



ANIMAL HEALTH CARE SERVICE

Level -I

Learning Guide #67

Unit of Competence: Develop Understanding of Entrepreneurship

Module Title: Developing Understanding of Entrepreneurship

LG Code: AGR AHC1 M17LO4LG67

TTLM Code: AGR AHC1 TTLM 0919V1

LO4: Discuss how to operate an enterprise

This learning guide is developed to equip you with the necessary information regarding the following content coverage and topics –

- identifying and understanding disadvantages and advantages of three alternative means of becoming an entrepreneur
- discussing and explaining process hire and manage people
- discussing and understanding importance and techniques of managing time The techniques and procedures of managing sales are discussing and explaining
- Identifying and discussing factors to consider in selecting suppliers and the steps to follow when doing business with them
- developing awareness of how new technologies can affect small and medium business
- identifying and explaining characteristics of appropriate technology for use in small and medium business
- discussing and understanding different types of cost that occur in a business and how to manage them Factors and procedures in knowing the cost of the enterprise are discussed and understood
- explaining and understanding importance of financial record keeping and preparing simple financial statement
- discussing application of self-management skills and negotiation skills in operating a business
- performing risk assessment and management of business enterprise

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

- identify and understand disadvantages and advantages of three alternative means of becoming an entrepreneur
- discuss and explain process hire and manage people
- discuss and understand importance and techniques of managing time The techniques and procedures of managing sales are discussing and explaining
- Identify and discuss factors to consider in selecting suppliers and the steps to follow when doing business with them
- developing awareness of how new technologies can affect small and medium business
- identify and explain characteristics of appropriate technology for use in small and medium business
- discuss and understand different types of cost that occur in a business and how to manage them Factors and procedures in knowing the cost of

the enterprise are discussed and understood

- explain and understand importance of financial record keeping and preparing simple financial statement
- discuss application of self-management skills and negotiation skills in operating a business
- perform risk assessment and management of business enterprise

Learning Activities

1. Read the specific objectives of this Learning Guide.
 2. Read the information written in the “Information Sheets-4
 3. Accomplish the “Self-check”
 4. If you earned a satisfactory evaluation proceed to “Information Sheet 5”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #4.
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Information Sheet-4	Learning Guide #4
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3 Discuss how to operate an enterprise

4.1 Identifying ways of getting into business

Entrepreneurs may have the option of starting a new business, buying an existing business or becoming a franchisee. Learners should know the advantages and disadvantages of these three alternative means of becoming an entrepreneur.

1. Buying an existing business

If someone has never owned a business, buying and operating an existing business offers many advantages such as established customers and business procedures, trained employees, inventory and premises which are in place and a business which already has a name in the market. There are many questions which the potential entrepreneur needs to ask about any

business which is for sale:

Advantages

- ✓ A successful firm can provide immediate returns

- ✓ Existing firm comes with an advantage of good location, working staff, established supplied of raw materials, distribution network installed machineries and inventories etc.
- ✓ Advice can be sought from previous owners on the strength and weaknesses of the firm
- ✓ Low cost of organization when it is specially compared to starting a new venture.

Disadvantages

- ✓ Ill reputation of previous owner may be faced if the previous entrepreneur is not well established or don't possess a good will.
- ✓ Poor staff, obsolete machineries and layout can trouble entrepreneur.
- ✓ Buyout costs are usually high.

2. Starting a new business

Most people who want to be entrepreneurs think that the best approach is to start their own new business and not to buy one that already exists. This approach gives the potential owner a great deal of satisfaction. It also means taking a relatively high risk compared to buying an established business.

Starting a new business means allocating a great deal of time to planning and investigating the potential market for the products or services to be sold by the new business.

Advantage:

- ✓ The business is created as per entrepreneurs planning and being a new venture; there is no compromise on entrepreneurial dreams or plans.
- ✓ Owner (entrepreneur) doesn't inherit the ill will of previous organization.
- ✓ If a business idea is unique, this is the only viable option

Disadvantage:

- ✓ High cost of equipment & organization
- ✓ Lack of source of genuine advice since there is no past records
- ✓ It may saturate the existing market
- ✓ Lack of recognition.

3. Becoming a franchisee

Franchising is a system where a franchiser has developed and implemented a business that he offers for replication to a franchisee.

