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NATIONAL ECONOMIC EMPOWERMENT COUNCIL

SMEs TRAINING MANUAL

Final Version

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Borasoft Ltd ... inspiring solutions.

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Further, we submit that the sentiments presented hereinafter do not in any way represent the official position of the National Economic Empowerment Council or its associates.

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ACRONYMS AND ABBREVIATIONS

Acronym	Meaning
ATM	Automated Teller Machine
CCTV	Closed Circuit Television
CEO	Chief Executive Officer
COGS	Cost of Goods Sold
CRB	Contractors Registration Board
CRM	Customer Relationship Management
CV	Curriculum Vitae
DVD	Digital Versatile Disk
EFD	Electronic Tax Device
GCLA	Government Chemist Laboratory Authority
GPS	Global Positioning System
HACCP	Hazard Analysis and Critical Control Point
HRM	Human Resource Management
HSE	Health Safety and Environment
IATA	International Air Travel Association
ICT	Information Communication Technology
ID	Identification
ISO	International Organization for Standardization
LPO	Local Purchase Order
MMS	Multimedia Messaging Service
MSMEs	Micro Small and Medium Enterprises
NEEC	National Economic Empowerment Council
NHIF	National Health Insurance Fund
NSSF	National Social Security Fund
OSH	Occupational Safety and Health
OSHA	Occupational Safety and Health Authority
PAYE	Pay As You Earn
PESTEL	Political, Economic, Social, Technological, Environmental and Legal
POS	Point of Sale
PPRA	Public Procurement Regulatory Authority
QMS	Quality Management System
SDL	Skills Development Levy
SIDO	Small Industry and Development Organization
SMART	Specific Measurable, Attainable, Time bound
SMEs	Small and Medium Enterprises
SMS	Short Messaging Service
SWOT	Strengths Weaknesses Opportunities Threats
TBS	Tanzania Bureau of Standards
TIN	Tax Identification Number
TMDA	Tanzania Medicines and Medical Devices Authority
TRA	Tanzania Revenue Authority
VAT	Value Added Tax
WCF	Workers Compensation Fund

MODULE I: BUSINESS MANAGEMENT

1.1 Lesson Plan

1.1.1 Overall Objective

To develop the skills and knowledge of the participants on the foundational competences needed to conceptualise, operationalize and run a business successfully

1.1.2 Specific Objectives

By the end of this training, the participants will have achieved the following objectives;

i. Develop models for enterprise establishment and growth
ii. Develop and use various business documents such as strategic business plans, company profile, operations plan, Standard Operating Procedures
iii. Understand the importance of adopting a growth orientation for the enterprise
iv. Know about and implement various Quality Management Systems
v. Develop and implement models for risk assessment and mitigation
vi. Discover the importance of leveraging ICT to improve business processes
vii. Understand the importance of enterprise leadership and corporate governance
viii. Recognise the role of business ethics in anchoring enterprise sustainability goals

1.1.3 Topics Covered and Time Available: 5 Hours

Table 1: Business Management Module Topics, Training Methods and Time

Content	Method	Time - minutes
Growth orientation	Lecture, Discussion, Activities	30
Business modelling	Lecture, Discussion, Activities	30
Business documentation	Lecture, Discussion, Activities	45
Quality management systems	Lecture, Discussion, Activities	45
Risk management	Lecture, Discussion, Activities	45
Use of ICT in Business	Lecture, Discussion, Activities	45
Enterprise Leadership and corporate governance	Lecture, Discussion, Activities	45
Ethics and Sustainability	Lecture, Discussion, Activities	15
	Total	**300**

Sources: NEEC SMEs Training Manual 2020

1.2 Growth Orientation

1.2.1 Understanding Growth Orientation

- Growth oriented entrepreneurs lead a firm with the motive of scaling up over the years
- They are different from survival or subsistence entrepreneurs who start a business as a source of livelihood
- A growth oriented enterprise will have a high growth rate for instance over 20% annual growth in sales

1.2.2 Tips on Developing a Growth Orientation

- Start with clear growth objectives – don't have the subsistence mentality whereby you are happy for as long as the business is supporting you and itself
- Document your ideas plans and processes
- Formalise your business from the beginning e.g. incorporating it as a company
- Leverage on experts to close personal knowledge gaps e.g. use of consultants
- Professionalise the business – you should aim at transitioning from owner managed business to professional managed business as soon as possible
- Have a succession plan in place – think about the existence of the business long after you are gone
- Network as widely as possible – this will help you meet people that can you help in growing your business such as customers, suppliers, partners etc.
- Look for coaching and mentorship for hand holding as the business grows
- Avoid lone ranger way of doing business – ensure you have systems in place to run the business even in your absence
- Exploit external sources of financing for your business dream – while most businesses start with own sources of funds such as savings and grow through ploughing back profits this is not enough to sustain high growth
- Adopt innovation as a core value for your business – always be on the lookout for better ways of doing things
- Understand that expansion does not lead to growth on the contrary it is growth which should lead to expansion. Many businesses expand too fast and end up burning out
- Run your business in a sustainable way as outlined at the end of this module

1.3 Business Financial Modelling

1.3.1 Understanding a Business Financial Model

- A business model is a company's plan for making a profit
- It involves making various assumptions about all the key aspects of the business
- It forms a basis for making financial projections for the business such as cash flow projections, projected profit and loss statement, projected balance sheet etc.

1.3.2 Key Components of a Business Financial Model

The key components of a business financial model seek to provide information on,

- Everything it takes to make something: design, raw materials, manufacturing etc
- Everything it takes to sell that thing: marketing, distribution, delivering a service and processing the sale
- How and what the customer pays: pricing strategy, payment methods etc.

1.3.2.1 Assets

- Forecasts of assets to be acquired e.g. buildings, machines, equipment, vehicles, furniture, software etc. Provide precise details of the number of assets, their cost and how they will be acquired with time for instance which ones you need at the beginning and the ones you will buy as the business grows, how will they depreciate over time
- Staff forecast – how many employees will you need in each department and how much you will pay them based on their designation e.g. Managers, Supervisors, Officers, etc.

1.3.2.2 Production volumes

- What products are you going to produce
- What raw materials are required to produce each product

1.3.2.3 Revenues

- What revenue will you generate from each product type and each market segment

1.3.2.4 Costs

- What direct costs will you incur e.g. purchase of raw materials, direct labour, direct overheads
- What indirect costs will you incur e.g. rent, staff costs, loan interest expense, licence fees, transport, insurance, water, electricity, internet etc.

1.3.2.5 Non expense cash outflows

- Loan repayment - If you will finance the business using a loan you need to include the cash outflows. You can use a loan amortisation schedule to calculate what you will need to pay and at what time. A loan amortisation schedule shows the amount borrowed, the interest rate, the duration of the loan and all the repayment instalments for both principal and interest rate over the lifetime of the loan e.g. on a monthly basis
- Dividend – if you plan to pay shareholders dividends you should also include it

All the above items should be based on logical and evidence based assumptions. The information generated will be used as a basis for financial projections in your business plan. This will produce the projected financial statements over the duration of the business plan e.g. three or five years.

1.3.3 Importance of Business Financial Modelling

- It will help you think about all the financial and non-financial aspects of the business
- It clearly demonstrates how your business will sustain itself over time
- By thinking through all these issues it will lower the risk of surprises
- It also helps you perform sensitivity analysis. After changing some of the assumptions it will recalculate and show you the outcome for example if your sales reduce by 20% how will it affect your cash flows and profits? will the business still be viable?
- It will assist you determine whether your business is commercially viable and if so the circumstances under which such viability is based on
- It can make it easier to fundraise since those to provide the finances can clearly see how you will make money and repay the funds or generate a return for them

1.3.4 Sources of Information for Business Financial Models

- A person who has run a similar business – by talking to such a person you can ensure that the assumptions you are making are as realistic as possible
- Business advisers – a business consultant might have information on the business you are about to establish. They may also have the figures you need for your model
- Industry ratios – in some countries you can get industry ratios on various types of business. The ratios help you understand how your revenue will be spent e.g. what percentage will go into raw materials, overheads, indirect costs etc.
- Business model templates – some firms have conducted research on various business types and have templates that you can purchase and use
- Financial statements for similar firms – you can look for financial statements that are publicly available for a business similar to the one you want to start. While those maybe for a much larger enterprise there is still a lot of information you can get from them. Such financial statements can also be downloaded from websites of publicly listed companies such as those on the Dar es Salaam Stock Exchange

1.3.5 Business Financial Modelling Tools

The most important tool you need is a spreadsheet software such as MS Excel. This will allow you to quantify your assumptions and feed the model with data based on your research. It also makes it easy to conduct sensitivity/scenario/what if analysis i.e. With the spreadsheet you can change any assumption and see how it affects the business.

1.4 Business documentation

- Some of the key business documentation you need include a business plan, company profile and company financial statements
- These documents are important when you are applying to supply goods and services
- The documents should be regularly updated as the business grows and circumstances change

1.4.1 Business Plan

- A plan involves answering the questions on what is to be achieved, how it will be achieved, who will be involved in the achievement, when the achievement is to be realised, how the achievement will be measured
- A business plan is a document that provides a beginning to end explanation on how you will run your business
- Preparation of a business plan should be preceded by thorough research and analysis of the business environment
- You can do the plan by yourself or you can engage a consultant to work with you

1.4.1.1 Importance of a Business Plan

The business plan will help you in the following ways

- Thinking about the project as a whole hence avoiding overlooking issues
- Establishing the viability of the business
- Improve chances of success by spotting problems and finding solutions before hand
- It is a tool for managing your business e.g. decision making
- Providing a means against which actual future performance of the business can be measured
- Setting reasonable objectives and figuring out how to achieve them
- Communicating business ideas to relevant parties such as financiers
- Can help you to access financing for your business ideas

1.4.1.2 What the Business Plan Should Include

- Business plans will always have different content and layout depending on nature and complexity of the business
- Ensure you cover as much ground as possible as this demonstrates your business understanding and seriousness

Table 2: Contents of a Business Plan

Item	Content
Cover page	▪ Branding: Logo, Business Name, Slogan ▪ Contacts: Address, Telephone No., Contact Person, Email, Website
Preliminary pages	▪ Table of contents ▪ List of figures ▪ List of tables ▪ Symbols and acronyms
Executive Summary	▪ A summary of key issues in the plan ▪ Done after finishing the plan
Business background	▪ Location ▪ Products/Services offered by the business.

Business Analysis	▪ Vision ▪ Mission Statement ▪ Business Objectives e.g. sales targets ▪ Form of business ownership ▪ Key partners e.g. major suppliers, shareholders ▪ SWOT analysis – Strengths, Weaknesses, Opportunities and Threats ▪ Business environment analysis – Political, Economic, Social, Technological, Environmental and Legal (PESTEL) ▪ Industry analysis e.g. Porter's five forces framework ▪ Competitor analysis – who are you key competitors and how will you respond to them
Marketing Plan and Strategy	▪ Detailed marketing objectives ▪ Market segmentation, targeting, positioning ▪ Branding ▪ Marketing mix strategies ▪ Marketing activities and budgets
Organisation & Management Plan	▪ Corporate governance – Board of directors, CEO, audit ▪ Departmental structure – administration and operations ▪ Organisation structure – hierarchy or chain of command ▪ Staff roles and responsibilities ▪ Staff qualifications – skills, knowledge and abilities ▪ Staffing plan e.g. number of staff to be hired ▪ Employee grading and remuneration system
Production Plan	▪ Production Facilities/Materials- Their sources & Prices. ▪ Mode of acquisition of the production facilities- e.g. Hiring/Buying. ▪ Premises and space needed for operation. You can sketch ▪ Production Process – operations or production flowcharts ▪ Production strategy e.g. Working for extra hours, use of human labour or machines (automation) ▪ Working hours
Financial Plan	▪ Operations/production budget ▪ Marketing budget ▪ Human resource budget ▪ Financial projections - cash flow, profit and loss, balance sheet for 3-5 years ▪ Sources of finance
Risk analysis	▪ Key risks to your business ▪ Mitigation strategies for the key risks
Implementation	▪ Action plan ▪ Monitoring and evaluation
Appendices	▪ Certificate of incorporation ▪ Owner's and key staff curriculum vitae ▪ Any recommendations e.g. from previous assignments ▪ Audited reports for existing business

Sources: NEEC SMEs Training Manual 2020

1.4.2 Company Profile

1.4.2.1 About a Company Profile

- A company profile is like a Curriculum Vitae (CV) for your company
- It is a marketing tool to introduce yourself to prospects such as customers, suppliers, financiers and even potential employees
- A company profile is not the same as a business plan
- It is a public document hence you should not include any confidential or private information

1.4.2.2 Contents of a Company Profile

Table 3: Contents of a Company Profile

Item	Content
General business details	▪ Branding: Logo, Business Name, Slogan ▪ Contacts: Address, Telephone No., Contact Person, Email, Website, physical address
Introduction	▪ Provide a summary of your company ▪ Should be like sales pitch where you include a brief but detailed summary that makes one want to read the profile. Can be signed by the Chief Executive Officer (CEO).
Company background	▪ Provide a brief history of your company e.g. when it was established, progress made over the years such as areas you have expanded to over the years ▪ Vision and mission ▪ Core values ▪ Ownership structure
Products and services	▪ Provide a list and description of services and products ▪ Include key details and what sets you apart ▪ Use quality images of actual products
Capability	▪ Licences ▪ Certifications ▪ Core strengths ▪ Key staff and their qualifications ▪ Financial capacity
Testimonial	▪ List of completed and ongoing projects ▪ Clients served in the past ▪ Awards ▪ Client testimonials ▪ References for past projects

Sources: NEEC SMEs Training Manual 2020

- The contents of the company profile will differ based on the business

- The profile should be professionally designed to create a great first impression
- Include many photos, white spaces etc.
- Ensure the formatting is consistent
- Keep it updated and also note that this is not a constant document but can always be modified based on the purpose for which it is being provided

1.5 Quality Standards and Standardisation

1.5.1 Understanding Quality Management Standards

- Quality is the degree to which something meets specifications or standards set
- Quality management standards are details of requirements, specifications, guidelines and characteristics that products, services and processes should consistently meet in order to ensure; their quality matches expectations, they are fit for purpose and they meet the needs of their users
- Standards can be optional or mandatory. For instance, some manufactured products must meet Tanzania Bureau of Standards requirements. On the other hand, standards such as International Organisation for Standardization (ISO) are not mandatory
- Compliance with standards might also be a requirement by procuring entities

1.5.2 Tanzania Quality Standards

- These standards are developed by Tanzania Bureau of Standards (TBS)
- "A standard can be defined as a set of technical definitions and guidelines, 'how to' instructions for designers, manufacturers, and users, aiming at promoting safety, reliability, productivity and efficiency in almost every industry." TBS

1.5.2.1 Benefits of Standardisation

Standards enable you to improve the quality of your products and assure customers that your products are of high quality. According to TBS[1] benefits of standardisation include;

- Attract and assure customers
- Demonstrate market leadership
- Create competitive advantage
- Develop and maintain best practices
- Comply with national legislations

[1] http://bit.ly/32KcMc0

1.5.2.2 *Process of Obtaining “tbs” quality mark and tested products certificate*

Table 4: Process of Obtaining “tbs” Quality Mark

Steps	Requirements
1. Request for certification	Inquiry letter (original)
2. Submit application	▪ Application form for licence (TBS) (original) ▪ Business licence (Simple copy) ▪ Sketch location of the premise (Simple copy) ▪ Manufacturer process flowchart- Diagram showing production process ▪ List of testing equipment - A paper with list ▪ Label artwork (Simple copy) ▪ List of ingredients - For food and cosmetics products ▪ Source of raw material documents - List of raw materials and where obtained For Small and Medium Enterprises (SME) ▪ Introduction letter from Small Industry and Development Organization (SIDO) (original + Simple copy) ▪ Assessment report from Small Industry and Development Organization (SIDO) (original) (Simple copy)
3. Purchase of standards	▪ Payment
4. Payment of fees for testing and initials	▪ TBS invoice (original)
5. Obtain TBS receipt	▪ Stamped bank deposit slip ▪ Mobile money text as proof of payment
6. Factory evaluation and sample collection	▪ Inspection evaluation form (original) The trader is required to comply with the requirements listed in the form ▪ Sample testing machine ▪ Product sample ▪ Physical presence of the owner or representative
7. Collection for test report	▪ The client can receive testing report through email
8. Pay annual certification fee	▪ TBS invoice (original)
9. Obtain TBS receipt	▪ Stamped bank deposit slip (original) ▪ Mobile money text as proof of payment
10. Obtain quality mark licence or tested products certificate	▪ TBS receipt (original)

Sources: Tanzania National Business Portal[2]

1.5.3 International Quality Management Standards

1.5.3.1 *Quality Management System Standards*

- A quality management system (QMS) is defined as a formalized system that documents processes, procedures, and responsibilities for achieving quality policies and objectives

[2] http://bit.ly/2TDN84F

- A QMS helps coordinate and direct an organization's activities to meet customer and regulatory requirements and improve its effectiveness and efficiency on a continuous basis
- A QMS is different from a product quality standard. A QMS is a system for managing quality across the organisation rather than for a specific product
- A QMS can be implemented by any organisation. It doesn't matter the size or the industry

1.5.3.2 Importance of Quality Management System

The main benefit is getting the confidence of your clients hence more sales for your firm. Other benefits include

- Defining, improving, and controlling processes
- Reducing waste
- Preventing mistakes
- Lowering costs
- Facilitating and identifying training opportunities
- Engaging staff
- Setting organization-wide direction

1.5.3.3 Principles of Quality Management

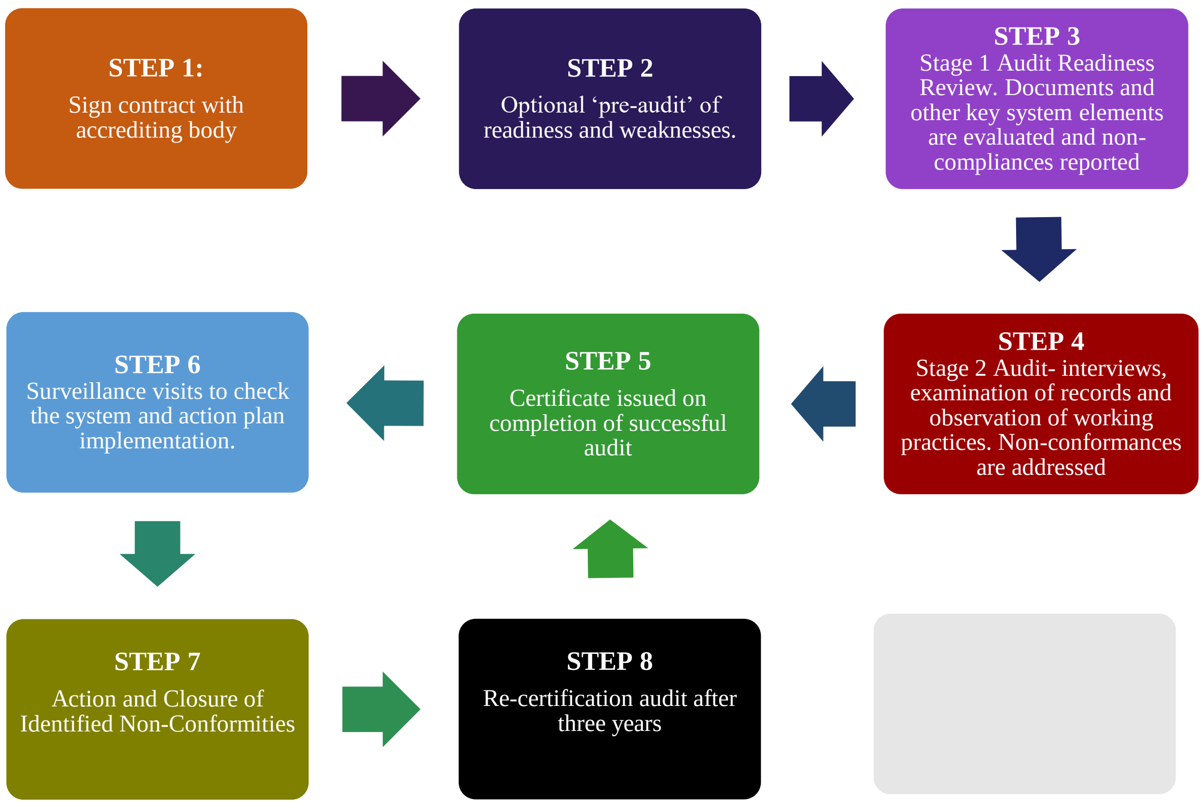
Figure 1: Principles of Quality Management

