taxation or lack of tax relief for logistics companies (an important arm of the e-commerce

sector) in developing countries is one of the major challenges affecting e-commerce companies in every year. To overcome this challenge of irregular government policies influencing the e-commerce companies, the government must adopt a non-regulatory, market-oriented approach to electronic commerce. Changes in attitudes of consumers result in behavioural challenges to businesses. These challenges include lack of trust of customers and their fear of intrusion of privacy which makes them reluctant to involve in e-transactions. In addition, the rampant frauds taking place over the Internet and lack of awareness of customers about the availability of services poses a challenge to businesses. Shopping online can be a negative experience for customers who may receive a product that's damaged or doesn't meet expectations. A good, customer-centric company takes care of a customer's complaints and handles each situation appropriately. Countries have their own laws and time limits for returning goods. Return and exchange policies can also vary greatly between stores. The policies you adopt should be cost-effective for both the company and the buyer. Creating a reliable policy that benefits both the business and the customer can prove tricky, but good business positioning requires the owner to embrace the unknown. Try new, innovative return policies instead of imitating what your competitors are doing, and make sure you build a good relationship with your customers. E-commerce companies must be encouraged and mandated to be more transparent in their dealings with customers. Customers' data must be protected and not commercialized. The biggest mistake e-commerce entrepreneurs make is creating a product and then turning around to look for customers. That's more like putting the cart before the horse. The right thing should be to find a product for a starving market. That way, you won't struggle to attract the ideal customers to your product. And even when you do, you must learn [how to optimize your product in your online store](#) so that it will be visible to people that need it. The quickest way to attract the ideal customers to your product is simply by giving them what they want not what you want to sell. It eliminates hard selling and makes selling a fun experience. How do you attract the ideal customers to your product? It's simple. Before importing a product, set up a well-optimized Facebook or Google Ads telling your target audience to pre-order the product. You can decide to put the payment page on a test mode, that way their debit/credit card won't be debited

but it will prove to you that people are actually interested in your offer. There's no smarter way to test if a product is in high demand until people are willing to pull out their wallet and commit to it financially. "I'm interested" is not proof of real interest.

Online shoppers do not shop the same way as they used to back in the day. They use Amazon to search for products (not just Google). They ask for recommendations on social media. They use their smartphones to read product reviews while in-store and pay for purchases using all sorts of payment methods. Lots has changed including the way they consume content and communicate online. They get easily distracted with technology and social media. Retailers must figure out where their audience is and how to attract them efficiently without killing their marketing budget. Without customer trust and loyalty, your business is bound to struggle. But, acquiring and maintaining customers requires massive effort. One of the reasons e-commerce businesses face a challenge in [building customer trust and loyalty](#) is that often the seller and buyer don't know or can't see each other. This makes interactions less personable. This ecommerce challenge can only be solved through time and effort. Across multiple transactions, eventually, the company can build this trust and loyalty. The solution to aforementioned first make sure your customer service processes are effective, from ordering online to shipping. Also, consider:

- Displaying your address, phone number, pictures of staff, customer testimonials, and credibility badges on your website.
- Creating valuable content.
- Making customer service a priority over profit.
- Asking for customer feedback.
- Refining loyalty programs.

Miscellaneous challenges such as channel conflict, the problem of attracting and retaining a critical mass of customers, Other challenges identified in the literature are cultural challenges (e.g. personal and communication), managerial challenges (e.g. management support), business challenge and the need to improve the order fulfilment process, are the other aspects that have become a cause of worry to businesses. Late delivery is one of the common disadvantages of e-business platforms. While ordering a product the customer is assured

that it will reach him in maximum seven days or a particular time period. In most cases that does not happen and you are kept waiting for it. Ultimately when the information reaches you that the product will be delivered on this day the portal is not specific about the timings. There are several instances when a person who is going to collect the parcel had to wait for hours for the delivery. His whole day is wasted and he could not go outside as per his original schedule. Such a situation makes the customer angry as he feels unnecessarily harassed. The high cost of delivery, terrible economic and government policies are some of the factors that influence the speed of order fulfilment. If something can be done about it, then you would have reduced your e-commerce challenges to a great extent. Customer satisfaction depends on order fulfilment. In today's fast-paced world, no one is willing to wait several weeks for a product they purchase online. For this reason, e-business store owners should ensure that they have an effective and efficient order-fulfilment process in place. You may find yourself overloaded with products that need to be shipped to customers in different locations. If you lack the time, warehouse space, or personnel to get this done in an organized and timely manner, this can prove to be a major problem. That's why many e-businesses prefer to outsource order processing and fulfilment to a third-party company that can meet delivery times and ensures customer satisfaction. To determine if order fulfilment is an issue, regularly look at your customer reviews, feedback from the surveys you conduct, and liaise with customer support to find out if they're getting any fulfilment-related complaints.

Despite customer experience on e-businesses being the most important thing for consumers, online merchants frequently compete on pricing, product features, and services too. Price competition particularly affects small ecommerce businesses, as mid-sized and large competitors can often offer products less expensively, although competition is one way to keep the business in line with current market trends.

The current market is saturated with similar products, and this can be problematic for store owners. To secure the competitive edge, you need to be unique and have a brand that customers can identify with. For example, giants like Amazon and Walmart generally have shipping amenities distributed across the country. Their warehouses

allow orders to be shipped from the closest facility. That way, the cost of distribution decreases and the order arrives really fast. This is one of these e-commerce challenges that can make or break a business. It's hard to thrive in a competitive market, but you can still find ways to distribute inventory to fulfillment warehouses. You can also become an extremely resourceful shipper, or find some unique products consumers won't be able to find elsewhere. Competition comes in many forms for small businesses, especially in the e-commerce space. You have to keep up with competitive pricing, products and services – all competing for your [target customer](#). As a small business, you can overcome price competition by having a very clear company value proposition that consumers can't get elsewhere. Distinguishing yourself from your competitors is crucial to standing out and attracting new customers for your business. This can be accomplished by making sure your website looks professional and is optimized correctly to suit today's Google algorithm. Also, by providing a unique product or service, you can focus on a smaller demographic, making it easier for you to increase your domain authority. When businesses go online they face many difficulties; it is essential for businesses to overcome their challenges. In many instances, however, firms make mistakes by misjudging the actual challenges that are facing their Internet business operations. A large number of businesses have already recognized that having an e-business department alone is not sufficient. They have realized that it is vital to adjust the organization's strategies and its procedures to efficiently react and be able to overcome challenges, and respond to the opportunities offered by e-business. Some of the challenges identified are business online integration, security concerns and making people aware of online business.

Unit Assignment



Attempt the following questions:

1. The government has the role to ensure that ICTs provide opportunities for coming up with enhanced and innovative ways of expanding markets and improving the performance of e-business. Identify government initiatives made to promote e-business in Tanzania for its effective use.
2. Briefly explain the important contributions made as national efforts in promoting e-business in Tanzania.
3. Describe at least five critical and common challenges faced by entrepreneurs in undertaking e-business in Tanzania and elsewhere in the world.