Franchise: It is the right and license to sell a product or service and possibly the entire business system developed by another company in return of a royalty and conformity to a standard operating procedure. It is an intellectual property which is sold in return of royalty.

Franchisor: is usually the manufacturer or sole distributor of a trademarked product or service who has a considerable experience in that business. Eg owners of Kodak, Pepsi, etc

Franchisee: is an individual entrepreneur who purchases the franchise in return for royalty and conformance to standard operation and who in the process gets the opportunity to enter an established entrepreneur.

Types of Franchising

- a) *Trade name franchising:* franchisee gets only the right to use trade name of franchiser.
- b) *Product distribution franchising:* Right to use name as well as selected products of franchiser.
- c) *Pure/Comprehending franchising:* Right to use entire business of the franchiser.

The franchisee opens a business by using the business idea of the franchiser against a fee. In return, the franchisee gets training, the marketing concept, the brand name and the product or service. He also has the guarantee that no other franchisee from the same franchiser will have the right to do business in the same area.

All these elements are fixed in a franchising contract that is binding for both parties. Franchising lowers the risk as the product is usually well known in the market. On the other hand it limits entrepreneurial decision-making and shrinks the profit margin as a fee or a percentage of the turnover has to be paid to the franchiser.

Advantages for franchiser

- ✓ Expanding the existing business network at low investment or limited capital
- ✓ Company growth with minimum risk without expanding the HR and other facilities
- ✓ Regular income from royalty (5%)

Advantages for franchisee

- ✓ Gets advantage already established brand name
- ✓ Easy to establish business using well developed system
- ✓ Initial financial assistance.
- ✓ Opportunity to marketing training and counselling
- ✓ Greater chance of success

Disadvantages to the Franchiser

- ✓ Absolute control cannot be exercised
- ✓ Physical separation

Disadvantages to the Franchisee

- ✓ Sharing profits in terms of royalty is mandatory
- ✓ Strict adherence to standard operating procedures or limited freedom
- ✓ Restriction on buying other's product

4.1.1 Process of hiring and managing people

The greatest asset of a business is not its building, its equipment, its inventory or accounts receivable. It is the employees. Hiring the right person for the right job will pay good dividends, not only in terms of money but also in establishing a stable and loyal group of employees by providing decent working conditions.

The objective of most organizations is the efficient production of goods or efficient performance of service while providing personal satisfaction to their employees. These objectives can best be achieved through the efficient uses of organization's human resources, along with its financial and physical assets. More adequate supply of physical and financial resources does not alone ensure the economic development of an organization. These resources are useless unless until there is efficient manpower is available in the organization to use these resources. Hence, the need exists for an adequate supply of capable human resources in the form of well-educated, developed and motivated personnel.

Basically Human Resource Management is a modern term for what has traditionally been referred to as personnel management. The term Human Resources at the organizational level includes all the component resources of all employees from the rank and file to top management level. In short it includes the resources of all the people who contribute their services to the attainment of the organizational goals.

In today's world of global competition the focus is more on human resources since it is universally recognized that the most significant resource of any organization is its people. Human Resource management is now recognized as an essential management activity capable of contributing substantially to the success/effectiveness of any organization.

Objectives of Human Resource Management

1. Effective utilization of human resources in the achievement of organizational goals.
2. Establishment and maintenance of an adequate organizational structure and desirable working relationships among all members of the organization.

3. Securing integration of the individual and informal groups within the organization, and thereby their commitment, involvement and loyalty.
4. Recognition and satisfaction of individual needs and group goals.
5. Provision of maximum opportunities for individual development and advancement.
6. Maintenance of High morale of the employees in the organization.
7. Continuous strengthening and appreciation of human assets.
8. The continuity of the organization.

Human Resource Manager performs a number of functions and sub functions for the achievement of the objectives mentioned above. These functions broadly fall under five classifications:

- i) Employment
- ii) Wage and salary administration
- iii) Industrial relations
- iv) Organizational planning and development
- v) Employee services

4.2 managing time

Time is something that cannot be saved. You simply lose more and more of it as the day progresses. By the end of the day, there is none left to use! All entrepreneurs need to manage time effectively, and the key to using time effectively is through better time management. By budgeting time, entrepreneurs will achieve better results. Specific ways to make better use

of time include: establishing goals; determining deadlines; allocating time for each important activity. Creativity, problem-solving and opportunity seeking are the hallmarks of entrepreneurs. They must therefore set aside time for activities of this kind (all other duties should be given lower priority and be carried out later). Time must be used effectively to accomplish those things entrepreneurs believe are most important. There is no choice as to

Whether or not to save or spend time! Time is one of the entrepreneur's greatest assets. The main concern of this topic is to identify techniques for spending time effectively.