Sources: ISO; Illustration by Author

1.5.3.4 Quality Management System Certification

- Certification is the official recognition by a certification body that your business has achieved a quality management standard. This should be done by an accredited body
- Accreditation is a licence that certification bodies gain in order to carry out certification audits and be able to issue the certificates
- The process of getting a quality management system certification such as ISO can be as shown below;

Figure 2: ISO Certification Process



Sources: SGS[3]; Illustration by Author

1.6 Risk management

1.6.1 Understanding Risk Management

- Risk management might not appear important for a small business that lives one day at a time. However as your business grows you need to manage risks in order to ensure business continuity in the event of some calamitous event materialising
- In a business context risk is something whose occurrence has a negative impact on your business
- Risk management is "the process of identifying, quantifying, and managing the risks that an organization faces" – Financial Times

[3] http://bit.ly/2VNIOT7

1.6.2 Types of Risks

1.6.2.1 Internal risks

These are things that are specific to your business and which are mostly within your control. Such risks might include;

- Customer/client not paying
- Loss of a key client
- Accidental damage
- Supplier missing deadline
- Dissatisfied customers
- Faulty goods
- Fire
- Theft
- Abrupt departure of key employee
- Exit of founder

1.6.2.2 External risks

These are risks emanating from the business environment and largely beyond your control

- Environmental risks such as floods, drought
- Political risks such as political instability, change of government resulting in new policies
- Legal risks such as change of law e.g. plastic bag ban
- Technological risks such as emergence of new technology killing your business model e.g. print media and the impact of the internet
- Social risks such as changes in consumer behaviour
- Economic risks such as recessions
- Health risks such as pandemics

1.6.3 Risk Analysis

- Most business decisions involve some level of risk. It is therefore important to always conduct a risk analysis
- Risk analysis involves assessing the probability of the occurrence of the risk and the impact of such an occurrence
- You need to think about the consequences of the risk materialising
- To conduct the analysis, you can use the following matrix

Table 5: Risk Analysis and Response Matrix

		Probability of Occurrence		
Negative Impact		**High likelihood**	**Medium likelihood**	**Low likelihood**
	High Impact	Insure	Insure	Ignore/Manage
	Medium Impact	Insure	Insure	Ignore/Manage
	Low Impact	Ignore/Manage	Ignore/Manage	Ignore/Manage

Sources: NEEC SMEs Training Manual 2020

1.6.4 SME Risk Management Strategies/Tools/Tips

- Insurance – this involves making payments known as premium to an insurance company so that you are compensated in the event of the risk occurring
- Minimizing the risks – this will involve taking administrative measures to ensure the risks of the occurrence are minimized. You can hire professional risk auditors to study the risks in your business and advise on how to minimize the probability of their occurrence and what to do to mitigate the impact should the risk occur. You can minimize the risks using various methods such as having a quality management system, having manuals on various procedures, having standard operating procedures, physical protection e.g. high security locks, hiring a guard, personal protection equipment, fire extinguishers etc.
- Diversification – this one strategy you need to infuse into your decisions. Avoid situations where there is overreliance on one partner or client e.g. have different sources of suppliers for key components, ensure you have a diverse client base, avoid a situation where only one employee knows how to do a certain task in the firm, have accounts in different banks just in case one collapses etc.
- Finance the risks – you can also set aside funds to deal with the risk should it materialise
- Succession planning – this is about ensuring smooth transition should any key staff member or company owners exit the firm
- Continuity planning – put in place plans for quick recovery of operations in the event of a disastrous occurrence such as cyber-attack, pandemic, natural disaster, fire etc.

1.7 Use of ICT in Business

1.7.1 Introduction

- ICT - Information Communication Technology-is easy to describe than define due to constant changes

- Involves application of hardware and software technologies to manage various business operations. Hardware is physical while software is intangible
- It enables users to create, access, store, transmit, and manipulate information
- Application of ICT in Small and Medium Enterprises (SMEs) is dependent on business specific factors such as type of business, size of business and business capacity to utilize the ICT technology e.g. finances, human resource etc.
- Application ranges from basic to advanced. Basic use e.g. phone, fax, computers etc. Advanced use e.g. Enterprise Resource Planning (ERP) software

1.7.2 Importance of ICT use in SMEs

- Cost cutting – can reduce major costs in production/Operations, supply chain management, marketing, human resource management and accounting/finance
- Enhanced communication e.g. collaboration of staff on projects
- Improved efficiency e.g. telecommuting, video conferencing such as Skype, Zoom
- Increased competitiveness. Can provide a competitive advantage especially if backed by benefits of first-mover-advantage e.g. online transactions such as order placement and tracking
- High accuracy in decision making due to use of timely, complete and accurate data e.g. market intelligence results in better responses to competitor action

1.7.3 How SMEs can Apply ICT in their business

1.7.3.1 Use of ICT in Production/Operations Management

- Product development research e.g. secondary research via searching the internet or primary research via e-polling
- Automation of processes e.g. online application, use of ICT in dry land agriculture to maximize utilization of scarce resources such as water
- Knowledge management e.g. developing knowledge base for purpose of staff training on production processes
- Improving and speeding up communication processes with stakeholders e.g. staff, general public, government etc.
- Prevention of unfair or illegal activities by competitors e.g. counterfeiting and infringement of copyrights for instance use of Quick Response (QR) code
- ICT products e.g. e-learning, webinars, e-books
- ICT businesses e.g. online resource centres, Taxi hailing services

1.7.3.2 Use of ICT in Marketing

Market communication -Advertising and Sales Promotions

- Email marketing e.g. promotion emails, Newsletters – use of permission based, personalized mass emails to reach consumers. Uses various mass marketing software programmes. Some are free

- Online advertising e.g. web banners, pop-up and pop-unders, map advert, floating advert etc. Payment can be through Cost Per Impression (CPM), Cost per click (CPC), Cost Per Acquisition (CPA), Flat rate, Cost per engagement etc.
- Affiliate marketing - it is used widely to promote web sites, and affiliates are rewarded for every visitor, subscriber or customer provided through their efforts
- Search engine marketing - Search engines are web-based programmes that index the web and allow people to find what they are looking for. “Search” or “search marketing” is often used to refer to the industry that has built up around search engines e.g. Google, Yahoo, Bing, Lycos, Ask.com etc.
- Search engine optimization – your website should be designed in such a manner that it shows up first in search engines or at least rank highly in search engine results
- Social media The many facets of social media are also called Web 2.0, consumer generated media, citizen media and new media. Uses technologies such as blogs, micro-blogs, wikis, podcasts etc. Examples include; Facebook, WhatsApp, YouTube Pinterest, WeChat, Telegram, Twitter, Linkedin, Instagram, TikTok, SnapChat etc.
- Mobile marketing – use of mobile phones to achieve marketing goals. E.g. SMS, Multimedia Messaging Service (MMS), Bluetooth and infrared (location specific messages e.g. outdoor adverts in a mall), USSD (Unstructured Supplementary Service Data), mobile web (websites optimized for mobile phones)
- Publicity and Public Relations - Use internet and mobile technologies to build brand and respond to negative publicity e.g. press releases on your website or social media accounts

Distribution

- Product dispensers e.g. Vending machines
- Online distribution e.g. downloads of music, videos and books
- Online shops e.g. Amazon.com, Jumia,
- Home delivery e.g. UberEats

Pricing – conduct price surveys online e.g. by checking competitor prices in online shops

Customer Relationship Management (CRM) - Involves using ICT to manage customer relationships e.g. CRM software, call centres, chat rooms, email, mobile phone etc.

Marketing Research

- Collect secondary data through published online resources
- Collect primary data online e.g. online surveys, mobile surveys, customer feedback systems etc.
- Use devices such as tablets to collect data using software such as CSPro
- Use various software programmes to analyse data e.g. SPSS, Ms Excel

1.7.3.3 Use of ICT in Accounting and Finance

- Use accounting software to record and manage data e.g. QuickBooks, Sage, Pastel
- Banking and payments. Use E-banking and M-banking
- Business planning e.g. financial modelling using Ms-Excel

- Credit control e.g. SMS and email reminders
- Taxation e.g. Electronic tax registers, electronic filling of tax returns

1.7.3.4 Use of ICT in Human Resource Management

- Electronic recruitment and selection – advertising online for jobs e.g. brightermonday.com, myjobseye. E-testing e.g. computer administered psychometric tests, aptitude tests etc.
- Performance management systems e.g. balanced score card, performance contracts
- Payroll software to manage salary payments and statutory returns and reports e.g. NHIF, NSSF, PAYE
- Human resource issues e.g. grievance handling, leave process and disciplinary issues. Can be handled online e.g. filing grievance reports
- HR Communication e.g. SMS bulletins, online circulars, video conferencing
- Time, attendance and access control systems e.g. clocking systems, access control etc.
- Telecommuting e.g. Skype, Zoom
- Employee training e.g. websites, webinars, podcasts, DVDs etc.

1.7.3.5 Use of ICT in Supply Chain Management

- Online order processing – ordering of goods via website
- Electronic Tendering and E-auction
- Online order tracking
- Vendor relationship management (VRM) software
- Inventory management software e.g. Point of Sale (POS) terminals and software
- Traceability databases from production to consumption e.g. to enhance product recalls in case of any problem

1.7.3.6 General Use of ICT in other Business Aspects

- Security management e.g. Global Positioning System (GPS) tracking, Closed-circuit Television (CCTV), controlled access including scanning of people and luggage, password and biometric access, security surveillance
- Business communication e.g. teleconferencing, video-conferencing etc.
- Use of Enterprise Resource Planning to manage data under one software

1.7.4 Challenges of ICT use by SMEs

- Cost – some items such as ERP software can be expensive for small business
- Infrastructure bottlenecks e.g. coverage of broadband internet
- Lack of manpower – they might not have the resources to hire an in house ICT expert
- Poor attitude towards ICT e.g. it is only for big firms, data security fears

1.8 Leadership and Corporate Governance

1.8.1 Leadership

1.8.1.1 What is Leadership

- In a business context leadership is about influencing or motivating people to achieve the organisation's vision, mission and objectives
- Leadership is less about titles and more about getting things done
- Leadership provides direction for a company and its workers

1.8.1.2 Characteristics of a Good SME Leader

- Be visionary – always seeing ahead/visualising the future
- Risk taking – you shouldn't fear making mistakes
- Ability to inspire others – motivate others to reach the height of their potential
- Willingness to delegate – know when to ask for help from others
- Integrity – you should always try to keep your word. Promise what you can deliver and deliver what you promise
- Goal setting – set clear and achievable targets
- Assertiveness – be firm but fair
- Lead by example – don't ask other to do things you are not willing to do yourself
- Self-awareness – know your weaknesses and strengths

1.8.1.3 Skills/Competencies for Effective SME Leadership

- Communication skills – communicate proactively and effectively
- Interpersonal skills – relate well with others
- Conceptual skills Conceiving and selecting innovative strategies and ideas while seeing the big picture – the forces, events, entities, and people involved in the situation at hand
- Analytical skills – ability to consider all factors and their implications on a decision
- Decision making/problem solving – solve issues instead of adopting a wait and see posture or just hoping for the best i.e. that the issue will disappear on its own
- Emotional intelligence - Understanding and mastering your emotions (and those of others) in a way that instils confidence
- System thinking - Connecting processes, events, and structures – a balance of process orientation and mental discipline
- Conflict management – ability to resolve issues in a win-win fashion
- Innovativeness and entrepreneurship (e.g. creative problem solving)
- Stress management – manage your mental health and that of your team

1.8.2 Corporate Governance

1.8.2.1 What is Corporate Governance

- The manner in which power is exercised in the management of economic and social resources of an organization for sustainable development
- Concerned with the processes, systems, practices and procedures
    - The formal and informal rules that govern institutions
    - The manner in which these rules and regulations are applied and followed
    - The relationship that these rules and regulations determine or create and the nature of these relationships
- Essentially therefore, governance addresses the leadership roles in the institutional framework
- A system by which organisations are directed, controlled and held to account
- The manner in which the power of an organisation is exercised in the stewardship of its assets/resources so as to increase shareholders value as well as satisfy the needs of all stakeholders
- Corporate governance deals with leadership of a firm at the highest level. Good corporate governance is the responsibility of the board of directors

1.8.2.2 Principles of Effective Directorship

Table 6: Principles of Effective Board Directorship

Principle	**Elements**
Primary duty	▪ Act first and foremost and always in the best interest of the organisation and not for any other collateral purpose ▪ To exercise his /her powers in the executive duties in good faith ▪ To act with the care a prudent person would take when acting on their own behalf ▪ In arriving at a decision on any issue he/she shall strive to ensure that the decision is in the best interest of the of the organisation and not driven by other interest
Core values	▪ Each director subscribes to the values of the organisation ▪ Directors undertake to take into account not only the possible financial impact of their decision, but also their consequences and effect on relations with stakeholders in general
Scope of responsibility	▪ Each director is fully aware that the board is responsible for upholding the vision, mission and values, deciding the strategic objectives and ensure effective control and be accountable to the stakeholders for these
Commitment	▪ Each director undertakes to dedicate time and attention necessary to fulfil his/her duties
Independence	▪ In all circumstances, each director undertakes to preserve his/her independence of analysis, judgment, decisions and actions and to resist any pressure, direct or indirect whether by other directors, governments, creditors, suppliers of goods or services or, more generally any third party ▪ Director will not seek or accept from third parties any advantage that might be considered as compromising his/her independence

Conflict of interest	▪ Each director undertakes to disclose to the board fully and immediately it comes to his/her attention any real or potential conflict of interest, direct or indirect which they may have ▪ A director with such a conflict shall not participate in any discussion of any such topic or in voting on it
Board effectiveness	▪ Each director is fully aware of the importance of regular attendance and effective participation at meetings ▪ Each director undertakes to do everything within their power to attend all meetings ▪ Each director undertakes to prepare sufficiently for meetings by carefully considering board papers and attachments thereto and where necessary seek clarification ▪ Where a director is unable to attend a meeting, he/she undertakes to communicate any concerns or issue they wish considered
Board evaluation	▪ At regular interval, not exceeding twelve months, the board shall undertake an evaluation of its functions collectively and as individuals
Information confidentiality	▪ Each director is responsible for seeing to it that he is providing sufficient information in due time to permit the board to deliberate on all issues and on the other hand request the chairman or CEO in a timely manner, information that maybe required in decision making ▪ Directors must personally take the necessary precautions to preserve the confidentiality of such information and not divulge it under any unauthorised or unlawful circumstances
Duty to communicate dissent	▪ Each director commits to express his/her views clearly and to use all means at his/her disposal to convince the board of the validity of his her position should he/she hold the view that a proposed Board decision is not in the best interest of the organisation

Sources: Compiled by Author

1.8.2.3 Duties of a Board of Directors

- Exercising leadership, enterprise, integrity, judgment in directing the organisation
- Determining the organisation’s purpose and values
- Determining the strategy to achieve the organisation’s values and to implement its values so that it survives and thrives
- Identifying key risk areas and performance indicators in order to generate economic profit and provide efficient services
- Exercising objective judgment of the organisation, independent from management but with sufficient management information
- Determining the broad policies of the organisation
- Monitor and evaluate the implementation of strategies
- Regularly assessing the organisation’s performance and effectiveness as a whole, and that of individual Directors and CEO
- Ensure the procedures and practices are in place to protect the organisation’s assets and reputation

- Ensure that the organisation complies with all relevant laws and regulations and code of best practices
- Ensure that the technology and systems in use are adequate to run the organisation properly
- Ensure that the organisation has developed succession and exit plans for its execute Director/managers and senior management

1.8.2.4 Duties of Management

- It is accountable to the board for running the organization efficiently, effectively and productively
- Running the day-to-day affairs of the organization within the policy guidelines, strategies, plans and targets set by the board
- Oversee the day to day management of the organisation's business affairs
- Facilitate the preparation of the budget for discussion by the board and establishment of internal controls
- Implement and communicate policies and strategies adopted by the board
- Prepare proposals for consideration by the Board
- Attend to personnel matters, including hiring and firing of staff
- Develop and recommend to the board appropriates strategies and annual plans for the organisation
- Consistently strive to achieve the organisation's financial and operating goals and objectives
- Ensure continuous improvement in the quality and value of products and services provided by the organisation
- Ensure that the organisation has an effective management structure, including effective succession management and exit plans
- Participate in the formulation and the implementation of the corporate policies
- Maintain a conducive work environment for attracting, retaining and motivating employees
- Foster a corporate culture that promotes ethical practices within the organisation

1.8.2.5 SMEs Corporate Governance

- Many SMEs might consider themselves too small to deal with corporate governance issues
- However good corporate governance can be a big catalyst for growth orientation
- This is because having proper governance systems in place will be quite appealing to potential partners such as financiers, clients, employees, suppliers etc.
- While having a Board of Directors could be out of question consider having in place a Board of Advisors

- A Board of Advisors is a group composed of business professionals that provide advice on how a business owner can better manage his company
- Because of the informal nature of this type of board, it can be structured in a way that the owner deems necessary and most helpful to his company[4]
- Usually, a Board of Advisors is composed of a legal expert, a financial expert, a Human Resource manager, a marketing advisor, and an accountant

1.9 Business Collaboration and Partnership

Business collaboration allows businesses to work together to achieve common goals. This can be a way of leveraging resources to accelerate growth. Such collaboration might include the following;

- Strategic partnerships/alliances – here you join another business that compliments your strengths and minimizes your weaknesses. This might also help in launching new products and services, entering new markets, serving customers better and reducing the costs of new product development. A common example is distributorship and franchising arrangements that allow multinationals to enter local market at minimal costs and risks
- Joint ventures – in this case two businesses combine their resource to achieve a common task. For instance, two businesses can partner to work on a project for a common client whereby each business brings in its unique resources and expertise thus yielding synergy in project delivery
- Co-bidding – this involves joining with another firm to submit a joint bid during tendering process. This amplifies qualifications of partners' bid and increases their chance of winning
- Financial collaboration – businesses can also collaborate with financial providers such as private equity/venture capital. The main aim of the collaboration is to acquire finances and any other expertise that the financier might provide