Unit 7

Demonstrate Knowledge of Business Resources

Introduction

Dear learner, Business resources is made up of two terms, business and resource whereby resource is a broad term and its definition varies across fields — economics, entrepreneurship, management, and human resources, biology and ecology, computer science, and Administration. The resources of a business firm can be tangible or intangible and may include software programs, customer databases, copyrights and more. The business resources needs to be known by every Entrepreneur as per their importance for the business firm's survival. Considering the definition of resource in economics, referred to as service or other asset used to produce goods and services that meet human needs and wants. Also referred to as factors of production, economics classifies resources into four categories — land, labour, capital and enterprise. More recently, technology has also been recognised as a factor of production. In general, everything serves as a business resource, from natural resources and farm products to machinery and office equipment.

Learning Outcomes



Dear learner, after completion of this unit you should be able to:

- Define business resources;
- Identify business resources; and
- Explain importance of business resources in undertaking business.

What Are the Business Resources?

Business resources, also known as factors of production, and inputs into the production process in each organization. The business resources consist of land and labour, along with capital and enterprise.

In this context, the land means natural resources, which provide the raw materials for components, machinery, buildings and transport mechanisms. Labour generally associates to human resources and it includes all the people involved in the business firm, including employees, fellow staff members and everyone in the supply chain. Capital usually referred to money, but it may also reflecting to everything made from raw materials. Essentially, capital includes all of the components, machines, tools and containers used to manufacture, store, transport, display, demonstrate and distribute products or services.

Meanwhile, the enterprise means the drive to achieve the business goals. Generally, it denotes to the processes used to make decisions, create a business model and push for continuous improvement of the business firm. The enterprise includes marketing brand, maintaining business firm's image and outperforming competition from the rivals.

Business resources also include mentors, employees and all of the businesses that support the supply chain in a business firm. The term also covers the government agencies responsible for collecting taxes and fees, and for enforcing regulations and laws. Since, every one of those elements supports the ultimate success of a business firm. Nevertheless, the business resources that matter most consist are those facilitating to conduct market research and help the entrepreneur to develop a good business plan. For example, the websites that allows the business firm or company will grow and reflect values and vision and agencies provide advice to prevent lawsuits over trademarks and market conditions. Generally, they help the business firm and company avoid liabilities and comply with existing laws, equal opportunity regulations and workplace safety.

Identification of Business Resources

The most important aspect in any business or company's operations is a need to identify resources, and then the need to understand a crucial feature of how they behave. It is widely accepted that resources contribute to sustained competitive advantage only if they score well on most of the following questions (Barney, 2006; Collis & Montgomery, 1994).

- Is the resource durable? A resource that quickly deteriorates or becomes obsolete is unlikely to provide sustainable advantage. The *more* durable the resource, the better.

- Is the resource mobile? Many resources are so easily moved between firms that they provide little sustainable advantage. People are a clear example. The less mobile the resource, the better.
- Is the resource tradable? Resources are particularly mobile if they can be bought and sold. The less tradable the resource, the better.
- Is the resource easily copied? Many resources are easy for competitors to copy, leaving little scope for competitive advantage. The less easily copied the resource, the better.
- Can the resource be substituted by something else? Even if a resource cannot be bought or copied, an alternative serving the same purpose can erode any advantage. Dell Computers, for example, has negligible presence in retail stores, but its direct supply system is a great substitute. Video conferencing and collaborative working over the Web are substitutes for business air travel. The less easily substituted the resource, the better.
- Is the resource complementary with other resources? Some resources work well to support one another. The more complementary the resource, the better.

Of course, any resource you have that is difficult to copy, buy, substitute, and so on can give you an advantage, but these accepted criteria are neither necessary nor sufficient to explain why one firm beats others.

Four Types of Business Resources

The resources, which are important to the business organization, create a value proposition in service to its customers, and deliver the product to the customers, are called key resources. These types of business resources are crucial and are important to have for the business in order for it to be sustainable. It is usually based on tangible and intangible resources.

They are also considered as important assets of the company in particular which are required to create the final product and are usually differentiated from the competitors by few key resources. Key resources involve the operational and business that define the kind of material the business will need and all type of materials that the

business needs to employ. These aspects play a very significant role in business value achievements in order to deliver to its customers. The types of business resources will affect the sustainability of the organization or business firm along with its profitability. For example, if the organization achieves double the sales target decided, it starts to grow rapidly, and then the company will keep on growing only if the owner understand what key resources are and which key resources are influencing increased demand. Therefore, it is essential that entrepreneur should be able to identify whether the resources that owned will be able to fulfil the opportunities for growth and sustainability or not.

The types of business resources are divided into four different types:

- Physical Resources;
- Human Resources;
- Intellectual Resources; and
- Financial Resources.

Physical Resources

These are considered as tangible inputs or goods (assets) that ensure the proper functioning of the business in operation and production. The organization uses these assets to create value offering and value proposition to its customers. Physical resources may include the equipment, buildings, inventory, the manufacturing plant and distribution network, which are extremely crucial for the business. Physical resources are important for the functioning of the organization since without things like equipment, inventory, and manufacturing plant it is difficult for the business to function. While these are required for the business which has a tangible product offering, for the business which has intangible services as an offering, there would not be the requirement of a manufacturing plant, distribution network etc. However, there will be a business process that needs to be followed for the delivery of the service to the end customer. Physical assets are usually considered stable in nature but they do come with a life post, which they need to be replaced by the organization. For example, any company would not build a new manufacturing plant but it would add the modern facilities which would make the existing plant more modern does update itself without practically moving the existing resources.

Human resources

Human resources is the area of a business firm, company or corporation whose job is to handle the aspects of people. In business, specifically, many often ask what human resource does. They are the section or branch of a business organization or company that has the responsibility of many if not all aspects pertaining to the act of recruiting of people that followed up by the hiring, retaining, and tracking of employees on the individual level. Often it is the general manager's job criteria these listed areas fall. Typically, in this situation, one will find that the general manager then reports to or answers directly to the human resource department rather than having each employee separately.

- Employee rule training,
- Employee benefits,
- Employee retention, and
- Employee situational documentation.

Employees are considered in the most underrated Assets of any organization. They are important for the functioning of any organization without which the activities of an organization will come to a standstill. Human resources are even more important in the industries that provide services since a great deal of creativity and knowledge is required in those domains. Qualified scientists who are people work for innovative ideas and new medicines to cure diseases and efficient sales team, which is comprised, of Human resource helps to sell the medicines to the end customers, which are doctors. Hence, when human resources coupled with technology like and physical resources organization turns out to be more productive and better performing.

Intellectual resources

These are the types of business resources, which are nonphysical and intangible in nature like patents of the product, brands of the organization, copyright over important materials and even the partnerships. Customer data and customer knowledge and even the talent in the organization are part of intellectual resource. Once they are developed they can offer unique advantages to the business

organization. Some business organisation follow the philosophy that a happy employee will create a happy customer. For example, Google, Microsoft and Apple are known to hire the best and talented people in their industries. They pay very well to their employees and retain the talent, they also recruit the best in so that employees do not think of leaving the organization.



The talented people are the types of business resources, which are nonphysical and intangible in nature like patents of the product, brands of the organization, copyright over important materials and even the partnerships. Once they are developed, they can offer unique advantages to the organization. People are the biggest assets to the organization if better treated.

Financial Resources

These often include cash, credit, and lines of credit along with the ability to have options of stock plans for the employees of the organization. Most of the businesses have financial resources on a regular basis but few companies will have extremely strong financial resources such as the banks, which based entirely on financial resources and use them as a key resource. Similarly, insurance companies work entirely on financial bases and use finance as the ultimate resource for the organization. To set objectives without planning for the money needed to make operations possible is like putting the roast in the oven without turning on the flame.

