AFRICA POPULATION INSTITUTE

(API)

ENTERPRENEURSHIP SKILLS AND PRACTICE [ESP]

Introduction to ESP (Entrepreneurship Skills and Practice).

With high unemployment and also public sector retrenchment issues to do with downsizing in organizations and other restructuring programmes in many countries, self employment and small enterprise creation are now being emphasized. As a result, there has been much concern among the policy makers to re-orient the education and training systems to prepare the learners for a condition where formal employment may not exist or may be limited.

In the process, some countries have initiated programmes to put entrepreneurship education on their curriculum. This seeks to develop entrepreneurial skills which will enable the trainees to set their own businesses at some point in the future and also to work productively in Small and Medium Enterprises (SMEs). In most countries of the world, the SMEs account for over 70% of employment and they constitute over 80% of enterprises of all countries.

Job creation depends largely upon the initiation and expansion of the small and medium enterprises and this is basically the work of the entrepreneurs. Entrepreneurs have the ability to generate new ideas and develop new products and services that create new businesses which in turn creates new jobs.

AIM

The aim of this course is to give awareness, ability to identify opportunities, challenges, procedures and to create and enterprise culture among the learners. It also aims at changing the attitudes of people so as to become entrepreneurial in their everyday lives.

Entrepreneurship Skills and Practice Course has set the learning in which at the end of the course, participants are expected to be able to:

- Understand the different approaches to Entrepreneurship theory.
- Differentiate between myths and realities about entrepreneurs.
- Analyze the causes of early failures of entrepreneurial ventures and develop strategies to curb the situation.
- Know the role played by entrepreneurs in an economy.
- Understand the determinant factors for the emergency of entrepreneurs.
- Differentiate between Intrapreneurship and Entrepreneurship.

- Understand the conditions favorable for establishing intrapreneurship in Organizations, its importance and the different classifications.
- Know and understand the different sources of financing new ventures, the advantages and disadvantages of each source.
- Searching for and generate business ideas /opportunities from different sources using different methods.
- Create and develop businesses after identifying the opportunities for marketing a product or service.
- Systematically, develop and prepare business plans and proposals.
- Locate businesses appropriately after understanding the general elements for an ideal location for a business.

Who is an Entrepreneur?

A common misconception is that any businessman, or anyone who starts a business, is an entrepreneur. But starting a business, according to economists Say and Schumpeter, is not the main component of entrepreneurship. Rather, entrepreneurship is concerned with stimulating economic progress through innovation and action. In the early 19th century, the French economist Jean Baptiste Say described entrepreneurs as "the venturesome individuals who stimulated economic progress by finding new and better ways of doing things." In other words, entrepreneurs optimize the allocation and use of resources to generate maximal profits.

In order to achieve his economic objectives, the entrepreneur's mindset must be innovative, creative and goal-oriented. In the words of 20th century economist Joseph Schumpeter,

"the function of entrepreneurs is to reform or revolutionize the pattern of production…by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on."

Moreover, the entrepreneur thrives on problems and is motivated by the idea of altering an unpleasant situation. Rather than waiting for instructions, the entrepreneur initiates direct action. If the entrepreneur sees a more effective method of doing things, they will not hesitate to do away with existing systems in favor of a whole new approach to a problem. The entrepreneur has the courage to take calculated risks, sometimes even doing "things that others think are unwise, or even undoable." The entrepreneur also carries projects through to completion and is uninhibited by occasional setbacks or challenges.

Who is a Social Entrepreneur?

The social entrepreneur harnesses entrepreneurship skills to do social good. According to J.Gregory Dees, social entrepreneurship "combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley." The social entrepreneur's philanthropic energies are channeled into business ventures, creating value in business so that consumers are willing to pay for the goods and services, and by doing so, the social entrepreneur earns a profit which is invested in the social ventures. According to Martin & Osberg, "the Social Entrepreneur aims for value in the form of large-scale, transformational benefit that accrues either to a significant segment of society or to society at large." Moreover, the social entrepreneur targets its programs at the "underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own." Social entrepreneurs are builders of a better world.

A case in Point: Victoria Hale

A few years ago, Victoria Hale realized that vital drugs were not getting to the poor because profit-driven drug companies were unwilling to develop drugs for the poor, who could not afford to pay for them. Determined to challenge this unjust status quo, Hale founded the Institute for OneWorld Health, a nonprofit pharmaceutical company that works to ensure that the poor have access to vital drugs for infectious diseases regardless of their ability to pay. The Institute for OneWorld Health is the first of its kind. Recently, it obtained permission from the Indian government to use a drug, paromomycin, which cures visceral leishmaniasis, a disease that kills more than 200,000 people each year. Victoria hopes that her pharmaceutical model will provide enduring benefits for the disadvantaged.

What is the difference between entrepreneurship and social entrepreneurship?

The entrepreneur's final objective is wealth creation. However, for the social entrepreneur, wealth creation is simply a means to an end. The social entrepreneur participates in profit-seeking business ventures if only to use the profits generated to create valuable social programs for the whole community.

Why is there a Growing Need for Social Entrepreneurs?

In the current economic crisis, financial pressures are exacerbating existing social problems such as poverty and unemployment. According to J. Gregory Dees, social entrepreneurship is necessary to mitigate the financial repercussions on the most vulnerable in society:

"Fewer people will receive adequate health care. Because of the financial burden that formal education can place on parents, fewer children will attend school. Tensions and violence may increase as the poor compete for jobs and income opportunities…Progress will be lost, as families that have been successful in moving out of poverty fall back into it…As government, business, and household budgets tighten, costly environmental protection and clean-up efforts are in jeopardy…Because many social and environmental issues are time sensitive, failure to recognize the importance of social entrepreneurship and provide adequate support for such efforts during this downturn would be a serious mistake."

THE DEFINING CHARACTERISTICS OF SOCIAL ENTREPRENEURS

Social entrepreneurs are:

- **Social Catalysts** – They are visionaries who create fundamental social changes by reforming social systems and creating sustainable improvements. According to J.Gregory Dees, "though they may act locally, their actions have the potential to stimulate global improvements in their chosen arenas, whether that is education, health care, economic development, the environment, the arts, or any other social field."
- **Socially aware** – Social improvement, as opposed to the creation of profit, should be the ultimate goal of the social entrepreneurs. The success of their endeavors is measured by their social impact, not by the amount of profits generated.

Opportunity-seeking – They pursue their goals relentlessly, seeing every obstacle as an opportunity to develop and fine-tune their business models.

Innovative – They are creative, willing to think outside the box and ready to apply ideas to new situations. They understand that not every innovation will be a success, and they see failures as learning opportunities even as they strive for success.

Resourceful – Their visions are not limited by the resources that they have. Besides optimizing the use of existing resources, they actively expand their resource pool through collaboration with others.

Accountable – Social entrepreneurs are accountable to their beneficiaries, and they often ask themselves, "Am I creating value for the people I am serving? Do I understand their needs?" This is because social entrepreneurs want to know that they are actually making an impact. They are also accountable to investors who want to know that their contributions are indeed stimulating social improvements as promised by the social entrepreneurs.

THE NATURE OF ENTREPRENEURSHIP

Entrepreneurship is a concept that has evolved over time and there has been a lot of questions as to who is an entrepreneur, what is entrepreneurship and what is an entrepreneurial process. However, the word entrepreneurship has been defined in different ways by different authors.

According to Hisrich and Timmons, entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assessing the accompanying risks and receiving the resulting rewards.

It is the process of identifying opportunities in areas that have been overlooked by others or where there where others see chaos, contradiction and confusion.

Usually an entrepreneur is defined from three perspectives;

- As a manager: Undertaking an activity i.e. defied by the means of particular tasks he7she performs.
- As an Agent of Economic change: defined by the effects they have and the types of changes they create.
- As an individual: defined by the means of their psychology and personality traits.

The key elements in the definitions of Entrepreneurship include:

- Observing the environment
- Identifying something one can do and can get benefit from.
- Devoting the necessary time and effort.
- Accepting the accompanying or likely risks.
- Receiving rewards or profits.

APPROACHES TO ENTREPRENEURSHIP THEORY

There is no universal acceptable theory about entrepreneurship since there are different opinions as the emergence of entrepreneurship. The opinions may be classified into categories in an attempt to explain the entrepreneurship theory. These categories are:

- The psychologist theory.
- The sociologist theory.
- The Economist theory.

The Psychologist Theory

This theory pays attention to the personal traits, motives and incentives of an individual. (According to Mac Clelland), it is the high need for achievement which drives people towards entrepreneurial activities. He noted that a society with generally high need for achievement or urge to improve produces more energetic entrepreneurs.

In the same way individuals with high achievement motive tend to take keen interest in conditions of high risks and always have a desire for responsibility as well as high level of performance.

The Sociologist Theory

This theory explains entrepreneurship as a process where individual's sociological background i.e. one of the decisive factors to become an entrepreneur i.e. entrepreneurship is a response to unfavorable social conditions.

People become creative (entrepreneurial) in areas where they are socially deprived or where they see the possibility of being disadvantaged. The sociologist believe that entrepreneurship is most likely to emerge under a specific social culture e.g. Social sanctions, where people see some cultural values to be promoted, the role expectations. All these are responsible for the emergence of entrepreneurship.

The Economist Theory

Entrepreneurship was first identified by an economist as a factor of production. Schumpeters (1954) launched the field of entrepreneurship as a tool for innovation. He said that the concept of entrepreneurship lies in the perception and exploitation of new opportunities in the practice of business.

On the other hand other economists pointed out that economic incentive are the main drive for entrepreneurial activities i.e. A person's inner drives have always been associated with economic gains. The incentives and the gains are regarded as the sufficient conditions for the emergence of entrepreneurship.

MYTHS AND REALITIES ABOUT ENTREPRENEURS

- All entrepreneurs tend to be alike. The reality is that not all of them are alike. They are different in terms of their ages, education level experience, skills, etc.
- Entrepreneurs are driven by greed, power and lust for money. The reality is that what really drives entrepreneurs is personal achievement not greed or lust for money.

- Obtaining financing for a new venture is the most difficult step. The reality is tat finance is not the main obstacle but the inadequacy of the financial institutions (banking systems)
- Entrepreneurs are reckless risk-takers. However, the reality is that they are not reckless risk takers. They are also averters i.e. they avoid high risk situations.
- Entrepreneurs sacrifice morals for profits; the reality is that entrepreneurs are honest people of integrity who also depend on the trust of their customers, their suppliers and their money lenders.
- Entrepreneurs must have a good idea but the reality is that it is not only good ideas which matters but also experiences only 1/100 ideas result into business and only 5/10 of the new businesses survive more than five years.
- Some people say that women entrepreneurs cannot be successful. The reality is that women entrepreneurs are more successful than their male counterparts. Reasons
- : They are good at loan repayment, they only consume profits instead of capital for their male counterparts.

CAUSES OF EARLY FAILURES OF ENTERPRENEURIAL VENTURES.