4.2.1 Time Management Techniques

Time management is similar to having good work habits. Making the best use of time simply means achieving the maximum output in the time available. There are several ways in which this can be done.

1. *Identify specific daily goals.*
2. *Avoid interruptions and distractions.*
3. *Self-motivation.*
4. *Establish deadlines.*

5. *Use the telephone*
6. *Take notes.*
7. *Don't do everything.*
8. *Work in blocks of time.*

4.3 managing sales

It takes more than a great product or service to make a successful business. It takes customers to buy that product or service. They will only buy if the features of the products offered can be turned into customer benefits.

Successful selling depends on the entrepreneur's ability to:

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

The success of a business depends on the art of selling. If entrepreneurs take advantage of the opportunity to serve people, to satisfy their needs and to solve their problems, there will be satisfied customers. Satisfied customers continue doing business with an entrepreneur and recommend the products and services to others. No matter what type of business, the entrepreneur must focus not only on producing the product or service, but on selling the product or service as well. Entrepreneurs are

Sales persons in the sense that they are always selling their products/services to the public. They must maintain their sales image wherever they go and whatever they do in the community.

✓ Qualities of Potential Customers

- To a business, a potential customer is the most important "Very Important Person".
- A potential customer is not dependent on any business.
- Potential customers do not interrupt business activity – they are the purpose of business.
- A business is not doing potential customers a favor by serving them – they are doing a favour to the business by allowing it to fulfil that function.
- Potential customers are not just statistics, they are human beings who have feelings and emotions like everyone else.
- Potential customers are not people with whom to match wits. Nobody wins an argument with a potential customer.
- Potential customers are people who have wants and needs. It is the job of a business to cater for them.

✓ Selling Requires Communication

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

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

Step 2: specify your reason for approaching the prospective customer

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

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

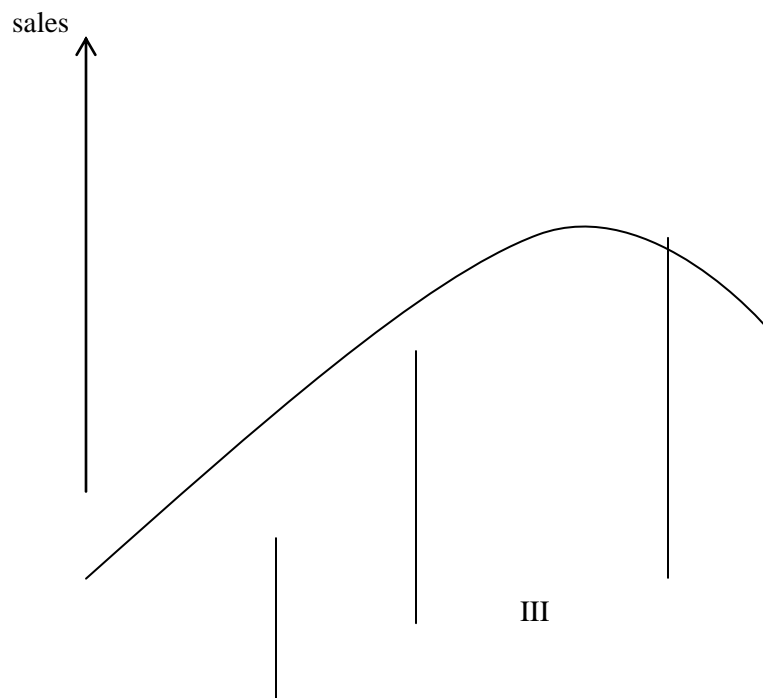
Step 5: negotiate terms and conditions of the sale

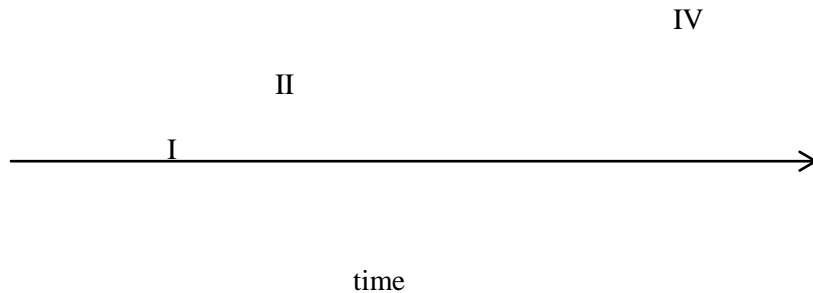
Step 6: ask the prospective customer to make a decision regarding the purchase of the product/service.