The Classification of Types of Business Resources

All businesses can generally be categorized or classified into three types according to the types of business. All these categories have a business with a common resource requirement. These three categories include:

Product-oriented businesses

The organizations focused all their functions on making and selling a product are called product-driven businesses. More often not these products have unique characteristics and a customer segment willing to purchase. Resources for these businesses are human as well as intellectual scenes usually these organizations require intellectual property and expertise in their particular industry and domain.

Scope driven businesses

These types of business resources work on providing a value proposition to a specific segment of customers. For example, an organization aims to specialize in being IT service provider for all the pharmaceutical companies within the area would be categorized under scope driven business. These types of business resources have well developed intelligence, which catered for target customer segment. They also have a standardized set of processes and infrastructure in a few cases such as service centres catered to specific needs.

Business based on infrastructure

As the name suggests these types of businesses, secure profitability by the leveraging they developed as well as implemented infrastructure. For example, telecommunication industry provides a huge investment to develop the infrastructure related to telecommunications in a country and then gets the rewards for many years to come with only minor investments in the systems to keep them updated. Wholesalers and retailers are also classified as infrastructure driven businesses since they depend on their infrastructure, which is established to maintain the long-term profitability.

Importance of Business Resources

Business resources are the sources of competitive advantage and the primary source of profitability for any business firm. Generally,

resources empower a company to drive the business and face competition with their products & offerings for the need of customers. The business resources contribute to the rest of the business, either directly by providing sales or indirectly by supporting other items. For instance, the human resources identifying what contributes more to customer value and which market segments to target. Human resources are even more important in the industries, which provide services since a great deal of creativity, and knowledge is required in those domains. They are also important in customer service for small businesses and large corporations alike. The human resources hold the skills to track and stay current with the changes in laws and legislature in regards to employees per the bigger picture. Furthermore, they help to assemble the parts and incorporated in certain steps of assembly, overlook the entire process and to avoid errors if any. They are important for the functioning of any organization without which the activities of an organization will come to a standstill. Human resources are also important in [customer service](#) and as trouble-shooters to understand the nature of the problem the customer and provide customized solutions.

Physical resources are important for the functioning of the organization since without things like equipment, inventory, and manufacturing plant it is difficult for the business to function. While these are required for the business which has a tangible product offering, for the business which has intangible services as an offering, there would not be the requirement of a manufacturing plant, distribution network etc. On the other hand, Physical resources are necessary for all types of business. Product-based businesses use physical resources for providing the goods for sale and for the operation of the business. Service-based businesses use physical resources to facilitate the delivery of the service, such as having a space to work, tools that are needed for the service, and resources used to support the service. Moreover, physical resources are essential in supporting and facilitating service delivery. For example, resources such as buildings are vital for a hospital to create space to meet with clients and vehicles such as ambulances to carry patients to the hospital.

The importance of intellectual resources can be seen clearly through the increasing patents being filed all across the globe. Intellectual talent are the one for innovative in business firm or companies Hence

patents are seen as major business driver and growth driver for the organizations. However, financial resources are important in the manufacturer that require capital investment right from infrastructure to inventory to procuring raw materials, assembling them and marketing them to the customer. Therefore, a firm must analyse which resources are most important in providing a sustainable competitive advantage to the firm. It should also identify its strengths and weaknesses with respect to its competitors.

Unit Assignment



Attempt the following questions:

1. What do you understand by factors of production?
2. The most important aspect in any business's operations is a need to identify resources, and then the need to understand a crucial feature of how they behave. Briefly explain how can you identify the resources I your business
3. Briefly explain at least three types of business resources known to you.
4. Critically explain the importance Intellectual resources and the effect of neglecting it in a business firm.
5. In detailed explain the importance of business resources for the firm growth and development

Unit 8

Demonstrate Knowledge on Managing Business Resources

Introduction

Dear learner, managers already know that building and managing business resources is vital, whether these are tangible items such as staff, cash, and customers, or intangibles such as reputation and investor support. They also understand that business resources are interdependent; a firm's winning product range is of little value if poor delivery damages its reputation. Business resources thus represent the crucial foundation of the business organisation. Building your own business resources is challenging enough, but competitors are not going to sit by and let you take what you want without a fight. Even in non-business situations, we struggle to win people, supporters, cash, and other resources. This chapter considers how to develop, manage and retain resources, and describe the challenge facing managers in deciding where to act to win these battles.

Learning Outcomes



Dear learner, after completion of this unit you should be able to:

- Define managerial skills;
- Describe importance of managerial skills in managing business; and
- Explain challenges of managing business resources.

Managerial Skills Descriptions

Managerial skills refers to the abilities and capabilities an executive possesses to perform the managerial works in the organisation. Good managerial skills are vital for every organisation to manage and achieve its goals and objectives effectively and efficiently. To perform the managerial works smoothly managers must have managerial skills like conceptual skills, technical skills, interpersonal skills etc. Technical skills involves skills that are related to the techniques used in the organisation for producing or manufacturing various goods or

services required in the organisation. The manager working in the organisation must know at least how to operate the machines or equipment for the production processes. This skill not only involves operating machines or pieces of equipment but also the manager should know how to boost sales, increase production with min cost and max output , develop new products and services .

Interpersonal skills are also called as human skills, which involves manager's own ability to interact with people, deal with different situations both external and internal, and motivate the employees. A good manager should know how to deal with the different people as people in an organisation comes from different backgrounds, different thinking, different attitude, etc. Furthermore, conceptual skills involves the skills which the manager applies while analysing and formalising ideas with different concepts available . The managers have the ability to look at the concepts in a different way and the how to deal with it precisely. They look at the matter, analyse the matter, formulate ideas, solve the hurdles and create solutions. Therefore, there are wide range of skills that manager should possess to run an organisation smoothly. The managerial skills can therefore be defined as certain attributes or abilities and capabilities that an executive should possess in order to fulfil specific managerial tasks in an organization. An entrepreneur need to develop a set of managerial skills that can help to be successful in management responsibilities, including important decisions and execute plans that will affect company or business outcomes. There are two types of managerial skills a manager of a company or business entity need to excel in his or her career including the hard skills and soft skills. Hard skills are technical, teachable abilities you learn through school, training and job experience. For example, a software engineer, one of his hard skills may be proficiency in programming languages. As a manager, it is important to develop these abilities so that you can effectively lead others in honing the same skills. On the other hand, soft skills are applicable in any role or industry and are often even more important for management than technical proficiencies. Generally, soft skills are developed over time by managing somebody responsibilities and interacting with others. Problem-solving, time management and verbal communication are all examples of important soft skills. Furthermore,

hard skills are key when completing specific tasks, soft skills are essential when directing people, overseeing company or business firm and making informed decisions.

Key Management Skills Elements

The most effective management skills you should develop, regardless of your department or industry, can be grouped into five primary categories:

- Leadership;
- Planning;
- Strategy;
- Communication; and
- Organization.

Leadership

A manager of any business firm or company will likely be responsible for overseeing the work of others and motivating a team toward a common goal. He/she might also be responsible for leading meetings, assigning workloads and supporting collaboration across teams and departments. Well-developed leadership skills will help him/her to coordinate tasks and direct all parties to ensure that work completed according to planned schedule and finished on time.

These are also the skills needed for adequately handle leadership duties such as employee evaluations and professional development.