The causes of early failures of entrepreneurial ventures are mainly external and they include:

- **Bureaucracy**: This refers to detailed regulations that are unrequired i.e. long delays in obtaining permits and a complex network of decision makers.
- **Inadequate financial Markets and Institutions i.e. in terms of banking services:** These are not readily available especially to the local population where the majority live. This makes it difficult for entrepreneurs to carry out their transactions in their local areas.
- **Inadequate infrastructure**: In connection with lack of reliable communication network which includes transportation services.
- **Technological problems**: Lack of access to modern technology is one of the main obstacles to new enterprises for those dealing in exports.
- **Issues of culture:** This is one of the most important barriers to entrepreneurship. Most people tend to be reactive and conscious rather than being innovative and assertive (proactive).
- **Low business ethics:** People are not always honest in their business transactions, not fair in their pricing and they also lack trustworthiness, respect for others and property is lacking.
- **Lack of the technical skills** such as experience, planning, single mindedness, and also some people do not know where to invest and therefore some over invest in fired assets

WHAT GOVERNMENT CAN DO TO ENCOURAGE NEW ENTERPRISES:

- There is need for partnership between government and businesses foreign investors and entrepreneurs, International institutions and government.
- Government policy should be favorable i.e. favorable to private initiative thus there must be clear national priorities.
- Clear legal framework covering property rights, transfer of ownership and competition.
- Emphasize reasonable and simple taxes in terms of assessment and administration.
- Provide favorable conditions for International trace, investment and co-operation.
- Control Inflation which encourages people to invest now.
- Scrap unnecessary bureaucratic procedures and employ simple analysis especially in terms of time duration i.e. how long it takes and how many people are involved in giving various

permits e.g. when creating a company, buying property, opening an office, importing raw materials, exporting finished products, permission to borrow money from a micro finance institution.

- Provision of reliable transportation, power and communication in terms of accessibility, telephone network.
- Well conceived and realistic strategies and action plans for attracting foreign investment, technical training, management and staff training in Languages, Accounting, Marketing ethics, Professional services, Consulting etc.
- Export development assistance can be offered to entrepreneurs, setting up business development centers.

THE ROLE OF ENTREPRENEURS IN AN ECONOMY

- Promoters of Economic change - They scan the environment and identify opportunities.
- They mobilize resources and implement business ideas.
- They distribute goods and services.
- They spread innovative ideas which expands the boundaries of economic activity,
- Employment Creators Apart from gaining self employment, entrepreneurs also provide job opportunities to others.

- Market Efficiency providers - Entrepreneurs compete for the market as they seek profits, they also ensure that markets are efficient and prices are controlled.
- They also process market information especially by forcussing on information not being exposed yet.
- They transform market information into opportunity and pursue them.

FACTORS THAT DETERMINE EMERGENCE OF ENTREPRENEURS

Many people think that going into business or becoming an entrepreneur is solely to make money. The desire to earn money is infact an important factor but not the sole reason. There are other factors that inspire people to become entrepreneurs:-
They include the following:

- **Personality factor.**

This is one of the factors considered to be a determinant factor in the emergence of entrepreneurs, personally can be looked at differently but generally it is a consistent or persistent belief, feeling and action which makes an individual distinct from another.
Psychologists have been much interested in personality and they have been constantly exploring and investigating it and one of the most acceptable researchers to explain personality has been MacClelland. He identified “Need for Achievement” as the fundamental driving force in the personality of successful entrepreneurs.

According to this theory, an individual need for achievement refers to the need for personal accomplishment and it is a drive to excel or to thrive for success and achieve something that makes somebody become an entrepreneur.
High achievers are not motivated by money alone but instead employ money as a method of achieving their goals.
Other personality factors which make an individual become a successful entrepreneur include ambition, hard work, and strong desire for independence among others.

- **Upbringing factor (Family background)**

The personality factor alone cannot or may not make an individual an entrepreneur. The family background, moral support, encouragement of family members, friends and relatives may lead to growth of entrepreneurship. Previous association in the family business may also serve as the foundation for building and accelerating the process of becoming an entrepreneur.
Education is equally important in bringing up a child. The educational background also determined the emergency of entrepreneurs. Research shows that most of the technically qualified persons tend to establish enterprises in the fields of their specialization. This shows those entrepreneurs are prompted by their qualifications and educational level.

- **The Employment /Work History**

Employment or worm experiences can provide confidence to the entrepreneurs i.e. people can scrutinize the work – experience and skills from the job being or previously done to start a new venture. This may result from t he opportunity of being in the job e.g. availability of resource expertise. On the other hand, it may be a result of dissatisfaction or losing a job.

- **Social Factors**

Migration or ethnic factors may lead to socially disadvantaged or marginalized society / community. Such groups usually seek ways of survival under harsh conditions. People tend to become creative or entrepreneurial in areas where they are socially disadvantaged e,g Americans today, Japanese.

- **Growth of the Service Sector**

The service sector is growing at a faster rate than before. Most small scale businesses are service providers rather than manufacturers e.g. Telephone services, restaurants, salons transporters, etc. This is because it requires low a capital base to start such businesses and also less overhead costs.

- **Environmental factors**

Environmental factors are not the main motivating factors but they play a role of contributing in the implementation of the entrepreneurship idea e.g. new entrepreneurs may be inspired by the perception of the community in which they live. The government support, assistance from the financial institutions, encouragement from big businesses and success stories of other entrepreneurs.

- **Culture (Norms, Values, attitudes, beliefs)**

Entrepreneurship can be influenced by the culture of the society career. Hofstede identified some dimensions of national culture that may influence the move to entrepreneurship as follows:

- **Individualism Vs Collectivism.**

This dimension of culture is a measure of the relationship between individuals and other people and the degree to which people prefer to have personal freedom rather than groups. This dimension correlates most strongly with entrepreneurship development.
According to Hofstede, individualistic societies are more industrialized than the collectivistic society. This means individualistic societies are more entrepreneurial than those who practice collectivism.

- **Power distance (social group between individuals)**

The power distance evaluates the way a particular society handles inequality among people. Societies with less power distance are more industrialized than those with a wider power distance. In societies where there is less power distance, managers prefer to consult with their subordinates in decision making and also authority can be challenged from time to time. On the other hand, a society wit a wide power distance is less consultative and authorities are not challenged and the people are expected to follow orders without questioning. This means that societies with less power distance are more creative and therefore more entrepreneurial.

- **Uncertainty Avoidance**

This dimension measures how society deals with uncertainty of the future. A low uncertainty avoidance society is that which does not feel threatened by the uncertainty of the future. i.e. It is generally firm and tolerant. Individuals who come from such societies are more likely to become entrepreneurs than those from uncertainly avoidance.

- **Masculinity Vs Femininity**

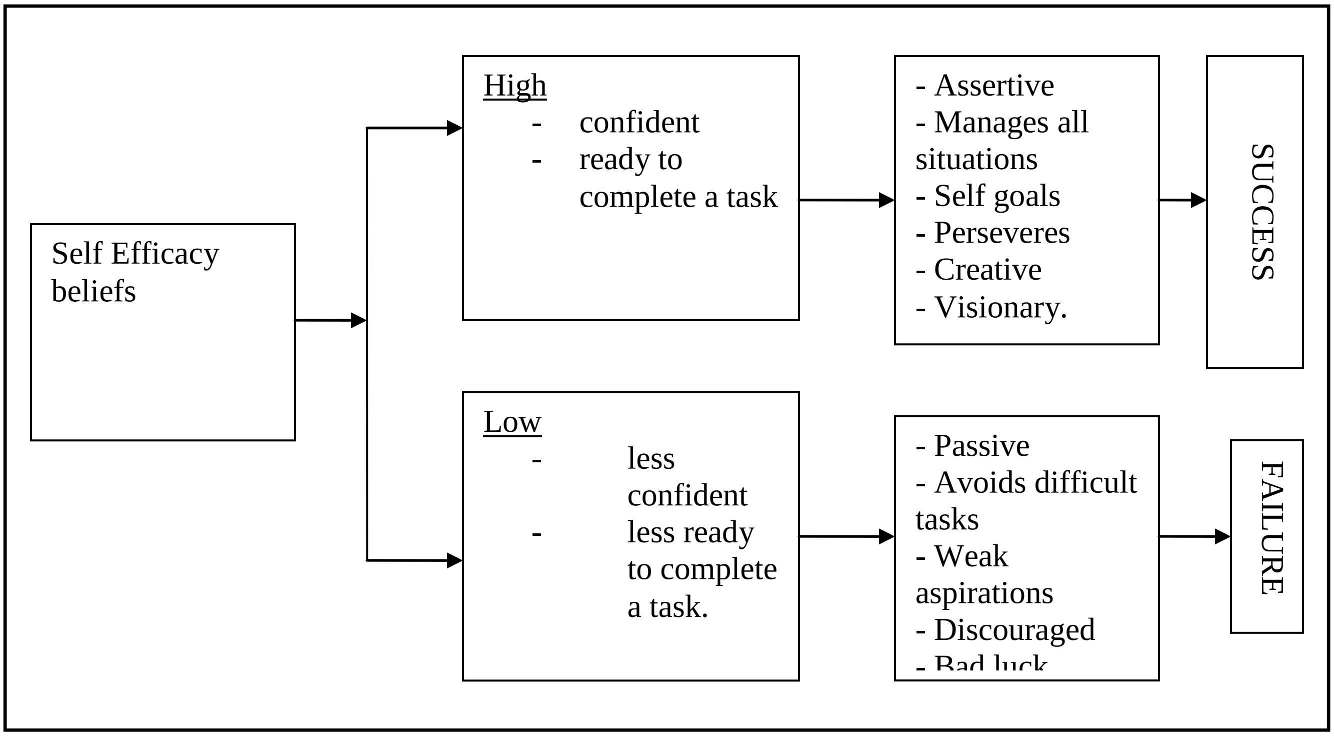
This refers to the inflexibility of sex roles in a given society. Hofstede defines a society as Masculine if there are extensive decisions of roles by sex and as feminine if these divisions are relatively small. The Masculine society is characterized by competition, ambition, assertiveness and aggressiveness, a need to acquire money and wealth. On the other hand, the feminine society prefers solidarity, relationship and quality of life.
Entrepreneurs are more likely to emerge from a Masculine society than from a feminine one.

- **Self Efficacy:**

Bandra Albert (1989) defines self efficacy as the belief an individual has in his /her ability to complete a given task successfully. Self efficacy is about one's perception of his/her competences. It is a higher form of personality combining internal locus of control with goal directness and strategic orientation. The people's sense of capability influences their perception, motivation and performance. An individual's sense of self efficacy manifests in three ways:

- Magnitude i.e. The level of tasks difficulty a person believes can deal with competently.
- Strength of self efficacy - This refers to the conviction that an individual has regarding the magnitude of the task.
- Generally of self efficacy - It refers to the degree to which an individual's expectations are generalized across all situations.