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

4.3.1 The Product Life Cycle

A new product progresses through a sequence of stages from introduction to growth, maturity, and decline. This sequence is known as the product life cycle and is associated with changes in the marketing situation. This has an impact on the marketing strategy and the marketing mix.





I. Introduction stage

In the introduction stage, the entrepreneur seeks to build product awareness and develops a market for the product. The impact on the marketing mix is as follows.

- Product branding is established
- Pricing may be low to build up market share rapidly
- Distribution (Place) is selective until consumers show acceptance of the product
- Promotion is aimed at product awareness and to inform potential consumers about the product.

II. Growth stage

In the growth stage, the firm seeks to build brand preference and increase market share.

- Product quality is maintained and additional features may be added.
- Pricing is maintained or increased when the demand is high
- Distribution is diversified
- Promotion is aimed at a broader audience
- Promotion is extended to broader public

III. Maturity stage

At maturity, the strong growth in sales diminishes. There may be competition with similar products. The primary objective is to defend the market share and to maximize profit

- Product features may be enhanced to make the difference with competitors
- Pricing may be decreased due to competitors
- Distribution needs to be extended and incentives offered
- Promotion will emphasize product features

IV. Decline stage

As sales decline the entrepreneur has different options

- Maintain the product by adding new features
- Reduce costs and prices and continue to offer the product
- Stop producing the product.

4.4 selecting suppliers

Suppliers are important to entrepreneurs because they provide a variety of services to businesses. Suppliers often sell their products to businesses on credit. The business can buy small quantities of products on the basis of their needs, so the business does not have money tied up in inventory. Suppliers can give advice on technical matters, market trends and new products. The entrepreneur should select suppliers who offer low prices, give the most helpful advice, provide prompt delivery of goods, and are sympathetic in their financial dealings with entrepreneurs. Entrepreneurs should follow specific procedures when purchasing goods, materials and equipment from suppliers.

Step 1: Determine your business needs. By conducting market surveys you will know who your customers are and what products they want.

Step 2: Identifying potential suppliers. Determine which suppliers sell the goods, materials or equipment you need by:

- Asking people who work with you, your business friends and others. Try to find out where your competitors buy.
- Contacting organizations that support small businesses, for example, the local chamber of commerce may be able to identify honest and reliable suppliers.

For example: Does the supplier usually deliver on time? Does the supplier accept returned goods or materials? How responsible is the supplier for the quality of goods or materials? Is the supplier honest in conducting business?

Step 3: Contact a supplier either by visiting the supplier's office personally, telephoning the supplier, or writing a letter to the supplier. Each potential supplier should provide written information to you regarding the kinds of goods, materials or equipment each supplier can provide. Specific questions include:

- Does the supplier have what you need in the qualities and quantities you need?
- What is the smallest quantity you can purchase?
- Do you need to pay cash or can you get credit?
- How much credit can you get and how soon do you need to pay it back?
- Can you get discounts if you buy large quantities or pay quickly?
- How much discount can you get?
- Will the supplier deliver to your business?

- How soon after the order is placed will they deliver?
- Do you have to pay for transport or is delivery free?

Note: Make sure that the supplier provides a response to your questions in writing.

Ask for a written quotation. If there are any disagreements between you and your suppliers at a later date, a written quotation makes them easier to resolve.

Step 4: Select the best suppliers. Compare the quotations received from various suppliers to determine what each of the different suppliers can offer. A quotation is a written response to your enquiry to the supplier. In a quotation, the supplier provides you with detailed information about the goods, materials or equipment, prices, payment, delivery and any other conditions related to your order.

The entrepreneur must decide what conditions and priorities are most important in selecting suppliers. Is it credit, reliability, prices, discounts or other considerations?

When a decision has been made regarding the suppliers who best match the needs of the business:

- try to negotiate with the suppliers to receive even better conditions.
- choose the best suppliers for your business.