Leadership skills examples:

- Decisiveness
- Team building
- Empathy
- Dependability
- Constructive criticism
- Delegating tasks
- Empowerment
- Integrity
- Mentoring
- Motivating others
- Patience

- Relationship management

Planning

Whether it is a management of people, project or a combination of the two, the ability to prepare a vision for the future and strategize solutions is essential to good management. Planning skills help when setting goals and determining the most efficient path to meet objectives.

Planning skills examples:

- Cognitive skills
- Adaptability
- Business development
- Critical thinking
- Flexibility
- Logical reasoning

Strategy

A strategic manager is someone who can spot inefficiencies and quickly identify solutions to challenges. They can also recognize the steps each team member should take to overcome obstacles and complete project's targets.

Strategy skills examples:

- Strategic thinking
- Problem-solving
- Conflict resolution
- Creativity
- Analytical thinking

Communication

To effectively lead people and business, the business owner must be able to understand the needs and goals of the business and convey this information to others through simple and straightforward instruction. Well-developed communication skills will ensure that manager is able to translate the most accurate information to the right people at the right time. Great communicators actively listen, retain information well and pass it on efficiently to others.

Communication skills examples:

- Active listening
- Collaboration
- Interpersonal communication
- Negotiation
- Persuasion
- Public speaking
- Verbal communication
- Written communication
- Interviewing
- Building relationships

Organization

A manager has to balance many tasks at the same time. Often, this means overseeing multiple project timelines, deadlines and calendar events such as meetings, conferences and presentations. Excellent organizational skills will help a manager stay on top of his/her work, reduce stress, prevent his or her team from missing critical dates and ensure that he or she can find information when needed it most. Staying organized will improve workflow and ensure that the manager is able to complete tasks as efficiently as possible. It will also set a great example for any employees who may report to him or her.

Organizational skills examples:

- Goal setting
- Administrative skills
- Project management
- Deadline management
- Event coordination
- Recordkeeping
- Scheduling

Challenges of Managing Business Resources

Resource planning, management and allocation is the art and science of allocating the right resource, to the right project, at the right time. However, it is not always that simple. In most often, the business owner needs to plan the work and resources, irrespective of the size, nature, and type of business. Most project managers concur that –

resource management is one of the critical factors that determine project success. In due regard, organizing, monitoring, and improving processes are crucial parts of resource management that may make or break your projects/ business. The business resources management provides an overview of everyone in the team, what they are doing, what tasks need to be done, thereby helping to plan how to do it. However, there are various challenges associated with managing resources in a business or project (business). Managers or Resource Managers can face many challenges, ranging from poor capacity planning, to conflicting resource priorities, to inadequate information on available resources. This can greatly affect business organizations' effectiveness. These challenges include but not limited to:

Recognizing the Right Resource for the Business

The biggest challenges for business managers in any business organization is to find the right resources with the right skills, qualifications and experience. Identifying the right resource for a business firms functioning and operations is a massive challenge to the business owners.

Optimum Utilization of Resources

Another challenge is to ensure optimum utilization of resources. Sometimes, already allocated resources are not optimized. Either they are working on low priority business aspects, rather than the type of aspects, which meet business goals - or else they are doing 'busy work'; in other words, they are not assigned challenging tasks according to their skill sets and responsibilities. A business manager needs to be aware of the business growth and development and therefore be able spot gap. For instance, managing employees' availability, their capacity and ability to meet the schedule are closely connected. Business managers have a hard time ensuring fair distribution of workload. Very often, they end up using critical team members, repeatedly, making them feel overburdened while other team members' end up feeling neglected.

Meeting Customer's Demand

Meeting increasing demands from customer with limited resources is a great challenge in managing business resources. Before assigning

resources, it is important to have a holistic view of incoming demand and available resource capacity according to matching skillsets and roles. The first step towards resource management and planning is to get a handle on demand as well as prioritizing these projects, and then allocate resources accordingly.

Improper Resource Management

Improper resource management could lead to problems like – delays, fall in customer satisfaction, drop in sales, reduced utilization of resources, loss of revenue, and more.

Misassessment of Resource Risks

Many business organizations only assess risks in relation to processes, technology and/or unforeseen events. However, they do not always think about the risks associated with resources. A resources manager should sit down and create a list of every possible risk and opportunity they can think of while allocating resources. Unrealistic or tight deadlines are the “bête noir” of business management

Shifting Resources in Response to Unexpected Problems

Moreover, in any business organization, that operates complex business, unexpected problems and issues do crop up, which is quite natural. Even under the most efficient planning, unforeseen challenges will always occurs. That does not mean one should react by shifting resources here and there sporadically. It is still essential to get a good grasp on demand and requests, and create a planned response, ideally under a robust business management methodology or approach.

In order to avoid common resource management challenges, try to incorporate these ideas in your business:

- Be realistic – make plans that fit business requirements and do not add more reservations than you need.
- Trust data more than your assumptions – use inputs and reports from past business records to plan the future.
- Have an overview of your resources – know what resources you may use, what skills you have and what resource availability is.
- Align your business with company’s capacity and pipeline – always include other business and priorities, so that you are aware about potential clashes and changes.
- Constant communication with staff – meetings with your team

will help you discover their pains and challenges early on, so you have a time to respond and improve.

Unit Assignment



Attempt the following questions:

1. Define the concept Managerial skills as applied in entrepreneurship
2. Describe the most effective management skills you should develop, regardless of your department or industry
3. Describe the resources challenges that can face the business firm which significantly affect business organizations' effectiveness.

Unit 9

Use Concepts of Community Development

Introduction

Dear learner, among the concepts of community development include but not limited to the business risk, with which it is a possible hurdle, which may prevent the business from achieving its ultimate goal. In addition, it can also prevent businesses from achieving regular targets goals as well. While certain risks are within individual business owners' control, others are out of individual control such as a risk of the global economy as we have recently experienced from Russia – Ukraine war. Every business involves certain risks and without risk, business is not possible. Therefore, it is desirable to bring down the risks to have the lowest possible rather than eliminate which is practically impossible. There is no such a thing like zero risks but there is a thing, which is a risk tolerance that measures the ability of business firm to bear the risk. There are different types of a business risks depending on the nature of business.

Learning Outcomes



Dear learner, after completion of this unit you should be able to:

- Define business risks;
- Identify types of business risks; and
- Explain importance of entrepreneurial skills in mitigating business risks.

Understand the Business Risk

Business risk is the exposure a company or business organization inherent from internal or external, independent of the way financed, that will lower its profits or lead / cause it to go bankrupt (Van Horne 2009, 207-208). Anything that threatens a business or company's ability to achieve its financial goals is considered as a business risk. Many factors can converge to create business risk. However, sometimes a business firm or company's top leadership or

management creates situations where a business may be exposed to a greater degree of risk. However, sometimes the cause of risk may raise from external to a business firm or company. Based on this phenomenon, it is impossible for a company completely protect itself from risk. However, there are some ways to mitigate the overall risks associated with operating a business; most companies accomplish this through adopting a risk management strategy. Businesses face all kinds of risks, some of which can cause serious loss of profits or even bankruptcy. The sources of business risk are varied but can range from changes in consumer taste and demand, the state of the overall economy, and government rules and regulations. Nevertheless, all large companies have extensive "risk management" while, smaller businesses firms tend not to look at the issue in such a systematic way. When a company experiences a high degree of business risk, it may impair its ability to provide investors and stakeholders with adequate returns. For example, the Company Executive Officer (CEO) of a company may cause certain decisions that affect its profits, or the CEO may not accurately anticipate certain events in the future, causing the business to incur losses or fail. Business risk is influenced by a number of different factors including, but not limited to

- Consumer preferences, demand, and sales volumes;
- Per-unit price and input costs;
- Competition;
- The overall economic climate; and
- Government regulations.