THE SELF EFFICACY MODEL:



Sources of Self Efficacy

- **Past and Actual successes**, where the individual has repeated history of successes, he/she can build a strong belief to perform similar tasks. On the other hand, experience of repeated failure may lead to withdrawals.
- **Performance of others**: The performance of others can serve as a role model. Most people tend to associate themselves with successful personalities whom they want to emulate.
- **Social and Personal Persuasions**: Self efficacy is acquired through suggestions made by some members of the society. And these suggestions may influence an individual to regard him/herself capable.
- **Emotional state**: The reaction of an individual towards a task affects his/her self efficacy about completing a given task.

ENTREPRENEURIAL CHARACTERISTICS

Wickham Phillip noted that although there is a dividing view about entrepreneurship /neurs, there is a great deal of consistence in the way in which they approach their tasks. Wickham observed that there are common characteristics exhibited by almost all entrepreneurs and he identified the following:

- Hard work (innovativeness): Entrepreneurs put a lot of effort both physical and mental in order to create and develop new ventures. So they tend to work for long hours and with a lot of commitment to their work.
- Self-starters: Entrepreneurs identify tasks for themselves without being told what to do i.e. they carry on tasks without waiting for directives from others.

- Goal setters: They are also characterized by setting their personal goals. Successful entrepreneurs set goals which direct their activities and these personal goals become their standard for measuring their performance.
- Resilience /Persistence: Successful entrepreneurs never give up. They usually learn from mistakes to improve on their performance. They tend to recover very quickly from failures and get going.
- Confidence: Entrepreneurs not only believe in themselves but also in the tasks they are performing.
- Receptiveness to new ideas: Successful entrepreneurs accept to learn and change according to a given situation i.e. they are flexible – monitoring changes and adjusting accordingly.
- Assertiveness: Entrepreneurs have freedom to accept or reject something depending on the likely outcomes.
- Information seeking: Successful entrepreneurs are never satisfied with the information they have at any one time. They always seek other sources of information so as to identify possible opportunities.
- Eager to learn: Successful entrepreneurs are always ready to learn more and more and improve on their skills.
- Commitment to Others: Successful entrepreneurs are never selfish, they interact and share ideas and other resources with people i.e. they seek support from others.
- Comfort with power: Successful entrepreneurs are powerful and they enjoy their powers. They use their powers responsibly to influence decisions within the society in which they work.
- Risk taking: Entrepreneurs deliberately take risks and evaluate the various alternatives and they tend to involve themselves in more challenging tasks and always take action to reduce the risks.

CREATING AND DEVELOPING THE BUSINESS:

Creating and developing a business is a process that begins with the perception of an opportunity for marketing a product or service. After the perception of the opportunity, the entrepreneur establishes a business unit and manages it. In order to create and develop a business, the following steps must be taken into consideration.

- Searching for business ideas / opportunities

The task of establishing an enterprise begins with the search for a suitable business idea. The idea may relate to starting a new business or taking over an existing one. The idea should be sound and workable so that it may be exploited in order to get reasonable returns.

- Sources of Ideas

The ideas to start a business may originate from various sources and these include:

a. Success stories of others.

Most entrepreneurs begin their business ventures as a result of successes of those they know. E.g. friends, relatives etc.

b. Though observing the market i.e. all the potential buyers. Potential entrepreneurs should pay close attention to markets for various products and services so as to understand the demand and supply trends of such products and services. Careful observation of the market can reveal some gaps which can be turned into business opportunities.

c. Prospective consumers

Contacts with prospective consumers can provide an opportunity for creating a product or service since the consumers know best what they want.

d. Developments in other nations, people in less developed countries are generally initiators of developed countries. An entrepreneur can discover good business ideas by keeping in touch with developments in advanced nations.

e. Government Organizations.

These include development banks, exports and promotion sectors, The Uganda Manufacturers Association and Investment Authorities assist entrepreneurs in discovering and evaluating business ideas.

f. Visiting many trade fairs / Exhibitions

The natural and International trade fairs are very food sources of information. A visit to these fairs provides information about new products in the market and those that may be introduces at a later stage.

Methods of generating ideas.

Even if a variety of sources are available, coming up with an idea for a new venture may still be difficult. The entrepreneur can use several methods to help generate and test new ideas. The common methods are:

a. The Focus group.

This refers to a group of individuals who provide information in a structured format. They use a moderator to present the question or an idea focusing on some business aspects and the group gives responses.

b. Brain Storming.

This is a group method foe obtaining new ideas and solutions. It is an unstructured process for generating all possible ideas about a given problem within a limited time frame through indiscriminate contributions of participants of participants.

c. Problem Inventory Analysis.

This is a technique where consumers are provided within a list of problems in a general product category and they are asked to identify and discuss products in this category that have the particular problem presented.

d. Strategic Window I selecting ideas.

It is a metaphor which is useful for generating a mental image which can guide the identification, analysis and exploitation of an opportunity. It is a notion that there is always a possibility of something being done better and it assumes that through which a new opportunity can be seen.

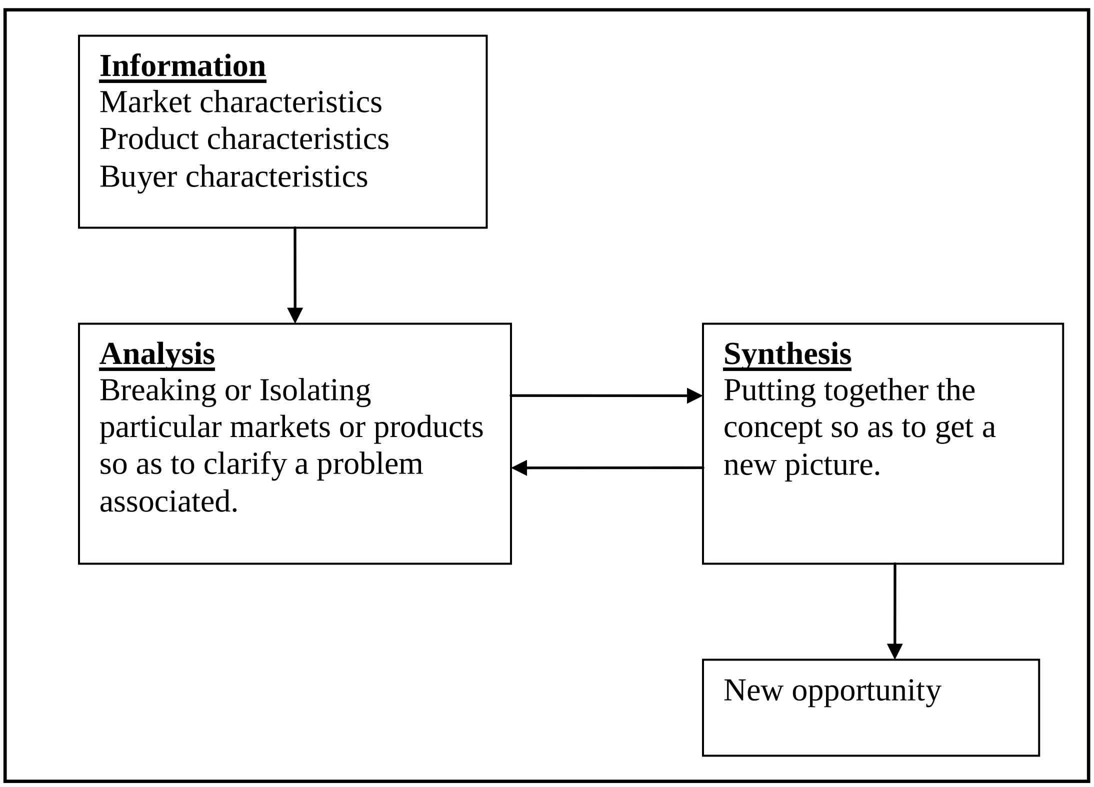
There are five stages of the strategic window:

- Seeing the Window.

This is the first stage in using the strategic window. It involves scanning the environment which is like a "solid wall" and trying to find out the windows which can help in identifying or spotting a possible gap. The gaps or opportunities may be in the areas of developing new products, new services, new methods of production, new distribution channels/routes etc. from existing business.

a. Heuristic technique

This is the most frequently used and it is a method of solving a problem by finding problem by finding practical ways of dealing with them. It involves gathering information, analysis of the market or product and the synthesis.



Diagrammatic illustration of the Heuristic technique.

b. Problem Analysis

This method begins with identification of the needs of individuals or Organizations and the kind of problems they are facing. Once the problem is identified, a question can be asked as for what can be done to improve or solve that problem. The solution will represent the new opportunity for an entrepreneur.

c. Customer Proposals

A new opportunity may be identified by customers recognizing. Their own needs and problems and they make proposals that can provide and opportunity for an entrepreneur.

d. Feature stretching.

This involves identifying the principle features which define a particular product or service and seeing what happens if they are altered e.g. of the size was made bigger, smaller, shorter, larger, etc, strength – harder to softer, speed – fast to slow.

e. Product blending

This refers to a method where new products are created by blending / combining together features from different products.

- **Locating the Window [competitive space]**

This involves developing an understanding of where or how the new venture will locate itself in the market place relative to others. This therefore requires the entrepreneur to relate the opportunity to the established businesses and identify a strategic position.

A strategic position is the way the business as a whole is located relative to the competitors in the market – (competitive space).

- **Measuring the window (Analysis of the opportunity)**

It involves analyzing or evaluating the opportunity and recognizing ther potential it offers. It means finding out how much the opportunity might be worth and this requires information about the size, impact of the opportunity and what risks are involved in taking up such an opportunity.

- **Opening the Window (commitment).**

After identifying, locating and measuring the window, the next stage is to open it. i.e. turning the ideas or opportunities into realities (the actual start of the new business venture). It also involves drawing the commitment of stakeholders towards the business i.e. creating relationships with investors, suppliers, employees and customers.

- **Closing the window (Sustaining Competition**).

This means giving the new venture some unique and variable character so that competitors cannot follow through the window and exploit that opportunity. It also implies that the entrepreneur must do something that is valuable for customers but which competitors find difficult to copy or match.

This means that the entrepreneur should identify some sources such as lower costs, stronger relationship, flexible and responsive organizational structure.

Processing the Idea.

Once the business opportunities or ideas are discovered, screening or testing the ideas is done and the following are put into consideration:

- Technical Feasibility

This refers to the possibility of creating the product or service. This possibility is looked at in terms of the availability of technology, machinery and equipment, raw materials and stalls required.

- Commercial viability

Cost-benefit analysis is required to determine the profit – ability of the ideas. Once the entrepreneur is satisfied with the technical feasibility and commercial viability of the ideas then idea selection is carried out.

Idea Selection.

The idea selection is influenced by products or services whose demand exceeds their supply or products/services which are highly profitable or those which can be exported easily. The selection is also based on products whose incentives and subsidies are available.

Assembling the necessary resources.

Once the entrepreneur is convinced of the profitability of the product /service, there is need to assemble the necessary resources to launch the business. This may also involve choosing partners, collecting the required finances, acquiring land and buildings machinery etc.
Establishing and Managing the enterprise.

This concerns the decisions about the size and layout of the organization. It also involves determining the overall structure of the organization and the managerial levels with clear definitions of areas of authority and responsibilities for each position within the structure.