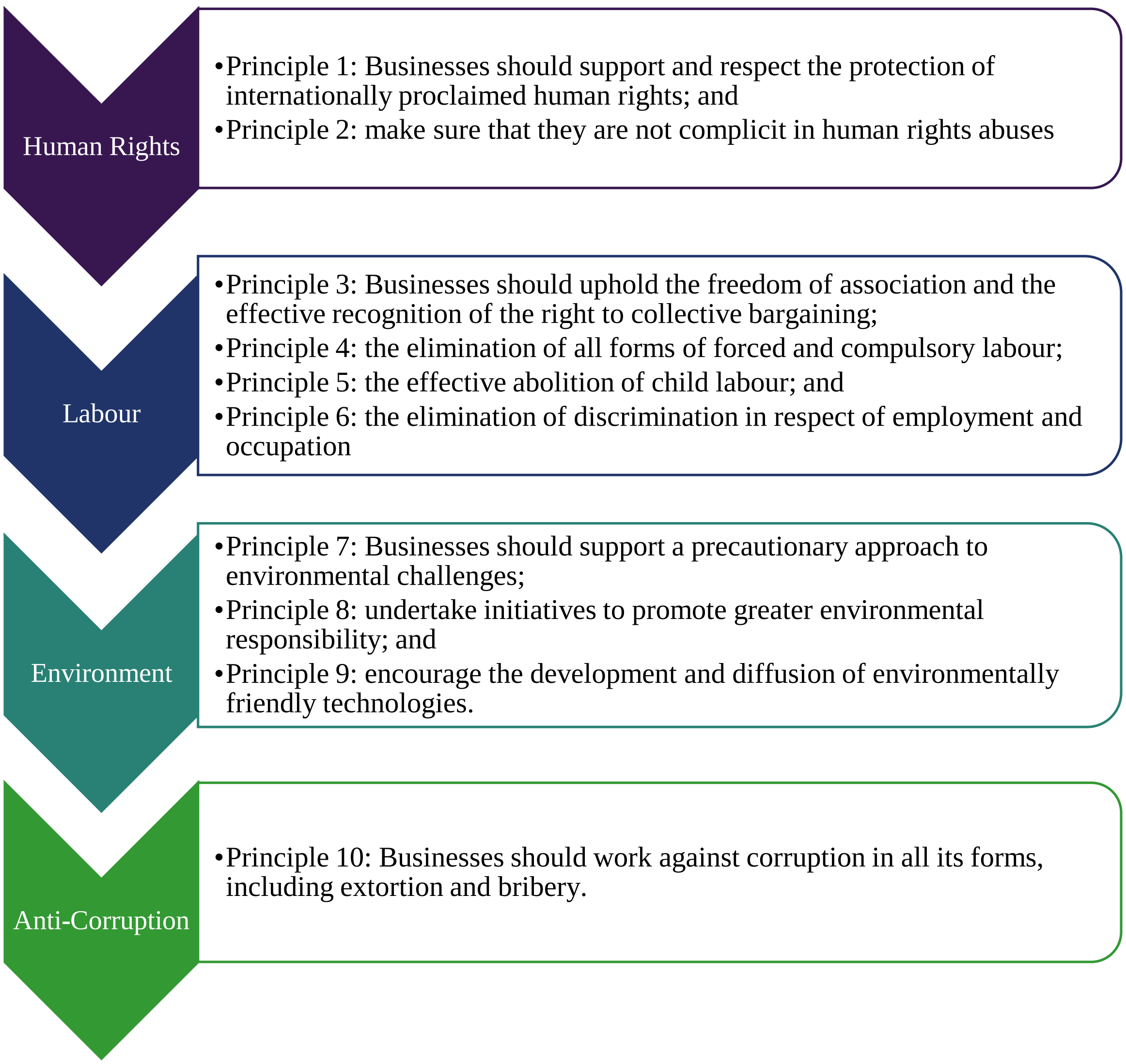
1.10 Business Ethics and Sustainability

- Sustainable business practices require us to utilise resources in such a manner as not to adversely affect the rights of future generations to benefit from the same resources
- If you want your business to be sustainable and to remain in place for the long run, you should emphasize on doing the right things and doing those things in the right way
- This includes not only compliance with the legal requirements but also ensuring justice, fairness and equity in the way you treat business stakeholders such as shareholders, employees, suppliers and the general society
- Ensure you operate your business legally and morally
- Generally, avoid shortcuts

[4] Corporate Finance Institute http://bit.ly/2vQaETQ

- Ensure there are policies to guide against corruption, unfair treatment of employees, lack of diversity among staff, protection of the environment, transparent procurement etc.
- Below are the ten principles of corporate sustainability. They will help you run your business in a sustainable manner

Figure 3: The 10 Principles of Corporate Sustainability



Sources: Illustration by Author

MODULE II: MARKETING

2.1 Lesson Plan

2.1.1 Overall Objective

To understand the importance of marketing in a business and how to develop and implement marketing strategies and plans

2.1.2 Learning Objectives

Participants will achieve the following goals at the end of the training

i. Develop a deep understanding of marketing and appreciate its role in enterprise growth
ii. Develop and implement a marketing plan and strategy
iii. Understand branding and its importance
iv. Conduct marketing research about products, prices, distribution, promotion, customers, brand and competition
v. Acquire skills towards improved customer experience
vi. Effectively manage the sales force
vii. Understand business to business marketing, its requirement and how to do it. Specifically, SMEs will learn the requirements to supply to large firms in the extractive sector
viii. Understand tendering and how to respond to tenders from procuring entities such as the government
ix. Acquire skills for effective negotiation and favourable contracting

2.1.3 Topics Covered and Time Available: 6 Hours

Table 7: Marketing Module Topics, Training Methods and Time

Content	Method	Time - Minutes
Introduction to marketing	Lecture, Discussion, Activities	25
Marketing plan and strategies	Lecture, Discussion, Activities	30
Branding and its importance	Lecture, Discussion, Activities	25
Marketing intelligence/research	Lecture, Discussion, Activities	40
Customer service/experience	Lecture, Discussion, Activities	40
Sales management	Lecture, Discussion, Activities	30
Business to Business marketing	Lecture, Discussion, Activities	25
Requirements to supply to large enterprises	Lecture, Discussion, Activities	25
Preparing and submitting tender documents	Lecture, Discussion, Activities	30
Contracting and negotiation skills	Lecture, Discussion, Activities	30
	Total Time	**300**

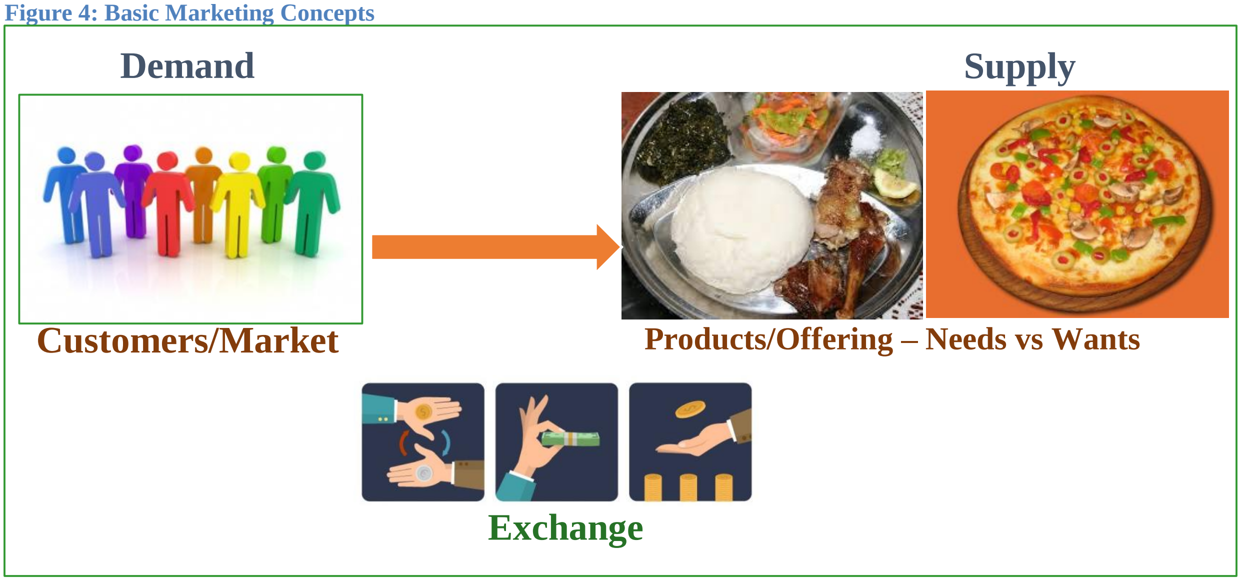
Sources: NEEC SMEs Training Manual 2020

2.2 Introduction to Marketing

2.2.1 Definition of Marketing

- Marketing is the process through which needs and wants are identified, products created and exchanges established in the market to satisfy demand and sustain relationship with customer
- It involves creating a superior offer (product + benefits), communicating the offer and maintaining a competitive advantage
- A business can be defined as a need/want met at a profit in a manner better than the competition
- A business that serves no need will soon not be needed
- Therefore, when entering a business, you aim at making what you can sell instead of selling what you can make

Figure 4: Basic Marketing Concepts



Sources: Illustration by Author

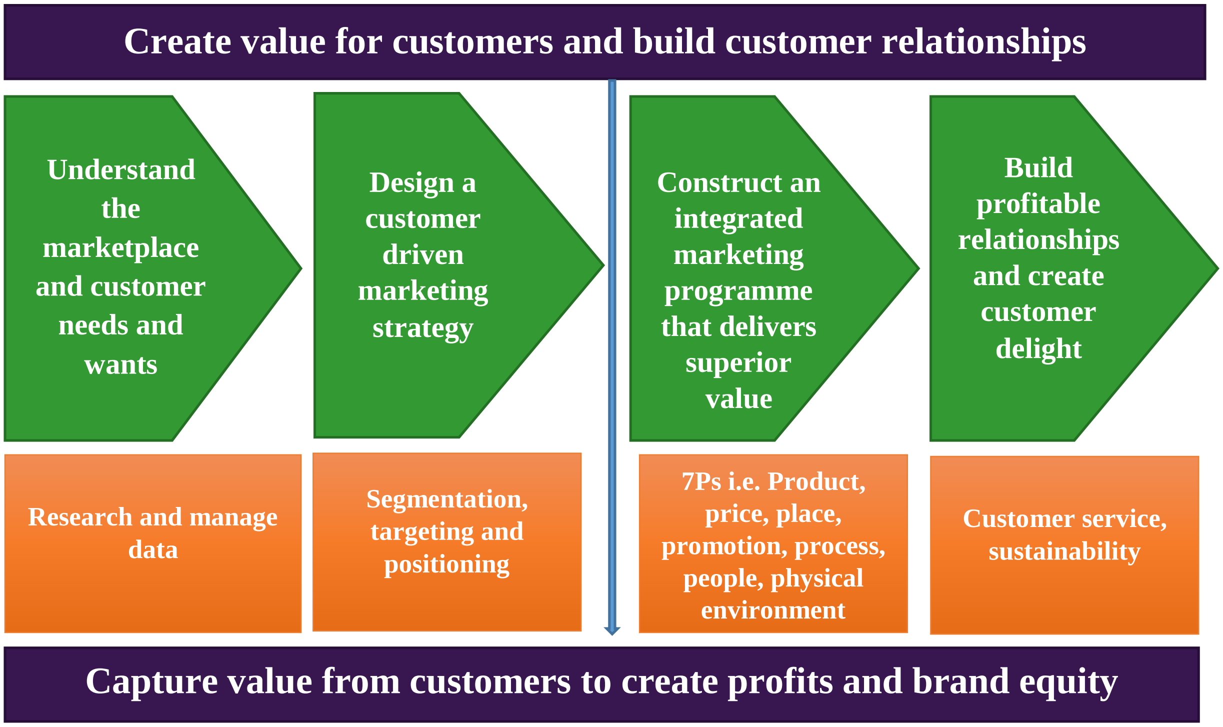
Key marketing concepts explained

- Need – State of lack or deprivation e.g. need for food such as ugali
- Want – Needs shaped by culture and personality e.g. food such as pizza
- Demand – Willingness and ability to buy. If you are willing to buy but you have no money to buy, then you don't count as demand
- Market Offering – products information and experiences offered to meet demand
- Customer satisfaction – extent to which customer expectations are met
- Market – Set of actual or potential buyers
- Exchange – Obtaining something from someone by offering something in return

2.2.2 The Marketing Process

This is the process that is followed in designing a marketing programme that meets customer needs in a manner better than the competition and sustainably. The process is illustrated below;

Figure 5: The Marketing Process



Sources: Illustration by Author

2.2.3 The marketing mix elements/7Ps of Marketing

Figure 6: The Marketing Mix Elements

Sources: Illustration by Author

2.3 Marketing plan

2.3.1 Marketing Plan Components

The marketing plan should include the following

- Current Situation analysis – if the business is existing stating the current situation in terms of product, pricing, place, promotion, people, process and physical environment. Also discuss how the marketing function is organised i.e. current marketing staff and their roles. In addition, conduct a Strengths Weaknesses Opportunities and Threats (SWOT) analysis
- Market analysis – Analyse the market by conducting
    a. Industry analysis – you can use Porter's five forces framework where you consider rivalry among the existing players, threat of new entrants, threat of substitute products, bargaining power of sellers, bargaining power of buyers
    b. Competitor analysis (analyse competitor in terms of strengths weaknesses, products, customers, marketing mix strategies etc. remember to consider both direct and indirect competitors),
    c. business environment analysis (political, economic, social, technological, environmental and legal-PESTEL)
- Marketing objectives – come up with Specific Measurable, Attainable, Time bound (SMART) objectives e.g. To increase sales by 25% each year
- Marketing Strategy – explain how you will achieve the objectives you have set. What strategies will you use. Determine the market segments and choose the target market and a positioning strategy. Develop marketing mix strategies
- Action Plans – What is to be done, who is to do it, when it is to be done, how it is to be done
- Marketing budget – What will be the cost of undertaking the activities that you have planned to implement your strategies and achieve your objectives
- Monitoring and evaluation – how will you report and measure progress e.g. monthly sales reports

2.4 Marketing Strategies

2.4.1 Meaning of Marketing Strategy

- These are the tools the marketer uses to achieve necessary action from the target market in order to meet his objectives
- Strategy is a commitment to a series of actions aimed at achieving set objectives in order to accomplish a mission and achieve a vision
- A strategy is a means of achieving one's objectives
- It is a blueprint/master plan

Example: low cost strategy e.g. China, High cost/premium price e.g. Mercedes Benz

2.4.2 Importance of Marketing Strategy

The importance of marketing strategy is that it gives you a Competitive Advantage resulting in a high market share

- Share of head – how are you perceived by the market e.g. provider of high quality service e.g. Japan Electronics
- Share of heart - how loyal are your clients e.g. Football Clubs, Apple users
- Share of hand – to what extent does this translate to actual purchase i.e. Market share

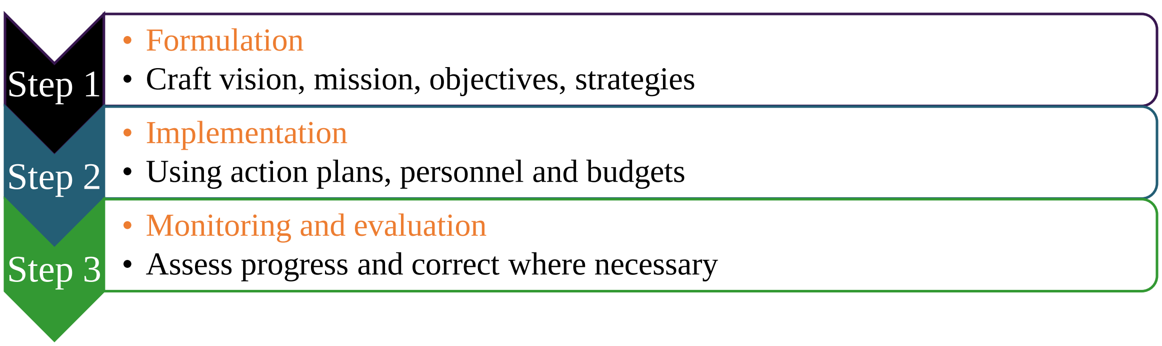
2.4.3 The Foundation of Marketing Strategy

The foundation of marketing strategy includes the following concepts

- Market segmentation – group the customers according to similarity e.g. income, geography, lifestyle, benefits sought etc.
- Market targeting – choose the segment (s) to serve e.g. Men vs women, children vs adults, low income vs high income
- Market positioning – Create a unique perception in the mind of the consumer e.g. Close-Up toothpaste is for “fresh breath” while Colgate is for “strong teeth”
- Branding – unique identifiers of your products i.e. name, slogan, jingle/tune, font, trademarks, logo etc.

2.4.4 Marketing strategy development process

Figure 7: Marketing Strategy Development Process



Sources: Illustration by Author

2.4.5 Marketing strategies based on the marketing mix and competition

2.4.5.1 Product Strategies

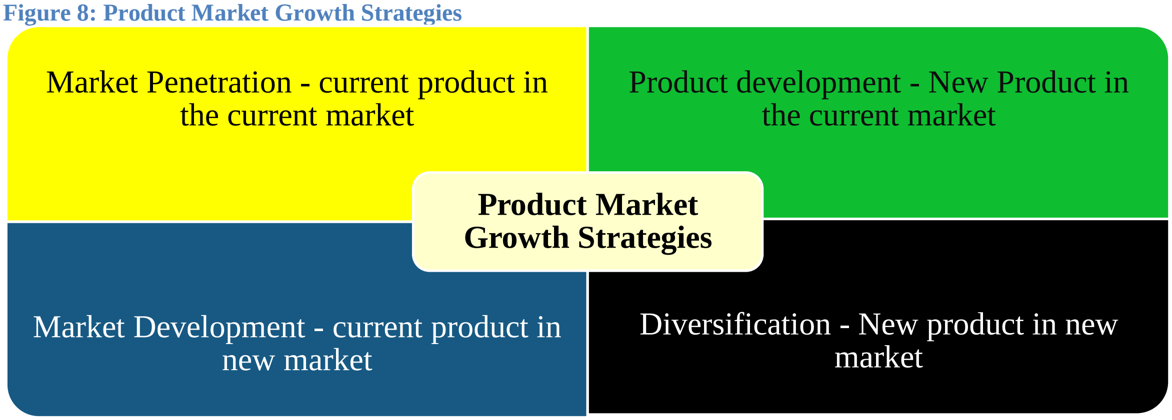
Key concepts

- Product - what you are producing e.g. toothpaste
- Benefits - what customers buy e.g. fresh breath in the case of toothpaste
- Quality – fitness for use. Customer defined
- Packaging – attractive, affordable amount (e.g. small package for low income segment)
- Branding – promise to deliver consistently

- New products require research

Product Market Growth Strategies

Figure 8: Product Market Growth Strategies

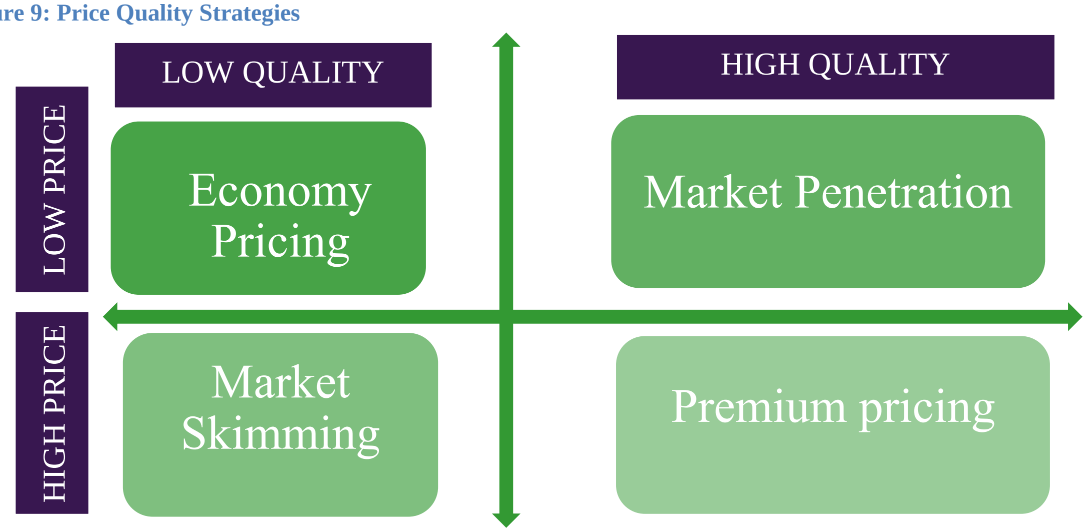


Sources: Illustration by Author based on the Ansoff model

- ***Market penetration*** – apply when selling an existing product in the existing market and involve increasing the quantity of items being sold
- ***Product development*** – apply when introducing new products in existing markets. It involves developing new products to increase sales in the current market
- ***Market development strategies*** – apply when you need to increase sales for an existing product in new markets e.g. a new geographical location
- ***Diversification*** – apply when one needs to increase sales by developing new products and entering new market segments. This can be critical at business decline stage when there are few growth opportunities