Types of Business Risk

Since business risk can happen in multi-faceted ways, there are many business risks. This risk usually occurs in one of five ways including Strategic risk, Compliance or Legal risk, Operational risk, Financial risk and Reputational risk.

Strategic Risk

Strategic risk is the one arises when a business does not operate according to its business model or plan. It is considered the first type of business risk, knowing that strategy is a significant part of every business, in case the top management is unable to decide the right

strategy, there is a high chance to fall back. Alternatively, when a company does not operate according to its business model, its strategy becomes less effective over time and it may struggle to reach its defined goals. Everyone knows for sure that a successful business needs a comprehensive, well-thought-out business plan. Nevertheless, it is also a fact that things do change, and the best-laid plans can sometimes come to look very outdated, very quickly.

The strategic risk could be due to technological changes, a powerful new competitor entering the market, shifts in customer demand, spikes in the costs of raw materials, or any number of other large-scale changes. For example, when a company or a business firm introduces a new product to the market, the existing customers of the previous product may not easily accept it. The top management needs to understand that this is an issue of wrong targeting. The business needs to know which customer segment to aim at before introducing new products. If a new product does not sell well, there is always a more significant business risk of running out of business. The other classic example is Kodak, which had such a dominant position in the film photography market that when one of its own engineers invented a digital camera in 1975, it saw the innovation as a threat to its core business model, and failed to develop it.

It is obvious to conclude with retrospection, of course, but if Kodak had analysed the strategic risk more carefully, it would have concluded that someone else would start producing digital cameras eventually, so it was better for Kodak to cannibalize its own business than for another company to do it. Failure to adapt to a strategic risk led to bankruptcy for Kodak. It is now emerged from bankruptcy as a much smaller company focusing on corporate imaging solutions, but if it had made that shift sooner, it could have preserved its dominance. Simply if a business firm or a company strategically positions itself as a low-cost provider and target decides to undercut its prices, this becomes a strategic risk for the business firm or that company.

Compliance or Legal Risk

Compliance or Legal Risk primarily arises when a business firm or company violates government laws or regulatory standards. In most often, this risk is found in industries and sectors that are highly regulated. To run a business, needs to follow certain guidelines or legislation. If a business cannot follow such norms or regulations, it is difficult for such a business to exist for long. It is recommended to

check the legal and environmental practices before forming a business entity. Otherwise, the business will face unprecedented challenges and unnecessary lawsuits later on. Normally, companies that violate laws and regulatory standards are subject to a variety of punishments, including fines against the company, imprisonment for executives, and reputation damage with customers and other stakeholders. For example, in certain industries, such as financial services, laws were enacted to protect consumers, such that both small and large banks must comply with a variety of lending and financial disclosure regulations. Companies can also expose themselves to compliance or legal risk by breaking contracts with suppliers and other partners, which could subject them to lawsuits. Alternatively, a business may face compliance or legal risk if it fails to follow environmental regulations, such as meeting certain pollution and hazardous waste standards.

Moreover, employers are also legally responsible for providing safe and healthy working conditions for their employees, and different industries may need to follow a variety of safety requirements and companies need to comply with equal opportunity laws that make it illegal for them to discriminate against a job applicant or employee. Despite that, the business or company complying with all the necessary laws and regulations that apply to that business, however, laws change all the time, and there is always a risk that the business will face additional regulations in the future. In addition, as business expands, it might find itself needing to comply with new rules that did not apply to the business before. In fact, the business needs to comply with local accounting and tax rules in addition to foreplanned laws and regulations. Meeting all those extra regulatory requirements could end up being a significant cost for the business. Perhaps the business owner has unknowingly been breaking a rule, and have to pay a fine. All of these things involve costs, and present a compliance or legal risk to the business. In extreme cases, a compliance or legal risk can also affect business's future, becoming a strategic risk too. Think of tobacco companies facing new advertising restrictions, some of the companies were unable to stay in business. We are breaking these risks into different categories, but sometimes they often overlap.

Operational Risk

This risk originates from within the corporation, especially when there is an unexpected failure to perform in the business or company's day-to-day operations. It could be a technical failure, like a server outage, or people or processes could cause it. This risk can also result from employee errors, such as undercharging customers (writes the wrong amount on a check, paying out \$700,000 instead of \$70,000 from the business or company's account) will decrease profits.

Additionally, in some cases, operational risk can also stem from events outside business owner's control, such as a natural disaster, like a thunderstorms, flood might damage a company's buildings or other physical assets, disrupting its daily operations or a power cut, or a problem with company's website host. Anything that interrupts the company's core operations comes under the category of operational risk. Machinery may stops working leading the business will not be able to produce any goods/products. As a result, the business will not be able to sell the products and make money. Of course, one of the unambiguous examples of negative impacts to companies' production and supply chain operations is the Coronavirus pandemic. In some cases, operational risk has more than one cause. Despite the events, themselves in operational risk can seem to be quite small compared with the large in strategic risks, however operational risks can still have a big impact on the company. Not only about the cost of fixing the problem, but operational issues can also prevent customer orders from being delivered or make it impossible to contact the business firm management, resulting in a loss of revenue and damage to the business or company reputation.

Financial Risk

Financial risk refers to the flow of money in the business and the possibility of a sudden financial loss. Generally, companies must generate sufficient cash flow to make interest payments on loans and to meet other debt-related obligations on time.. A company may be at financial risk if it does not have enough cash to properly manage its debt payments and becomes delinquent on its loans. Businesses with relatively higher levels of debt financing are considered at higher financial risk, since lenders often see them as having a greater chance of not meeting payment obligations and becoming insolvent. The financial risk is not only for the organization but also for the investors that seek a return on investment. Depending on the nature of the

organization, industry growth and product quality, financial risk can be assessed. For instance, banks while issuing loans also have a financial risk factor which they take into consideration. It is crucial that the products of the company perform in the market and get sales which will bring revenue to the organization and profits for investors. The better the sales, the lower is the financial risk. Nevertheless, there are always unforeseen circumstances like economic slowdown or depression or inflation or war when the financial risk runs higher.

Types of financial risk include:

- **Credit risk:** When a company extends credit to customers, there is the possibility that those customers may stop making payments, which reduces revenue and earnings. A company also faces credit risk when a lender extends business credit to make purchases. If the company does not have enough money to pay back those loans, it will default.
- **Currency risk:** Currency risk, also known as exchange-rate risk, can arise from the change in price of one currency in relation to another. For example, if a U.S. company agrees to sell its products to a German company for a certain amount of euros, but the value of the euro rises suddenly at the time of delivery and payment, the U.S. business loses money because it takes more dollars to buy euros.
- **Liquidity risk:** A company faces liquidity risk when it cannot convert its assets into cash. This type of business risk often occurs when a company suddenly needs a substantial amount of cash to meet its short-term debt obligations. A manufacturing company may not be able to sell outdated machines to generate cash, for example, if no buyers come forward.