BUYING OR STARTING A BUSINESS:

A potential entrepreneur can either buy an existing business or start a new one. Each option has some advantages and disadvantages. When the potential entrepreneur decides to buy a business, there are many questions which he/she should ask and some of these include:

- Why do I want to buy this business?
- Why does the owner want to sell it?
- Does the business have a future where it is and the way it is operating?
- Do I have the skills to run this business?
- Will I be happy operating this business?

- Are you buying the name of the business and the right to use that name forever?
- Are you buying the stock, furniture and fittings?
- Are you getting the land and buildings as well?
- Are you paying for the present owner of the business not to set up a similar business nearby?

Advantages of buying a Business

- There are limited risks compared to starting a new one.
- There is an already established relationship with the customers and customers i.e. the name of the business is already in the market place.
- The cash flow of the business is already being generated.
- It has an established service or product i.e. inventory is already in place.
- It may already have trained employees thus reducing training costs.
- It may have a good location i.e. strategically located in terms of customers and suppliers.

Disadvantages of buying a Business

- The product or service may be in a declining stage / market.
- There is limited growth potential.
- Debtors or stock may be too high hence capital tied up.
- The merchandise may be obsolete needing to be disposed off to obtain new one.
- The business may have a bad reputation in the market.
- The location may be poor i.e. where there are no customers and the suppliers may be far from the business.

STARTING A BUSINESS

Most people who want to be entrepreneurs think that the best approach is to start their own businesses and not buy one that already exists. This is because of the following advantages.

- There is greater personal freedom and hence flexibility.
- There is ability to enter a new market or introduce a new product.'
- You may incur lower costs at the start than when buying the existing one.
- There is ability to introduce changes in the business operations right from the beginning to see what should be included, modified etc.

Disadvantages of starting a business.

- Start up has high risks for establishing new business i.e. whether the business will stand or not.
- It requires significant personal involvement and business planning of the business is to succeed.
- The customers / markets may have to be found and developed and this is usually costly.
- Competition from established businesses may be high for the new business to cope up with.
- It may be difficult to fined t he finances for the start up.

CHOICE OF LOCATION FOR THE BUSINESS

Selecting a business location is important for success and failure of the business. It varies from business to business thus the right location is very important for retail business and this may not be very important for manufacturing industries because their customers always locate them.

A decision should be made on the particular community i.e. literate or illiterate, young or old etc.

Select a particular spot with in that community to locate the businesses i.e. put into consideration the customers in terms of convenience for instance how easy is it for customers to come and access the products, is there parking space,, recreational facilities, etc.

- **The economic state of the community (Economic base)**

This may involve looking at the standard of living, average income of the community, level of employment among the members of the community and other businesses in that area.

- **Competition**

There is need to study the competition and collect information about their strengths and weaknesses, find out how many they are and their location.

Find out how many businesses similar to yours that have been newly opened or closed down and the reasons as to why they have closed down.

- **The type of the business.**

Businesses may take many forms but generally they can be categorized as retail, wholesale and manufacturing firms or service firms.

For retail firms, their location should depend on the traffic flow (human traffic) whereas for the wholesale firms, consideration is given to good transportation and distance from the source of raw materials. This depends on the kind of manufacturing firm. For service firms, they need to be located close to large shopping centers.

- **Operating costs at the site in terms of rent, water and power costs.**

THE BUSINESS PLAN

Overview

Before starting on the business plan, it is important to identify the different types of plans that may be part of any business operation. Plans may be short term or long, they also vary in scope from one type of business to another,

Although the plan may serve different functions, all the plans have one important purpose and that is to provide guidance and structure to management, especially in an changing market environment.

Preparing a business plan is a major step in starting and operating a successful business. A business plan can be looked at in different ways. i.e.;

- It is like a "road map" of how an entrepreneur is going to start and operate a business especially in t he first few years [3 – 5 years].
- It could also be a document which strikes out the goals and objectives of a business and clearly outlines how they will be achieved.
- It may also be referred to as a detailed action program outlining every activity of the proposed business venture.

It helps the entrepreneur to answer the questions such as:
- Where am I now? – Vision
- Where am I going? – Mission
- How do I get there? – Strategy
- Why should I get there? – Purpose

Reasons for writing a Business plan (The scope and value of a Business plan).

A business plan may be written for a number of reasons and can be used by many people e.g. investors, employees, bankers, suppliers, customers, advisors, and consultants.
However, there are three perspectives that should be considered when preparing a business plan.

a. The perspective of the entrepreneur.

This is because the entrepreneur knows better about the new venture and must be precise to say what the business is all about.

b. The Marketing perspective.

Entrepreneurs must not only concentrate on the product but must consider their business through the "eyes" of their customers.

c. The entrepreneur should also view the business through the "eyes" of the investors.

The value of a business plan to the entrepreneur

- it is a guiding tool for opening and operating a business
- it is also a guide for managing a business
- it is a tool for monitoring performance
- it helps to attract customers if they see that the products being provided and their purpose is clearly stated.
- It helps and acts as a selling tool in the market.
- It can be a mode of communication between those businesses that need and those that have capital.
- It helps in negotiating for finances from financial institutions
- It enables investors to evaluate investments.

CONTENTS OF A BUSINESS PLAN

1. Introductory page.

This includes the following:

a. The name and address of the business.
b. Name(s) and address (es) of principles – this can be the entrepreneur and his/her management team if available.
c. The name of the business – is it going to provide services or manufacture products.
d. Statement of financing needed – this states the amount of money and the sources as initial capital.
e. Statement of confidentiality of report – this states who owns the business plan (entrepreneur himself) and who else is authorized to use the report e.g. copyrights.

2. Executive summary

This contains the summary of the whole business plan. It includes an overview of t he business, the nature of the business, source of financing, the marketing potential, distribution competences, the vision, mission and objectives of the business.

3. Industry Analysis

This gives the details of the industry in which the business is going to operate from i.e. the services or products to be manufactured.

This section includes:

a. Analysis of competitors – who are they, what is their size, what are there strength and weakness (carry out a SWOT) analysis).
b. Market segmentation – Are the customers to the business teenagers, school goers, adults or infants?
c. Industry forecasts – look at whether the business in which the business is to operate is growing or has potential for growth in future.
d. Future outlook and trends – this involves projecting the sales say 3-5 years, anticipated growth e.g. in terms of shares (5%) market share in a period of 5 years.

4. Description of the venture

This gives a detailed profile of the company, location, date of commencement and its history. It describes the form of business one is to deal in for instance a sole trader, partnership or a company. It also covers the products and services that the products and services that the business is t o provide to its customers (potential).

Other aspects included in the description of the venture are:

- Office equipment and personnel – what equipment will the business need as a manufacturing or service firm, how will these be acquired, is it through loaning? Can one include his/her close associates?
- Background of the entrepreneurs – what are your management skills like as a central person in there business, age, etc.
- Size of the business – how big is the business? Is it small, medium or large?

5. Production plan

In the production plan, the following are considered:

- The manufacturing process. ‘’’will the business handle the whole process of manufacturing the products or it will do some subcontracting if so who ate the sub-contractors.
- Physical plant. – How and who will do the installation of the machinery and equipment and what arte the costs of doing it.
- Claimes of suppliers of raw materials – This describes the raw materials to be used in t he production process their sources and the suppliers.

6. Marketing plan

This includes:

- Pricing - state the strategy to be using in marketing the products or services. It involves analyzing whether the market is low or high at the start, whether their is a possibility of making profits or breaking even, whether their is need to give discounts, looking closely at the competitors strategy _(ies) can enable the entrepreneur come up with a good marketing plan.

- Distribution - This involves describing how the business will distribute its products. – will it be locally, regional basis, national or international basis. State the distribution channels and means.

- Promotion - This involves describing the promotional tools the business is to employ when selling/marketing its products or services. Will the business inform its customers about its products through the media e.g.- newspapers, magazines, TVs or over radio stations? The choice of a promotional tool will depend on its efficiency in terms of costs and accessibility to people.

- Product Forecast.

This involves describing the product in detail and relevant. It will be to the customers compared to the products of the competitors to the business. The relevancy could be in terms of quality, price, durability, reliability etc.

- Controls - This involves describing what will be done or put in place to minimize the costs, how distribution will be controlled so t hat customers are not confused in other words, how will the four Ps be controlled i.e. Product, Place, Promotion, and Pricing

7. Organizational plan.

This outlines clear roles and responsibilities of employees and other stakeholders of the business. It involves an outline of the methods pf acquiring employees, how they will be places, trained and motivated. It also addresses aspects such as:

- Form of ownership – Is the business a public or private entity (joint venture, sole proprietor, etc).

- Identification of partners or principal shareholders.
- Authority of principals and their responsibilities.
- Management – team background – their names and a brief background i.e. educational level, experience and skills possessed.
- Roles and responsibilities of members of the organization – the organizational structure is important.

8. **Financial Plan**

It includes:

- Proforma income statement. This is a projected income statement estimates of sales, revenue expected over 3 years and the direct /indirect expenses the entrepreneur is likely to incur, projected profits and losses one is likely to incur in 3 years.
- Cash flow projections i.e. what one is likely to bring in and out as the business operates in a period of 3 years.

- Proforma balance sheet.
- Assts and liabilities of the business.

Break – even analysis.

This involves projecting what level of sales will cover the expenses incurred by the business.

9. Appendix

This contains backup material and it may not be included in the business plan but the information their in is important.

The Appendix includes

- letters
- market research data
- lease or contracts
- Price lists from suppliers.

INTRAPRENEURSHIP (CORPORATE ENTREPRENEURSHIP)

Corporate entrepreneurship is a type of entrepreneurship within an existing business structure. It is one method for stimulating and capitalizing on individual creativity within an organization.

Advantages of intrapreneurship

- It is built on an existing structure
- Organizational resources can be used.
- Different activities and tasks can e accomplished by organization employees.

Differences between Entrepreneurship and Intrapreneurship are corporately undertaken.

Entrepreneurs have to exercise personal responsibility while for intrapreneurship responsibility is impersonal. It is a collective responsibility i.e. shared by all members.

Entrepreneurship assumes personal risk and profits whereas in Intrapreneurship there is no assumption of personal risk and profit.

Entrepreneurship involves direct investment of resources while under Intrapreneurship there is indirect investment. The resources are obtained from various sources.

The entrepreneur is motivated by the profits from the business while Intrapreneurship is not motivated by money or profits but the vision or something of value to the organization.

CONDITIONS FOR ESTABLISHING INTRAPRENEURSHIP IN ORGANISATIONS:

1 Secure a commitment to Intrapreneurship in the organization by the top management. Once the top management is committed to Intrapreneurship. The concept can be introduced throughout the organization and once the concept is clear and accepted by everybody, there is need to identify leaders who should be trained about the vision, mission and value of the Intrapreneurship.

2 Identify ideas and general areas that top management is interested in supporting. The target results of each Intrapreneur venture should be established.

3 Determine the company needs for technology to make it more flexible and responsive to changes.

4 Training needs for interested managers so as to establish a firm intrapreneurial culture must be identified and met and this must be done so that the team learns haw to co-exist within the organizational structure.