2.4.5.2 Price Strategies

Figure 9: Price Quality Strategies



Sources: Illustration by Author

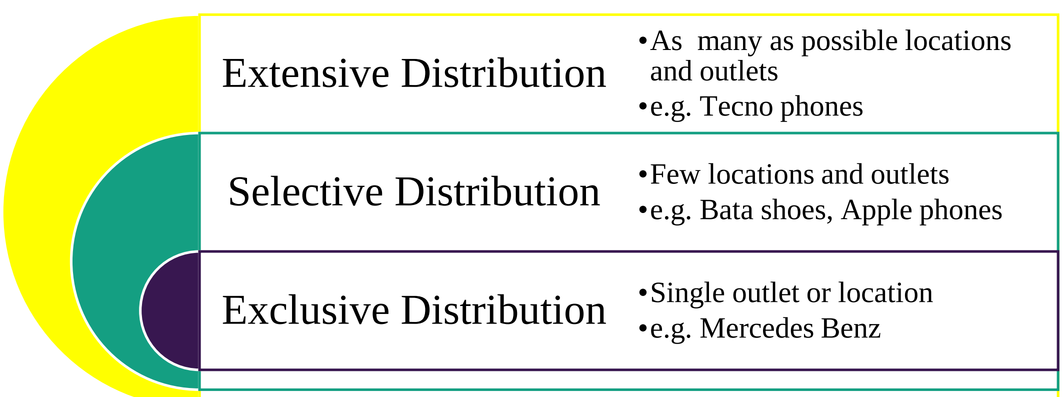
- ***Economy pricing strategy*** - involves always charging low prices e.g. Massmart supermarket, Tecno phones. You need to develop high efficiency in order to sustain low prices without making losses
- ***Market penetration strategy*** – involves charging low prices at the beginning and increase it with time as you get more sales e.g. Orange mobile used the strategy to enter Kenyan market. Risky since product can be perceived as low quality
- ***Market skimming*** –charging high prices when entering the market and lowering the prices gradually e.g. in electronics such as 4K TV, 5G phones prices are usually high in the beginning. Quality does not have to be low. Prices fall with mass production
- ***Premium pricing*** – always charge high prices e.g. Mercedes Benz, Apple phones

Other pricing strategies

- ***Price Discrimination*** **–** different prices for different customers based on a certain criterion e.g. high fares during peak hours and low fares during off-peak hours
- ***Psychological Pricing*** – Appeal to emotion rather than logic e.g. 9,999/= vs 10,000/=
- ***Product Line Pricing*** **–** price according to partial benefits e.g. hair cut only 2,000/=, beard only 1,000/=
- ***Optional Product Pricing*** **–** charge extra for extra benefits e.g. Hair cut + wash
- ***Captive Product Pricing*** **–** create things that tie the customer then charge a high margin e.g. M-PESA
- ***Product Bundle Pricing*** **–** combine products and sell them at a subsidized price e.g. chips + sausage + soda
- ***Promotional Pricing*** **–** price to promote the product e.g. Buy One Get One Free (BOGOF), price discounts e.g. 20% off
- ***Geographical Pricing*** **–** Different prices for different places
- ***Value Pricing*** – sell at low prices to retain sales e.g. during recession or due to competition e.g. Airtel

2.4.5.3 Place/distribution Strategies

Figure 10: Distribution Channel Strategies



Sources: Illustration by Author

Other distribution strategies

- ***Convenient location* –** choose easy to access location e.g. Supermarket at a busy stage
- ***Home delivery*** – deliver at doorstep e.g. dial a gas
- ***Use electronic channels*** **–** e.g. dispensers, ATM, downloads
- ***Use intermediaries*** e.g. supermarkets, wholesalers, agents e.g. insurance brokers
- ***Franchising*** e.g. Allow others to use your brand in a supervised way and at a cost
- ***Opening longer hours*** – e.g. 24/7, open on weekends, open till late night etc

2.4.5.4 Promotion Strategies

- Advertising e.g. newspaper, magazine, radio, TV, mobile, flyers, posters, website, social media ads, Online ads etc.
- Personal selling e.g. door to door, phone calls
- Sales promotion e.g. buy one get one free, loyalty programmes e.g. frequent flier miles
- Direct marketing e.g. email, SMS, Social media
- Public relations – e.g. press release, social media statement
- Publicity - sponsoring events e.g. sports, media stories/shows e.g. by the CEO

2.4.5.5 Process Strategies

- Have a service delivery plan/blue print with clear process flow e.g. customer service charter like in many government departments
- Put measures for recovery in case of service failure – procedure should be in place to deal with customer issues when service fails to satisfy the customer
- Simplify steps to accessing a service
- Simplify requirements for accessing a service e.g. forms to fill

2.4.5.6 People strategies

- Customer care
- Training of both staff and customers
- Image e.g. Uniformed staff
- Long term relationships – focus more on the relationship and less on the transaction
- Employee motivation – happy employees will result in happy customers and vice versa
- Communication – communicate effectively with staff to ensure they understand and fulfil the promise communicated to the customers e.g. fast service

2.4.5.7 Physical environment strategies

- Signage – have clear signs showing important places the customer needs to get to e.g. in a supermarket have clear signs of where products are arranged, reception in a hotel
- Cleanliness
- Ventilation, lighting
- Sound: Noise, Music
- Arrangement – ensure the place is neatly arranged
- Capacity and Demand – manage demand against existing capacity to avoid overcrowding and overworking staff which can result in poor service

2.4.5.8 Competition Strategies

Recently, one way of tackling competition has been through the different ocean strategies. The red ocean is the current market space where there are many competitors engaged in fierce battle for customers. It can be compared to sharks in an ocean where they fight over food injuring each other leading to a red ocean due to the blood from the infighting.

On the other hand, a blue ocean is one where there is no competition as such since there are no fights the waters are clear and blue. Purple ocean is a hybrid strategy

Table 8: Competition Strategies based on the Ocean Concept

Red Ocean	Blue Ocean	Purple Ocean
Compete in the same market space	Create uncontested market space	Compete in existing market space but stand out
Beat the competition	Make the competition irrelevant	Differentiate yourself from the competition
Exploit existing demand	Create and capture new demand	Exploit current demand by increasing loyalty
Make the value-cost trade off	Break the value-cost trade-off	Add value to exceed expectations hence breaking the transaction market economy mind-set
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost	Align the whole system of a firm's activities in pursuit of differentiation through added value

Sources: Illustration by Author

2.5 Branding and Its Importance

2.5.1 What is a brand

A brand is "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors" – David Aaker

2.5.2 Importance of branding

- Eases identification hence ease of purchase. Makes your product less of a commodity
- Creating loyal customers e.g. Apple, Tesla, Yanga SC, Simba SC
- Creating value which is more than company's physical assets i.e. brand equity e.g. the Coca-Cola brand is worth more than its assets such as cars
- Makes it easy to be accepted by key distribution outlets- supermarkets such as Shoprite will quickly agree to stock a well-known brand
- Makes it easy to sell new products e.g. Dasani and Novida which were from Coca-Cola were readily accepted in the market
- Makes it easy to spread word of mouth – if the name is memorable it is easy to refer someone to the same shop or a brand

2.6 Marketing intelligence/research

To research means to search again. In marketing, research means looking for information to help you make marketing decisions.

2.6.1 Types of Marketing Research

- Product research – this involves conducting research about the product for example on its characteristics such as size, packaging, features, benefits etc. Also involves research and development for continuous product improvement
- Price research – researching on the prices you are charging for example by doing a competitor analysis or conducting a survey to find out what your customers think about the prices e.g. is it value for money, what price range would they be comfortable with
- Competitor research – this is also called market intelligence and involves collecting information about the competitor for example on their product offering, their prices, marketing strategies, their future plans etc.
- Distributor surveys – if your business involves dealing with distribution channel members such as resellers and agents you can conduct surveys to find out about your relationship with them. What they feel about the current relationship with your firm. Are they satisfied for example with the commissions you pay them or the margins you provide or the supply chain terms?
- Promotion research – this is about measuring the effectiveness of your marketing communication strategies. For instance, you can conduct a survey to find out how your target market knew about your product. This will help you know about the most effective medium of reaching them e.g. via social media, Google search etc.

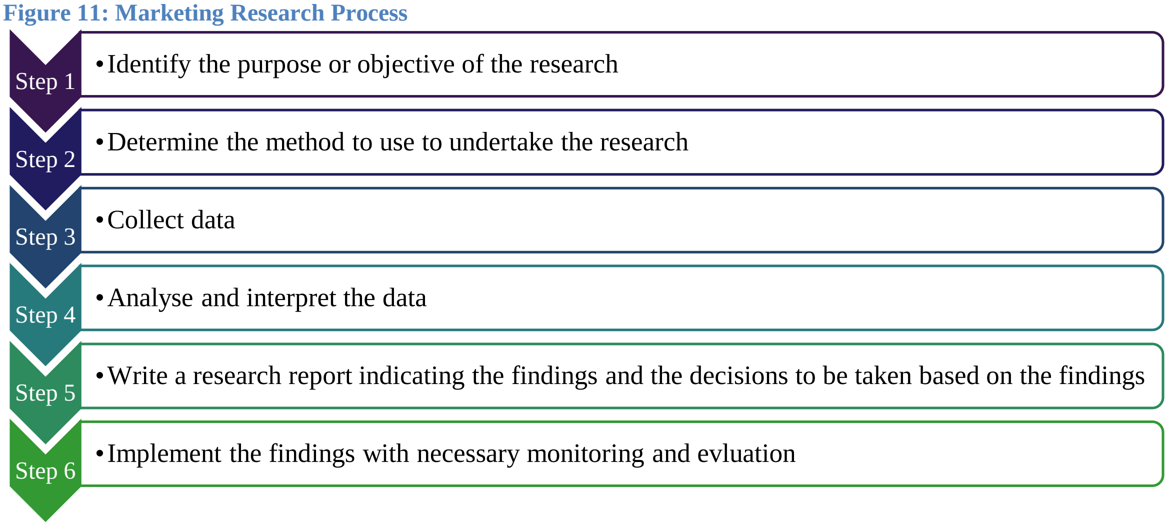
- Brand research – this involves conducting research on the brand. For example, you can conduct a brand awareness survey where you find out what percentage of your target market are aware of your brand. This can be done either through an unaided recall where you ask the respondent to name various brands in a certain product category e.g. toothpaste or through an aided recall whereby you give the respondent a number of brands and ask them which ones they are aware of. The results can be used to craft a better marketing communication strategy
- Customer surveys – these are studies undertaken to establish the level of customer satisfaction. You assess the degree to which the customer's expectations have been met, you also find out the issues customers are not happy with and ask them about any improvement suggestions they might have. Customer surveys can be done on a continuous basis through a feedback mechanism

2.6.2 How to conduct marketing research

- Conduct a desk study – this involves looking for existing information or data to help you in your decision. This can be done online or offline. For example, when doing a price survey, you can check the prices using supermarket websites or online shopping sites such as Jumia, Amazon, eBay, Alibaba etc.
- Conduct a survey – involves collecting fresh data. You collect the data from many people and then analyse it to make decisions. For example, you can interview customers to find out their views on a new product you have introduced in the market
- In-depth interview – involves collecting the data from a few key informants. These are people with deep knowledge of the issues you are studying. For instance, when starting a new business you can talk to a few people who have run a similar business in the past

2.6.3 Marketing Research Process

Figure 11: Marketing Research Process



Sources: Illustration by Author

It is important to understand the above steps. Most of the times you wouldn't be doing the research yourself and might engage a consultancy firm. You need to know what they should do to effectively supervise their activities at every stage.

2.7 Customer service/experience

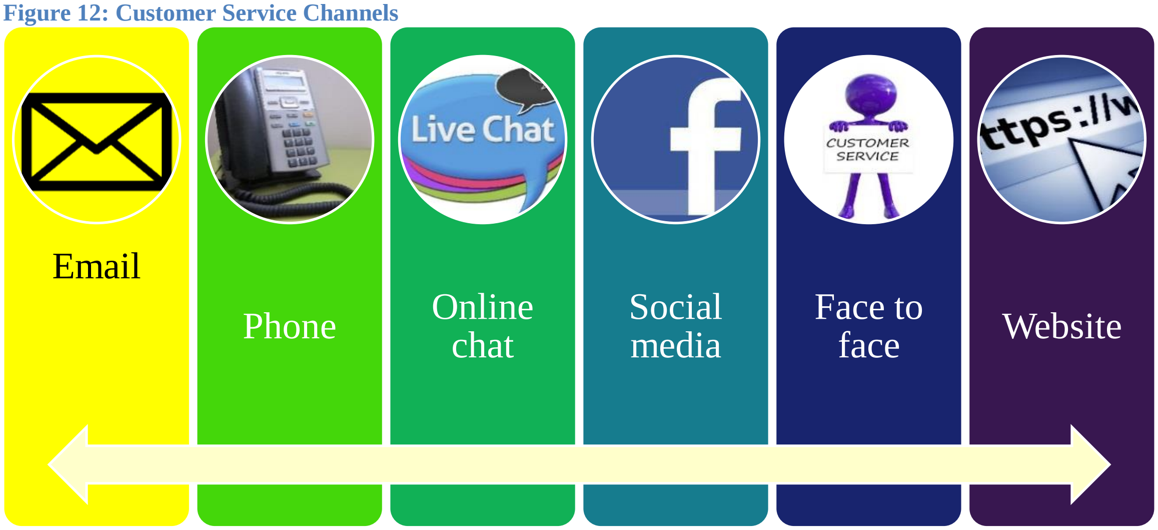
2.7.1 Key points to note

- You offer this support to customers before purchase, during purchase and after purchase of your products or services.
- It involves direct interaction between the customer and your business staff or agents
- It has serious implication on the future relationships with your customers and is essentially the ultimate determinant of business success or failure.
- It is especially critical in the service industry or in a business dealing with technical products
- Good customer services could be the only way of differentiating yourself from competition

2.7.2 Customer service channels

The following channels can be used in customer service;

Figure 12: Customer Service Channels



Sources: Illustration by Author

2.7.3 Customer Service Training for Staff

While training your staff on customer service these are some of the areas you should cover

- About the company – Your staff need to understand your vision, mission, objectives and core values. This is the foundation for delivering excellent customer service

- About products and services – the staff need thorough knowledge about your products and services. There is nothing more annoying than dealing with a staff who doesn't know about what they are selling
- Balancing professionalism and personality – the staff should express themselves without sounding like a robot while at the same time ensuring they stick to the script
- Constructive and active listening – the staff should understand the customer's problem before offering solutions. Some customer support staff just copy paste solutions without even understanding what the issue is
- Time management – customer issues should be resolved within reasonable time
- Effective and positive communication – communicate the right thing in the right way
- Teamwork – the staff should collaborate to solve the customer's issue. The staff who first encounters the customer should seek to resolve the issues by working behind the scenes with others. No one likes being taken in endless circles or being bounced from one staff to the other. Escalation to senior or other departments should be a last resort not the first option
- Service based selling skills – sometimes a customer's complaint is an opportunity to sell something to them
- Crisis management – train the staff on how to handle crisis calmly.

2.7.4 Successful Customer Service Tips for the Company

- Have clear customer service processes and procedures
- Have a supervisory or oversight system e.g. call reviews or having a supervisor
- Have a system of recording the customer service interactions from beginning to end. This is good especially for succession purposes. If a customer service staff leaves the firm, the pending issues they were handling shouldn't be left hanging. You can use Customer Relationship Management software for this purpose
- Constantly review the performance of customer service staff. Staff that consistently underperform should be weeded out
- Have a feedback collection mechanism – conduct surveys to establish the level of satisfaction with the way issues are handled
- Ensure there is teamwork among customer service staff – avoid silo mentality where staff view their roles as independent of those of others
- Provide self-support options – ensure there is a knowledge base where customers can resolve frequently experienced issues
- Always be truthful – never tell lies or make up stories. For instance, a certain pay TV provider had issues with one of their content suppliers leading to unexpected off lining of their channels. Instead of telling the truth their customer service team was lying that the channels were not working due to 5G tests in South Africa
- Have an issue tracking system so that the customer can know the progress of the resolution process. A tracking number can be used for the purpose

2.8 Sales management

Sales management involves undertaking the following functions

- Recruiting the Salesforce – based on your needs and marketing strategies recruit salespeople that will help you meet your objectives
- Sales forecasting – based on conducted research and your objectives forecast sales according to set criteria such as product category, market segment
- Allocating sales targets/quotas – to ensure the set objectives are realised, allocate the performance responsibility for sales targets to specific sales staff
- Organisation of the Salesforce – ensure your marketing function is well structured to realise your objectives e.g. have territory heads and salespeople under them or a product category division head and salespeople under him/her
- Designing sales territories – come up with geographical areas where you will sell your products and allocate staff accordingly
- Measuring performance of Salesforce – ensure there is a system for the salespeople to report their performance against set targets. This can be through daily, weekly and monthly reports
- Training the Salesforce – this is critical especially when selling to large organisations. Ensure the salespeople are not only well trained on how to sell but most importantly about the products they are selling. While selling to organisations you are required to have detailed knowledge of the product.
- Motivation and remuneration of Salesforce – design a compensation strategy that rewards effort hence motivating better performance. Salespeople can be paid a salary plus a commission/bonus based on performance. Essentially there should be a clear link between performance and reward

2.9 Business to Business or Industrial Marketing

Business to business marketing involves selling to organisations. These include private companies, public entities and non-governmental organisations. It is selling to institutions rather than to individuals. The organisations use the goods or services to make products to be supplied to the final consumer.

2.9.1 Requirements to supply to large enterprises

2.9.1.1 Prequalification Requirements

These are requirements that a supplier must have so as to be listed in the database of the buying organization as qualified source for supply of goods and services. Buying organizations that undertake prequalification of suppliers, allows only prequalified suppliers to supply goods and services. The prequalification requirements by large firms in Tanzania include the following;

- Commercial registration or incorporation documents
- Curriculum vitae for officers, directors, managers, etc.

- TIN – Tax Identification Number
- VAT - Value Added Tax registration certification
- Valid business licence
- Tax Clearance Certificate
- Cancelled cheque/bank statement header/approved letter from the supplier’s bank
- Passport copies of directors/Certified copies of IDs of all shareholders
- Certificate of Shareholdings (Publicly listed companies exempted)
- Audited accounts for the past three years/Most recent audited accounts
- Online presence
- Letterhead of the Company/Firm
- Supplier code of conduct/Anti-corruption declaration
- Filled Supplier due diligence form
- Company profile
- Registration with Regulatory Authorities or professional bodies,
- Litigation History
- Qualified Human Resource
- Equipment manufacturing facilities
- Past performance and experience in similar assignments

2.9.1.2 General Requirements to Actually Tender for Goods, Services or Work

These are the requirements to actually tender and if successful supply goods, services or works after the procuring entity has floated a tender for the same. Not all tenders will require all these things. The requirement will differ from tender to tender and from one procuring entity to the other.