Reputational Risk

It is a critical type of business risk where the business or a company loses its goodwill in the market, leading a big chance to lose its customer base. Either the business or company reputation ruined, by an event that was the result of a previous business risk or by a different occurrence, (The business runs the risk of losing customers - they become wary of doing business with the company and its brand loyalty suffering). Reputational risk can include a lawsuit against a

company, a product safety recall, negative publicity, and negative reviews online from customers. Companies that suffer reputation damage can even see an immediate loss of revenue, as customers take their business elsewhere. Companies may experience additional impacts, including losing employees, suppliers, and other partners.

Reputational risk can take the form of a major lawsuit, an embarrassing product recall, negative publicity about company or company staff, or high-profile criticism of the products or services. There are many different kinds of business, but they all have one thing in common no matter which industry the business is in its reputation is everything. These days, it does not even take a major event to cause reputational damage. . For example, if a car made up by Toyota Company blamed for launching cars without proper safety features, it would be a reputational risk for the company.

Importance of Entrepreneurial Skills in Mitigating Business Risks

Entrepreneurial skills can cover a broad range of various skill sets including both soft and hard skills like technical skills, leadership and business management skills and creative thinking. Nevertheless, entrepreneurial skills can be applied to many different job roles and industries, developing entrepreneurial skills can mean developing several types of skill sets to accommodate the growth of businesses and brands. For instance, to be a successful business owner, an individual may need to develop his or her business management skills. To build and maintain successful project teams, a person might need to improve his or her leadership and communication skills. Therefore, developing the following skill sets can also help an entrepreneur to develop his or her entrepreneurial skills:

- Business management skills;
- Teamwork and leadership skills;
- Communication and listening skills;
- Customer service skills;
- Financial skills;
- Analytical and problem-solving skills;
- Critical thinking skills;
- Strategic thinking and planning skills;
- Technical skills;

- Time management and organisation skills; and
- Branding, marketing and networking skills.

Meanwhile, mitigation of business risk refers to the process of planning methods and options to reduce the business threats (risks) surrounding the business objectives. A business might implement risk mitigation strategies to identify, monitor, and evaluate risks and consequences inherent to completing a specific business, such as new product creation. It encompasses also the actions introduced in place to accommodate issues and the effects of those issues regarding a business. Not all these can happen unless otherwise, the business owner possesses entrepreneurial skills, which brings it importance in the mitigation of business risk.

Descriptions of Entrepreneurial Skills

Business Management Skills

Successful entrepreneurs will most often rely on their business skills to manage and run a business or brand. Developing your business management skills can mean building up your ability to multitask, delegate responsibilities to subordinates, and decisions making regarding the health and profitability of your business.

Teamwork and Leadership Skills

Becoming a successful entrepreneur can also mean taking on leadership roles and working as part of a team. Being a business owner means you will most likely act as both a supervisor and as part of a team, and you will need to rely on effective leadership skills to help motivate the team.

Communication and Listening Skills

Business owners and entrepreneurs should also develop effective communication skills. From active listening to discussions during meetings, being able to communicate effectively can help them work with others to build their business. Likewise, effective communication can also translate the extent on how he/she promotes awareness of brand. For instance, effective and clear messages through emails,

content marketing, social media and other advertising methods can positively influence how he/she reach his/her target market.

Customer Service Skills

No matter the industry you venture into as an entrepreneur, you may still need to develop effective customer service skills. From talking with potential clients to discussing opening partnerships, effective customer service skills can help you connect with your customer base and ensure your brand is providing the products or services your market needs.

Financial Skills

Owning a business can also mean taking care of the financial aspects of your organization. You can develop financial skills by learning from a financial planner, reading financial guidebooks and using financial software to help you organize and keep track of the financial processes in your business.

Analytical and Problem-Solving Skills

Successful entrepreneurs may also have exceptional analytical and problem-solving skills. Since, there can be many aspects of building a brand or business that can require difficult decisions, finding solutions to obstacles and using creative thinking to develop plans and strategies that will help you achieve your business goals.

Critical Thinking Skills

Critical thinking skills, like analytical skills, can be necessary for developing your overall entrepreneurial skills. Being able to look at problems, situations, projects and operations from different perspectives can help in decision-making and problem solving. Critical thinking skills can also be necessary for strategic planning and evaluating the approaches you are using to make changes or improve your business strategies as needed.

Strategic Thinking and Planning Skills

Critical thinking skills can also translate into strategic thinking skills. Entrepreneurs who have built brands and businesses most likely applied their strategic planning skills to develop strategies for growing

and developing their businesses. To be successful as an entrepreneur, it takes planning and being able to think strategically can allow you to find ways to beat out your competition grow your market reach or implement effective strategies to reach your goals.

Technical Skills

Because of the availability of software programs for financial analysis, planning, marketing and other business processes, it can be extremely beneficial to develop your technical skills. Entrepreneurs with efficient technological skills can use software and other digital approaches for managing business, tracking sales and revenue and measuring the performance of business growth.

Time Management and Organisation Skills

Time management and organization are also important skills for entrepreneurs to have. Strategies that can help develop these skill sets include breaking down tasks into manageable to-do lists and setting deadlines and achievable objectives for yourself and for your team. Additionally, you might implement technology to help keep business files organized or employ an office assistant to help you keep paperwork, business records and customer files organised.

Branding, Marketing and Networking Skills

Entrepreneurs may spend the majority of their time marketing and networking with other professionals to promote and grow their brands. Being able to implement successful branding and marketing strategies can be an essential aspect of becoming an entrepreneur. You might take a free online course to get started with branding and marketing basics, and you can also meet with other entrepreneurs to help grow your network.

Mitigation of Business Risks Strategies

Appropriate business risk mitigation involves identifying potential risks to a business, for instance, employees turnover, product failure

or scope creep followed by planning for the risk through implementing strategies to help lessen or halt the risk. The following strategies can be used in risk mitigation planning and monitoring.

Assume and Accept Risk

The acceptance strategy can involve collaboration between team members to identify the possible risks of a business and whether the consequences of the identified risks are acceptable. In addition to identifying risks and related consequences, team members may also identify and assume the possible vulnerabilities that risks present. This strategy is commonly used for identifying and understanding the risks that can affect a business' output, and the purpose of this strategy helps bring these risks to the business' attention so everyone working on the business firm or company has a shared understanding of the risks and consequences involved. The following example shows how the acceptance strategy can be implemented for commonly identified risks.

Risk affecting cost

The accept strategy can be used to identify risks influencing cost. For example, a business team might implement the accept strategy to identify risks to the business budget and make plans to lower the risk of going over budget, so that all team members are aware of the risk and possible consequence.

Risk affecting schedule

The accept strategy could help identify possible risks that could affect scheduling, such as keeping the business on track to meet deadlines.

Risk affecting performance

These types of risks can involve performance issues like team productivity or product performance (such as software or manufactured goods) and can be identified and accepted as part of business planning so all members are aware of potential performance risk.

Avoidance of Risk

The avoidance strategy presents the accepted and assumed risks and consequences of a business and presents opportunities for avoiding those accepted risks. Some methods of implementing the avoidance strategy are to plan for risk and then take steps to avoid it. For

example, to mitigate risk of new product production, a business team may decide to implement product testing to avoid the risk of product failure before the final production is approved. The following examples are some other ways to implement the avoidance strategy.