5 The Organization needs to develop ways of getting closer to customers so that innovations can be made to respond to their changing needs.

6 The Organization needs to establish a strong support structure for Intrapreneurship. This is because Intrapreneurship is a secondary activity that not everybody in the organization will understand.

7 It should be able to tie rewards to the performance of the Intrapreneurship Unit in order to motivate workers to work harder and to avoid members from starting independent and parallel ventures.

8 Establish an evaluation and monitoring system that allows a successful Intrapreneurial unit to expand and the unsuccessful ones to be eliminated.

THE IMPORTANCE OF INTRAPRENEURSHIP

Intrapreneurship appears to be a new concept to many people just like the concept of Entrepreneurship. Much as it is an emerging concept, most organizations attach some importance to it for the following reasons:

1. It enables an organization achieve a competitive edge over her competitors. This is because the world is changing faster than eyes before especially changes in technology, new discoveries, demand etc, organizations find it harder to survive by merely competing

and as a result they look towards Intrapreneurship as a means of taking them beyond competition by creating new businesses in new markets.

2. On the other hand employee loyalty is diminishing i.e. employees are no longer tied to one organization but they change from time to time. Employees who feel that their ideas can be bought by another company will always leave so organizations must encourage creatively within they are to survive.

CLASSIFICATION OF INTRAPRENEURSHIP

Hans Scholl hammer provides five classifications of corporate intrapreneurship.

1. Administrative Intrapreneurship.

This is where the organization purposely encourages greater innovation and commercial development of new ventures committing organizational resources for research and development for the purpose of innovations.

2. Opportunistic Intrapreneurship

This is where creative members of the organization are given freedom to pursue opportunities for the organization and individual benefits by exploiting external markets. It is also where large firms take advantage of commercializing ideas generated else where by smaller firms or some individuals especially where they lack resources to implement their ideas.

3. Acquisitive Intrapreneurship.

This is where one organization takes over another company through absorption or mergers etc.

4. Irritative Intrapreneurship:

This is where large companies set up individual espionage / spy to study the product, technology and processes/activities of other companies, and they modify and imitate those companies.

5. Incubative Intrapreneurship

This refers to an intensive in-house effort to establish new methods of innovation where ideas are received from members of the organization and the ideas are developed slowly until it reaches implementation stage by the organization.

CORPORATE NEW VENTRES CREATION

It describes ways in which new ventures evolve in an organization. There are basically two ways of evolving new ventures:

1. The Spontaneous Ventures (Venture Team)

This results from the informal relationships among members of the organization who work together on new ideas. Still under the spontaneous technique of new venture creation, there are four stages of development or team building.

a. Solo stage/phase.

This is where an individual generates and nurtures creative ideas which can be turned into feasible innovation.

b. Network Stage

This is where an innovator seeks advice and support from colleagues to develop the idea.

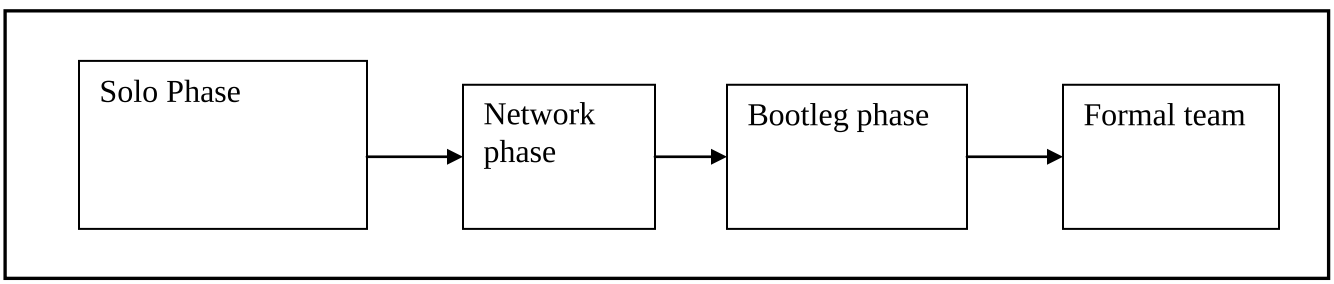
c. Bootleg Stage.

This is where members of the organization work informally as a team and propose ideas as a team to the organization for formal development and support

d. Formal team stage

It is where the company is fully informed of the ideas or business plan and also this is a stage where the team gains corporate support and provides a budget and the mandate for the team to pursue their ideas (the activity is legalized).

Diagrammatic expression.



2. The Formal venture Team.

This refers to deliberate encouragement of team building for the purpose of innovation. There are three stages in the formal venture creation i.e.

a. The Initiation stage.

This is where members of the organization or innovators generate ideas and they form adhoc committees to generate and develop preliminary models and write a draft, a proposal and pass it to the management of the organization for review. If it is approved, they move to the next stage.

b. Feasibility development stage.

Once the idea has been supported the team prepares a budget and a feasibility plan with detailed information and it is forwarded to the committee for another review. Once the plan is approved, the organization proceeds to stage (c)

c. Implementation stage.

This is where the project is introduced to the entire organization and it is transferred to the cooperate management for further development, further research and transfer of technology.

WHAT RETARDS INTRAPRENEURSHIP

1. The cost of failure Vs the rewards for success. The cost of failure is high while the reward for success is too low (low bonus) and since the reward is low and yet the cost of failure is high, members of the organization may relax.

2. Inertia caused by established systems or structures that no one is willing to change i.e. most organizations are governed by implicit or explicit systems and in many cases people are reluctant to change. Many organizations use their existing systems to show that they already have the right answer at the expenses of creating.

3. Hierarchy

Organizational hierarchies may create a need to ask for permission before something can start. The deeper the hierarchy the harder it is to get permission for anything new. People lower down the hierarchy become powerless and less creative or innovative.

4. Ownership which can either be public or private.

Usually public organizations called public ownership limit the workers' tendency to be creative /innovative. On the other hand private ownership encourages workers to be more innovative.

FINANCING NEW VENTURES

Sources of finances:

a. Equity financing: Here owners provide finances by exchanging ownership for capital sources of equity finances may include.

- Personal savings in terms of assets, money or cash
- Family members and friends through collective effort.
- Partners - these may be other persons with whom you share common ideas not necessary family members or friends.

Advantages of each source include:

- Personal savings equity implies that all the profits belong to the individual.
- With personal savings, the burden of debts is reduced
- It shows good faith to any potential lender since the entrepreneur already has something at hand to start with.

However this source is associated with the following disadvantages.

- It requires personal sacrifices which means postponing consumption
- All the losses are suffered by the owners of the business.

Family and friends (Advantages)

More cash is available for the business
There is ability to borrow more
There is a possibility of sharing any financial risks that may occur.

However, it is associates with disadvantages such as:

- One may have to give up part of the profile to the family members and friends since they also contributed towards the business.
- Disputes may arise among family members and friends as a result of unproportional sharing.

Advantages of partnership

- It is one of the easiest sources of cash
- There is a possibility of having less pressures of work because responsibilities can be shared amongst members.

Disadvantages of partnerships

- There is a risk of destroying personal relationships with individual customers.
- Misunderstandings may arise among partners if the agreement is not followed critically.
- It may lead to slow decision making because of the need for consultations among partners before deciding on anything.

b. Debt Financing /Credit financing/Asset based financing.

This refers to accounting a loan which means collateral security must be provided in order to acquire a loan. Collateral security can include either fixed or current assets.
Some interest is charged on the borrowed money which is considered as the cost of borrowing.
When equity sources of financing are not adequate, the entrepreneur has the option of borrowing from other sources which is referred to as debt financing.

Advantages associated with debt financing.

- The entrepreneur maintains control and ownership of the business without bringing in the lender's ownership.
- The entrepreneurship may pay at more convenient intervals.
- It forces the entrepreneur to save money in preparation for the repayment of the borrowed funds.
- It is advantageous at the time of inflation in that the entrepreneur may repay at cheaper currencies. However, this source of financing as associated with some advantages such as:
- The lender imposing restrictions on the borrower.
- It is easy to abuse and overuse. Lenders are careful not to lend money if the risk is too high. Most lenders therefore will review the business plan carefully.

FACTORS CONSIDERED BEFORE EXNTENDING A LOAN

Different lending institutions have different aspects put into consideration before extending a loan to the applicant. They include:

- The type of the loan – is it long, medium or short term.
- The purpose of the loam – most lenders do not want to loan to illegal business.
- Credit history / worthiness – can the borrower be trusted. This is revealed by the bank's records and suppliers to the borrower.
- The capability of the entrepreneur – they look at the business profile of the applicant i.e. as revealed by the cash flow statements.
- The re-payment period – this is important to both the borrower and the lender.
- Security – what kind of collateral property covering the property of the company/entrepreneur. This is known as a secured loan.
- Guarantors – these could be from friends, employers or reputable persons whose opinions is reliable.
- Economic conditions, political atmosphere and its stability together with ´government policy.

FINANCING SMALL BUSINESSES

Money, capital or cash is very important and one cannot start or run a business without it. However, raising the money one needs can be a complicated and frustrating experience. Very few entrepreneurs know that there is plenty of investment money out there if one knows where to look. One will discover a variety of sources of financing from banks and micro finance companies.

Venture Capital

A business' ability to raise finance can often make or break it. This can be an especially testing time in the life cycle of the business as raising finance can sometimes be a stumbling block for many business owners.

While there may be a number of options available, often the more traditional methods such as bank loans just do not meet the needs of some businesses. And therefore the answer for such businesses can lie with venture capital.

Venture capital works well with businesses that possess real growth prospects coupled with skilled, ambitious management.

Venture capital can be defined as a financial investment into one Business Company from an independent outside source such as another company, firm or specialized venture capital fund.

It defers from more traditional finance sources such as banks or lending institutions because venture capitalists arte in the market to take more calculated risks when it comes to their investments.

In return for taking such risks, venture capitalists require a higher rate of return ob their investment. This means depending on the individual business arrangement, that the venture capitalist will effectively become a partner in your business requiring financial compensation in the form of profits and or shares.

Securing investment from a venture capital firm means entering into business partnership and the venture capitalist is ready to also share in the risks and rewards of the business he has invested in.

They promote growth in the businesses and companies they invest in. This is because they eventually sell their shares in the business or company which can be three – seven (3-7) years after the investment.

Each firm will have a different approach to tits investments some may look for business that are in the 3 start-up phase or that need capital to manufacture a new product while others may look to invest in expanding companies or those which specialize in a particular industry.

It is therefore important to do research to make sure the venture capitalist approached is likely to be interested in your proposal.

Considerations when raising venture capital.

Raising any type of capital needs research and strategic planning before approaching any source one needs to have:

- A good business plan with an executive summary.
- Assessed that private equity is suitable the business.
- Analyzed how much finance is needed and what it will be used for.
- Identifies those finance sources that meet his/her requirements.

One may need to ask him/herself questions like the following when it comes to venture capital:

a. Do you have the high growth ambitions for your company?
b. Are you willing to sell some of your shares to a venture capital investor in order to be able to increase your stake's value to more than that of your original holding within a few years?