- Employees' CVs and certificates
- Letters of reference showing past performance
- List of similar projects/works undertaken
- Quality certifications
- Accreditation, ISO certificates,
- Health Safety and Environment (HSE) policies
- Willingness to supply on credit
- Potential supplier should understand the technical requirements
- Workers Compensation Fund (WCF)-certification
- Insurance/Performance bond/Bid bond
- Contractor profile in line with scope of work
- Availability
- Experience and Capacity
- Organisation management and control capacity
- Quality of service or goods
- Local content

- Financial capability
- Project specifications conformity
- Approval from relevant regulator
- For technical supplies business must have a qualified technician

2.9.1.3 Specific Requirements for Certain Categories of Goods/Services

There are categories of goods and services which require certain certification and standardisation. Such requirements include the following;

- Quality management standards certifications – these include ISO, Hazard Analysis and Critical Control Point (HACCP), TBS
- Government regulators certification or compliance e.g. CRB, GCLA
- Industry certification compliance e.g. IATA
- Professional body certification or membership e.g. Tanganyika Law Society

2.9.2 Participating in Tendering Process

2.9.2.1 Sources of tender information

Before taking part in the tendering process one needs information on various tenders floated by various organisations. Information can be obtained from the following sources;

- Regularly check the websites of your target procuring entities e.g. government ministries, large organisations
- Mass media especially print media such as newspapers and magazines
- Tender aggregating websites – these are websites that collect tenders from various procuring entities and publish them on their website e.g. TenderSoko
- Contacts in your network – sometime you can receive tender information through your business network contacts
- Checking social media accounts of tendering entities – some procuring entities publish tender details on their social media platforms
- The Public Procurement Regulatory Authority (PPRA) website contains a lot of information on public procurement. It is important to check it and understand the regulatory environment affecting public procurement
- TANePS website - TANePS (Tanzanian National e-Procurement System) is a web-based, collaborative system, developed in accordance with the requirement of public procurement laws, to facilitate public procurement processes in Tanzania. It offers a secure, interactive, dynamic environment for carrying out procurement of all categories, complexity or value. You should register your business on this website

2.9.2.2 *Analysing the tender*

Before taking part in the tendering process it is important to analyse the tender first and establish if it makes business sense to participate. The following criteria can be used;

Table 9: Criteria for Analysing a Tender

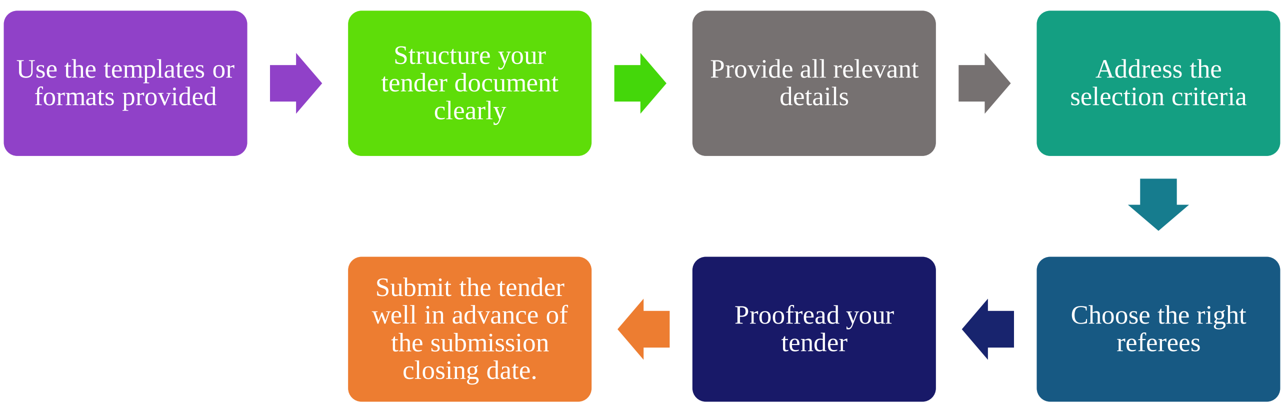
About the tender	About the Buyer	About my business
▪ What goods or services is the buyer seeking to purchase? ▪ What are the evaluation criteria? ▪ What are the key dates? ▪ What are the submission requirements? ▪ Do any key sections of the tender specification need highlighting for further discussion or clarification?	▪ What are the buyer's key requirements? ▪ Does my business have any existing business relationships with the buyer? ▪ Does the business understand the policy environment that the buyer operates in?	▪ Is this tender a strategic fit for my business? ▪ What are my business's strengths? What are my competitors' strengths? ▪ Can I demonstrate a track record of previous successful tender delivery? ▪ What is my initial estimation of cost to bid for this tender? ▪ What is our potential profit from winning the tender? ▪ What resources do we require to bid and deliver a winning tender?

Sources: Queensland Government; Compiled by Author

2.9.2.3 *Preparing and submitting tender documents*

Follow the following process when preparing and submitting tender documents;

Figure 13: Process for Preparing and Submitting Tender Documents



Sources: Illustration by Author

2.9.2.4 *Public Procurement Process in Tanzania*

The solicited procurement of goods and services is used in Tanzania. The steps involved are as follows;

Figure 14: Public Procurement Process in Tanzania

- Requirement identification;
- Determining procurement method;
- Procurement requisition processing;
- Solicitation documents preparation and publication;
- Pre-bid or proposal meeting and site visit;
- Bid or proposal submission and opening;
- Bid or proposal evaluation;
- Contract award recommendation;
- Contract negotiations
- Contract award (signing)

Sources: Illustration by Author

2.9.3 Contracting and negotiation skills

Negotiation is the processing through which differences over an issue are discussed and a common agreement reached. In a business context, sales negotiation is the most common. This involves agreeing with a client regarding the details of a sales contract.

2.9.3.1 Preparing for negotiation

- Conduct research on the issues to negotiate on
- Gather and organise the necessary documents

- Ensure you fully and truly understand the terms of the contract and their implications
- Define your negotiation objectives
- Determine the degree to which you are willing to compromise
- Ensure you are clear on the venue and time for the negotiation
- Ensure you have the right team for the negotiation
- Think about the tactics the client is likely to use and plan on how to counter them

2.9.3.2 Do's and Don'ts of Negotiation

- Always start negotiations by stating with parts of the contract terms you are happy with and which points you want to discuss; and ask the client representative to do the same
- Don't imply that you are willing to compromise or you're prepared to give in on anything straight away. This can be seen as a cue for desperation hence putting you at a disadvantage
- Don't accept the first offer, always counter it with a different offer and allow the other party to come back with a revised figure
- Focus on a win-win outcome. Avoid coming out as greedy and only interested in self
- Avoid negotiating a price below the cost of delivery as that could compromise quality or lead to non-delivery hence ruining your reputation
- If you feel under pressure, consider the delay tactic whereby you ask for more time for instance by seeking to consult your partners or superiors first. This will give you time to think through issues you had not considered in your preparation
- Avoid negotiating from a point of desperation – no matter how much you need to close the deal do not show it to the client
- Focus more on the relationship and less on the transaction – sometimes securing the first deal is the gateway to a long-term and profitable relationship with the client. Always bear this in mind
- Concentrate more on the value and less on the money – you should always want the client to see value in what you are offering and consider you as the best to do so. Instead of portraying yourself as the cheapest create a feeling that you are offering the best value for the money

MODULE III: FINANCE

3.1 Lesson Plan

3.1.1 Overall Objective

This module aims at equipping the participant with understanding of key financial concepts and the financing options available to SMEs.

3.1.2 Learning Objectives

i. Understand the type of records to be kept and the need for complete, accurate, reliable and timely financial statements
ii. Know about various tax laws applicable to SMEs and how to be compliant
iii. Discover the financing options available for various business needs of an SME
iv. Find out ways in which you can raise finances to deliver on tenders that you have won

3.1.3 Topics Covered and Time Available: 5 Hours

Table 10: Finance Module Topics, Training Methods and Time

Content	Method	Time - Minutes
Record keeping	Lecture, Discussion, Activities	75
Financial reporting	Lecture, Discussion, Activities	75
Taxation and tax compliance	Lecture, Discussion, Activities	75
SMEs financing strategies	Lecture, Discussion, Activities	60
SME tender financing options	Lecture, Discussion, Activities	15
	Total Time	**300**

Sources: NEEC SMEs Training Manual 2020

3.2 Record Keeping, Accounting and Financial Reporting

3.2.1 Key Concepts

- Bookkeeping is the process of recording data relating to transactions in the accounting books
- Accounting can be defined as the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information.
- It is a collection of systems and processes used to record, report and interpret business transactions
- The primary objective of accounting is to provide information for decision-making. The information is usually financial, but can also be given in volumes, for example the number of cars sold in a month by a car dealership. So for example, if a business recorded what is sold, to whom, the date it was sold, the price at which it was sold, and

the date it received payment from customer, along with similar data concerning the purchases it made, certain information could be produced summarizing what had taken place.

3.2.2 Users of Accounting Information

Possible users of accounting information include:

3.2.2.1 Internal Users

- Owners of the business - want to see whether the business is profitable or not. They also want to know what the financial resources of the business are
- Managers - These are the day-to day decision makers. They need to know how well things are progressing financially and about the financial status of the business
- Employees – also interested in the financial status of the business

3.2.2.2 External users

- Tax inspectors - They need it to be able to calculate taxes payable
- A prospective buyer - when the owner wants to sell a business the buyers will want to see such information
- The bank - if the owner wants to borrow money for use in the business, then the bank will need such information
- Investors, either existing ones or potential ones - They want to know whether or not to invest their money in the business
- Others such as general public, customers, researchers, industry regulators etc.

3.2.3 Basic Rules or Principles of Accounting

3.2.3.1 Business Entity Rule

- Transactions associated with a business must be separately recorded from those of its owners or other businesses
- Without this concept, the records of multiple entities would be intermingled, making it quite difficult to discern the financial or taxable results of a single business.

3.2.3.2 Going Concern Rule

- Holds that the financial statements should be prepared on the assumption that the business will continue operation for the foreseeable future
- Without the going concern assumption, companies would not have the ability to prepay or accrue expenses.

3.2.3.3 Prudence Rule

- Prudence concept holds that caution should be exercised when making accounting judgments regarding uncertain accounting transactions

- For instance, Uncertainty about the future is dealt with by recording all losses at once and in full. While, profits are recognized only when they actually arise

3.2.3.4 Matching Rule

- Requires that expenses incurred by an organization must be charged to the income statement in the accounting period in which the revenue, to which those expenses relate, is earned
- The matching concept thus helps avoid misstating earnings for a period. Reporting revenues for a period without reporting all the expenses that brought them could result in overstated or understated profits

3.2.3.5 Accruals Rule

- Business transactions are recorded when they occur and not when the related payments are received or made
- This concept is called accrual basis of accounting and it is fundamental to the usefulness of financial accounting information
- The benefit of the accrual approach is that financial statements reflect all the expenses associated with the reported revenues for an accounting period
- Once a business receives or makes cash payments, it reverses the accrual accounting entries and records the cash transactions

3.2.3.6 Historic Cost Rule

- Holds that value of assets shown in balance sheet should be based on their acquisition cost (that is historic cost)

3.2.4 The Accounting System

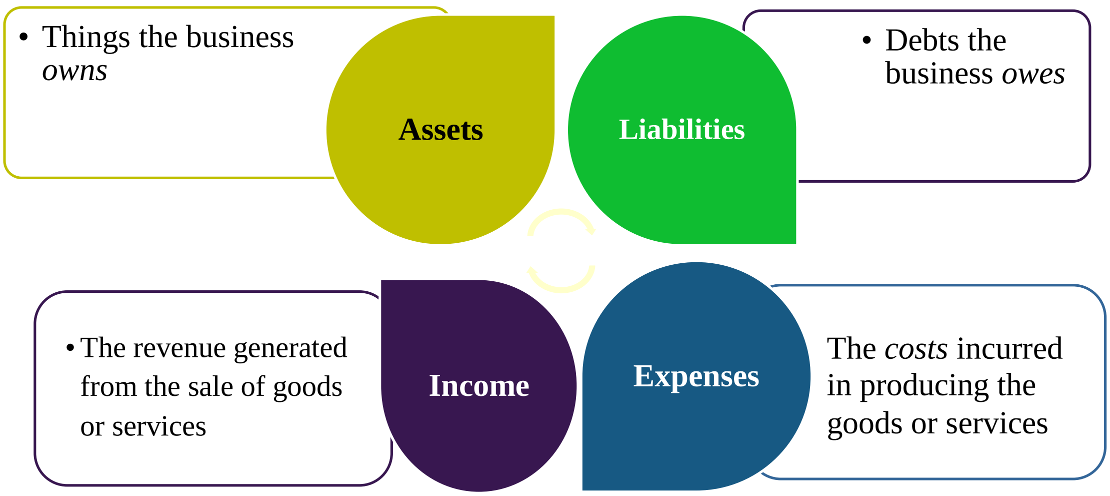
3.2.4.1 Components of an Accounting System

- Businesses exist to make a profit. They do this by producing goods and services and selling those goods and services at a price that exceeds their cost
- Conducting business involves a number of activities such as buying equipment, purchasing goods and services, paying expenses, making sales, distributing goods and services etc. These activities are known as ***business events***
- In accounting terms, each of these business events is a ***transaction***
- Each transaction is recorded on a ***source document*** that forms the basis for recording in a business's accounting system. Examples of source documents are invoices, delivery notes, bank deposit and cheques
- The ***accounting system,*** typically computer based (except for very small businesses), comprises a set of accounts that summarize the transactions that have been recorded on source documents and entered into the accounting system
- An accounting system has a separate ***account*** for each asset, each liability, and each component of stockholder's equity

- Accounts are the basic storage units for accounting data and are used to accumulate amounts of similar transactions
- Each individual account is stored in the general ledger and used to prepare the financial statements at the end of an accounting period.

3.2.4.2 There are four types of accounts:

Figure 15: Types of Accounts



Sources: Illustrations by Author

- Assets, Liabilities and Capital are reported in a statement of the financial position at *any point in time* which is referred to as the Balance sheet
- Income and expenses are reporting in a statement of profit and loss at the *end of a given period*

3.2.5 Transaction analysis and the Accounting equation

3.2.5.1 The Accounting Equation

- The accounting equation is based on the idea that, if a business is to be set up and start trading, it will need resources
- If it is the owner of the business who has supplied all the resources. Then,

$$Resources\ supplied\ by\ the\ owner\ =\ Resources\ in\ the\ business$$

- In accounting, the amount of resources supplied by the owner is called ***Capital***. The capital is used to acquire resources to run the business known as ***Assets***
- The above equation can then be written as:

$$Capital = Assets$$

- Usually, however, people other than the owner have supplied some of the assets
- A ***liability*** is the name given to the amount owing to these people for these assets
- The accounting equation has now changed to:

$$Assets = Capital\ +\ Liability$$

- Capital is often called owner's equity or net worth- It comprises of the funds invested in the business by the owner plus any profit retained for use in the business less any share of profits paid out to the business owner
- More generally, it can be written as

$$Assets = Liabilities + Stockholder's\ equity$$

3.2.6 Transaction analysis Illustration

The following is a series of transactions that show the effects on the accounting equation

3.2.6.1 The introduction of capital

- On May 1, 2019, James started business and deposited Tsh. 6,000,000 into a business account opened specifically for the business.

Asset = Capital
Cash at Bank 6,000,000 = Capital 6,000,000

3.2.6.2 The Purchase of an asset by cheque

- On 3 May 2019, James buys a small shop for Tsh. 3,200,000, paying by cheque.

The effect of this transaction on the balance sheet is that cash at the bank is decreased and the new asset, building is added:

Asset	=	Capital	
Shop +	Bank		Capital
3,200,000 + 2,800,000		=	6,000,000

3.2.6.3 Purchase of an asset by incurring a liability

- On 6 May, 2019, James buys some goods for Tsh. 700,000 from Godwin, and agrees to pay for them sometime within the next two weeks
- The effect of this is that a new asset, inventory is acquired, and a liability for the goods is created. A person to whom money is owed for goods is a creditor, and is described in the balance sheet as an account payable

Assets = Liability + Capital
Shop +Inventory+ bank= A/c payable + Capital
3,200,000+700,000+2,800,000 = 700,000 + 6,000,000

3.2.6.4 Sale of an asset on credit

- On 10 May 2019, goods which cost Tsh. 60,000 were sold to Brown for the same amount, the money to be paid later
- The effect is the reduction in the stock of goods and the creation of a new asset (debtor)
- A person who owes the business money is a debtor and is described in the balance sheet as an account receivable

$$Asset = Liability + Capital$$
$$Shop + Inv + A/c\ Receivable + Bank = A/c\ payable + Capital$$
$$3{,}200{,}000 + 640{,}000 + 60{,}000 + 2{,}800{,}000 = 700{,}000 + 6{,}000{,}000$$

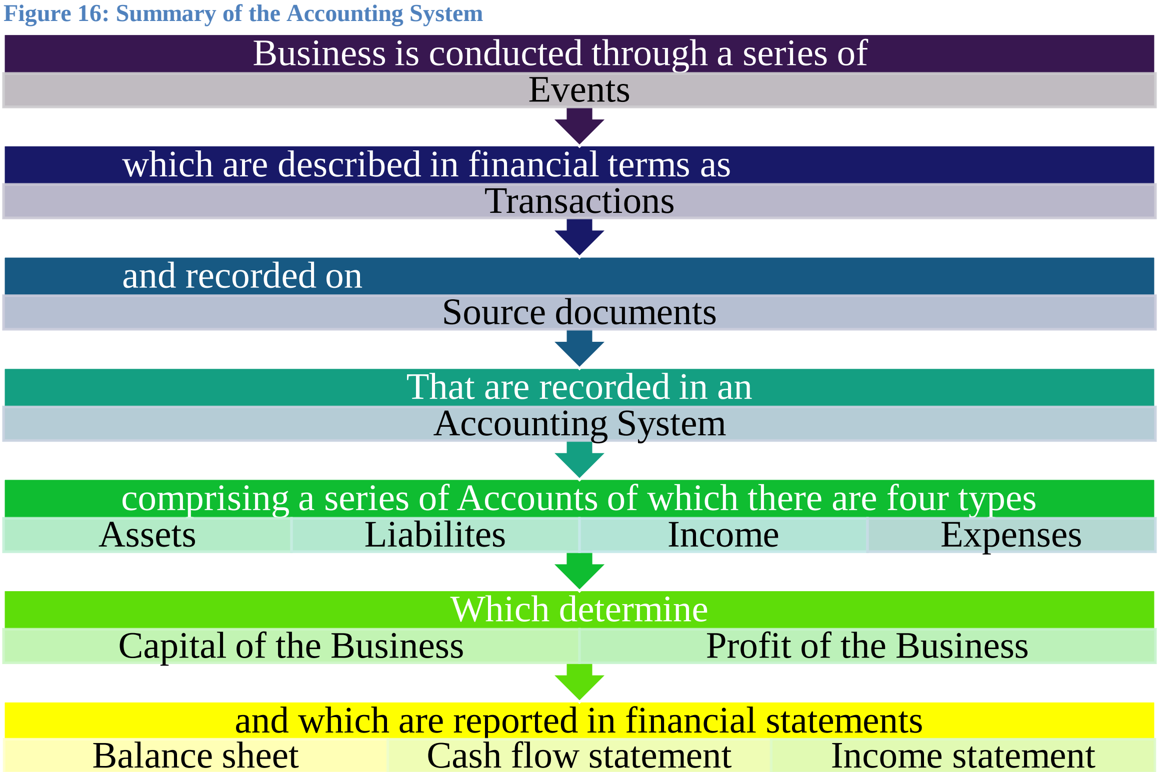
3.2.7 The Double Entry: Recording Transactions

- The double entry means that every business transaction affects two accounts. These accounts may increase or decrease
- The system is based on the principle of duality, which means that every economic event has two aspects - efforts and reward, sacrifice and benefit, source and use - that offset or balance each other
- Accountants record the increases or decreases as debits or credits
- In terms of assets, liabilities or capital;
  - To increase an asset – Debit
  - To decrease an asset – Credit
  - Increase a liability/capital – Credit
  - Decrease a liability – Debit
- For expenses and revenues;
  - Debit – Expense and Loss
  - Credit – Revenues and profits

    This is because, Revenue increase profits, so they increase capital, and that makes them credits. Expenses decrease profits, so they reduce capital, and that makes them debits. The treatment of expenses is the same as the treatment of assets

3.2.7.1 Summary of the Accounting System

Figure 16: Summary of the Accounting System



Sources: Illustrated by Author

3.3 Preparing Financial Statements

- Financial statements are the primary means of communicating important accounting information to users
- It is helpful to think of these statements as models of the business enterprise because they show the business in financial terms
- A complete set of financial statements (now financial reports) includes:
  - Balance sheet (also called a statement of financial position)
  - Income statement (also called a statement of comprehensive income)
  - Cash flow statement (statement of cash flows)
  - Statement of changes in equity
  - Explanatory policies and explanatory notes (notes)
- Information about financial position is primarily provided in a *balance sheet*.
- Information about performance is primarily provided in an *income statement*.
- Information about changes in financial position is provided by way of a separate financial statement, although cash flow is largely concerned with this
- Thus: the main objective of financial reports is to provide information about the financial position, performance and changes in financial position (that is cash flow) of an entity that is useful to a wide range of users in making economic decisions

3.3.1 Key Terms in Financial Reporting

- Financial position refers to the economic resources that belong to a company and claims against these resources at a point in time
- An income statement reports the revenues earned less the expenses incurred by a business over a period of time
- Profit is the amount by which revenue is greater than expenses for a set of transactions
- Revenue means the sale value of goods and services that have been supplied to customers. Examples are earnings from consulting services provided, sales of products, facilities rented to others and commissions from services. Revenues increase retained earnings
- Expenses mean the cost value of all the assets that have been used up to obtain those revenues. Examples are cost of employee time, use of supplies, advertising, utilities, insurance services etc. Expenses decrease retained earnings
- Gross profit is the excess of sales revenue over the cost of goods sold. Gross loss is where cost of goods sold exceeds the sales revenue
- Cost of goods sold (COGS) is found by adding the purchases made during the period to the stock present at the start of the period less the stock at the end of the period

$$COGS = Opening\ stock + purchases - Closing\ stock$$

3.3.2 Key Financial Statements

3.3.2.1 Income Statement

- Net profit is what is left of the gross profit after all other expenses have been deducted. It is computed as gross profit plus any revenue other than that from sales, such as rents received or commissions earned, less all expenses incurred during the period

Illustration

- **Problem**: From the following information prepare an income statement;

Sales	Tsh.	50,000,000
Purchases		12,000,000
Closing stock		3,200,000
Salaries		4,200,000
Rent		1,800,000
Electricity		600,000
Communication		200,000

- **Solution**

Table 11: Illustration of an Income Statement

Baraka Enterprises		
Income Statement for Period Ended 31st December 2019		
Sales		Tsh. 50,000,000
Less: Cost of goods sold		
Opening stock	-	
Add: Purchases	12,000,000	
Less: closing stock	3,200,000	
Cost of goods sold		8,800,000
Gross profit		**41,200,000**
Less: Expenses		
Salaries	4,200,000	
Rent	1,800,000	
Electricity	600,000	
Communication	200,000	
Total expenses		6,800,000
Net profit		**34,400,000**

Sources: Author

3.3.2.2 The Balance Sheet

- Balance sheet reports the financial position of a company at a point in time, usually at the end of a month, quarter or year
- Comprises of accounts with balances that were not included in the income statement
- All these accounts that continue to have balances must be assets, capital or liabilities
- *Assets* are resources owned or controlled by a business and that have expected future benefits. They can be categorised as current assets and Non-current (fixed) assets

- *Current assets* are assets that are likely to change in the short term and certainly within one year. They include short-term investments, accounts receivable, stock (inventory), prepaid expenses, cash in the bank, and cash in hand. Current assets are listed in increasing order of liquidity – that is starting with the asset furthest away from being turned into cash, and finishing with cash itself.
- *Non – current assets* are assets that were not bought primarily to be sold; but are to be used in the business; and are expected to be of use o the business for a long time. These include, buildings, machinery, motor vehicles, fixtures and fittings. Noncurrent assets are listed first in the balance sheet starting with those the business will keep the longest, down to those which will not be kept for a long time.
- Liabilities are claims on business/organization's assets which involves a probable future payments of the assets, products or services that a company is obligated to make due to the past transactions or events.
- *Current liabilities* are obligations due to be paid within one year. They include, bank overdrafts, accounts payable, notes payable, taxes payable, etc.
- *Noncurrent liabilities* are obligations not due within one year. They include; bank loans, mortgages payable, bonds payable.