Step 5: Order goods, but make sure your order is in writing. Think carefully about the quantities you need:

- What is the smallest quantity you can order?
- How much is there in each bulk package?
- Can you order less than one bulk package?

Step 6: Check the goods as soon as they are received. The supplier usually sends a delivery note with the goods or materials. The delivery note lists details of the goods. The supplier will want you to sign the delivery note as proof that you have received the goods listed.

Some suppliers send an invoice instead of a delivery note. Check the goods against the invoice. If you yourself collect the goods or materials from the supplier, the type and quality should be checked before taking them away.

Check the delivery note or invoice against your order. Check that everything ordered has been received on time. If there is something wrong, notify the supplier immediately. Do not sign the delivery note or pay for the goods until the problem has been resolved.

Step 7: Check the invoice because the invoice lists what you have bought and when and how the supplier is to be paid.

Make sure that the invoice is correct. If you are buying on credit, compare the invoice with the delivery note. The list of goods or materials must be the same on both. Make sure that you have received everything you are asked to pay for and that the prices and totals are correct. If the invoice is not correct, notify the supplier immediately and determine the best way to solve the problem.

Step 8: Make the payment to the supplier by cash or check. Make sure to get a receipt so there is proof of payment.

4.5 Using technologies in small and medium businesses

The use of technology is important because it increases labour productivity, and this in turn increases local competitiveness of both consumer and capital goods locally produced. The use of appropriate technology favours locally produced tools and equipment as well as local resources; this facilitates forward and backward linkages among local businesses.

Technology is constantly changing the demands of consumers. Businesses use new technologies to produce new products and services. Entrepreneurs should realize that new technological developments such as the internet and cell phones increase the exchange of information and may have an effect on the operations of their business.

Entrepreneurs may not be aware of the nature and effects of all new technologies, yet, they must try to determine technical developments which are likely to have the greatest impact on their business operations.

4.5 .1 Characteristics of appropriate technology for use in small and medium business

The appropriateness of technology for use in a small business is determined by a number of characteristics. For the following seven characteristics, explain how the purchase of a cell phone will increase the efficiency and effectiveness of an accounting firm that serves 60 local businesses.

1. simple:
2. effectiveness:
3. availability:
4. flexibility:
5. durable:
6. efficient:
7. cost-effective

4.6 Knowing business costs and their management

An entrepreneur who runs a business has to pay a lot of bills for goods and services she/he needs for the business, e.g. raw materials, office furniture, telephone bills, salaries for the workers, etc. These expenditures are called costs.

A business owner must know exactly the costs for the products or services she/he will sell. If the costs are higher than what the customer is willing to pay for a product or higher than the prices of the competitors, then she/he will not be able to sell her/his products. In such a situation an entrepreneur has to reduce the costs. • There are different types of costs and knowing these costs will allow a better control and keep the costs low.

4.6.1 Direct and Indirect Costs

Every business generates costs even if there are no ongoing production, service or trading activities. To understand this, it is essential to know that there are direct costs and indirect costs.

1. **Direct costs:** are those that only occur when an enterprise is manufacturing goods or producing a service or buying goods to resell. These costs depend directly on the number of products, services or goods produced.

Direct costs are composed of two cost sub-groups:

Direct material costs:	Direct labour costs:
Expenditures for all items that become part of a product or are used to produce a service or are bought for resale enter into the category of direct material costs. Costs linked to the acquisition of raw materials such as transport from the supplier to the enterprise are included in the direct costs.	All wages for workers and helpers that are directly involved in the production or the delivery of services. This also includes costs for social security. Staff wages for the retailer and wholesaler are not considered as direct costs because one person generally sells any different items.

2. **Indirect costs:** are all other costs generated from business activities that are not direct costs.

These are costs that cannot directly be attributed to a specific product or service, for example rent for the office premises, salary for the bookkeeper, interest on the bank loan, telephone costs, fire and car insurance, etc.

In wholesale or retail business all staff costs are indirect costs. To be able to calculate the manufacturing costs of one single product or one single service, the indirect costs have to be attributed proportionally. If the business produces a single product or service, or if the products are quite similar, for example chairs, beds, trousers or shirts, the indirect costs are divided by the number of products and this proportion is added to the direct costs to calculate the total cost per unit of an item. In a service business the indirect costs are generally calculated on the basis of working hours and added to the time spent in delivering the service.

Indirect costs are also called overhead costs.