The entrepreneur should then draw up a short list of potential venture capitalists and then contact the venture capital firm and request of investments they favor.

Advantages of Venture Capital financing:

- The venture capitalist can provide long-term finance which can be a solid base for business growth. Depending on your arrangement, the venture capitalist may also be willing to provide an additional funding boost when required for financial advice.
- In essence a venture capitalist is a business partner who is sharing the risks and obviously the rewards.
- The venture capitalist can also be a mentor for the business or company in which he/she has invested by providing strategic operational and financial advice.
- One can also take advantage of the network of contacts the venture capitalist has. This can add value to the business in dealing with suppliers, manufacturers, retailers etc. It can also be beneficial when looking for co-investment.
- The venture capitalist is also experienced in the process of preparing a company for initial public offering (if required) and helping in trade negotiations and sales.

GOING PUBLIC

This refers to a private company's action of making an initial public offer (IPO) thus becoming a publicly traded and owned entity. Businesses usually go public to raise capital in hopes of expanding.

Venture capitalists may use initial public offers (IPO) as an exit strategy that is a way of getting out of their investment in a company.
The IPO process begins with contacting an investment bank and making certain decisions such as the number and price of the shares that will be issued.

Investment banks take on the task of underwriting or becoming owners of shares and assuming legal responsibility for them. The goal of the underwriter is to sell the shares to the public more than what was paid to the original owner of the company.

Deals between investment banks and issuing companies can be valued at hundreds of millions of dollars some even hitting $1 billion.

Positive effects of going public.

- it strengthens the capital base – the business is able to borrow from financial institutions.
- Makes acquisition easier – Money lenders have confidence in transferring of company assets.
- Diversities ownership – Different people have different expertise hence efficiency.
- Increases prestige – Makes the entrepreneur more stable than when it is private.

Negative effects

- Puts pressure on short-term growth – this is because the public is usually concerned about the activities of the company.
- Increased costs – in form of dividends to shareholders.
- Imposes more restriction on management and on trading
- Makes former owners of the business to lose control over decision making in the company.

For some entrepreneurs, taking a company public is the ultimate dream and mark of success (usually because there is a large payout). However, before an initial public offer can be discussed, a company must meet requirements laid out by the underwriters.

Characteristics that may quality a company of an initial public offer.

- High growth prospects
- Innovative product or service
- Competitive in the industry.
- Able to meet financial audit requirements
- Revenues of approximately $10-20 million per year with $1million profits.
- Management teams should show future growth of about 25%per year in a 5-7 years span.

The process of Going public / Flotation

When a company decides to list its shares on a stock market. It has to go through an elaborate process before its shares become quoted i.e.

- The company publishes a prospectus describing its business who its directors are, what its financial position is and what profits it thinks it is going to make. The information it includes has to conform to strict guidelines so that potential investors are not misled.
- The prospectus announces the issue of new shares sets an offer price for the shares and invites subscriptions. In some cases a company will not actually set a price for its shares but will have an "offer by tender " effectively an auction in which investors bid for shares.
- In a flotation, a company raises money by issuing new shares in what is known as the 'primary market'. Once the shares are listed, further trading in them occurs in the secondary market – secondary in a sense that it is a second stage market between investors that does not involve the company itself.

Strategies for Going Public

Going Public represents a significant milestone for any company. The Initial Public Offer (IPO) market grew more than 200% in 2004. With all its rewards however, an IPO is complicated and time consuming. It involves a high degree of risk and requires an extraordinary level of management commitment.

A Summary of what to consider in Going Public.

- Should you Go public? Public ownership offers significant benefits to a company and its shareholders but also has disadvantages. Therefore the pros and cons and alternatives must be weighed when making a decision.
- Timing: Evaluating your company's appeal to investors and the state of the market is important in deciding whether to Go Public. A business plan will enable you to move quickly and seize market opportunities.
- Your team: Specialized professionals are required for taking a company Public. There is need to identify who you need and offer brief overviews of their participation.
- Pre-Public planning: This deals with steps that must be taken to prepare a company for a public offering. It also provides insight into the roles of your management attorneys, accountants and financial public relations firms.
- The Underwriters: Competent underwriters are critical to the success of your public offering. The criteria for selecting underwriters and also the criteria underwriters use for deciding whether they want to take the company public should be understood. The factors they consider when pricing your stock should he clear.
- Registration: Every member i.e. the entrepreneur, the underwriters, the attorneys, accountants will be involved in registering the company with the Securities and Exchange Commission.
- The waiting period: The actual selling efforts occur during the weeks immediately preceding the effective date of your registration statement. You should be aware of the rules governing what you can and cannot do and say during this period and what your involvement is in the selling effort.
- Closing the deal: When your registration statement is effective, the remaining events in the process occur quickly.

- After you go public: When the offering is complete, looks ahead to responsibilities as a leader of a public company especially your relationship with the financial community, reporting requirements and several securities laws.

Criteria for Evaluating Loan Sources:

The cost: What are the benefits of getting a loan in relation to the costs. This cost is in terms of the interest rate or cost of borrowing. The cost of a loan is usually measured by its impact on the earnings of the business.

Flexibility of the loan source: Will the conditions imposed by a loan source reduce flexibility in seeking for other capital? Can there be possibility of seeking for other alternatives? The more the flexibility of the loan source, the source.

Control: How does the loan affect the owner's control over the business? If the source of the loan prevents the entrepreneur from controlling the business does it allow the entrepreneur to make operating decisions or not?

Risks to which the business is exposed as a result of the loan. This refers to the conditions which are attached to the loan in case one fails to pay back. E.g. taking over the ownership of the business or selling it off. Usually the best option is to go for sources with lower risks.

The lending experience of the source especially with small business enterprise. Does the source have a good reputation for dealing with small scale businesses or they are harsh and unreliable.

Are there some special requirements for the lender for instance opening an account with a specific bank before obtaining the loan and should this account be opened with a specific minimum amount, procedures to follow for instance documentation about the client, the maximum amount to be obtained might be dictated.

FRANCHISING

Taking on a Franchise is an option worth considering for anyone who wants to run a business but does not have a specific business idea or prefers the security provided by an established business.

The word Franchising comes from the French word 'Franchir' which means 'free' originally it meant to free from "slavery". Today it has several other meanings: One of the acceptable meanings is that.

It is an arrangement whereby the manufacturer or distributor of a product or provides of services gives exclusive rights of local distribution to independent retailers in return for payment and conformance to standardized operation procedures.

This is common in the automobile, beverages, book and electronic industries.

A franchise is a form of business ownership created by **<u>Contract</u>** whereby a company (Franchisor) grants to a buyer (Franchisee) the rights to engage in selling or distributing its product(s) or services under a prescribed business format in exchange for royalties or shares of profits.

Advantages of franchising

- Your business is based on a proven idea. You can check how successful other franchises are before committing yourself.
- You can use a recognized name and trademarks. You benefit from advertising or promotion by the owner of the franchise.
- The franchisor gives you support – usually including training, help setting up the business: a manual telling you how to run the business and ongoing advice.
- You usually have exclusive rights in your territory. The franchisor will not sell any other franchises in the same region, though there will be competition from other businesses.
- Financing the business may be easier. Banks are sometimes more likely to lend money to a franchise with a good reputation.
- Risk is reduced and is shared with the franchisor.
- You have an existing customer base and do not have to invest time looking to set up one. Customers will always buy the product because they are already aware.
- Relationships with suppliers have already been established.

Disadvantages of franchising.

- Costs may be higher than you expect . in addition to the initial costs of buying the franchise, you may continue to pay royalties and you may have to agree to buy products from the franchisor.
- The franchise agreement usually includes restrictions on how you run the business. You might not be able to make changes to suit your local market or environment.
- Other franchisees could give the brand a bad reputation and eventually affect sales.
- You may find it difficult to sell your franchise – you can only sell it to someone approved by the franchisor and may not be easy.
- Reduced risk means you might not guarantee vastprofits.

Questions to ask before buying a franchise.

- What is the business and how does it operate? There is need for a better understanding of a business before taking it up.
- How long has the franchisor or company offering the franchise in business? This is because the longer they have been in business the larger the customer base.
- Is there a strong demand for the franchisor's products or services?
- What is the strength of competition from other businesses? Competition should be minimal to allow fast growth and expansion.
- Is the location of the franchise convenient? Can the customers and suppliers locate you easily without difficulty?
- Will the franchise company provide you with everything you need to be successful e.g. equipment for storage etc.
- Will you be happy with the restrictions imposed by the franchise arrangement? This is because these restrictions can have an impact on the morale of the workers and even the managers' flexibility.
- Can you afford the franchise fee? It should not stress you financially because you might take long to recover it.

Key things to consider when planning to purchase a Franchise (The Dos)

- Assess yourself to see what kind of franchise if any will suit you.
- Find out what franchises are available.
- Do your own market research into customers and competitors in your area.
- If you will need to raise bank finance, ask your bank if it will need consider a loan for the type of franchise you are considering.
- Draw up a business plan – indicate other strategies to enable you succeed.
- Check the franchise agreement and get professional advice.

Areas covered by a typical agreement are:

- **The term:** How long does the franchise last? Can it be renewed and on what terms?
- **Territory:** What area does your franchise cover, and do you have exclusive rights to sell within it?
- **Fees:** What initial fee will you pay? What royalties will you pay on sales? Will you have to pay other costs and how are they worked out?
- **Support:** How much help will you get purchasing the franchise? What continuing support will you get?

- **Restrictions:** What restrictions are there on what you are allowed to do and how you must run the business?

- **Exit:** What happens if you cannot continue in the business for some reason? Perhaps due to ill health? And what happens if you want to sell your franchise.

The Disadvantages:

It is advisable to make sure you don't:

- Take up the first opportunity before investigating alternatives this is because there could be better alternatives.
- Allow yourself to be hurried into making a decision – first think and analyze the situation.
- Pay any non-refundable deposit.
- Commit yourself before you are completely satisfied i.e. getting into the agreement.
- Assume that a franchise will automatically give you customers or assume that it will work in your area just because it works elsewhere.
- Rely on the forecasts provided by the company selling you the franchise.
- Sign any agreement without legal advice.

Social Entrepreneurship: Not Just Charity

Social Entrepreneurship cannot be confused with charity. While charity reflects the benefactor's compassion for humankind and is measured in terms of the generosity of donations to the less fortunate, social entrepreneurship reflects more than the good intentions of its practitioners, who are not merely driven by compassion, but are also compelled by a desire for social change. Oftentimes, charitable organizations survive at the mercy of their donors whose contributions vary with the economic climate. A nonprofit that practices social entrepreneurship, on the other hand, relies less heavily on donor funds because it creates social programs that are meant to be self-sustaining. Social entrepreneurs manage donor contributions in an effective manner, investing in social ventures which can then generate their own revenues to sustain themselves.