Illustration

Baraka Enterprises started a business on 1st January 2019, with Tsh. 60m capital in cash. During the first year, he kept very few records of his transactions.

The assets and liabilities of the business as at 31st December, 2019 were;

Freehold premises	Tshs.	70,000,000
Mortgage on premises		40,000,000
Inventory		28,000,000
Account receivable		2,200,000
Cash and bank balances		6,000,000
Account payable		6,200,000

Required:

From the above information, prepare a balance sheet showing the financial position of the business as at 31st December 2019

Solution

Table 12: Illustration of a Balance Sheet

Baraka Enterprises		
Balance sheet as at 31st December 2019		
Assets		
Non-current assets		
Freehold premises	Tsh.	70,000,000
Current assets		

Inventory	Tsh.	28,000,000	
Account receivable		2,200,000	
Cash and bank balance		6,000,000	
Total current assets			***36,200,000***
Total Assets			**106,200,000**
Liabilities and Capital			
Current liabilities			
Account payable			6,200,000
Non-current liabilities			
Mortgage on premises			40,000,000
Capital			***60,000,000***
Total Liabilities and capital			**106,200,000**

Sources: Author

3.4 Taxation and Tax Compliance in Tanzania

3.4.1 Objectives of taxation

- The main objective of taxation for the government is to make provision for funds to meet public expenditure for achieving economic and social objectives
- The government imposes taxation policies to encourage the following;
  - Saving by individuals
  - Taking risks in investments by entrepreneurs
  - Entrepreneurs building their own businesses
  - Donations to charities
  - Investment in industrial assets (e.g. factories, warehouses etc.)

3.4.2 Taxes and Levies in Tanzania

3.4.2.1 Company Income Tax/Corporation Tax

- It is the tax payable by organisations on their taxable profits/income. Taxable income includes
  - Profits from business undertakings
  - Profits from conducting investments (except such dividends which are taxed differently as final taxes)
  - Tax paid out of turnover of companies with perpetual unrelieved losses for three consecutive years
- Organisations required to pay Corporation Tax in Tanzania include;
  - Limited Companies
  - Trusts
  - Clubs
  - Non-Governmental Associations
  - Co-operative Societies

    - Charitable Organizations
    - Domestic Permanent Establishment (Branches of non-resident companies)
    - Political Parties
    - Government Agencies

3.4.2.2 Presumptive tax system/Turnover Tax/Micro Enterprises Tax

- This is a tax system where individuals are taxed based on their annual turnover
- The Taxpayers under this system are not obligated to prepare and submit audited accounts to the TRA
- However, he may opt not to apply the system and prepare audited accounts and pay tax based on profits
- Conditions which qualify one to be in Presumptive tax system;
    - The Taxpayer must be a resident individual
    - The annual turnover of the business does not exceed the threshold of TSHS 100 million
    - He or She must conduct business only for the year of income hence not be engaged in any other activities such as employment or investments. Under the presumptive tax system, individual's income must be derived solely from business sources. If income is derived from other sources such as employment and/or investment the presumptive scheme cannot be used
    - The individual's income for any year must consist exclusively of income from business with sources in the United Republic of Tanzania.

3.4.2.3 Pay As You Earn (PAYE)

- PAYE stands for Pay-As-You-Earn. It is a withholding tax on taxable incomes of employees
- Under this system, an employer is required by law to deduct income tax from an employee's taxable salary or wages
- Employees include a permanent employee, part time, manager, director and casual employees

3.4.2.4 Value Added Tax (VAT)

- VAT is Value Added Tax. It is the tax which is paid on the value added
- This tax is levied at each stage of production
- VAT is a consumption tax paid by customers in addition to the price of the product
- Taxable turnover exceeding Tshs 100 million per annum. However, there is mandatory VAT registration for;
    - A registered professional who is permitted, licensed or registered to provide such professional services regardless of taxable turnover
    - A government entity or institution which carries on economic activity
- Every VAT registered person is required to use the Electronic Fiscal Device (EFD). EFD is a machine used to record all the sales transactions so as to compute VAT

3.4.2.5 Skills Development Levy (SDL)

- Skills and Development Levy: is a levy collected by TRA under the Vocational Education Training Act and Income Tax Act
- SDL is charged based on the gross pay of all payments made by the employer to the employees employed by such employer in the particular time
- Any employer who employs four or more employees shall pay SDL from gross emoluments
- The rate applicable for SDL is 4.5% of the total emoluments paid to all employees during the month.
- The employee includes permanent employees, part time employees, secondary employees, casual labourers etc.

3.4.2.6 Withholding tax

- Withholding tax is the amount of tax retained by one person when making payments to another person in respect of goods supplied or services rendered by the payee
- A person receiving or entitled to receive a payment from which income tax is required to be withheld is a withholdee
- A person required to withhold income tax from a payment made to a withholdee is referred to as the Withholding Agent
- Withholding tax applies to specific payments including;
    - Payment that is to be included in calculating the chargeable income of an employee from the employment
    - Payment of investment return including dividend, interest, natural resource payment, rent or royalty
    - Payment in respect to service fee and contract payments and
    - Payment in respect to supply of goods to the government and its institutions
- A withholding agent shall prepare and serve on a withholdee a withholding certificate setting out the amount of payments made to the withholdee and income tax withheld from those payments

3.4.2.7 Capital Gain Tax

- When a person sells an asset that is in his / her possession, the profit arising from such sale is chargeable to tax as capital gains
- Therefore, capital gains tax liability arises when a taxable person makes a chargeable disposal of a chargeable asset
- For example, Adam sells his business asset at a profit of Tshs 500,000. So, the amount of profit i.e. Tshs500,000 is chargeable to capital gains tax

3.4.2.8 Excise Duty

- Excise Duty is a duty charged on specific goods and services manufactured locally or imported on varying rates
- It is charged in both specific and ad valorem (proportional) rates

- Items charged under specific rates include: Wines, spirits, beer, soft drinks, mineral water, fruit juices, recorded DVD, VCD, CD and audio tapes, cigarettes, tobacco, petroleum products and Natural gas
- Items charged under ad-valorem rates include: Money transfer services, electronic communication services, pay to view television services, imported furniture, motor vehicles, plastic bags, specified aircrafts, firearms, specified cases, cosmetics and medicaments

3.4.2.9 Gaming tax

- Tax chargeable on economic activities falling under betting, gaming and lottery

3.4.2.10 Customs taxes

- Duties and Taxes on importing or exporting of goods
- They are payable within 30 days from the date of assessment

3.4.2.11 Stamp Duty

- This is a tax on legal documents such as those used, e.g., for the sale or purchase of shares or the conveyance of a property to a new owner

3.4.2.12 Individual Income tax

- It is a tax levied on the income of an individual
- Income can be from any sources such as:
  - Income from earnings (e.g. employment income / trade profit)
  - Income from pensions
  - Income from other benefits (e.g. rental income)
  - Income from savings (e.g. interest income)
  - Income from investments (e.g. dividend income)
- Income tax is calculated on earned income (i.e. income from employment) as well as on income from savings etc.
- Income from various sources is pooled together and tax is charged on the aggregate income after deducting the relevant personal allowance
- Taxpayers who are employed pay income tax on their earnings under the statutory Pay As You Earn (PAYE) scheme.

3.4.2.13 Inheritance Tax

- When a person is in possession of an asset and on his death the ownership of such an asset is transferred, the value of the transferred asset is chargeable to inheritance tax, subject to certain tax free threshold
- Therefore, inheritance tax liability arises when the value of chargeable property is transferred by a taxable person

3.4.3 Use of Electronic Fiscal Devices in Tax Management

- Electronic Fiscal Device (EFD) means a machine designed for use in business for efficient management control in areas of sales analysis and stock control system and which conforms to the requirements specified by the laws. Such devices include;
  - Electronic Tax Register (ETR) - The device is used by retail business that issue receipts manually
  - Electronic Fiscal Printer (EFP) - The device is used by computerized retail outlets. It is connected to a computer network and stores every sale transactions or details made in its fiscal memory
  - Electronic Signature Device (ESD) - The device is designed to authenticate by signing any personal computer (PC) produced financial document such as tax invoice. The device uses a special computer program to generate a unique number (Signature) which is appended to and printed to every invoice issued by the user's system
  - Electronic Fiscal Pump Printer (EFPP) - The device is designed for use in Petrol Stations

3.4.4 Tax administration in Tanzania

- Tax administration in Tanzania is under the Tanzania Revenue Authority (TRA)
- The organization has a role to administer and give effect to the laws or the specified provisions of the laws set out in the First Schedule to The Tanzania Revenue Authority Act, and for this purpose, to assess, collect and account for all revenue to which those laws apply

3.4.5 Tax laws in Tanzania

There are various tax laws which oversee the taxation process in Tanzania. The core tax laws that are administered by TRA include following;

3.4.5.1 Tax Acts

- The Finance Act – Published every year to impose and alter certain, taxes, duties, fees
- Tax Administration Act 2015
- Income Tax Act Cap. 332 Revised Edition 2008
- The Value Added Tax Act, 2014
- The Port Service Charges Act Cap 264
- The Motor vehicle (Tax Registration and Transfer) Act cap 124
- The Airport Service Charges Act Cap 365
- The Road and Fuel Toll Act Cap.220
- The Stamp Duty Act Cap. 189
- The East African Community Customs Management (Amendment) Act, 2011
- The East African Community Customs Management Act, 2004 (Revised)
- The Gaming Act, Cap. 41

- Vocational Education and Training Act, Cap. 82
- The Foreign Vehicle Transit Charges Act, Cap.84
- The Written Laws Miscellaneous amendments) (No. 2) ACT.2019

3.4.5.2 Other tax laws

- The Tax Revenue Appeals Act Cap. 408
- The Hotels Act Cap. 105
- The Tanzania Revenue Authority Act Cap.399
- The Oil and Gas Revenues Management Act, 2015
- The Urban Authorities (Rating) Act, CAP 289

3.4.6 Core tax administration concepts

3.4.6.1 Tax returns

- Tax return is a document or a form that is used by a taxpayer to give information of taxable income and tax payable to the revenue authority
- Tax return is a statement filed to TRA which declares the estimated income and tax payable or the final income and tax payable for each year of income
- For income tax purposes year of income means a calendar year of twelve months period (meaning the period starting from 1st January to 31st December)

3.4.6.2 Tax assessment

- Tax assessment, in simple terms, means calculating the total tax liability by a taxpayer taking into consideration the income from various sources and also the various benefits available to reduce the tax liability, and applying appropriate tax rate to calculate the correct tax liability
- Once the tax return is filed by a taxpayer, the revenue authority verifies whether the tax liability calculated by the taxpayer is appropriate

3.4.6.3 Tax audit

- Tax audit is an independent examination and verification of accounting records and transactions by a certified public auditor undertaken with an objective to assure that the income shown in the tax return by the taxpayer is right, based on his total income and the applicable tax rates
- Tax audit helps in ensuring that the taxpayer has not concealed any income from any source. Since the certified public accountant verifies the taxpayer’s financial and accounting records and other supporting documents during the audit, this gives an assurance to the revenue authority that the amount of tax collected from a taxpayer is the correct amount of tax

3.4.6.4 Tax investigation

- When a taxpayer is suspected of hiding their true income and thereby paying less tax, then the revenue authority undertakes investigation in order to recover the underpaid tax in the previous years of assessment
- The revenue authority also sometimes undertakes the investigation on random sampling basis

3.4.6.5 Tax evasion

- Is a deliberate act by an individual or company to mislead, misinform or otherwise mis-state their tax position to the revenue authority in order to evade taxes
- It involves dishonest conduct or behaviour by the taxpayer
- Tax evasion is illegal and is punishable by hefty fines and imprisonment
- It could consist of:
  - Providing the revenue authority with false information
  - Not giving the revenue authority information to which they are entitled
  - Concealing a source of income

3.4.6.6 Tax avoidance,

- On the other hand, is any legal way of reducing the amount of tax payable – involving a sensible arrangement of the taxpayers' affairs to minimise the liability to tax
- All activities must remain legal at all times
- It is the utilisation of "tax loopholes" within the legislation in an ingenious way, thereby affording the taxpayer, legally, a favourable tax position
- Tax avoidance is legal. It involves the arrangement of individuals' or companies' tax affairs in a way which reduces the tax liability; for example, using incentivised tax saving schemes
- Complex tax avoidance examples would include establishing an offshore company in a tax haven or by forming a limited company to avail more favourable tax deductions

3.5 MSME Financing Options

3.5.1 Introduction

- Business is concerned with the production and distribution of goods and services for the satisfaction of needs of society
- For carrying out various activities, business requires money
- Finance, therefore, is called the lifeblood of any business
- The requirements of funds by business to carry out its various activities is called business finance

3.5.2 Forms of Business Finance

3.5.2.1 Short term finance

Major sources under this category are; Bank overdraft, Short-term loan, Debt factoring, Invoice discounting, tighter credit control, reducing inventory levels, delaying payments to trade payables.

- **Bank overdraft** - A bank overdraft enables a business to maintain a negative balance on its bank account. It represents a very flexible form of borrowing as the size of an overdraft can (subject to bank approval) be increased or decreased. It is relatively easy to arrange an overdraft. Banks normally require security on amount advanced. It is repayable on demand. Thus, for illiquid business there may be a problem
- **Debt factoring** - Debt factoring involves the Factor (normally a financial institution) taking over the trade receivables collection for a business. There are two main forms of factoring agreement;
  - Recourse factoring – the Factor assumes no responsibility for bad debts arising from credit sales,
  - Non-recourse factoring, - Factor assumes the responsibility for bad debt up to an agreed amount, and charges a fee.
  - The Factor is usually prepared to make an advance to the business of up to a certain percentage of approved trade receivables. This advance is usually paid immediately after the goods have been supplied to the customer. The balance of the debt, less any deductions for fees and interest, will be paid after an agreed period or when the debt is collected

  Advantages
  - It is convenient
  - can result in savings in credit management
  - can create more certain cash flows
  - release the time of key personnel for more profitable ends

  Disadvantages
  - However, it may have adverse effect on the confidence of customers and suppliers as they may see that an agreement indicates financial difficulties
  - It is relatively expensive, as it involves relatively high costs in setting up

- **Invoice discounting**
  - This involves a Factor or other financial institution providing a loan based on a proportion of the face value of a business's credit sales outstanding. A certain percentage of the value of the approved sales invoices outstanding is usually advanced. A business must agree to repay the advance within a relatively short – period

    - Responsibility for collecting the trade receivables outstanding remains with the business and repayment of the advance is not dependent on the trade receivables being collected
- **Reducing inventory levels**
    - Holding inventories imposes an opportunity cost on a business as the funds tied cannot be used for other purposes. Thus, if inventories are reduced, funds become available to meet future sales demand
    - However, a business must ensure there is a sufficient inventory to meet likely future sales demand
- **Delaying payments to trade payables**
    - By providing a period of credit, suppliers are in effect offering a business an interest free loan
    - If the business delays payment, the period of the 'loan' is extended and the funds are retained within the business. This can be a cheap form of finance for a business

3.5.2.2 Long term finance

The common long-term sources include; Ordinary and preference shares, Borrowings, Finance leases, Hire purchase and Retained profit.