Risk Performance

Mitigation of performance risks, such as insufficient resources to perform the work, inadequate design or poor team dynamics, can allow a business team to identify possible ways to avoid these types of risk situations that may cause issues with business performance. For instance, a production team might test more durable product materials to avoid the risk of product failure with less durable materials. Similarly, if there is performance risk within the business team's dynamics, interactive team management can be implemented to avoid issues within the team.

Risk Schedule

Avoidance of schedule implications can be implemented by identifying issues that could come up that would affect the timeline of the business. Important deadlines, due dates and final delivery dates can be affected by risks, such as being overly optimistic about the timeline of a business. The avoidance strategy can help the business team plan ways to avoid schedule conflicts, for instance, by creating a managed schedule that illustrates specific time allowances for planning, design, testing and retesting and making changes as necessary. Non-working times could also be planned so that risks to time management can be avoided.

Risk of cost

Avoiding cost issues is another implementation of this strategy. For example, a business team may outline all anticipated costs as well as account for any costs that could come up so that the consequences of going over budget can be avoided.

Controlling Risk

Team members may also implement a control strategy when mitigating risks to a business. This strategy works by taking into

account risks identified, accepted, and then taking actions to reduce or eliminate the effects of these risks. The following examples highlight how control methods can be implemented for risk mitigation.

Controlling risk to cost

A business team might implement control methods that can detect possible issues with the business budget. For instance, controls for risk mitigation might include a focus on management, the decision-making process or finding flaws in the funding for the business before issues can arise. This can also give a business team insight into how funds are being delegated, and if there is a risk of going over budget, the team can identify this before it happens and take measures to control it such as reducing spending or eliminating a resource that could prove too costly for the business.

Controlling risk to schedule

Implications to scheduling can be controlled by diversifying tasks and the time it takes to complete them among the business team. Control methods could include tracking the time it takes to complete each task and assigning specific tasks to team members according to the time involved with each task. The business team might also take into account time management strategies to help control any risk to project scheduling.

Controlling risk to performance

Implementing control strategies for performance risk can include methods of directing a team's daily tasks, quality control methods for new products and measures for taking action to control issues that could affect the overall performance within a business.

Transference of Risk

When risks are identified and taken into account, mitigating the consequences through transference can be a viable strategy. The transference strategy works by transferring the strain of the risk and consequences of another party. This can present its own drawbacks, however, and when an organization implements this risk mitigation strategy, it should be in a way that is acceptable to all parties involved. The following example shows how and when transference strategies are used for risk mitigation.

Transference for performance

If, for instance, a production team has built a new product, but the result presents defects. The defects may not be directly caused by issues in production, but rather, caused by issues with materials purchased from an outside vendor.

The product company may choose to assume the consequences and move forward with resolution strategies—like product recall—or the company may transfer the consequences to the outside vendor responsible for providing the product materials by requiring the vendor to cover the costs associated with the product defects.

Transference for schedule

Sometimes a project takes longer to complete, and while this is a risk itself, transference strategies can be used to shift the burden of being behind schedule to the team members responsible for time management, rather than the company as a whole. With the consequences transferred to the team members responsible for scheduling, the production team, design team or others can focus on completing the rest of their tasks.

Transference for cost

Transference of consequences regarding cost can include holding accountants and financial advisors accountable for issues in budgeting. For instance, consequences for a project that goes over budget can include higher production costs and funding for materials. If the consequences are shifted to the finance teams responsible for tracking the budget, production managers and team members can focus on their responsibilities while the finance team takes measures to fix cost issues.

Watch and Monitor Risk

Monitoring business for risks and consequences involves watching for and identifying any changes that can affect the impact of the risk. Production teams might use this strategy as part of a standard business review plan. Cost, scheduling and performance or productivity are all

aspects of a business that can be monitored for risks that may come up during the completion of a business tasks. The following example illustrates ways to monitor and evaluate risk and consequences that can affect a business task's completion.

Monitoring cost

A finance team or budget committee can evaluate and monitor risks to cost by creating a reporting routine to outline each expenditure of the company. This strategy works by allowing teams to continuously assess the budget and change any cost plans accordingly.

Monitoring schedule

Monitoring business schedules can include weekly updates to evaluate each team member's tasks and how long it takes them to complete each task. The team can then reassess and keep track of any issues that could risk the business tasks falling behind schedule. Computer software, like calendars and business management tools, can help monitor and evaluate time management and business schedule.

Monitoring performance

Monitoring the performance of products, team members and resources used to complete business tasks are all examples of ways to implement performance monitoring. Evaluating and assessing different aspects of a company's performance can help mitigate risks to a decrease in performance, and tools like productivity software can help track and evaluate performance processes within the business. Employee performance can be monitored by planning and implementing regular performance evaluations and continuous product testing and review can monitor product performance.

Business Risk Protection

Special Considerations for Risk Protection

Business risk cannot be entirely avoided because it is unpredictable. However, there are many strategies that businesses employ to cut back the effect of all types of business risk, including strategic, compliance or legal, operational, financial and reputational risk. The first step that brands typically take is to identify all sources of risk in the business

plan. These are not just external risks—they may also come from within the business itself. Taking action to cut back the risks as soon as they present themselves is fundamental aspect during the cut off process. Management should come up with a plan in order to deal with any identifiable risks before piled up.

Once the management of a business firm has come up with a plan to deal with the risk, it is important that they take the extra step of documenting everything in case the same situation arises again. After all, business risk is not static—it tends to repeat itself during the business cycle. Finally, most companies or business firm adopt a risk management strategy. This can be done either before the business begins operations or after it experiences a setback. Ideally, a risk management strategy will help the company be better prepared to deal with risks as they present themselves. The plan should have tested ideas and procedures in place in the event that risk presents itself.

Compliance or Legal Risk Protection

Due to liability risks, business owners and investors are always looking for ways to limit their personal liability. Incorporation is a standard risk protection strategy for this potential problem, as are the use of other types of limited liability structures such as Limited Liabilities Companies (LLCs). This is one of the main advantages of properly operated corporations and LLCs, which allow for limited personal liability of owners and investors. Partners in sole proprietors are personally liable for all of the debts of the business, even beyond their own investment in the business.

However, a particular challenge for small business entrepreneurs is that even when they form a corporation or LLC, many lenders, property owners, and other entities providing credit to a small business circumvent the limited liability protection by requiring owners and investors to personally guarantee the debts of the business operations. This means that the owner who personally guarantees the credit will have to pay back the obligation if the business cannot. An owner can obtain insurance or borrow money for such guarantees. LLCs and corporations do protect their owners, shareholders, and members from a number of different tort claims, such as personal injury lawsuits and claims made directly against the organization.

Ideas for Managing Compliance and Legal Risks

- Consider hiring legal professionals and human resources personnel who are aware of relevant laws and can defend the company against lawsuits or other disputes that may arise between the company and its employees, customers, suppliers, and other partners.
- Invest in technology solutions that help ensure automatic compliance with certain regulations. For example, timekeeping software that ensures employees are paid correctly and are working the hours they are assigned.

Financial Risk and Protection

Any new business owner needs to have a sound financial strategy as a part of the overall business plan. This should show income projections, the liquid assets that will be required to break even, and the expected return on investment for all investors in the first five-to-ten-year timeframe. Failure to accurately plan could mean that the entrepreneur risks business closure and bankruptcy, and investors get nothing

Ideas for managing financial risks:

1. Aim to operate on a lean budget with a low overhead and minimal debts, saving as much money as possible to maintain a steady cash flow;
2. When seeking loans, look for those with the lowest interest rates possible;
3. Pay attention to fluctuations in foreign currency rates; and
4. Make regular debt payments on time.