In other words, while charity uses donor funds to buy food to ease the poor's hunger, albeit only temporarily, social entrepreneurship uses its funds to make a lasting social impact, creating instructional programs that teach the poor how to grow their own food so that they can take care of themselves in the long run. In a world of scarce resources, it is no longer enough to simply donate out of good intentions. Rather, Greg Dees emphasizes the need for people to value the social impact that their donations are actually having:

"In society, I'd like to see more value placed on social impact and success than on good intentions or effective marketing or the severity of the need you're claiming to serve. I'd like to see a fundamental change in ethics or culture around that. We still have the lingering effect of a culture of charity, which honors people for their sacrifice—how much they give and the purity of their motives. The word charity comes from the word "caritas," which is Latin for love or compassion. We're rewarding people for demonstrating their love of humankind, but we're not often looking to see whether it has the intended impact. So I'd love to see an ethics change, so that we honor people for the impact they've had directly, or indirectly in choosing to support programs and organizations and individuals that have had impact, not just for how much they give or how generous they are."

Moreover, social entrepreneurs have to identify opportunities that have the potential to change the world. In the words of Martin J Fisher & Kevin Starr, the authors of Real Good, Not Feel Good:

"We can no longer afford to spend scarce funds on things that simply feel good. Instead we need to support initiatives that do real good, and that have the potential to generate large-scale and lasting solutions to the world's biggest problems."

Social Entrepreneurs as Engines of Innovation

Just as business entrepreneurs are willing to take risks and play around with ideas until they find one that works, social entrepreneurs must dare to innovate even if it means treading where no one has ventured before. Of course, not all social innovations are successful. But even so-called failures are usually blessings in disguise because they inform the social entrepeneurs what to avoid in a future enterprise. Since social entrepreneuers work in a variety of different social contexts throughout their career, with each new situation demanding a different approach or even a different solution, they must be flexible in the way they think and approach problems.

Innovation – A Tool to Better the Whole Society

There is no doubt that innovation plays a vital role in any entrepreneurial enterprise. While the ability to generate innovative ideas is important, this alone cannot make the social entrepeneur successful. Many people can think creatively and generate a lot of ideas, but many tend to rest on their laurels once their own problems are solved. According to William Drayton, the social entrepreneur effects a paradigm shift in the whole society:

“There are many creative, altruistic, ethically good people with innovative ideas. However, only one in many thousands of such good people also has the entrepreneurial quality necessary to engineer large-scale systemic social change. Entrepreneurial quality also does not mean the ability to lead, to administer, or to get things done; there are millions of people who can do these things. Instead, it refers to someone who has a very special trait -- someone who, in the core of her/his personality, absolutely must change an important pattern across his/her whole society. Exceedingly few people have this driving motivation. Most scholars and artists come to rest when they express an idea; many managers relax when they solve the problem of only their company or institution; and most professionals are happy when they satisfy a client. It is only the entrepreneur who literally cannot stop until he or she has changed the whole society.”

A Case in Point: Andrew Carnegie & the Birth of the Library System

“Imagine that Andrew Carnegie had built only one library rather than conceiving the public library system that today serves untold millions of American citizens. Carnegie’s single library would have clearly benefited the community it served. But it was his vision of an entire system of libraries creating a permanent new equilibrium – one ensuring access to information and knowledge for all the nation’s citizens - that anchors his reputation as a social entrepreneur.” – Roger L. Martin & Sally Osberg in the Stanford Innovation Review

Social Entrepreneurial and Eye Care

Unite For Sight supports eye clinics worldwide by investing human and financial resources in their social ventures to eliminate patient barriers to eye care. The village and slum communities where Unite For Sight and the eye clinic partners now work had not previously had access to eye care due to many patient barriers. Unite For Sight's model enables the local ophthamlologists to create real change and a sustainable impact for those living in extreme poverty. With Unite For Sight's support, the local ophthalmologists develop and lead eye care programs that provide high quality, cost-effective care to the world's poorest people.

Unite For Sight’s programs are sustainable because emphasis is placed on nurturing and developing local potentialities so that eye clinics can meet local eye care needs on a long-term basis. Unite For Sight provides the necessary support to cultivate leadership, talent and ideas among its eye clinic partners. Not only are eye care programs led by local staff, but local volunteers are also trained to serve as support staff at local eye clinics. To nurture local talent, visiting specialist volunteers, such as ophthalmologists, optometrists and ophthalmic nurses, provide training to local specialists. Unite For Sight’s model is able to significantly increase the number of surgeries provided by local eye clinics annually. For more information, visit http://www.africapopulation.net

Unite For Sight works with partner eye clinics to provide local solutions, identifying, and overcoming community-specific barriers to effective healthcare delivery, such as transportation and communication. Patients are transported to and from the eye clinic. Moreover, local community leaders and members are involved in outreach activities, raising awareness and providing education regarding eye care to those who would otherwise not have access to eye care. Unite For Sight’s model has been employed successfully in a variety of different social contexts in Ghana, Honduras and India.

The Social Venture – A Success or a Failure?

The primary indicator of success lies in the actual impact of the social initiative. To put it simply, a social venture is successful if it achieves its intended social impact.

Capturing the Impact – The Mission Statement

The social entrepreneur should state the intended social impact in a brief and specific mission statement. For example, "poor families will earn more money" or "fewer people will get, and/or die of, malaria." Statements like "fighting poverty and injustice" or "improving lives" are simply too vague to be useful.

Measuring the Impact & Establishing a Correlation

The social entrepreneur can now assess whether the social program actually measures up to the mission statement. To measure impact, one has to gather concrete statistical data. For instance, if the mission statement is "poor families will earn more money," then the income data of these families before and after the intervention should be collected and analyzed. The impact can then be quantitatively measured. Of course, owing to the sometimes varied and complex nature of the impact, it is often up to the social entrepreneur to find a suitable metric that can capture results with integrity.

However, it is insufficient to simply measure the impact.. More importantly, the social entrepreneur must prove that the social programs are indeed the interventions responsible for producing the desired changes. For this purpose, scientific randomized trials involving control groups could be done to study the correlation between a particular social initiative and the perceived social changes. Otherwise, one could rely on the past studies of similar programs in similar contexts conducted by other social entrepreneurs or researchers. The social entrepreneur must provide concrete evidence to justify the efficacy of the social endeavors. According to Fisher & Starr,

"A project working to reduce the incidence of malaria by distributing mosquito bed nets must demonstrate that the incidence of malaria is in fact reduced. It is not enough to simply report on the number of nets distributed - the link to impact may not be there. Nets can be improperly used, sold by the beneficiaries for quick cash, or even used as fishing nets. Simply tracking activities is not enough - you need to track the impacts of those activities…A project that aims to reduce poverty by helping poor people to start businesses needs to show that the participants earn significantly more net-income after the intervention than they did before it. Business training or access to credit may not in fact get people out of poverty—measuring incomes is the only way to know."

Cost-Effectiveness

Funding for philanthropic purposes can be extremely limited. As such, it is important to keep track of the amount of donor funds required to produce a given impact. For example, for every dollar spent in a poverty reduction program, by how much do the incomes of the people rise? The social entrepreneur must strive to be cost-effective, optimizing every dollar to produce the greatest benefit for the beneficiary. The programs should also be evaluated to determine if the programs are going to be cost-effective over time, in the future. Fisher and Starr also offer additional advice: "Cost-effectiveness is relative, so compare the project to other projects working to produce the same impacts in similar areas. If you have nothing to compare it to, then at least ensure that the effectiveness can be measured and that it feels reasonable to you."

Sustainability in the Long Run

A crucial question is whether the social initiative would be sustainable in the long run. What would happen to the program once the inflow of external funding stops? In an effective program, the initial positive impact should not fade away, but should continue to generate benefits even with scarce, decreasing funding. Fisher and Starr urge social entrepreneurs to continually ask the following questions:

"Will the people who are given mosquito nets continue to use them? Will the nets continue to be effective? Will they get replacement nets? Will new people want, and be able to get, nets?... Will the businesses that people have started continue to prosper? Will new people be able to start new profitable businesses?"

According to Fisher and Starr, in order to have sustainable impact, a social program should have one or more of the following characteristics:

> "The project can leave in place a business model and supply chain, which will continue to provide the required goods and services at a profit."
>
> "The project can hand-over the provision of goods or services to the local government – which will fund the continued interventions by collecting taxes." Though this is a viable option, it is unfortunately not always sustainable to rely on the government.
>
> "The project can leave in place a self-sustaining community process to provide a solution to a local problem with no external source of funding."
>
> "Finally, a project can work to permanently eliminate the problem it is trying to solve. Either it can get rid of the problem itself, or it can permanently change a no-cost social behavior..."

A Case in Point: The Grameen Bank, A Model of Sustainability

Muhammad Yunus, the founder of the Grameen Bank and winner of the 2006 Nobel Peace Prize, found a solution to the plight of poor Bangladeshis who are unable to acquire funds to start their own business – microcredit. He lent $27 of his personal funds to a group of poor women, who quickly started a sewing business that was able to generate enough income to help them pay back the loan, and more importantly, to rise above poverty. Thus the idea of the Grameen Bank was born. According to Martin & Osberg, "Grameen Bank sustained itself by charging interest on its loans and then recycling the capital to help other women." Having thus proven microcredit to be a sustainable method of combating global poverty, Yunus continues to inspire organizations worldwide to adopt the Grameen model to combat poverty in their own communities.

Learning Outcomes: Sharing Knowledge With Other Social Entrepreneurs

After assessing the impact of a social venture, the social entrepreneur will know whether it is successful or not. Successes and failures are equally important because the social entrepreneur draws valuable lessons from both. More importantly, the social entrepreneur also shares knowledge of what works and what doesn't with other social entrepreneurs to help them achieve progress in their respective social projects.

Learning Outcomes: Scaling & Replicating The Impact Elsewhere

According to Fisher & Starr, "developing successful models for social change is expensive and we can't afford to reinvent the wheel every time." The best projects are normally those that, with a few minor modifications, can be rescaled and replicated in a variety of different social contexts to address a similar problem. The Grameen model of poverty reduction is successful not only because it is sustainable and cost-effective, but also because it can readily be adapted to serve the needs of different communities with different sets of cultural and social needs. In fact, so successful is microfinance that it is now even being implemented in developed countries like the United States to reduce poverty.

An Emerging Trend: Social Venture Investors

While venture capital was predominantly invested in such industries as semiconductors, biotechnology, and the internet in the past, venture investors today are increasingly attracted to small business models that, in addition to their potential to earn attractive financial returns, could yield social benefits. Many venture investors increasingly recognize that there is no need for a tradeoff between earning profits and delivering a social mission. Already many industries, such as clean energy and organic foods, are getting investors' attention, and their 'patient' capital.

"There's more attention in this space, and with attention, more investors want to participate… it becomes less a fringe and more acceptable. In a few years it'll be closer to mainstream." - Deb Parsons, business development director at Investors' Circle

What is 'Patient' Capital?

"Patient capital is another name for long-term capital. With patient capital, the investor or backer is willing to make some type of investment in a business with no expectation of turning a quick profit. Instead, the investor is willing to defer any return for an extended period of time."