To make the distinction between direct costs and indirect costs is not always easy, for example the glue used in furniture making. The quantity used for one chair is so small that it represents only a very small portion of the price of the glue. The expenditure for a pot of glue is therefore considered as an indirect cost. Also, if a helper serves several workers, his/her salary cannot be attributed to one single product. The salary will therefore be counted as an indirect cost.

4.6.2 Factors and procedures in knowing the cost of the enterprise

Total cost of a product or service:

Sum of Direct Material Costs

+ Sum of Direct Labor Costs

+ Proportion of indirect costs

= Total cost per product or service

4.10 Importance of financial recordkeeping and preparing simple financial statements

i. Why keep records?

A. The law requires that some form of written records be kept by all businesses.

B. Adequate records can answer the following questions:

- How much profit is the business making?
- How much is the business worth?
- How much do credit customers owe the business?
- How much does the business owe its creditors?
- How much tax should the business pay?

ii. How can a record keeping system be established?

- A. Before establishing an adequate record keeping system, the assistance of an accountant should be obtained. If the owner cannot afford an accountant, he or she cannot afford to be in business.
- B. An accountant can establish a suitable recording system tailored to the needs of a particular business.

iii. What will others want to know about the finances of a business?

Various people will want to know about the financial conditions of a business. Bankers may be interested because you have applied for a financial loan. Tax collectors are interested in your business condition, as are partners, relatives and others who may have lent you money. Suppliers will also want to know things about the finances of your firm, because when they ship you merchandise for which you have not yet paid, it is as though they are extending a form of credit. Specific questions they might ask include:

- How much do you own, how much do you owe, and how much are you worth?
- What was your income last year?
- How much of your sales are for cash and how much are for credit?
- What has been your collection record?
- What is your total “overhead” and what percentage of gross sales does it represent?
- What expenses do you have?
- What is the present value of buildings, equipment, vehicles, fixtures and other accessories?
- What items of inventory are the best and worst sellers?
- What are the most profitable and least profitable departments?
- Are you taking full advantage of cash discounts, trade discounts, and advertising and merchandising allowances?

iv. What kinds of records should a small business keep?

- Payroll.
- Cash Balance.
- Accounts Receivable.
- Accounts Payable.
- Inventory Records.
- Government Requirements.
- Financial Statement.

v. Who should be responsible for keeping the financial records?

- Keeping the records yourself.
- Assigning an assistant.
- Hiring a full-time bookkeeper.
- Contracting the service out
- Accounting department.

4.7 Financial record keeping and preparing financial statement

Self-management skills affect the extent our goals can be achieved. The purpose of this topic is to show the importance of managing one's self effectively. Knowing the importance of self-management is the first step in understanding one's personal strengths. The next step is to be able to use some general principles to assist in the self-management process.

1. Complete High Priority Tasks First.

Most people do the easy tasks first. What often happens, however, is that difficult tasks don't get done because too much time is spent doing the easy tasks. You may run out of time to do the difficult tasks. Most entrepreneurs do the important task first when their energy level is high. If time is available at the end of the day, the low priority tasks are completed.

2. **Use of Time.** Ask yourself, "What is the most important use of my time right now?" Asking this question will help focus on "important tasks."

3. **Delegate Tasks to Subordinates.** This is an essential task for entrepreneurs. Entrepreneurs must be able to delegate work to staff. Delegating tasks is a good way to build staff morale and allows the entrepreneur to focus on other essential tasks. As a general rule, if a worker can do the task almost as well as the entrepreneur, then the task should be delegated to an employee.

4. Group Tasks.

This step will minimize interruptions and economize on the utilization of resources and efforts. For example, instead of making calls sporadically throughout the day, make out-going calls at specific times each day. Frequent callers can also be informed of the best time to call you.

5. Maintain a Clean Office.

Try to clear your desk of everything except the work you intend to do immediately. Effective entrepreneurs are organized and work from clear desks.

6. Be Ready to Say "no!"

If staff can have you do their work, they will do it. Most stress comes from the entrepreneur's lack of the skill to "just say no" for fear of upsetting people. People are always asking for of an entrepreneur's time. Instead of being honest and saying "no" to the request, the tendency is to end up accepting a responsibility you neither want nor have time to perform. Saying "no" takes courage and tact.