If a company relies on just one or handful clients for most of its revenue, its financial risk could be significant if one or a few stop using its services. Businesses may want to diversify their customer base so the loss of one client would not devastate their bottom line. Generally a business firm or a company with a higher amount of business risk may decide to adopt a capital structure with a lower debt ratio to ensure that it can meet its financial obligations at all times. With a low debt ratio, when revenues drop the business firm or company may not be able to service its debt (and this may lead to bankruptcy). On the other hand, when revenues increase, a company

with a low debt ratio experiences larger profits and is able to keep up with its obligations. In order to calculate risk, analysts use four simple ratios: contribution margin, operation leverage effect, financial leverage effect, and total leverage effect.

Insurance Protection

Risk management and protection are enhanced with the purchase of different types of **insurance**, which involves spreading risk over a large number of people (policyholders). If a company is a corporation, it may need directors' and officers' liability insurance to indemnify the directors and officers if they are sued. Another insurance policy many companies get is called errors and omissions insurance, and this insurance coverage protects employees in negligence claims and cases of employee theft. Other types of insurance policies that most businesses carry include automobile insurance, health insurance, property insurance, and cyber/data breach insurance. Insurance coverage for a business venture needs to be specific to the business structure and its operations. Keep in mind that not all risks can be insured against—for example, a bad economy that leads to a loss of business or a bad decision by the owner to enter a market that does not work out.

Operational Risk and Protection

Operational risk can be solved by replacing the machinery or providing the right resources to start the business process. Also, “People” failure and a “process” failure. All these could have been prevented by having a more secure supervision and process, for example having a second member of staff authorize every major payment in case of payment voucher writing, or using an electronic system that would flag unusual amounts for review.

Ideas for Managing Operational Risks:

- Make time for necessary employee training to minimize internal mistakes.
- Develop contingency plans to shield against external events that may affect operations. For example, a restaurant impacted by a

natural disaster might be able to collaborate with another local restaurant, bar, or coffee shop to use their kitchen and sell to-go items.

Reputational Risk and Protection

Ideas for Managing Reputational Risks:

- Pay attention to what customers and employees say about the company both online and offline.
- Commit not only to providing a quality product or service, but also to ensuring that workers are trained to deliver excellent customer service and to resolve customer complaints, offer refunds, and issue apologies when necessary.

Business Risk Reduction

- First, the business should reduce costs as much as possible. Some costs are unnecessary for businesses. For example, instead of hiring full-time employees, a considerable cost would be reduced if they hire employees on a contract bases. Another example of cost reduction might be using the shift formula. If the business works in 24 hours in a week, and the employees work on shifts, the production every month would be huge, but the cost of rent would be proportional to production.
- Second, the business should construct its capital structure so that it does not need to pay a substantial sum of money every month to pay off the debt. If a business assumes that its business risk is sharply increasing, it should be trying to create a capital structure through equity financing only.

Equity Financing

Equity financing is the process of the sale of an ownership interest to various investors to raise funds for business objectives. One of the advantages of equity financing is that the money that has been raised from the market does not have to be repaid, unlike debt financing, which has a definite repayment schedule.

The scale and scope of equity financing cover a wide spectrum of activities, from raising a few amount of money from friends and relatives to Initial Public Offerings (IPOs), which run into billions of money raised by giant corporations and subscribed by a large number of investors.

Types of Equity Financing

Few of the major and well-known types of equity financing from outside include:

Angel Investors

This type of equity financing includes investors, usually family members or close friends of the business owners. Even wealthy individuals or groups who extend financial funding for the businesses. The amount invested by such investors is usually less than \$0.5 million. An angel investor will not get involved in the day-to-day management of the business.

Venture Capitalists

This type of equity financing includes professional and seasoned investors and extends funding to handpicked businesses. Such investors analyse the concerned industry based on strict benchmarks. Consequently, they are very selective about investing only in well-managed companies or business with a strong competitive advantage in their particular industry. Venture capitalists believe in actively managing the companies they stay invested in. It helps them maintain a strong watch on the business's day-to-day activities and implement measures to maximize the return on their investment. A venture capitalist typically invests an amount above \$1 million. Venture capitalists usually invest in a business at its nascent stage and eventually exit the investment by converting the firm into a public company by placing the shares on sale at a securities exchange through Initial Public Offering (IPO). As a result, a venture capitalist can yield huge profits from IPOs.

Crowdfunding

This type of equity financing comprises large angel investors who extend funding to smaller businesses. A crowdfunding investment can be as small as \$1,000 for each investor. One can initiate this type of fundraising by starting an online crowdfunding "campaign" through one of the crowdfunding sites. However, it is to be noted that equity funding through crowdfunding is legal only in some jurisdictions and under certain circumstances.

Initial Public Offering

A well-matured company can raise funds through equity financing in an IPO. In this type of fundraising, a company can source funds by selling the company shares to the public. Usually, institutional investors with huge corpus funds invest in such fundraising activities. Typically, a company uses this equity financing only after having already raised funds through other equity financings. That is because an IPO process can be a very expensive and time-consuming source of this financing.

Relevance and Uses of Equity Financing

- One of the company's most popular funding methods is the fund raised through equity financing. The business can generate the fund internally or be raised externally through IPO, venture capitalists, angel investors, etc.
- A few advantages of equity financing are that it saves a lot on interest expenses compared to debt financing. In addition, the fund raised through equity financing does not have to be repaid if the company fails, unlike debt.
- Consequently, if equity financing is planned carefully, an entrepreneur can guarantee the growth of its business without diluting much of its stake. The organizations with higher growth potential are likely to continue to obtain equity finance more easily, given the value seen by interested equity source financiers.
- On the other hand, a small company does not have good turnover, cash flow or physical assets to provide collateral during its early stages. In such a scenario, the company can attract equity financing only from early-stage investors willing to take risks and the entrepreneur.
- A small company that matures into a large successful company will likely have several rounds of equity financing during growth. Therefore, an equity financing option is equally important for small and large companies at different stages of their development.

How Can You Identify a Business Risk?

There are a few key ways to identify business risks:

- Reviewing financial statements and performance indicators: This

can help you identify risks related to cash flow, profitability, or solvency.

- Conducting a SWOT analysis: A SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) can also be a helpful tool for identifying risks and brainstorming ways to mitigate them.
- Identifying key dependencies: Key dependencies are things that your business relies on to function, and if they were to fail or be disrupted, it could have a serious influence on the business.
- Carrying out root cause analysis: Conducting root cause analysis can help you to identify what underlying factors could lead to a problem or issue.

Unit Assignment



Attempt the following questions:

1. Provide a sanctity explanation on your understanding by business risk
2. Briefly distinguish between strategic and legal business risks
3. Identify at least five types of the business risks that an entrepreneur may encounter during the business conduct.
4. Briefly, explain the three types of financial risks that an entrepreneur may come across during the course of the business undertakings.
5. Briefly explain the importance of Entrepreneurial Skills in Mitigating Business Risks and give an illustrative example on reputation business risk reduction.
6. Briefly, explain how can you identify the business risks in your own business?

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