Patient capital is revolutionizing the concept of philanthropy. Social entrepreneurs are no longer content with traditional philanthropy – which is normally the giving of direct, temporary aid to relieve poverty – as the best way to alleviate poverty. Patient capital allows social entrepreneurs to bring their business acumen to bear on social issues. By combining patient capital with their talent and knowledge, social entrepreneurs strive to perfect the correct models for delivering basic goods and services, such as housing, healthcare, energy and clean water, to the underserved market of the poor in the most effective and efficient ways.

Patient capital is based on the philosophy that everyone should have access to basic goods and services. It targets the poor consumers.

‘Patient’ Capital as a Poverty-Reduction Tool

“People grow out of poverty when they create small businesses that employ their neighbors. Nothing else lasts.” - Thomas L. Friedman

Moreover, according to Friedman, many people do not aspire to become entrepreneurs because they would rather be followers of certain risk-taking leaders and innovators. As such, patient capital must be made available to these would-be capitalists to initiate their own businesses which could in turn benefit others.

Patient capital can also be used to increase the incomes of the poor sustainably. A case in point described by Friedman is the Kenyan company Advanced Bio-Extracts (ABE), a pharmaceutical company which produces an affordable, efficacious malaria treatment in a region where malaria still kills nearly a million Africans annually. ABE also designs contracts with small local farmers to grow the botanical ingredient for the drug, which helps them earn more income than just growing corn. This business model is funded using ‘patient’ capital from investors like Novartis and the Acumen Fund.

The Significance of ‘Patient Capital’ in Improving Global Health

In developing countries, health services rendered by the private sector are often costly and unattainable. As such, patient capital could be invested in social enterprises that provide high quality medical care at a low cost to the poor.

Brief Case Study: The Acumen Fund

“People don’t want handouts…They want to make their own decisions, to solve their own problems.” – Jacqueline Novogratz

A former graduate of Stanford Business School and subsequently an international banker, Jacqueline Novogratz is now a social entrepreneur who is redefining the practice of philanthropy by tapping into her business foresight and skills to fight poverty in developing countries. She believes that traditional charity, which merely gives aid, is no longer an adequate solution to the problem of poverty. Founding The Acumen Fund in 2001, Novogratz uses market-oriented approaches to tackle issues of poverty – by providing promising entrepreneurs, who bring the necessary good and services to communities who need them, with patient capital. Rather than distributing handouts like a traditional charity, The Acumen Fund invests in socially-conscientious companies whose target customers are the world’s poor.

“From drip-irrigation systems in India to malaria-preventing bed nets in Tanzania to a low-cost mortgage program in Pakistan, Acumen’s portfolio offers important case studies for entrepreneurial efforts aimed at the vastly underserved market of those making less than $4/day.”

Social Investing and Social Return on Investment

According to Social Economy Scotland, social investment is a form of investment that is “focused on the social return rather than the financial return. It is a relatively new term but is gaining common currency describing the type of investment organizations are looking for as they move away from grant aid."

The Challenge: Procuring Social Investment

Because a social investor has to sacrifice financial return in favor of social return, the social investor arguably takes on more financial risk compared to the traditional investor. According to Brian Trelstad of Acumen Fund, a social investor is "someone who takes a double (or in some cases triple) bottom line approach to their capital, and attributes real value to the social or environmental return in their investment decision-making. They will often, but not always, be willing to exchange a lower economic return for potential social or environmental impact." So a fundamental challenge facing social entrepreneurs is to persuade investors, who normally invest in profit-oriented businesses, to invest in social ventures that not only do not promise significant returns, but are normally also highly susceptible to failure.

At the moment, there are no ready answers to this problem. In fact, there are many more challenges to come in terms of attracting investment into the social sector. Though the number of social investors continue to grow, it is unlikely to achieve a size large enough to meet all future social investment needs. Moreover, continued dependence on donor funding only leads to increased competition with other traditional nonprofits. Some have also suggested improving the profitability of social ventures by expanding their clientele to include the middle and upper classes, but this would arguably detract from the integrity of social entrepreneurship, which is supposed to serve the disadvantaged. Yet, without sufficient investment, a social venture's impact is limited because it cannot achieve significant scale.

Social Return on Investment (SROI) & Its Importance

According to Social Economy Scotland, "SROI measures an organisation's added value by calculating the social, environmental and economic benefits it creates and by attributing a financial value to them. It is based on standard accounting principles and investment appraisal techniques." It is a way of quantifying value creation. Like other investors, social investors, too, want to know if their investments are actually generating social returns. After all, just as economic profits justify the existence of businesses, so social returns justify the existence of nonprofits and social entrepreneurs.

But unlike other investors, social investors often have difficulty coming up with a precise, numerical value that can accurately represent the amount of social return produced. According to Sean Stannard-Stockton, the director of a wealth management firm,

"But what about the Social Return on Investment? If a donor makes a gift to a nonprofit, what is the "return" on that gift? How much "good" was achieved? The dollar amount given is easy, but "calculating" the "good" done is tough. First because knowing what "good" means is hard, secondly because relating "good" to dollars is like translating a symphony into organic chemistry, and third because identifying cause and effect is tough (did your grant create more jobs, or did the economy just happen to get better?)…I don't think we'll ever be able to honestly make statements like "My $10,000 donation achieved a 9.2% SROI". That would be like calculating that The Great Gatsby was a better investment of your time than Freakonomics."

Calculating the Social Return on Investment

Some entrepreneurs have provided technical guidelines in an attempt to measure the social return on investment. Jed Emerson, Jay Wachowicz and Suzi Chun from Harvard Business School propose an SROI analysis using the following methodology:

"Examines a social service activity over a given time frame (usually five to 10 years); calculates the amount of "investment" required to support that activity and analyzes the capital structure of the non-profit that is in place to support that activity; identifies the various cost savings, reductions in spending and related benefits that accrue as a result of that social service activity; monetizes those cost savings and related benefits (that is to say, calculates the economic value of those costs in real dollar terms);discounts those savings back to the beginning of the investment timeframe (referred to as "Time Zero") using a net present value and/or discounted cash flow analysis; and then presents the Socio-Economic Value created during the investment time frame, expressing that value in terms of net present value and Social Return on Investment rates and ratios."

In presenting the above methodology, the authors also give a disclaimer: "The core SROI analysis, as presented by REDF, does not attempt to definitively quantify and capture all aspects of the benefits and value that accrue as a result of a successful program, but rather to identify direct, demonstrable cost savings or revenue contributions that result from that intervention." In other words, this is just one of many possible ways to calculate social return on investment, one based on cost savings and revenue contributions.

The Calvert Foundation has designed its own Social Return on Investment Calculator, based on the number of jobs created by the social venture. The diversity of methods of value appraisal attest to the difficulty of providing a standard, consistent way of Social Return on Investment analysis

The 'Invisible' Entrepreneurs

Social entrepreneurs from developing countries are seldom known. This is hardly because developing countries lack entrepreneurial talent; it is because many, especially those who have initiated entrepreneurial projects to lift themselves out of poverty, simply go unrecognized. The field of social entrepreneurship conventionally gives recognition only to MBAs and investment bankers, the elite group who have acquired specialized training in an institutional setting, but not to the poor and disenfranchised. It is time that they are recognized as legitimate practitioners of social entrepreneurship, and be given the necessary support and resources. No longer satisfied with just being the clientele of social ventures, the poor, too, want to participate actively in improving their own lives.

Social Entrepreneurship: A Survival Tactic for the Poor

"The true social entrepreneurs are ghosts that never claim the glory for themselves, that work for their goal like their lives depend on it, because actually, their lives do depend on it. They don't work to be counted. You don't find them in congresses, seminars and forums. They don't read literature about social entrepreneurship; they don't study it. They just are social entrepreneurs because they need to be. They live for it and by it." – John Alexis Guerra Gomez

For many of the poor, social entrepreneurship is a vocation of necessity, not of choice. In an effort to eke out a living, many rural poor have unknowingly become what Western academics term social entrepreneurs. These entrepreneurs have low or maybe even zero visibility in the field of social entrepreneurship because they do not actively engage in public relations, or they do not have resources like Internet access or even the necessary language skills to discuss their ideas. Yet, they are contributing in significant ways to the betterment of their communities. Their social ventures may not achieve a scale significant enough to trigger a paradigm shift, as is conventionally the desired outcome of social entrepreneurship, but they nevertheless still have a huge impact on their immediate surroundings, especially on the poor people around them.

Contrary to popular belief, most poor people do not want to get by on charity; they want a sustainable way of making a living. Given the tools and resources, they too can become successful social entrepreneurs. But family always comes before community. Only when they can generate a consistent income to guarantee their own financial security, and their own families' economic stability, are they then willing to use their skills and resources to serve others in the community through their social ventures. "Individual ownership is the key to sustainable economic development," says Kickstart, a nonprofit that fights poverty.

Community Members as Social Entrepreneurs

It seems that most social ventures are initiated by foreigners who see a social problem and decide that something should be done. But local people cannot always rely on the initiative of foreigners. Instead, local people themselves must take the initiative to develop their own entrepreneurial plans of action in response to social problems. Moreover, they possess unsurpassed experience and knowledge of their immediate surroundings and needs, and therefore are in a good position to take action.

Moreover, a powerful synergy can be created by harnessing the entrepreneurial talent of local people to develop social ventures in collaboration with social entrepreneurs from developed countries who can provide the funding and other resources. Unite For Sight, for instance, depends on such a synergy for its success; it cultivates and invests in the talent of local ophthalmologist leaders who have the determination and skill to create social enterprises that serve their community's poorest people.

Karrus Hayes, a Liberian refugee and the founder of "Vision Awake" Africa For Development, is another example of a "local" social entrepreneur. The 1989-1997 Civil War in Liberia was a period of unimaginable turmoil. Fleeing for their lives, thousands of Liberians have now settled in refugee camps in neighboring countries. But the living conditions in these camps are often deplorable, and residents suffer from the effects of poor sanitation, polluted land, and contaminated water. In one such refugee camp, Buduburam Refugee Camp in ghana, Karrus Hayes realized that many children could not go to school. Seeing an unfilled education need, he decided to set up a free school. He had no money, but he had an entrepreneurial spirit. With a loan of $50 and some donated church space, he started the refugee camp's only tuition-free school for needy children. Today, his organization runs several programs, including a community college, microfinance and orphan assistance programs.

"It really touched me, but I didn't have control over it…I'm a refugee too. I don't have any means of helping. But I knew that I would do something because I had an idea." – Karrus Hayes

Supporting Local Entrepreneurial Talent

"To define people by their conditions rather than their abilities is dehumanizing. When you look past the poverty, you see abilities, resources, and desires. The poor are extremely hard-working and entrepreneurial – they must be just to survive. They don't want or need to be rescued. They want an opportunity to create a better life for their families."

It is clear that local entrepreneurial talent should be nurtured and developed. In order to do so, the field of social entrepreneurship must reach out to the "invisible" social entrepreneurs whose talent remains untapped. Ashni Mohnot has several ideas on how this could be done. In particular, she suggests that entrepreneurship conferences, like the Skoll World Forum, should encourage participation from these "invisible" social entrepreneurs in developing countries. More funding should also be made available locally to fund their social ventures.

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