7. Have Daily Objectives.

Those entrepreneurs who accomplish the most during the day know exactly what they want to accomplish. only be prepared on a monthly or yearly basis. Define objectives as clearly as possible. One factor that marks successful entrepreneurs is their ability to work out what they want to achieve and have written objectives that they can review constantly. Long- term objectives should impact on daily activities and be included on a daily "to do" list. Without objectives, entrepreneurs become ineffective.

8. Don't Try to do too much.

Many entrepreneurs feel that they have not accomplished enough and don't give themselves enough time to do important tasks properly.

9. Control Paper Flow.

Deal with each piece of paper just once. Being a paper shuffler wastes time. Keep

important papers and throw away the rest.

Some people say they don't have time to plan. These individuals may be very busy, but they probably are not very effective. By taking time to plan, you will actually save time. Develop a daily "TO DO" list for doing the essential tasks that must be completed in the available time.

10. Be Proactive.

Don't avoid making decisions. Reducing the amount of time you use to make decision can substantially increase the amount of time available to you.

➤ **Negotiation skill**

Negotiating involves working with the leader to adjust assignments or work load; it means organizing situations for group advantage. Frequent symptoms of problems in negotiating include: Testing for loop-holes in policy administration; controlling production; negative feedback on pay; stockpiling materials; holding back a supply of finished work to balance out times of lower productivity.

3.7.2 Risk assessment and management of business enterprise

Most entrepreneurs take calculated and moderate risks. Entrepreneurs avoid low-risk situations because there is lack of challenge, but they also avoid high-risk situations because they want to succeed. They set high goals and enjoy the excitement of a challenge, but they do not gamble. Hence, low-risk situations and high-risk situations are avoided because these risks do not satisfy the entrepreneur. In short, the entrepreneur likes a difficult but achievable challenge.

➤ **Defining a Risk Situation**

A risk situation occurs when a choice is required between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential success and potential loss. The greater the possible loss or gain, the greater the risk involved. Risk-takers make decisions in conditions of uncertainty, and they balance potential success against potential loss. Choosing a risky alternative depends on:

- a. how attractive the alternative is,
- b. the extent to which the risk taker is prepared to accept the potential loss,
- c. the relative probabilities of success and failure, and
- d. the degree to which one's own efforts increase the likelihood of success and decrease the likelihood of failure. For example, you have a secure job, earning a good salary, with promotion probably every two years. You may have the opportunity to buy a firm whose future is uncertain, but the owner's earnings are 50% more than you are currently earning as an employee. The firm may continue to be very successful, or it may fail in one or two years. Your choice is between staying in a secure position with moderate, predictable financial and career rewards, or taking a risk and possibly achieving very high financial and career rewards. Most people would not think of taking such a risk, regardless of the probabilities of success. They would prefer to stay in a secure position. Others are impatient, dissatisfied with their present position, and looking for the "magic pot of gold" to make them rich. These people tend to be influenced by the size of the potential reward offered. They pay little regard to the

probability of success, and do not give much thought to the degree of effort required on their part. Attracted by hopes of high returns with little effort, they become gamblers.

➤ **Assessing Risk Situations**

The entrepreneur's assessment of the situation is very different from that of both the above types of people, although the entrepreneur shares certain characteristics with them. The essential difference is that entrepreneurs will systematically and thoroughly. In business, as in life, there is clearly no way of avoiding risk-taking. When you take risks, you discover your own abilities and you will become better able to control your own future. You will become more self-assured. You will have a more positive outlook towards risk-taking because you will have faith in your own abilities. You will accept risks as challenges that require your best efforts to achieve goals.

➤ **Risk Management**

'Risk management' consists of a systematic process of assessing and then dealing with risk. This is described in more detail in the following diagram. The process entails consideration of the context, followed by identification, analysis, evaluation, and treatment of risks. It is an iterative process that also involves monitoring and review, and can usefully encompass a dialogue with stakeholders along the way.

Risk management provides structured systems for identifying and analysing potential risks, and devising and implementing responses appropriate to their impact. The responses generally draw on strategies of risk prevention, risk transfer, impact mitigation or risk acceptance. Within a single activity or proposal, a mix of each of these strategies may have application for different individual risks.

Self-Check	Written Test
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Name: _____

Date: _____

Directions: Answer all the questions listed below.

1. Discuss the importance and techniques of managing time?
2. Write Importance of financial record keeping and preparing simple financial statement?

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

You can ask your teacher for the copy of the correct answers.