- **Ordinary shares**
    - Ordinary shares represent the risk capital of a business and form the backbone of a business's financial structure
    - From the business's perspective, ordinary shares can be a valuable form of financing compared to borrowing. It may be possible to avoid paying a dividend, whereas it is not usually possible to avoid interest payments

Merits

The important merits of raising funds through issuing equity shares are given as below:

- Equity shares are suitable for investors who are willing to assume risk for higher returns
- Payment of dividend to the equity shareholders is not compulsory. Therefore, there is no burden on the company in this respect
- Equity capital provides credit worthiness to the company and confidence to prospective loan providers
- Funds can be raised through equity issue without creating any charge on the assets of the company

Limitations

The major limitations of raising funds through issue of equity shares are as follows:

- Investors who want steady income may not prefer equity shares as equity shares get fluctuating returns
- The cost of equity shares is generally more as compared to the cost of raising funds through other sources

  - Issue of additional equity shares dilutes the voting power, and earnings of existing equity shareholders
- **Preference shares**
  - Preference shares offer investors a lower level of risk than ordinary shares. Provided there are sufficient profits available, preference shares will normally be given a fixed rate of dividend each year, and preference dividends will be the first slice of any dividend paid
  - Preference shareholders are not usually given voting rights
- **Borrowings**
  - Lenders enter into a contract with the business in which the interest rate, dates of interest payments, capital repayments and security for the loan are clearly stated. Security is normally required.
  - There are various forms of borrowings including; Term loan, Mortgage and Loan notes
- **Finance leases**
  - It is a form of lending, in which the legal ownership of the asset remains with the lessor whereas, the risks and rewards associated with the item being leased is transferred to the lessee
  - A lessor is an institution that owns the asset and then leases it to the business
  - A lessee is a business that leases an asset from the institution
  - Finance lease is different from an operating lease
  - Operating lease is a short-term agreement in which, the rewards and risks of ownership stay with the owner. Example, where a builder hires some earth moving equipment for a week to carry out a particular job
  - The important merits of lease financing are as follows:
    - It enables the lessee to acquire the asset with a lower investment
    - Simple documentation makes it easier to finance assets
    - Lease rentals paid by the lessee are deductible for computing taxable profits
    - It provides finance without diluting the ownership or control of business

- **Hire purchase (HP)**
  - It is a form of credit used to acquire an asset under the terms of HP agreement. The customer pays for an asset by instalments over an agreed period
  - Customer will pay an initial deposit (down payment) and then make instalment payments at regular intervals, until the balance outstanding has been paid
  - The customer will usually take possession of the asset after payment of initial deposit, although the legal ownership of the asset will not be transferred until the final instalment has been paid
  - Hire purchase agreements often involves three parties; the supplier, the customer, and a financial institution

- **Retained profits**
  - Rather than distributing the profits to shareholders, a business may decide to retain the profits
  - The portion of the net earnings of the company that is not distributed as dividends is known as retained earnings
  - The amount of retained earnings available depends on the dividend policy of the company
  - It is generally used for growth and expansion of the company

3.5.3 Factors affecting the choice of the source of finance

- Cost - There are two types of cost viz., the cost of procurement of funds and cost of utilising the funds
- Financial strength and stability of operations: business should be in a sound financial position so as to be able to repay the principal amount and interest on the borrowed amount
- Form of organisation and legal status: The form of business organisation and status influences the choice of a source. A partnership firm, for example, cannot raise money by issue of equity shares as these can only be issued by a joint stock company
- Purpose and time period: Business should plan according to the time period for which the funds are required
- Risk profile: Business should evaluate each of the source of finance in terms of the risks involved
- Control: A particular source of fund may affect the control and power of the owners on the management of a firm

3.5.4 Sources of Finance for MSMEs

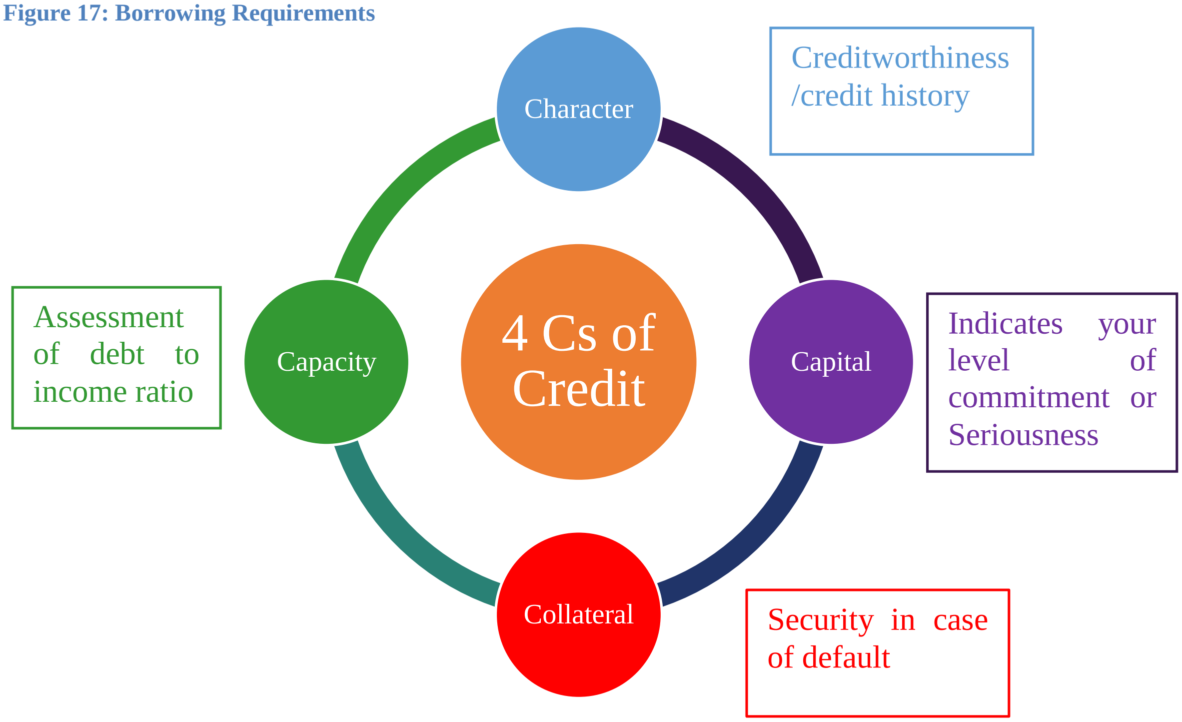
- Banks both commercial and microfinance banks
- Cooperative societies/Savings groups
- Private equity e.g. venture capitalists, angel investors
- Government through various empowerment funds and government owned financial institutions
- Donors – can provide money in form of non-repayable grants
- Capital markets – e.g. by selling shares to the public or issuing a corporate bond or commercial paper
- Personal sources e.g. own saving or borrowing from friends and family
- Digital lenders – institutions which lend money through mobile phones
- Crowd funding – Involves a situation where a number of people chip-in through either investment or donations and then their money is pooled to reach your target. Typically, you will need to showcase your idea on the internet
- Financial leasing companies - engage in financing the purchase of tangible assets

3.5.5 Tender Financing Options for MSMEs

- LPO financing – Local Purchase Order financing is when you get funding after securing a tender. It enables you to deliver the goods or services. A fee is charged for the service
- Letter of credit guarantee - a letter issued by a bank to another bank (especially one in a different country) to serve as a guarantee for payments made to a specified person under specified conditions. It allows you to be making orders for supplies on credit especially when importing goods to deliver on a tender. One needs collateral but the value of supplies you can order will be much higher than the collateral

3.5.6 Factors considered by lenders before advancing money

Figure 17: Borrowing Requirements



Sources: Illustration by Author

3.5.7 Economic Empowerment Funds in Tanzania

SMEs can seek funding from government established economic empowerment funds. Such funds include the following;

3.5.7.1 Mifuko inayotoa mikopo moja kwa moja kwa wajasiriamali

- Mfuko wa Rais wa Kujitegemea (Presidetial Trust Fund –PTF),
- Mfuko wa Maendeleo ya Vijana (Youth Development Fund –YDF),
- Mfuko wa Maendeleo ya Wanawake (Women Development Fund –WDF),

- Mfuko wa Taifa wa Kuendeleza Wajasiriamali Wananchi(National Entrepreneurship Development Fund –NEDF),
- Mfuko wa Pembejeo wa Taifa (Agricultural Inputs Trust Fund –AGITF),
- UTT Microfinance Plc
- Mfuko wa Kutoa Mikopo kwa Wajasiriamali Wadogo (SELF MicrofinanceFund),
- Mfuko wa Mikopo ya Nyumba kwa Watumishi wa Serikali,
- Mfuko wa Kilimo Kwanza (Kilimo Kwanza Fund–KKCF),
- Bodi ya Mikopo ya Elimu ya Juu
- Mfuko wa Mzunguko katika mikoa(SIDO RRF)
- Mfuko wa ufilisi wa Benki ya Nyumba (THB)-TIB Development,
- Mfuko wa Serikali ya Japan wa uingizaji bidhaa kutoka nje (commodity import Support
- Mfuko wa kusaidia kilimo cha maua na mbogamboga na kiwanda cha nyama

3.5.7.2 Mifuko inayotoa dhamana za mikopo kwa kushirikiana na benki na taasisi za fedha

- Mfuko wa Kusaidia Sekta Binafsi ya Kilimo (Private Agricultural Sector Support Trust –PASS Trust),
- Mfuko wa Kudhamini Mikopo ya Mauzo Nje ya Nchi (Export Credit Guarantee Scheme –ECGS),
- Mfuko wa Kudhamini Mikopo kwa Wajasiriamali Wadogo na wa Kati (SME Credit Guarantee Scheme (SME-CGS),
- Mfuko wa Uwezeshaji wa Mwananchi (Mwananchi Empowerment Fund –MEF),
- Mfuko wa dhamana zamikopo kwa wakulima wadogowadogo (Smallholders Credit Guarantee Scheme),
- Mfuko wa Kusaidia Wakandarasi (Contractors Assistance Fund –CAF),
- Mpango wa Uwezeshaji Wananchi Kiuchumi (JK Fund),
- Mfuko wa Dhamana za Mikopo kwa wajasiriamali katika sekta ya kilimo (SIDO SME-CGS)
- Mfuko wa Nishati Jadidifu (Tanzania Energy Develiopment and Expansion-TEDAP),
- Mfuko wa mikopo midogo ya nyumba (Housing Microfinance Fund)

3.5.7.3 Mifuko inayotoa ruzuku

- Mfuko wa Nishati Vijijini (Rural Energy Fund –REF)
- Bodi ya Mfuko wa Barabara Bodi ya Mfuko wa Barabara
- SAGCOT-Catalytic Fund
- Mfuko wa Madini kwa wachimbaji wadogo nchini,
- UTT- AMIS,
- Mfuko wa Mawasiliano kwa Umma (UCSAF),
- Mfuko wa Elimu Tanzania (Tanzania Education Fund –TEF),
- Mfuko wa Maendeleo ya Jamii (Tanzania Social Action Fund –TASAF)
- Mfuko wa Misitu Tanzania (Tanzania Forest Fund –TaFF),
- Mfuko wa Fidia ya Ardhi Tanzania

- Mfuko wa Maendeleo ya Maji Vijijini
- Mfuko wa kupambana na kudhibiti UKIMWI
- Mfuko wa Wanyama Pori
- Mfuko wa ubunifu vijijini (RIF)
- Mfuko wa Hifadhi za Misitu ya Tao la Mashariki
- Mfuko wa utalii
- Mfuko wa Hifadhi ya Mazingira
- Mfuko wa Malekale

3.5.7.4 Programu za uwezeshaji

- Mfuko wa kuendeleza sekta binafsi za fedha Tanzania (Financial Sector Depening Trust- FSDT)
- Mpango wa Kurasimisha Rasilimali za Wanyonge Tanzania (MKURABITA)
- Programu ya miundombinu ya masoko na Huduma za kifedha Vijijini (MIVARF)

Sources: National Economic Empowerment Council[5]

[5] https://www.uwezeshaji.go.tz/pages/empowerment-funds-coordination

MODULE IV: HUMAN RESOURCE MANAGEMENT

4.1 Lesson Plan

4.1.1 Overall Objective

To understand key human resource management functions and how to implement them in a small business environment.

4.1.2 Learning Objectives

The participant should be able to;

i. Understand the most fundamental human resource management concepts
ii. Identify and undertake various human resource management functions
iii. Structure their human resources for effective strategy implementation

4.1.3 Topics Covered and Time Available: 5 Hours

Table 13: HRM Module Topics, Training Methods and Time

Content	Method	Time - Minutes
Human resource planning	Lecture, Discussion, Activities	45
Staffing	Lecture, Discussion, Activities	45
Human resource development	Lecture, Discussion, Activities	45
Employee compensation and motivation	Lecture, Discussion, Activities	45
Staff performance management systems	Lecture, Discussion, Activities	45
Health safety and security	Lecture, Discussion, Activities	45
Labour relations	Lecture, Discussion, Activities	30
	Total Time	**300**

Sources: NEEC SMEs Training Manual 2020

4.2 Understanding Human Resource Management (HRM)

- Human Resource (HR) management is the design of formal systems in an organization to ensure the effective and efficient use of human talent to accomplish the organizational goals
- HRM includes anything and everything associated with the management of employment relationships in the business
- Set of organizational activities directed at attracting, developing, and maintaining an effective workforce
- HRM concept includes three components
    - Human - refers to the skilled workforce in an organization
    - Resource - refers to limited availability or scarcity/Something of value
    - Management – refers to how to optimize and make best use of such limited or scarce resource so as to meet the organization goals and objectives
- Human Resource Management involves the following activities

Figure 18: Human Resource Management Functions

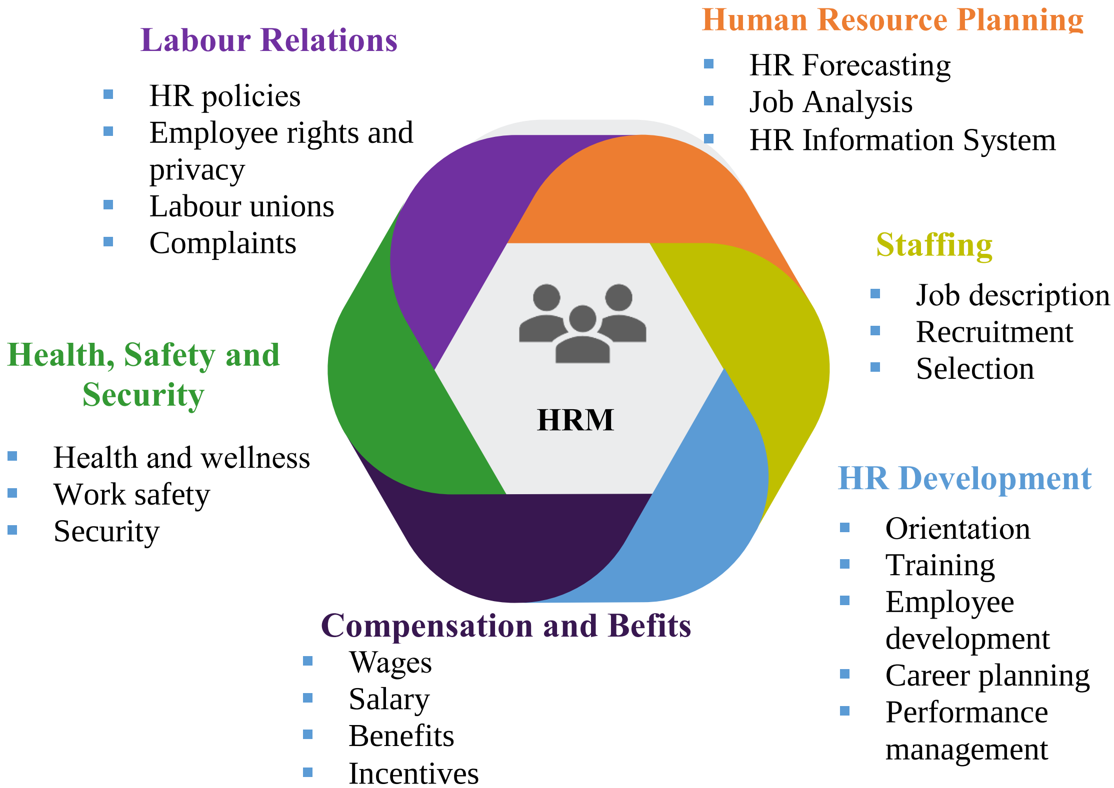


Illustration by Author

4.3 Human Resource Planning

- The process of analysing and identifying the need for and availability of human resources so that the organization can meet its objectives
- Human resource planning is better described as employment planning
- HR planning involves job analysis and forecasting the demand for and supply of labour.
- HR planning involves the entry of people into the organization (acquisition), the development of people skills (development) and the exit of people from the organization (departure)
- Based on HR forecasts, specific action can be taken to get the right numbers and types of people doing the right work at the right time (that is, planning the flow of people into, throughout the organization)

4.3.1 Job forecasting

- Identifying expected future demand for staff based on information from the past and present
- It can be done either quantitatively i.e. using complex mathematical models to forecast or qualitatively i.e. using human judgement

4.3.2 Job Analysis

- The procedure for determining the duties and skill requirements of a job and the kind of person who should be hired for it
- It is a systematic way to gather and analyse information about the content and human requirement of jobs, and the context in which jobs are performed.
- Job analysis usually involves collecting information on the characteristics of a job that differentiate it from other jobs. Information that can be helpful in making the distinction include the following:
    - Work activities e.g. painting, selling, driving
    - Human Behaviours e.g. communicating, deciding
    - Machines and equipment used e.g. computers
    - Interactions with others e.g. extent to which team work is required
    - Working conditions e.g. work schedule, hardship
    - Performance standards
    - Supervision given and received
    - Financial and budgeting impact
    - Human requirements - Knowledge, skills, and abilities needed, personal attributes such as personality and interests
- Job vs position
    - Job is a grouping of common tasks, duties, and responsibilities.
    - A position is a job performed by one person
    - For example, if there are two drivers there is one job of driving and two positions for drivers
- Job analysis information can be collected through – interview, questionnaire, observation, participant diary/logs
- The results of job analysis are used for; Recruitment and selection, Compensation, Performance Appraisal, Training, Discovering unassigned duties, Legal compliance e.g. on non-discrimination

4.3.3 Job design

- Involves matching the productivity needs of the organization with the needs of the individuals
- Increasingly, a key aim for job design is to provide individuals meaningful work that fits effectively into the flow of the organization
- It is concerned with changing, simplifying, enlarging, enriching, or otherwise making jobs such that the efforts of each worker fit better with other jobs
- The information generated by job analysis may be useful in redesigning jobs

4.3.4 Job Description and Specification

- The process of describing the work that needs to be done by an employee and specifying the requirements needed in fulfilling the job

4.3.4.1 Job Description

- Job Description - Systematic evaluation of the duties, working conditions, tools, materials, and equipment related to the performance of a job
- A job description indicates the tasks, duties, and responsibilities of a job. It identifies what is done, why it is done, where it is done, and briefly, how it is done

4.3.4.2 Job specification

- Job Specification - Description of the skills, abilities, and other credentials required by a job
- It lists the knowledge, skills, and abilities an individual needs to perform a job satisfactorily. Knowledge, skills, and abilities (KSAs) include education, experience, work skill requirements, personal abilities, and mental and physical requirements

4.3.4.3 Importance of Job Description and Specification

- Each employee should have a documented job description to ensure their performance can be measured and establish a basis for their compensation
- These details should be included in their work contract to avoid misunderstandings
- Job description and specification is also used for recruitment purposes. For instance, the details are included in an advertisement for a vacant position. See figure below;

Figure 19: Example of a Job Description

Job: Marketing Executive

- Reports to the Projects General Manager

Knowledge, Skills and Experience

- Bachelors of Commerce/Business Administration degree in Marketing
- 3 years relevant work experience in a similar organization
- Professional training in marketing will be an added advantage
- Result oriented, motivated, resourceful and able to work independently
- Good Communications and People Management skills.
- Proficient in MS Office and Internet

Duties and Responsibilities

- In charge of overall execution of the marketing function
- Development, revision and implementation of the marketing plan and strategy
- Marketing research
- Product branding, product and market development
- Marketing Communication-advertising, brochures, online marketing, mobile marketing, outdoor, organizing launches, CSR activities and press releases
- Customer service and Training of staff on customer service
- Marketing staff evaluation/appraisal
- People, processes and physical evidence related operations
- Managing prices in consultation with the project managers
- Managing key accounts
- Preparation of marketing reports
- Performing sales related duties to meet the sales targets
- Any other relevant duties as may be prescribed by management from time to time

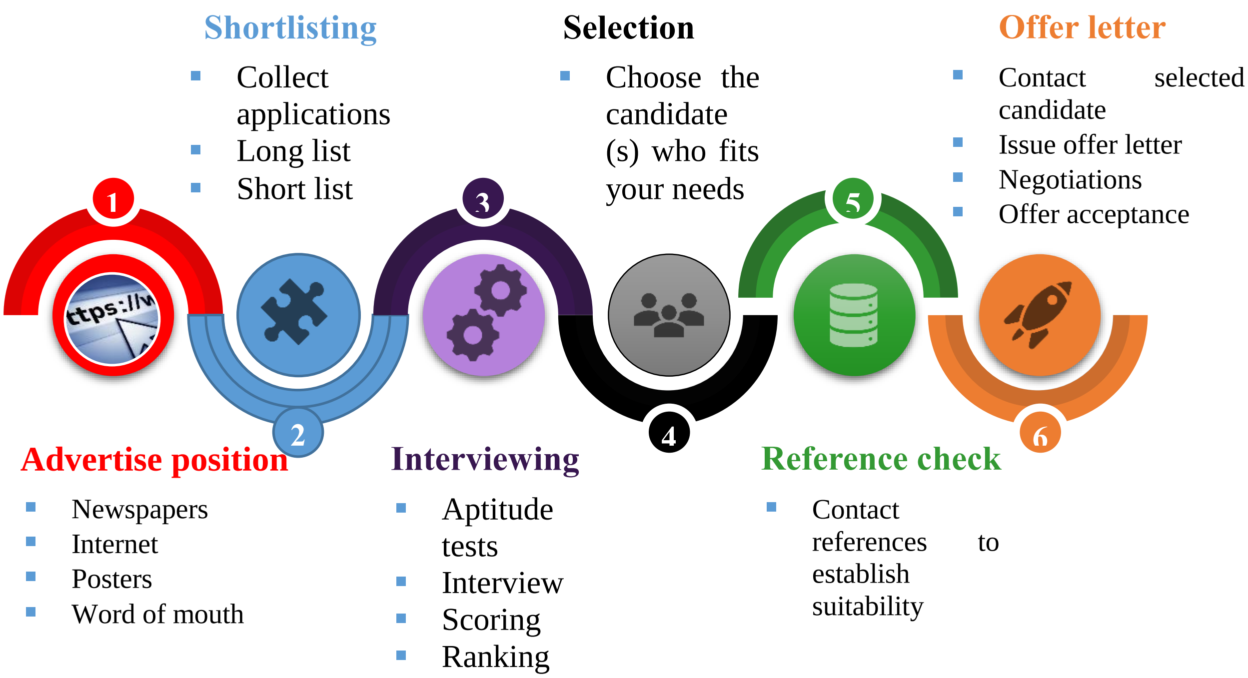
4.4 Staff Recruitment and Selection

- Set of activities an organization uses to attract job candidates possessing appropriate characteristics to help the organization reach its objectives
- Recruiting is the process of generating a pool of qualified applicants for organizational jobs through a series of activities
- Involves seeking and attracting a pool of people from which qualified candidates for job vacancies can be chosen

4.4.1 Recruitment and Selection Process

- Before recruitment you should decide whether your source of the needed staff will be external or internal
- Staff can be gotten from within the organisation by way of promotion or reassignment of duty
- If no internal candidates are available, then they will have to be sourced from outside
- Recruitment can be outsourced to professional recruitment firms
- Staffing can also be done by outsourcing staff or using agents/contractors/associates e.g. Uber
- The following recruitment process can be followed in both cases with necessary modifications

Figure 20: Staff Recruitment Process



Sources: Illustration by Author

4.5 Human Resource Development

- Involves enhancing the capacity of employees to perform their duties and meet the objectives of the organisation

- It is the framework for helping employees develop their personal and organizational skills, knowledge and abilities
- The focus of all aspects of Human Resource Development is on developing the most superior workforce so that the organization and individual employees can accomplish their work goals in service to customers.
- Human Resource Development includes such opportunities as; employee training, employee career development, performance management and development, coaching, mentoring, succession planning, key employee identification, tuition assistance and organization development

4.5.1 Staff Training

- A process whereby people acquire capabilities to aid in the achievement of organizational goals
- Training is the process of improving and polishing the required skills of an employee in order to make him/her skilled and perfect in the job which he/she does
- Can be done within or outside the company i.e. internal or external
- The training should start with need assessment, followed by implementation of the training programme to meet the identified needs and finally an evaluation of the training to ensure its purpose was achieved
- On the job training – this is learning by doing facilitated by co-workers and managers. It includes such methods as job rotation, coaching, job instruction, apprenticeship, internship
- Off the job training – this is training outside the job environment. It includes methods such as classroom lectures, audio-visual (e.g. webinars, podcasts), simulation (e.g. airlines), case studies, role playing, programmed instructions (self-instruction e.g. using a computer)

4.5.2 Staff Orientation

- Involves introducing the employee to the company
- Orientation is a special kind of training designed to help new employees learn about their jobs, co-workers and the organization
- One of the most important staff orientation tools is the employee handbook

4.5.2.1 Employee Handbook

- This is a document you give to your employees to explain to them the company policies in relation to their employment
- Also called employee/staff manual or company policy manual
- New employees are often required to sign an acknowledgement form stating they have received, read and understood the information within the employee handbook and accept its terms

4.5.2.2 *What is an employee handbook?*

- An employee handbook defines your company culture. Great employee handbooks motivate and engage employees
- Conveys useful information about company policies and procedures
- Tells the story of your company - employee handbooks are an excellent opportunity to educate employees about the organization, its history, and its origin.
- An employee handbook helps with employee orientation and getting new employees up to speed
- Employee handbooks are required as a risk management tool

4.5.3 Staff development

- Efforts to improve employees' ability to handle a variety of assignments
- It involves growing employee's capabilities that go beyond those required by the current job
- While training deals with technical skills development deals with managerial skills
- Methods used include;
    - Job enrichment - It means giving an employee additional responsibilities previously reserved for his manager or other higher-ranking positions
    - Job enlargement - increasing the scope of a job through extending the range of its job duties and responsibilities generally within the same level and periphery
    - Job shadowing – Involves learning by observing another person do the job
    - Job rotation – the continuous change of the employee positions within the organization to expand their knowledge and improve their skills as well as abilities
    - Coaching - Daily training and feedback given to employees by immediate supervisors
    - Mentoring – matching less experienced employees with more experienced colleagues through formal or informal programs
    - Team building the action or process of causing a group of people to work together effectively as a team, especially by means of activities and events designed to increase motivation and promote cooperation
    - Lateral move – doing a different job while maintaining the current grade and pay structure
    - Promotion – moving staff to a new higher position with greater responsibilities and enhanced compensation

4.5.4 Succession Planning

- Succession planning identifies long-range needs and cultivates internal talent to meet those needs
- Succession plans typically focus on a one- to three-year process of preparing employees not preselecting them - for new roles in the organization

- While it is perceived as a reserve for big firms, succession planning is important for SMEs most of which are family businesses. Without succession planning many will die with the death or exit of the founder

4.5.5 Performance Management

- Processes used to identify, encourage, measure, evaluate, improve, and reward employee performance
- It involves; Identifying expected performance levels, measuring individual performance, then evaluate, provide feedback on individual performance, provide assistance as needed, reward or discipline based on performance
- Performance appraisal (PA) is the process of evaluating how well employees perform their jobs when compared to a set of standards, and then communicating that information to those employees
- Performance appraisal can be a primary source of information and feedback for employees, which is key to their future development
- Performance management is also used as a basis for contracting staff and determining their remuneration in situation where compensation is tied to performance e.g. paying bonuses based on performance
- Providing feedback is also a way of motivating employees as it increases the urge to do better
- Performance management includes the following steps

Figure 21: Employee Performance Management Process

Sources: Illustration by Author

4.6 Employee Compensation and Motivation

- It refers to wide range of financial and non-financial rewards to employees for their services rendered to the organization

4.6.1 Components of Employee Compensation System

4.6.1.1 Direct financial benefits

- Salaries – for permanent workers usually on a monthly basis
- Wages – usually for casual workers paid on hourly or daily basis
- Bonuses – payment based on achievement of certain performance targets
- Stock options/Employee share ownership scheme – opportunity to own a share of the company for employees. Can be performance based

4.6.1.2 Indirect financial benefits/Fringe benefits

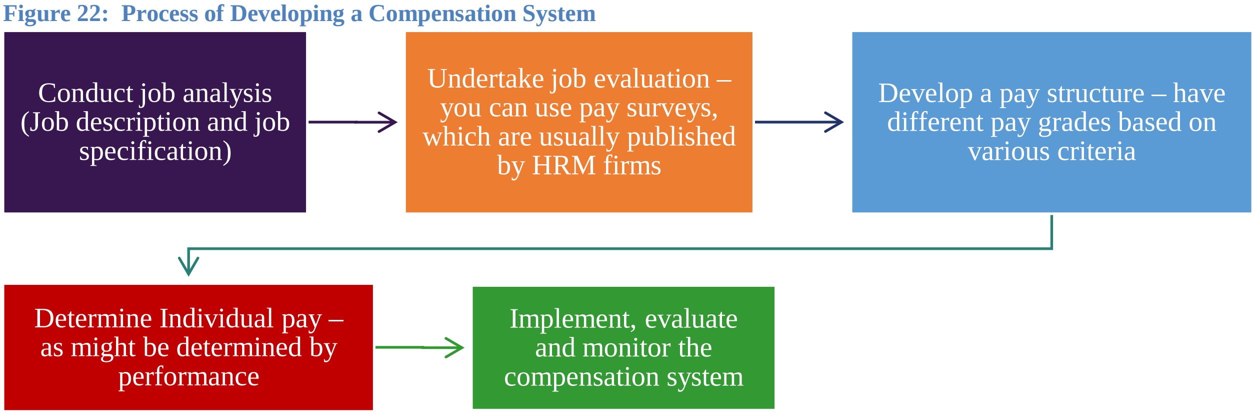
- Insurance such as medical
- Retirement benefits
- Maternity/Paternity leave
- Leave allowance/Paid vacation
- Company cars
- Free housing
- Meals
- Employee discounts e.g. bank employees are able to borrow at a lower rate

4.6.1.3 Factors to consider in determining compensation

- Internal factors – organisation strategy and objectives, ability to pay, nature of jobs, nature of personnel
- External factors – nature of HR market (demand and supply), cost of living, legal requirements e.g. minimum wage, collective bargaining agreements for unionisable workers

4.6.2 Process of Developing a Compensation System

Figure 22: Process of Developing a Compensation System



Sources: Illustration by Author

4.6.2.1 Pay Grading Structure Example for an SME

Table 14: Example of Employee Grading System for an SME

CRITERIA	SCORING			
DESIGNATION	CEO	MANAGEMENT	SUPERVISOR	ASSISTANT/ TECHNICIAN
Points	20	15	10	5
EDUCATION	UNIVERSITY DEGREE	PROFESSIONAL TRAINING	DIPLOMA	CERTIFICATE
Points	20	15	10	5
EXPERIENCE	OVER 15 YEARS	11-15 YEARS	6 – 10 YEARS	0-5 YEARS
Points	20	15	10	5
PERFORMANCE	80-100	70-79	60-69	BELOW 60
Points	20	15	10	5
DISCIPLINE	EXCELLENT	VERY GOOD	GOOD	FAIR
Points	20	15	10	5
TOTAL	100	75	50	25
GRADE/SALARY SCALE	HIGHEST	HIGH	LOW	LOWEST

Sources: Developed by Author

- Based on the grading structure you can set the salary for each member of staff based on the payment band/salary scale they fall in
- Having a clear compensation system will help you avoid high staff turnover due to feelings of arbitrary or subjective payment leading to feelings of unfairness and discrimination
- It will help you implement a fair policy which guarantee equal pay for equal work

4.7 Employee Health, Safety and Security

4.7.1 Key Concepts

- Health, which refers to a general state of physical, mental, and emotional well-being. A healthy person is one who is free of illness, injury, or mental and emotional problems that impair normal human activity
- Safety refers to protecting the physical well-being of people. The main purpose of effective safety programs in organizations is to prevent work related injuries and accidents
- Security – the purpose is to protect employer facilities and equipment from unauthorized access and to protect employees while they are on work premises or work assignments.

4.7.2 Enforcement of Employee Health and Safety Issues in Tanzania

4.7.2.1 Legal Framework[6]

- Safety and health issues in Tanzania are dictated by the Occupational Health and Safety Act No. 5 of 2003

[6] https://www.osha.go.tz/page/about-osha-more

- Occupational Safety and Health Authority (OSHA) is the institution mandated to implement the Act
- Workers Compensation Act [Cap 263 Revised Edition of 2015] provides for compensation of workers affected by workplace health and safety incidences such as injury or death
- Workers Compensation Fund - is a fund which is used to compensate affected workers

4.7.2.2 Mandate of OSHA

- To enforce the Occupational Health and Safety Act No. 5 of 2003
- To advise the government on workplace safety and health issues as well as on policies, regulations and guidelines for safety and health management in the country including ratification of International Conventions on safety and health issues
- Increase awareness of stakeholders' engagement in matters related to Safety and Health by providing a variety of training, including providing professional advice to stakeholders
- Conducting various researches concerning occupational safety and health issues in order to advise government on how to implement the mentioned legislation

4.7.2.3 Activities undertaken by OSHA in Tanzania

- Registering workplaces
- Conducting General Inspections and performing specific inspections, e.g. electrical safety inspections, pressure vessels and inspection of Lifting Appliances
- Occupational Safety and Health (OSH) Risk assessment
- Scrutinizing of workplace drawings to ensure that they meet minimum OHS standards
- Conducting accident investigations
- To conduct industrial hygiene surveys and measurements as well as
- To provide technical advice on occupational health and safety issues

4.7.3 Health and Safety Compensation for Employees in Tanzania

4.7.3.1 Workers Compensation Fund[7]

- Workers Compensation Fund (WCF) is a social security scheme established in accordance with Section 5 of the Workers Compensation Act [Cap 263 Revised Edition of 2015]
- The main purpose for the establishment of the Fund is to provide for adequate and equitable compensation for employees who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment and in case of death, to their dependants

4.7.3.2 Functions of Workers Compensation Fund

- Registration of all employers in Mainland Tanzania
- Assessment of risk exposure at work places and tariffs determination
- Collection of contributions from employers

[7] http://wcf.go.tz/pages/establishment

- Investment of available funds
- Payment of compensation to employees
- Maintenance of statistics for all occupational accidents, diseases and deaths
- Promotion of prevention of occupational accidents, diseases and deaths
- Public education and awareness programs

4.8 Employee labour relations

- This involves the relationship between the employer and the employees
- Most of the issues are prescribed by law

4.8.1 Legal Issues in Tanzania Labour Laws

SME owners should note the following issues, which are included in labour laws

- Compensation and terms of employment
- Employee health and safety
- Leave from work e.g. annual leave, maternity and paternity leave, sick leave etc.
- Working hours e.g. overtime, working on public holidays
- Termination of employment
- Ethical issues e.g. discrimination, harassment, breach of privacy etc.
- Rights to union membership
- Skills and development e.g. Skills and Development Levy (SDL)
- Employee taxation and statutory deductions such as PAYE, Social security, health insurance

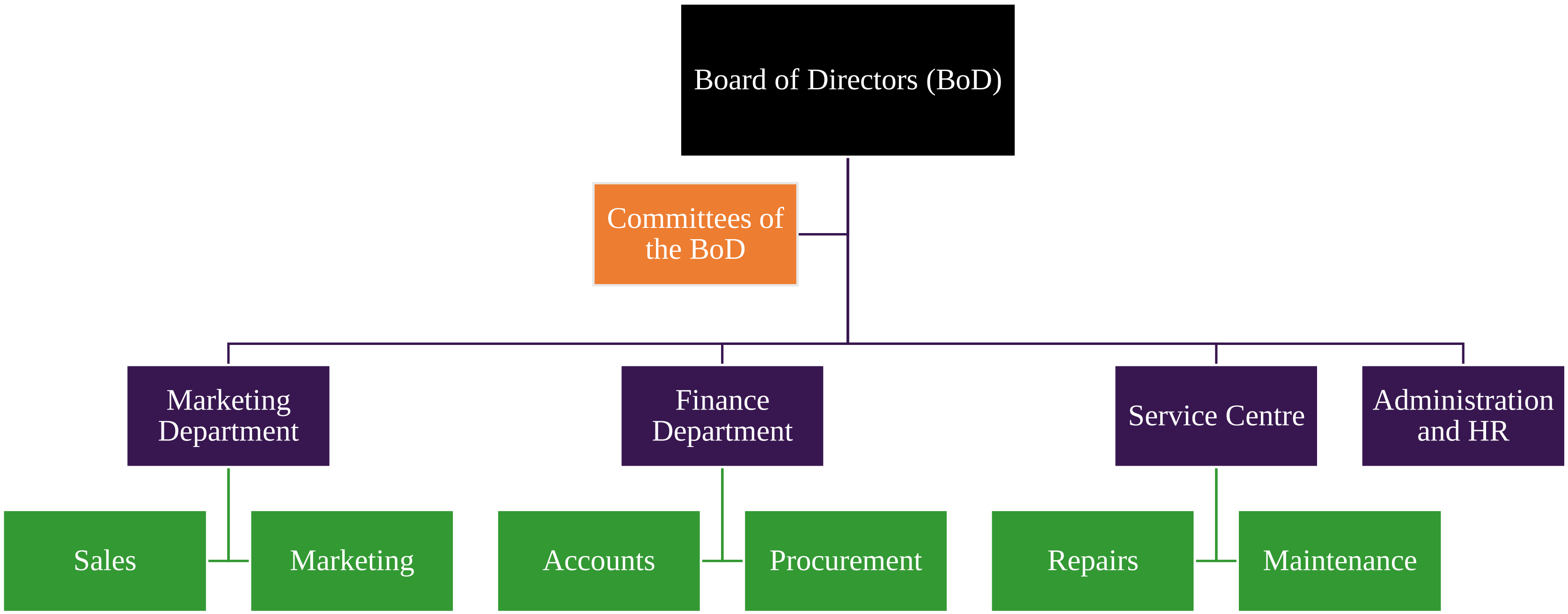
4.9 Departmental and Organisation Structure

- These are illustrations of the chain of command in an organisation
- A departmental structure shows how the various supporting and operations departments are hierarchically organised
- It is a way of arranging people and jobs in order to achieve the organisation's objectives
- The departmental structure shows how various functions in the organisation are arranged e.g. marketing, accounting, HR, Production/Operations, ICT etc.
- The organisation structure depicts the arrangement of jobs in terms of who reports to who i.e. the chain of command
- The purpose of these structures is to ensure order and harmony in an organisation by avoiding conflicts such as a case where an employee reports to two seniors and receives conflicting instructions on an issue

4.9.1.1 *Departmental Structure Illustration*

The following illustrates the departmental structure of a small firm dealing in sales, repairs and maintenance of computers;

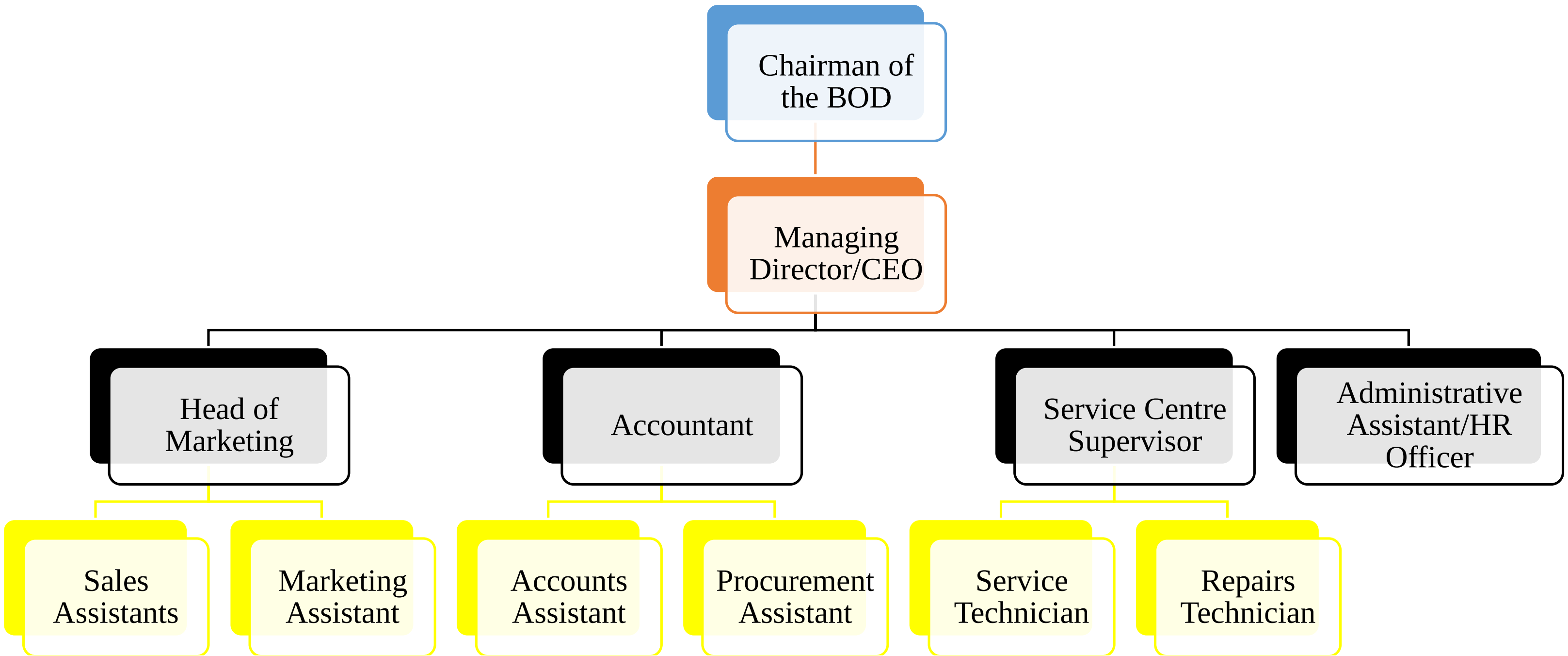
Figure 23: Departmental Structure Illustration



Sources: Illustration by Author

4.9.1.2 *Organisation Structure Illustration*

Figure 24: Organisation Structure Illustration



Sources: Illustration by Author